Margarita Assenova and Zaur Shiriyev, Editors

AZERBAIJAN AND THE NEW ENERGY GEOPOLITICS OF SOUTHEASTERN EUROPE

The JAMESTOWN FOUNDATION

Azerbaijan and the New Energy Geopolitics of Southeastern Europe

Margarita Assenova and Zaur Shiriyev, Editors

The JAMESTOWN FOUNDATION

Washington, DC
June 2015

THE JAMESTOWN FOUNDATION

Published in the United States by
The Jamestown Foundation
1111 16th Street NW
Suite 320
Washington, DC 20036
http://www.jamestown.org

Copyright © 2015 The Jamestown Foundation

All rights reserved. Printed in the United States of America. No part of this book may be reproduced in any manner whatsoever without written consent. For copyright and permissions information, contact The Jamestown Foundation, 1111 16th Street NW, Suite 320, Washington, DC 20036.

The views expressed in the book are those of the contributing authors and not necessarily those of The Jamestown Foundation.

For more information on this book of The Jamestown Foundation, email pubs@jamestown.org

ISBN: 978-0-9855045-2-6

Library of Congress Control Number: 2015936230

Cover art provided by Peggy Archambault of Peggy Archambault Design. Cover map image courtesy of BP.

Jamestown's Mission

The Jamestown Foundation's mission is to inform and educate policy makers and the broader policy community about events and trends in those societies which are strategically or tactically important to the United States and which frequently restrict access to such information. Utilizing indigenous and primary sources, Jamestown's material is delivered without political bias, filter or agenda. It is often the only source of information which should be, but is not always, available through official or intelligence channels, especially in regard to Eurasia and terrorism.

Origins

Launched in 1984 after Jamestown's late president and founder William Geimer's work with Arkady Shevchenko, the highest-ranking Soviet official ever to defect when he left his position as undersecretary general of the United Nations, The Jamestown Foundation rapidly became the leading source of information about the inner workings of closed totalitarian societies.

Over the past two decades, Jamestown has developed an extensive global network of experts—from the Black Sea to Siberia, from the Persian Gulf to the Pacific. This core of intellectual talent includes scientists, journalists, scholars and economists. Their insight contributes significantly to policy makers engaged in addressing today's new and emerging global threats, including that from international terrorists.

Table of Contents

Acknowledgements.....iv

Map of Nabucco-West vs. TAP.....v

Map of Pipeline Politics in Southeastern Europe.....vi

Foreword
By Glen Howard, President, The Jamestown Foundation and Farhad Mammadov, Director, Center for Strategic Studies.....vii

Introduction and Policy Recommendations
Margarita Assenova and Zaur Shiriyev.....xi

I. Strategic Canvas

1. Southeastern Europe's Energy Nexus: A Crossroads of Pipelines and Geopolitics
Vladimir Socor and Matthew Czekaj.....3

2. The Emerging Balkan Dimension in Azerbaijani Foreign Policy
Zaur Shiriyev.....63

3. Azerbaijan's Relations With the Euro-Atlantic Zone and Its Balkan Connection
Janusz Bugajski.....99

4. Russia's New Greek Project: The Balkans in Russian Policy
Stephen Blank.....121

II. The Southern Gas Corridor: Transit Countries

5. Azerbaijan-Turkey Relations and Baku's Energy Strategy for Southeastern Europe
Gulmira Rzayeva……....**179**

6. The Shale Gas Revolution and US Strategy on the Southern Gas Corridor: The Strategic Cooperation of Azerbaijan and Greece
Anthony Livanios……...**203**

7. Albania and Azerbaijan: New Partnership, New Possibilities
Remzi Lani……**233**

III. Interconnecting Southeastern Europe

8. Pipeline Junction: Bulgaria, Romania and Macedonia and the Southern Gas Corridor
Margarita Assenova……...**273**

9. Serbia and Bosnia-Herzegovina: Prospective Markets for Caspian Gas
Dušan Janjić……...**323**

10. The Southern Gas Corridor's Adriatic Prospects: Slovenia, Croatia and Montenegro
Fabio Indeo……**357**

About the Authors……....**397**

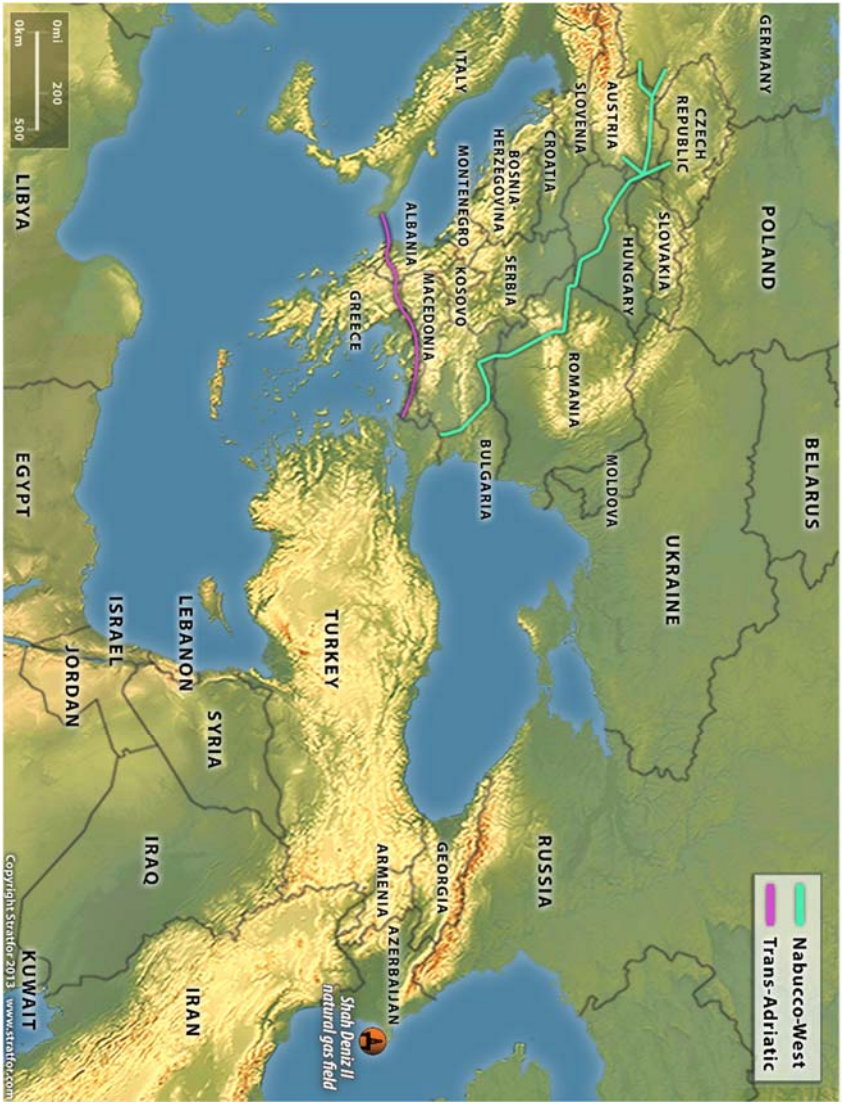
Acknowledgements

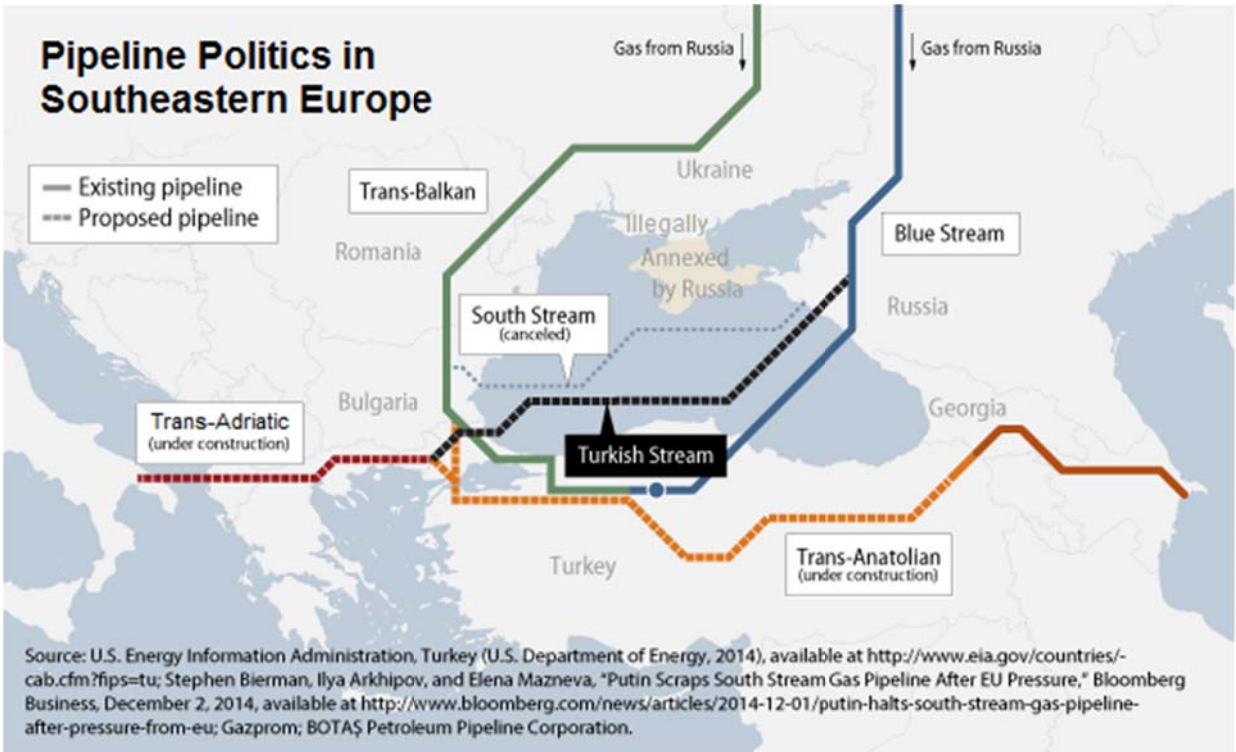
Our utmost gratitude in producing this book is extended to the authors of the ten chapters that make up the body of this unique work. They construct a compelling picture of the changing geopolitics of energy in Southeastern Europe with the launching of the Southern Gas Corridor. The authors played a key role in analyzing and assessing the various geopolitical, historical, and economic dimensions of this vital area of the world and the impact it will have on Europe's southeastern flank.

The Jamestown Foundation is grateful to the Center for Strategic Studies (SAM) in Baku for its support for this project and its leadership, which first envisioned the need for such a book that explores and analyzes the changing energy landscape of Southeastern Europe. We are especially thankful to Fuad Chiragov, SAM's invaluable adviser, for his encouragement and patience throughout the project.

We are also thankful to The Jamestown Foundation's Managing Editor of the *Eurasia Daily Monitor*, Matthew Czekaj, for his diligent copy editing of all the final edited chapters. And finally we would like to extend a note of thanks to Peggy Archambault for her wonderful cover design of this book.

June 2015


PROPOSED NABUCCO-WEST PIPELINE AND TRANS-ADRIATIC PIPELINE
Nabucco-West
Trans-Adriatic
GERMANY
POLAND
BELARUS
CZECH REPUBLIC
SLOVAKIA
UKRAINE
AUSTRIA
HUNGARY
MOLDOVA
SLOVENIA
ROMANIA
CROATIA
RUSSIA
BOSNIA-HERZEGOVINA
SERBIA
ITALY
BULGARIA
MONTENEGRO
KOSOVO
GEORGIA
ALBANIA
MACEDONIA
ARMENIA
AZERBAIJAN
GREECE
Shah Deniz II natural gas field
TURKEY
SYRIA
LEBANON
IRAN
IRAQ
ISRAEL
JORDAN
KUWAIT
LIBYA
EGYPT
0mi 200
0km 500
Copyright Stratfor 2013 www.stratfor.com



Map courtesy of Center for American Progress

Foreword

This book on the changing energy and geopolitics in Southeastern Europe and the role of Azerbaijan at this juncture comes at a critical moment for European energy security, particularly in relation to gas supplies.

The Ukrainian-Russian gas crises in 2006 and 2009 were a wake-up call for the European Union in terms of supply security and supply diversification, emphasizing Azerbaijan's strategic significance and prompting the genesis of the Southern Gas Corridor project. The current Ukraine crisis has further underscored the need for alternative energy routes that bypass Russia.

The construction of the Southern Gas Corridor, conceived as a strategic project to deliver Azerbaijani natural gas to Europe, coincides with Europe's search for alternative gas sources. Two years ago, when Europe's energy diversification strategy was less clear, and consumers were debating between the Southern Gas Corridor and various versions of the 'Nabucco' project, Azerbaijan took a bold leap. Along with Turkey, Baku assumed the financial burden to initiate the Trans-Anatolian Natural Gas Pipeline (TANAP) project in 2012, and in 2013 the Trans-Adriatic Pipeline (TAP) was selected to deliver Azerbaijani gas to Europe. Although the first deliveries are not expected before 2019, and will comprise only a small share of Europe's total gas consumption, the pipeline will provide an urgently needed alternative for Southeastern Europe and may even reorient the energy constellations of some countries in the region that currently are almost exclusively dependent on Russian gas.

Bringing Caspian energy resources to Europe has been a strategic foreign policy priority for the United States since the dissolution of the Soviet Union in 1991. Along with the primary goal of diversifying oil and gas supplies to Europe—America's most important strategic partner—the US has also encouraged closer ties between Azerbaijan and the West as a way of strengthening the independence of this strategically positioned state.

The first significant success of this policy was the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline, which connects the extensive offshore Azeri-Chirag-Guneshli fields with the port of Ceyhan on Turkey's Mediterranean coast. Since 2006, this pipeline has transported crude oil from Azerbaijan, Turkmenistan and, most recently, from the Tengiz field in Kazakhstan.

The second major project will be the Southern Gas Corridor, stretching over 3,500 kilometers (2,175 miles) from the Shah Deniz field in Azerbaijan through Georgia, Turkey, Greece and Albania, reaching Italy via a pipeline under the Adriatic Sea. The complex pipeline network will have the capacity to supply Europe with gas not only from Azerbaijan, but also from Central Asia—Turkmenistan, Kazakhstan, Uzbekistan—and sources in the Middle East. The Southern Gas Corridor is seen as part of the "New Silk Road," a revitalized network of transportation and energy links between Europe and the Caspian region. In 2008, the European Union made this project one of its highest energy security priorities.

Today, this promising and ambitious $45 billon undertaking by the Shah Deniz Consortium, led by BP with the participation of Azerbaijan's State Oil Company (SOCAR), faces a number of challenges. Its success is contingent on the unwavering support of the US and EU. Russia has long competed with projects to bring Caspian gas to Europe, namely through plans to build the South Stream natural gas pipeline from Russia under the Black Sea to the Balkans and

Central Europe. When this project was canceled in December 2014, Moscow announced a new plan to build a large pipeline under the Black Sea to Turkey.

With regard to Azerbaijan's contribution to European energy security, Baku's motivation was not to compete with any other gas supplier; the selection of Southeastern Europe as a destination point was a pragmatic and economically motivated decision by Azerbaijan. While the shared Communist history with Southeastern Europe created a historical closeness, the early years of independence saw little development in bilateral relations, primarily due to the domestic challenges and conflicts faced by both regions. However, the relationship began to develop at the end of the 1990s, before TAP positioned Southeastern Europe as a strategic region for Baku.

First, Azerbaijan became an influential donor country, providing humanitarian aid, strategic investments and financial support. The first beneficiaries of this policy were neighboring Georgia and Turkey, where Azerbaijan invested billions in order to realize a number of strategic projects to enhance the region's security and stability, even though several regional conflicts remained unresolved. Following the global economic crisis in 2008, which significantly impacted the countries of Southeastern Europe and particularly Greece, Azerbaijan provided crucial contributions to regional development, including humanitarian assistance and strategic investments in the national economies. This assistance helped improve the region's economic stability.

Second, in terms of energy security, Azerbaijan's gas supply to Europe will start at a modest 10 billion cubic meters (bcm) per year, but has the capacity to double and potentially increase further. Not only will Azerbaijan export gas to Southeastern Europe, it will also help build capacity in energy infrastructure development, providing another long-term benefit to the region's economic growth. Azerbaijan has successfully applied this strategy in Georgia, where over 90 percent of

the country's local consumers have gained access to stable gas supplies as a result of Azerbaijan's 'gasification' policy.

At present and in the future, several challenges will emerge both for Azerbaijan as an energy exporter, and for European countries as importers seeking to provide consumers with secure and stable energy supplies. These challenges will require additional cooperation in the complex energy and security nexus that has grown from the Southern Gas Corridor project.

This book presents a timely analysis of the significance, prospects and challenges facing the Southern Gas Corridor. It provides valuable recommendations for policy-makers in the EU and US, intended to help them navigate the complicated matrix of energy politics.

Enjoy the read,

Glen Howard, President, Jamestown Foundation

Farhad Mammadov, Director, Center for Strategic Studies

Introduction and Policy Recommendations

Margarita Assenova and Zaur Shiriyev, Editors

Azerbaijan's relationship with Southeastern Europe began developing only after the fall of Communism and the dissolution of the Soviet Union in the early 1990s. It became more significant in the second decade of the country's independence. Conflicts in the Balkans and the South Caucasus in the early 1990s preoccupied both regions, preventing them from seeing mutual interests beyond their immediate neighborhoods. Painful political and economic transitions in Central and Eastern Europe kept the attention of both the public and the politicians focused primarily on domestic problems. Political and economic constraints, deriving from the Soviet past, also played a role in delaying direct ties between the two regions, as economic relations remained oriented toward Russia.

In the turbulent post-Communist environment, few governments in Southeastern Europe were able to see the potential of fostering direct relations with the newly independent states in the South Caucasus. At least not until Azerbaijan started rapidly developing its oil and natural gas resources, attracting an extraordinary amount of international investment in its energy sector. When the potential for export of Caspian oil and gas to Europe became real, the countries in Southeastern Europe, which have been heavily dependent on Russian oil and gas, saw a chance to secure alternative energy supplies. These developments opened the way for more intensive relations between

Azerbaijan and Southeastern Europe, a partnership that could potentially lead to an ample degree of diversification of gas supplies to the Balkans.

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline became operational in 2006, for the first time bringing oil from the Caspian Sea to the Mediterranean coast of Turkey and from there by tanker to European markets. The same year, Shah Deniz Phase I came on-stream and soon began supplying natural gas to Georgia and Turkey through the South Caucasus Gas Pipeline (SCP). These developments stimulated a deepening relationship between Azerbaijan along with other South Caucasus countries under the Black Sea scheme, in which the oil pipelines enabled the integration of the South Caucasus into the Black Sea region, fostering engagement with Southeastern European countries.

In the meantime, discussions about bringing Azerbaijani gas to the European market initiated the Nabucco pipeline project, which was intended to transfer natural gas from the Caspian basin to Central Europe. However, this project was stalled by ineffective management, lack of sufficient funding and, more importantly, an inability to secure designated natural gas volumes for its relatively large capacity of 31 billion cubic meters (bcm). The Nabucco project was critical for the energy security of Central and Eastern Europe, but it was also vital to Azerbaijan's national interest to deliver energy resources to Europe and establish closer relations with the West.

Frustrated by delays of Nabucco, the State Oil Company of Azerbaijan (SOCAR), in cooperation with Turkish BOTAŞ, launched the construction of the Trans-Anatolian Natural Gas Pipeline (TANAP) as a continuation of SCP: the pipeline will run across the territory of Turkey from east to west, to the border with Greece/EU. Originally, one of the options was to connect this pipeline with the shorter modified version of Nabucco, called Nabucco-West, which was

planned to run from the Turkish-Bulgarian border through Bulgaria, Romania, and Hungary to the Baumgarten gas hub in Austria.

The Nabucco project would have benefited Central Europe and the Eastern Balkans, with potential spurs to some of the Western Balkan countries. However, the June 2013 decision of the Shah Deniz consortium, led by BP (formerly British Petroleum), to select the Trans-Adriatic Pipeline (TAP) over Nabucco-West for delivering Azerbaijani gas to Europe changed the initial plan. The gas corridor will now benefit Greece and the Western Balkans primarily before reaching Italy. The decision breathed new life into Southeastern Europe's engagement with the South Caucasus region via Azerbaijan. This development is the beginning of a closer engagement between the two regions and, indeed, broader acknowledgment of the role Azerbaijan can play in European energy security.

European Energy Dilemmas

The conflict in Ukraine, which started in early 2014 with the Russian annexation of Crimea, threatened European security in general and raised concerns about energy security. Russian gas supplies via Ukraine were frequently interrupted throughout 2014, until Kyiv and Moscow resolved a gas payment dispute with help from the EU. Even after that, gas flows have been sporadically reduced or interrupted.

Russia provides roughly 25 percent of Europe's natural gas supplies, but the level of dependence on Russian gas in Central and Eastern Europe is much higher than that in the well-diversified Western European gas markets. Most of the countries in Southeastern Europe rely exclusively on Russian gas, making them vulnerable to gas supply cuts and high gas prices imposed by a monopolistic supplier. At the same time, insufficient storage facilities and lack of interconnectivity between the different national gas distribution systems led to devastating consequences when Gazprom, Russia's monopoly gas

exporter, cut off gas supplies via Ukraine in 2006 and 2009 in the middle of winter.

However, when gas supplies to Ukraine were cut off again in June 2014 for several months, Europe was better prepared for the crisis. Several significant developments followed Russia's gas supply interruptions via Ukraine, which caused human casualties, as well as economic losses for Europe in 2006 and 2009:

First, Europe's gas infrastructure is now almost entirely interconnected, to the extent that Ukraine's gas shortages have been compensated by re-exporting Russian gas from Europe via Slovakia and Hungary through newly built reverse-flow interconnectors. Poland also has the capacity to re-export natural gas to Ukraine through its reverse-flow interconnector.

Second, the shale gas revolution in the United States freed large quantities of liquefied natural gas (LNG) from the Middle East and North Africa. Previously delivered to American ports, these volumes are now redirected to the European market.

Third, US shale gas (exported as LNG) is now available for delivery to Europe, a development that is affecting global markets and energy prices.

Fourth, Russian plans to bypass Ukraine as a transit country failed: South Stream, a Russian-led project to build a pipeline under the Black Sea to the Balkans and Central Europe, was canceled in December 2014. The project was under legal scrutiny by the European Union for violating its competition laws, but the cancellation was also due to Moscow's shortage of cash caused by plummeting oil prices and Western sanctions against Russia for its role in the Ukraine crisis. Russia's plans to build an alternative pipeline to Turkey for the delivery of 63 bcm of natural gas to Europe are yet to secure financing and transportation infrastructure in Europe.

The Southern Gas Corridor and Southeastern Europe

Similar to the Baku-Tbilisi-Ceyhan oil pipeline, the Southern Gas Corridor will be the first direct natural gas pipeline from the Caspian basin to Europe. And just as other Caspian littoral states, such as Kazakhstan, have started using the oil pipeline to export their resources westward, hopes are that the Southern Gas Corridor will attract additional gas suppliers from Central Asia and the Middle East. Of particular importance are Turkmenistan's natural gas reserves, estimated as some of the largest in the world. The EU and US have been promoting the Trans-Caspian pipeline to channel Turkmen gas supplies to the Southern Gas Corridor.

With TAP underway, Azerbaijan is entering the European markets through the Balkan Peninsula. For the first time, Azerbaijani SOCAR has acquired control of a gas network in Southeastern Europe. In June 2013, SOCAR won the tender for the Greek DESFA's (Public Gas Transmission System Operator) pipelines, beating Gazprom and the smaller Russian Sintez. For Azerbaijan, controlling DESFA means entering the gas transmission and distribution business on EU territory for the first time. As Greece's LNG terminal at Revithousa is part of DESFA's assets, it will now fall under SOCAR's control, providing the Azerbaijani company additional opportunities for energy development projects. The acquisition of DESFA gave SOCAR a strategic advantage in Southeastern Europe and was one of the factors that determined the Shah Deniz consortium decision to select TAP over Nabucco-West for Caspian gas deliveries.

Starting in 2019, the Southern Gas Corridor will begin transporting 16 billion cubic meters (bcm) of Shah Deniz gas, of which 6 bcm will stay in Turkey and 10 bcm will be delivered to European markets, including Greece, Bulgaria, Albania and Italy. The gas volumes are slated to increase to 35 bcm as other gas fields in Azerbaijan come online after 2020.

The expected volumes, especially in the first few years, may be just a fraction of the total European gas consumption of about 500 bcm per year. However, they can dramatically impact energy security in Southeastern Europe. With the exception of Romania and Croatia, which have their own fossil fuel deposits, the rest of the region depends on a single supplier—Gazprom—and, as a result, pays the highest prices for gas in Europe. However, unlike the larger Central European gas markets that demand higher volumes, the gas markets in the Balkans are small and underdeveloped. Consequently, even a small influx of alternative gas supplies can be a game-changer in the energy geopolitics of the region. In fact, in 2013, gas imports from Russia were about 11 bcm for the entire region, including Romania, Greece, Slovenia and Croatia. The total gas demand of Southeastern European countries is 26 bcm. Local production, mostly in Romania and Croatia, meets more than half of this demand. By 2025, gas demand in the region is expected to increase to 44 bcm per year. TAP can supply the additional gas required to meet this growing demand and change the long-lasting dependence on a single supplier, improve energy security, and impact local politics, often influenced by Russian energy companies.

Once the Southern Gas Corridor increases transported gas volumes, it will be possible to distribute larger quantities of gas in the Balkans. This will require building new branches and interconnections as well as new pipelines, such as the Ionian Adriatic pipeline from Albania, through Montenegro to Croatia. More Azerbaijani gas to the Balkans will dramatically change the region's economics, for instance by reducing the proportion of coal in the primary energy supply of Serbia, Bosnia-Herzegovina and Macedonia.

The successful launch of Azerbaijan's energy pursuits in Europe will have major implications for both Baku and the countries in Southeastern Europe. On the one hand, it will strengthen Baku's relations with the EU and NATO, as many of the Southeastern

European countries are already members of both organizations. This will have a host of implications for Azerbaijan's international position and may also impact domestic developments as an enhanced partnership with the EU democracies may stimulate closer European integration.

On the other hand, Azerbaijani gas in Southeastern Europe will ease tensions created by Russian energy politics and will limit Moscow's political reach in the region. However, there will be challenges along the way. Russia will be vigilant in protecting its energy positions and will try to undermine Azerbaijan and its strategic partnership with Turkey by promoting the new concept of a Turkish Stream pipeline. But since South Stream was canceled, Azerbaijan will have the opportunity to play a significant role in Bulgaria, Romania, Serbia, Macedonia and Bosnia-Herzegovina, countries whose energy markets are now more open for alternative gas supplies from the Caspian basin.

Expected benefits from the construction of the Southern Gas Corridor include:

- Expanding Azerbaijan's relations with the EU and NATO as a result of the country's contribution to European energy security and the development of closer relations with EU and NATO members in Southeastern Europe.

- Changing the energy nexus in Southeastern Europe after starting direct deliveries of Caspian gas to Greece and Albania and through an interconnector to Bulgaria, potentially linking Macedonia and Kosovo to the pipeline in the future.

- Building a second pipeline or pipeline branches to expand Caspian gas delivery to Montenegro, Croatia, Bosnia-Herzegovina and, possibly, Serbia will solidify Azerbaijan's

position and resolve long-standing energy uncertainty in the region.

- Developing closer relations with Southeastern European countries will strengthen Azerbaijan's international standing and open other economic and investment opportunities (including on EU territory). On the other hand, Southeastern Europe will gain a new partner in the South Caucasus for trade, investment and tourism.

- Closer economic and political relations with the EU will stimulate increased levels of transparency and accountability of Azerbaijani companies and government institutions.

While the benefits are obvious for Azerbaijan, Southeastern Europe and the EU, there are also challenges to the new pipeline—starting from the global economic environment and ending with EU regulations to which the energy corridor will be subject. EU laws, however, are not the primary challenge to the Southern Gas Corridor, as they were for the South Stream project. The first problem is the dramatic plunge in oil prices in 2014 and 2015, which has had a profound effect on energy companies globally. Severely reduced revenues and profits limited their ability to invest, and many have had to downsize or shelve projects. Azerbaijan's SOCAR has been overstretched with having to build enormous investments in Shah Deniz II, expanding SCP, and building TANAP and TAP. Although SOCAR stated that plans for the Southern Gas Corridor were going ahead and there will be no delays, the company also disclosed that it would be seeking project financing to complete the pipeline. Other investors, and particularly the leader of the Shah Deniz II, BP, also feel the pressure of falling revenues.

At the technical level, in November 2014, the European Commission opened an in-depth investigation to determine whether the acquisition of DESFA by SOCAR is in line with the EU's Merger

Regulation. SOCAR's share in DESFA is 66 percent; the Greek state controls the remaining 34 percent. From Azerbaijan's perspective, there is no conflict of interest in acquiring the control package in DESFA, as the gas producer and the owner is the Shah Deniz consortium, where SOCAR has only a 16.6 percent share.

Russia's announcement of plans to build the Turkish Stream natural gas pipeline as a substitute for South Stream poses a challenge to TANAP as the mainstay of the EU-backed Southern Gas Corridor concept. By directly competing with the Southern Gas Corridor, Russia could preempt large volumes of gas from the Caspian basin (Turkmenistan and future Azerbaijani gas fields) as well as from the Middle East from entering Europe. The new pipeline would serve the same purpose as South Stream in bypassing Ukraine as a transit country and maintaining pressure on the government in Kyiv.

Recommendations

The development of the Southern Gas Corridor is an important opportunity for the European Union to diversify European gas supplies; change the energy nexus of Southeastern Europe, which depends on a single supplier and pays excessive gas prices; curb Russian energy and political influence in the Balkans; and support Azerbaijan's efforts to establish closer relations with the West. The Southern Gas Corridor is the largest natural gas investment in the European Union. It is also an opportunity for the United States to enforce America's position in the Caspian region, strengthen EU energy security, fortify the transatlantic partnership and defend against potential Russian aggression in regard to Caspian oil and gas resources.

In the current economic and geopolitical situation, it will take dedication, resolve and consistency by all parties involved in the Southern Gas Corridor to make this strategic project a reality. The

authors of the book chapters have made the following recommendations for the European Union, United States, Azerbaijan and Southeastern Europe:

For Enhancing European Energy Security and Solidifying the Southern Gas Corridor:

- The European Commission should redouble its efforts to convince Turkmenistan of the economic value of pursuing a westward gas export policy as well as take concrete steps to reassure Ashgabat of Europe's support in the face of Russian political pressure. The United States has a particular role to play in these reassurances. Discussions by officials at the highest levels possible will be vital to convince Turkmenistan of the West's commitment.

- EU member states should work toward founding an Energy Union, composed of a single market for natural gas across the EU, Union-level support for constructing and maintaining dual-flow interconnectors between Member States, as well as the option for Brussels to purchase energy supplies from producers in bulk on behalf of groups of EU members. The ability of Europe to buy gas on behalf of the smaller EU countries would undercut Russia's ability to employ discriminatory pricing policies against European countries. Moreover, it would attract Turkmenistan, which would prefer to sell larger volumes to the EU over relatively tiny quantities to individual EU member states.

- The US, the EU and Turkey's closest neighbors should undertake a concerted and dynamic diplomatic effort to discourage Ankara from buying into Moscow's Turkish Stream concept. This South Stream substitute could ultimately undermine the strategic logic of TANAP—and by

extension, the Southern Gas Corridor—while further increasing Turkey's dependence on Russian gas supplies.

For Developing the Necessary Infrastructure:

- The EU and its member states and close partners should speed up the construction of interconnections with reverse-flow capabilities and additional gas storage facilities as a defense or an insurance policy against future large-scale supply disruptions. During times of supply stability and abundance, interconnector pipelines are likely to be under-utilized and financially draining to operate. Therefore, the EU should ensure there is a dependable financial and operational mechanism in place for maintaining interconnector pipelines when they are not needed.

- The EU needs to approve the privatization of DESFA to SOCAR. The deal consists the cornerstone of the energy partnership between Greece and Azerbaijan. The privatization agreement will solidify the Southern Gas Corridor and bring Azerbaijan closer to Europe.

- The US and the EU should support the realization of the Ionian Adriatic Pipeline as soon as additional, non-Azerbaijani sources of gas to the Southern Gas Corridor can be secured. The Ionian Adriatic Pipeline will enhance EU energy security by opening an alternative energy route. It will also have political benefits, reinforcing the integration process within the Balkan region and involving Adriatic countries in a wider framework of political and economic cooperation. The EU could work with Azerbaijan to provide financial support by ensuring the participation of SOCAR.

- The European Commission should assist in developing plans for an LNG terminal in Croatia and a south-north pipeline

corridor from the Western Balkans to Central Europe for gas volumes supplied to this terminal. The EU should also provide some funding for these strategically important infrastructure projects.

For Stability in the South Caucasus:

- The long-term implementation of energy projects requires stability and peace in the region. The Karabakh, South Ossetia and Abkhazia conflicts not only threaten regional peace, but also undermine the sovereignty and territorial integrity of Azerbaijan and Georgia. In this direction, the EU and US should take a leading position and show stronger practical support for peace in the South Caucasus.

- The US and the EU should ascertain and pursue the diplomatic, political and security assistance that Azerbaijan requires to stabilize the South Caucasus, as well as its connections with Southeastern Europe, to ensure the country's sovereignty and independence and to restore its territorial integrity.

- The US should maintain a stronger engagement in the Caspian region and support the Southern Gas Corridor. Such engagement is particularly important and timely, since the shale gas revolution has ensured that the US is now a global leader in energy development. The US cannot afford to diminish its presence in the Caspian region, because other competing powers such as Russia and China will try to fill the ensuing power vacuum.

- Azerbaijan and NATO should bolster their relationship. Azerbaijan borders Russia in the north and Iran in the south and is particularly vulnerable to these two major powers. The

geostrategic significance of the Southern Gas Corridor goes well beyond the transit of Azerbaijani gas supplies.

- The US Congress needs to remove Section 907 of the Freedom Support Act, which has banned US government financial aid to Azerbaijan since 1992.

- The US and the EU should prepare contingencies for securing the oil and gas pipeline routes traversing the South Caucasus from Azerbaijan to Southeastern Europe, and prevent any third party from sabotaging or controlling the pipelines.

This book provides an unprecedented and urgently needed assessment of the changing geopolitics and energy environment in Southeastern Europe and the South Caucasus. Our belief is that this publication will stimulate additional debate among experts and policy makers.

Part One

Strategic Canvas

Southeastern Europe's Energy Nexus: A Crossroads of Pipelines and Geopolitics

Vladimir Socor and Matthew Czekaj

Introduction

In the past 25 years, Southeastern Europe has been at the crossroads of competing energy interests and pipeline routes. Struggling to reform its energy sector and integrate with the European energy market, the region is still heavily dependent on Russian oil and gas. At the same time, with the fall of Communism and the disintegration of the Soviet Union, its geographic location has acquired new geopolitical importance, opening up opportunities for diversification of energy supplies and routes.

As Russia is trying to preserve its influence and energy grip on the region, emergent suppliers such as Azerbaijan are entering the European market through the Balkans. The region has become a competing ground for several natural gas projects: Nabucco, later replaced by the Trans-Adriatic Pipeline, which will bring Caspian gas from Azerbaijan (and potentially Turkmenistan and the Middle East); and South Stream, subsequently replaced by Turkish Stream (or Balkan Stream), intended to deliver gas from Russia via the Black Sea, bypassing Ukraine.

Despite the attention to the Balkans by gas producing countries and energy companies, the region's natural gas market is very small and fragmented: annual consumption barely reaches 26 billion cubic meters (bcm) of gas, with only about 11 bcm imported from Russia in 2013.[1] However, the region is a gateway to the larger markets in Central and Western Europe, which makes it vital for the gas producers in the Caspian basin and the Middle East. For Russia, the region is an opportunity to bypass Ukraine in delivering natural gas to Europe and influencing the European Union through its alliances with Southeastern European governments: from Greece to Bulgaria, Serbia, Macedonia and the Adriatic countries.

Despite years of planning, feasibility studies, continuous project revisions, and many political pledges of support from regional governments, the ambitious Nabucco natural gas pipeline is officially dead and will never be built. Nabucco was long seen as a key element for freeing Central and Southeastern Europe from its overdependence on Russian energy supplies and, in several cases, Russian-controlled transit routes. Originally conceived as a nearly 4,000-kilometer (2,485 miles) pipeline, Nabucco was planned to stretch from Azerbaijan's Caspian Sea coast, eastward through Georgia, Turkey, and then turn northward to continue via Bulgaria, Romania and Hungary, terminating in the Austrian gas hub of Baumgarten. Later, after Baku and Ankara agreed to build a scalable gas pipeline across Turkey (the Trans-Anatolian Gas Pipeline—TANAP), the Nabucco project (renamed Nabucco-West) was truncated to connect to TANAP and begin at the border between Turkish Thrace and Bulgaria.

Nevertheless, even in its shortened form as Nabucco-West, the project failed to attract sufficient business interest due to continued concerns over its bankability. Instead, the gas producers' consortium developing the Shah Deniz field in Azerbaijan declared in summer of 2013 that it had selected the competing Trans-Adriatic Pipeline

project (TAP, Greece-Albania-Italy, led by Norwegian Statoil), which would be given priority access to Azerbaijani gas.

By linking together the already existing South Caucasus Pipeline (also known as the Baku-Tbilisi-Erzurum pipeline), TANAP and TAP, Azerbaijan's strategic planning opened up the first new potential route for gas shipments to Europe in decades—the Southern Gas Corridor. Although TAP's capacity is smaller than Nabucco would have been (10 bcm versus 30 bcm per year) and terminates in Italy (an already well-diversified market) instead of Central Europe (which still needs new sources and transit routes for gas), the new pipeline and the strategically important new transit corridor it will open are set to profoundly impact gas markets and the energy security situation across Southeastern Europe. The countries of the Balkans and Southeastern Europe vary widely in terms of their energy security situation, however. Thus, the impact of the Southern Gas Corridor will be felt differently across the region.

Energy Snapshot

The countries in the Balkans have limited fossil fuel reserves, but have depended on the abundance of coal deposits and water resources. Romania and Croatia rely considerably on their oil and gas production. Three nuclear power plants are located in the region—in Bulgaria, Romania and Slovenia—contributing to the balance of their energy mix. Coal makes up more than 50 percent of the primary energy supply of Serbia and Macedonia and over 65 percent of that of Bosnia-Herzegovina.[2] As the European Union strives to reduce the levels of carbon dioxide emissions on the continent, the countries in the Balkans are developing national energy strategies based on increased usage of natural gas, renewable energy sources and clean coal technologies. In addition to improving security of supply, the Southern Gas Corridor will contribute to achieving the EU's green gas reduction targets. Moreover, Albania, Montenegro and Kosovo have no gas networks and are not connected to any outside gas grids. The

TAP consortium's plans for gasification of Albania and potentially Montenegro—if the Ionian Adriatic Pipeline is built—will result in a major change in the Western Balkans energy sector.

TAP Transit Countries

Greece and Albania stand to benefit directly from the Southern Gas Corridor, since the Trans-Adriatic Pipeline will cross these two countries. More than half of the natural gas Greece consumes has been imported from Russia. In 2013, 54 percent of 3.86 bcm of gas Greece consumed was imported from Russia, paying $478 per thousand cubic meters.[3] However, natural gas represents only 13.9 percent in Greece's primary energy supply, while oil holds the lion's share at 45.9 percent, and coal makes up over 30 percent.[4]

In June 2013, Azerbaijan's State Oil Company (SOCAR) won the public tender to buy 66 percent of the Greek state-owned DESFA's (Public Gas Transmission System Operator) pipelines. SOCAR holds a 17-percent market share in Greece, and with the acquisition of DESFA, Azerbaijani gas should enter retail markets in Greece and farther afield.[5] Prior to 2018–2019, when Shah Deniz Phase II of gas production and the TANAP pipeline are expected to come on stream, SOCAR might exercise the option of exporting some gas volumes via existing Turkish pipelines, feeding into the DESFA system in Greece. DESFA is also a shareholder of the Interconnector Greece-Bulgaria project, the construction of which is set to begin in 2016 after many disappointing delays. Through that pipeline, Bulgaria would be able to receive 1 bcm of Azerbaijani gas per year from 2019, and up to 5 bcm later.[6]

At the same time, Greece retains considerable interest in providing transit services for Russian gas exports. Following Vladimir Putin's cancellation of South Stream, the Russian president suggested that Gazprom, or a Gazprom-led consortium would build a new pipeline under the Black Sea to Turkey (other than the existing Blue Stream

pipeline), and using Turkey's pipeline network would export gas to Europe via Greece (in preference to Bulgaria). Such a project would lure Greece to become a transit country for Russian gas, so as to undermine the European Union's and Azerbaijan's Southern Gas Corridor and TANAP projects. This scenario would re-enact Moscow's earlier attempts to undermine Nabucco with the mere prospect (or threat) of South Stream's materialization (ultimately, Nabucco failed on its own).[7]

Albania does not receive natural gas from Russia at all and is not connected to any international gas networks.[8] The country's domestic gas production peaked at 1 bcm per year in 1985, but dropped to zero since 2012 as the natural gas reserves depleted year after year.[9] Instead, Albania has relied on coal and oil imports to meet its internal electricity generation needs. The country's domestic oil extraction industry produced 17,000 barrels of oil per day in 2013, but it needed to import nearly 11,000 barrels of oil per day to make up for its consumption shortfall.[10] Oil dominates the primary energy supply of Albania with a share of 57 percent. Albania is in need of a natural gas supply for its petrochemical industry, fertilizer plants and residential sector.

Albania's position, however, is set to drastically change in the coming years after the TAP gas pipeline comes on stream. The pipeline will pass east to west across Albania, from Trestenik to Fier, from which point, TAP will continue on the Adriatic seabed before making landfall again at Melendugno, southern Italy. TAP itself will provide Albania with future tax revenue (making a profit from transit fees for TAP will not be allowed to European host countries under current European Union energy legislation guidelines) and direct investment of some $1.25 billion.

Black Sea Countries

According to the TAP consortium, the pipeline's routing can facilitate gas supply to several Southeastern European countries, including Bulgaria, Bosnia-Herzegovina, Montenegro, Croatia and others. Bulgaria will be the first beneficiary of TAP apart from the transit countries, having signed a contract with the Shah Deniz consortium for the delivery of 1 bcm starting from 2019. The country buys essentially all of its natural gas (an average of 2.8 bcm per year) from Russia and also pays one of the highest prices in Europe (it was $501 per thousand cubic meters in 2013).[11]

Notably, all Bulgarian governments have been supportive of both the Nabucco and South Stream pipeline projects. In fact, the environmental impact study for Nabucco was ready much earlier than that for South Stream. But since Bulgaria was to be the landing point of the South Stream pipeline from the Black Sea, the government expected sizeable investment, revenues from transit fees to pay back construction loans from Gazprom, and many new jobs. This is why Sofia lobbied Brussels hard to exempt South Stream from the EU's supplier-transit decoupling and third-party pipeline access regulations. Yet, by June 2014, under mounting legal pressure from the EU, Sofia suspended any further activity on constructing the pipeline, and the Socialist Party–led government collapsed as a result.[12] And in December 2014, President Putin declared that in the face of Western sanctions and EU regulatory pressure, he was canceling South Stream entirely.

Bulgaria's dependency on Russia in the energy sphere reaches beyond just natural gas, however. Russian Lukoil owns Bulgaria's only oil refinery,[13] and Russia sells Bulgaria all of the nuclear fuel it uses.[14] This dependency and the cancellation of South Stream have pushed Sofia to more fully embrace the Southern Gas Corridor, which should provide Bulgaria with non-Russian gas supplies for the first time.

Romania is the largest and, relatively, the most energy secure country in Southeastern Europe, relying on a balanced mixture of domestic oil and gas production, nuclear energy, renewable energy sources and coal. Bucharest has been historically averse to Moscow's policies in the region and has kept its distance from the Kremlin. Romania has the fourth-largest crude oil reserves in Europe with 600 million barrels of proved reserves as of January 1, 2014. The country also has the fifth-largest natural gas reserves in Europe with 104.77 bcm of proven reserves. Oil production has steadily declined over time, as deposits are depleting. Meanwhile, however, natural gas production has accelerated with new offshore gas discovered in the Black Sea.[15] Regarding Russian gas imports, Romania is already the least dependent state in Central and Southeastern Europe—the country used to import 24 percent of its total gas consumption from Russia in 2012 and 2013.[16] But gas demand has dropped to 11 bcm in 2014, almost equal to the domestic production (10.9 bcm in 2013).[17] In March 2015, Romania announced that it would not be importing Russian gas starting April 2015, as domestic gas production will exceed demand 10 percent.[18]

At the same time, the country is in the process of building two new reactors at its nuclear power plant in Cernavoda, which will help address Romania's growing electricity needs. In 2013, Romania granted shale gas exploration permits to foreign companies—mainly, to Chevron—and estimates suggested that Romania have as much as 1.444 trillion cubic meters of shale gas, which would cover domestic consumption for more than a century.[19] Chevron, however, withdrew from the Romanian shale gas projects in 2015. Still, Romania expects to start offshore natural gas production commercially by 2018 at the earliest, and to supply Moldova from that new source.[20]

Western Balkans

EU-candidate Serbia is a close economic partner for Russia in the region, and this country has been increasingly coming under Russian

political and economic influence in the energy sector.[21] Moscow had offered Serbia to join South Stream, and Belgrade became a major supporter of the project before its cancellation. Moreover, as of 2003, Lukoil owns 80 percent of Serbia's oil trade and product retailer Beopetrol, while Gazprom controls most of the country's natural gas market. Furthermore, in a package deal with the South Stream project, Gazpromneft acquired Serbia's oil company Naftna Industrija Srbije (NIS) and modernized its oil refining complex, turning it into an exporter to Balkan markets. Most of that investment went into the Pancevo refinery.[22] In 2014, 40 percent of the natural gas Serbia consumed (1.14 bcm of a total of 2.827 bcm) was imported from Russia.[23]

Macedonia pays the highest price ($564 per thousand cubic meters in 2013) for its small import volume of Russian natural gas. In 2013, it received just 0.05 bcm from Gazprom, which represented 33 percent of Macedonia's consumption that year.[24] For practically all of its power generation, Macedonia relies on coal (lignite, which it mines almost entirely from domestic sources), thermal plants (66 percent) and hydroelectric dams (34 percent). The Macedonian government is planning to significantly expand its renewable-resource power generation capacity. Macedonia currently imports 30 percent of its electricity from abroad, mainly from Bulgaria and Serbia.[25] But the strain on Macedonia's outdated and overburdened power generation and transmission system results in occasional blackouts across the country during peak use times.[26]

Kosovo is in an even more precarious situation than its neighbors when it comes to energy security. Nearly all of its electricity is produced by two lignite-powered plants, Kosovo A and B. However, the country has, for years, suffered from lengthy daily blackouts during the winter season. Furthermore, the Kosovo A plant suffered a destructive explosion in June 2014, and is scheduled to be shut down by 2018 because of its dangerous pollution levels, though questions remain as to whether this will actually occur.[27] For now, Kosovo is not

linked to any natural gas distribution networks and no plans currently exist to change this, although supplying gas to the country would diversify and boost the security of supply of Kosovo's energy sector.[28]

Bosnia-Herzegovina is overwhelmingly reliant on expensive Russian gas. In 2013, it paid $515 per thousand cubic meters for imports from Gazprom, which made up 73 percent of its consumption that year. For now, however, Bosnia-Herzegovina uses little natural gas overall. Its total consumption was just 0.24 bcm in 2012 and has, on average, held more or less at this level since 1997.[29]

Although Russian gas sales to Bosnia-Herzegovina are small in volume (0.19 bcm in 2013), Moscow has, nevertheless, been attempting to use energy sales as leverage to keep this federated state internally divided so as to forestall its European integration process. In particular, Moscow has been using the promise of lucrative business deals to gain political influence over Bosnia-Herzegovina's Serb entity (Republika Srpska), which has the power to veto policies at the federal level that Russia disagrees with.[30] Previously, for instance, Moscow held out the possibility of building a branch of the now defunct South Stream to supply the Serb Republic, which would have put Bosnia-Herzegovina at odds with European Union energy regulations, thus imperiling Sarajevo's EU candidacy process.[31]

Adriatic Countries

Slovenia pays one of the highest rates for Russian gas supplies: It was $486 per thousand cubic meters in 2013. It is also heavily (though not cripplingly) dependent on Gazprom, with 57 percent of its gas imports coming from Russia via third countries.[32] Most of the remainder is imported from Algeria, with some smaller volumes coming from Italy. Slovenia's overall consumption is small compared to most of its neighbors, at just 865 million cubic meters per year.[33] Moreover, natural gas, to date, is not a component of the country's electricity production mix.

Croatia has a healthy energy mix with 40 percent of the electricity coming from nuclear power, 21.5 percent from thermal plants, 38 percent from hydroelectric dams, and 0.5 percent from solar plants as of December 2014.[34] Compared to many of its neighbors, Croatia has a relatively robust and diversified energy resource portfolio. As of 2014, the country has 71 million barrels of oil and 880 bcm of natural gas in proven reserves. It produces a quarter of its annual oil consumption and almost 60 percent of its natural gas consumption.[35] Croatia has no nuclear power plants, but it generates just under one seventh of its electricity requirements from domestically produced renewable and biofuel sources.[36]

One third of all of Croatia's energy imports (including oil and natural gas) originates in Russia,[37] and nearly all of its gas imports are purchased from Gazprom.[38] However, unlike Russia's other regional customers, Croatia has been able to negotiate its purchases under conditions of spot prices rather than allowing to be locked into long-term contracts with Gazprom.[39] Nonetheless, Moscow has been trying to engage Croatia in energy deals and penetrate its energy market. Illustratively, Russian state-controlled Gazprom was reportedly looking to purchase Hungarian energy company MOL's 49-percent stake in the Croatian oil and gas national champion INA. Combined with the possibility of buying up to an extra 5 percent of shares in the company on the open stock market, this could have given Gazprom a controlling stake in INA. Some Croatian governmental and business circles pressured MOL to sell its INA stake to a third buyer, which could only have been Gazprom. Washington stepped in to discourage a forced sale of MOL's INA stake to Gazprom, but, of course, US influence over the Hungarian government may not hold indefinitely should economic conditions dictate otherwise.[40]

Croatia is potentially an energy transit corridor of strategic significance to Central Europe. This presupposes attracting an international consortium to build the long-proposed liquefied natural

gas (LNG) terminal on the Adriatic island of Krk. Current predictions suggest the terminal may be operational by 2019, assuming a viable consortium. The Krk terminal would be linked with the existing Croatia-Hungary interconnector, which would be continued to the Hungary-Slovakia border. That pipeline would, in turn, link up with the planned Poland-Slovakia interconnector and with the existing Hungary-Romania interconnector. That would complete a grand design of the European Union–backed Baltic Sea–Adriatic Sea–Black Sea interconnecting system that would significantly reduce dependence on Russian gas in turn to the Hungary-Romania interconnector pipeline. Spanning much of Central and Southeastern Europe, it would provide another entryway for diversified natural gas imports.[41]

Over the past 20 years, Montenegro has experienced growing energy requirements, reaching a record deficit of 1,663 Gigawatt hours (GWh) in 2008. This has pushed the government to declare an energy strategy to boost renewable energy production to 33 percent of all electricity generation by 2030. Montenegro already uses hydropower to produce 76 percent (1,800 GWh) of all electricity used domestically, but this represents only 18 percent of the country's hydro-electricity production potential. Little consensus currently exists about whether Montenegro will be able to reach this ambitious goal,[42] but the construction of TAP across the Balkan Peninsula may offer the possibility of gasifying the country in the coming decades.

The TAP project consortium considers the possibility of connecting the east-west Trans-Adriatic Pipeline to a proposed north-south pipeline hypothetically designated as the Ionian Adriatic Pipeline (IAP). Starting from the proposed connection point at Fier, the IAP would connect to an Albanian grid yet to be developed, as well as deliver modest amounts of Caspian gas to Croatia, Bosnia-Herzegovina, and Montenegro.[43]

Energy Impact of Ukraine Crisis on Region

Russia's forcible annexation of the Crimean peninsula from Ukraine in March 2014, followed by its hybrid and conventional war against Ukraine, have deeply damaged Moscow's relations with the countries of Europe's east, with the European Union writ large and many of its individual member countries. Nevertheless, the marketing and transit of Russian oil and natural gas in Europe seems essentially unaffected in any direct ways by that war. All sides involved are (as of April 2015) successfully insulating the energy sector from the political-diplomatic and geopolitical tensions over Ukraine.

Within the Black Sea as such, however, Russia's annexation of Crimea seriously complicates the division of the Black Sea continental shelf and the exclusive economic zones (EEZs) among riparian countries. Given the peninsula's deep-jutting as well as sprawling configuration, most of the existing demarcation lines in the Black Sea can come into question. Undoubtedly, Russia will lay claim to large parts of Ukraine's continental shelf and EEZ. De facto, several countries (at least Turkey and Romania) will henceforth face Russia as a direct maritime neighbor.[44]

All Black Sea countries refuse to recognize Russian sovereignty over Crimea, therefore they would not legally recognize the extension of Russia's maritime jurisdictions. However, some accommodations might evolve informally to avoid friction, or to deal with overlapping claims after Russia's annexation of Crimea.

The Crimean putsch leaders announced early on the intention to "nationalize" Chornomor Naftohaz (Black Sea oil and gas company), the Crimean branch of the state-owned Naftohaz Ukrainy, on behalf of the Crimean Republic, and to hand it over to Russia following Crimea's incorporation into the Russian Federation. Following the March 18, 2014, signing of the accession treaty in Moscow, a team from Gazprom took over the Chornomor Naftohaz headquarters and

began turning the company into a fully-owned unit of Gazprom. According to then–Ukrainian Energy Minister Yuriy Prodan, informing the European Commission in Brussels, Russian naval personnel in uniforms without insignia had taken the Chornomor oil and gas rigs under Moscow's protection. The legitimate owner, Naftohaz Ukrainy, plans to sue Gazprom in international courts for damages.[45]

According to the treaty on Crimea's accession to Russia, "the demarcation of the waters of the Black Sea is determined on the basis of the Russian Federation's international treaties." This vague formulation seems, at a minimum, to imply that Russia deems Ukraine's agreements on demarcation with other Black Sea countries as no longer valid. It can be read as a hint that Russia might seek to renegotiate and supersede the existing demarcation agreements.

This reapportionment of the Black Sea continental shelf and littoral areas—including the annexation of Crimea—has had a serious energy security and long-term fiscal impact on Ukraine, in particular. The country has lost access to numerous shallow-water and deep-sea oil and gas deposits off the coast of the Crimean peninsula. Some were already being excavated by Chornomornaftogaz (output of 1.6 bcm in 2013, which was supposed to double in 2014). Other fields had yet to be fully explored, but the loss to Ukraine is preliminarily estimated at $40 billion.[46]

Most of the countries in Southeastern Europe are greatly dependent on Russian gas supplies transferred via Ukraine. If the crisis deepens, the concern is that Russia may halt or disrupt transporting gas through Ukraine as it did in 2009. Bulgaria, Macedonia and Romania would be the hardest hit by a potential suspension of gas exports through Ukraine.[47]

In October 2014, President Putin warned of the possibility of disruptions of Russian gas shipments to Europe, if the West proceeds

with applying more sanctions on Russia. He further warned that Russia would respond with supply cutoffs in the event that Ukraine begins siphoning off gas volumes earmarked for European consumers. "We really don't want to see any crises arising during the fall and winter," Putin seemingly reassured the European customer countries, disclaiming however in advance "any Russian companies' responsibility for any crises."[48]

In mid-September 2014, amid tense gas price negotiations between Moscow and Kyiv, and only weeks after member countries of NATO met in Wales to discuss measures the Alliance could take to withstand aggressive actions by Russia, several countries in Central and Eastern Europe reported disruptions in their imports from Gazprom. Austria, Slovakia and Poland all noted drops of more than 20 percent in gas pipeline pressure.[49] Then, in October, Bulgaria itself reported drops in pressure for pressure levels—oscillating between 30 and 35 bar, below the usual level of 38 bar. According to Bulgarian Economy and Energy Minister Vasil Shtonov from the caretaker government, "The unofficial information is that this was due to technical problems in Russia, but there is no way to tell because there are no gauges at the border between Russia and Ukraine. We are expecting the problems to be solved soon."[50]

Supply disruptions registered in the autumn of 2014 reminded Europe of the Russian-Ukrainian gas crises of 2006 and 2009. In the first of those crises, which (beyond Ukraine) impacted Central and Southeastern Europe, President Putin authorized Gazprom to halt deliveries of Russian gas to Ukraine on January 1.[51] To maximize the political impact in Ukraine, Russia's state-controlled television channels showed Putin, then–Gazprom chairman Dmitry Medvedev, as well as other top officials authorizing the halt in supplies to Ukraine. The channels also showed overdramatized scenes from Russian compressor stations near the Ukrainian border shutting off the supply valves to that country.

The halt meant that Russia was no longer compensating Ukraine for the transit of Russian gas to European countries through Ukrainian pipelines. The compensation gas—in lieu of cash—to Ukraine then amounted to some 25 billion cubic meters annually, its average daily volume being some 120 million cubic meters during that peak consumption time. Gazprom was now withholding that volume from Ukraine.

Although, purportedly, the Russian-Ukrainian dispute was over pricing and Ukrainian arrears, owing back payments, Moscow's main goals in shutting off gas to Ukraine in 2006 were twofold. First, the Kremlin hoped to defeat Ukraine's Orange authorities—which had come to power a year earlier on the back of mass public demonstrations known as the Orange Revolution—in the upcoming parliamentary elections. Second, Russia was trying to compel Ukraine to turn its transit pipeline system into a Russian-Ukrainian consortium.

Meanwhile, Gazprom continued its deliveries to European countries in accordance with the supply contracts for 2006, which presupposed transit through Ukraine. These deliveries had totaled slightly over 100 billion cubic meters in 2005, with an average daily flow of some 360 million cubic meters scheduled for that part of the year. Moscow apparently anticipated two possible reactions from a cornered Ukraine: Either Ukraine would provide the transit service gratis before caving in quickly to Moscow's demands. Or, alternatively, Ukraine would stop some of the Russian gas en route to Europe and use that gas for Ukraine's own needs, correspondingly reducing the volumes available to European countries under their contracts with Gazprom. In this case, Moscow would accuse Kyiv of "stealing" from European consumers and jeopardizing the European Union's energy security. Such arguments were designed to isolate Ukraine from Europe politically and elicit passive European consent to a "reliable" Gazprom taking over Ukraine's gas transit system.

In fact, the second scenario came to pass. On January 1–2, 2006, some European Union member countries, including Germany, Austria, Italy, Hungary, Poland and Slovakia, reported shortfalls in the planned volumes of Russian gas reaching these countries via Ukraine. Apparently, Ukraine began diverting some Russian gas to use it within Ukraine. The Ukrainian government and other key officials had, indeed, announced during the final days of 2005 that Ukraine could not possibly be expected to provide the transit service gratis after January 1. They cautioned Moscow that Ukraine would retain for its own use a share of the westbound Russian gas, if Moscow stops compensating Ukraine with gas for the transit service.

On January 2, Gazprom notified the EU and the shortfall-affected countries that Russia was willing to increase the volume of its gas pumped to Europe via Ukraine by the same amounts that Ukraine diverts for its internal use. But that would have meant transit via Ukraine without compensating Ukraine for the transit service and, indeed, without a supply contract with Ukraine, thus cornering and isolating that one customer country from the market at large. Coupled with that dangerous offer was Moscow's political campaign accusing Ukraine of "thievery" at Europe's expense.

The 2006 gas crisis ended on January 4, with a murky Russian-Ukrainian deal. It created Rosukrenergo, a joint company of Gazprom with a Ukrainian oligarchic group, which resulted in windfall profits for Gazprom to Ukraine's detriment. It also positioned Gazprom favorably to take over Ukraine's transit pipeline and storage system.[52] That deal was based on cheap gas from Turkmenistan and ceased in 2009 when that source was no longer available. Kyiv's cave-in was Moscow's "solution" to the European gas crisis in January 2006. But before the gas started freely flowing again, countries across Europe suffered drastic drops in natural gas shipments from Russia in the middle of a cold winter: Austria, Romania and Slovakia recorded supply shortfalls of up to a third, Hungary lost 40 percent of the supply volume, France and Italy about a quarter or more, and Poland

received 14 percent less gas than it had contracted.[53] The Western Balkan customers located further downstream, including Serbia, Bosnia-Herzegovina and Croatia, received no gas at all from Russia during that crisis.

Three years later, Russia initiated a second European gas crisis by reducing the volumes transiting through Ukraine in January 2009. Officially, Moscow demanded payment of Ukrainian arrears for past deliveries of gas. But it aimed to pave the way for Gazprom's takeover of Ukrainian pipelines in lieu of debt payment. And Moscow launched another political operation in Europe to discredit Ukraine as a transit country or a partner in general.[54]

On January 1, 2009, Gazprom reduced the flow of gas through Ukrainian pipelines by the amount that would have normally gone to Ukraine. Downstream European customers reported a drop in imported volumes by as much as 30 percent, and Russia once again accused Ukraine of siphoning off gas meant for other European countries.[55]

By January 7, Russia cut off all gas supplies flowing through Ukraine for the next 13 days. That move hit most of Central and Southeastern Europe. Even France, Germany and Italy reported delivery shortfalls of between 10 and 25 percent; Poland and Romania, shortfalls of one third of the contracted supplies; and Hungary, a 45 percent shortfall. Croatia and Bosnia-Herzegovina reported 40-percent gas supply shortfalls. Contracted deliveries to Slovenia were reduced by half; those to Austria and the Czech Republic, by two thirds, whereas Greece reported an 80-percent cut in Russian gas deliveries. The hardest hit were Bulgaria, Slovakia, Serbia, and Moldova. They received no Russian gas during this period (except for Slovakia, which received just 3 percent of the contracted volume). Moreover, these countries had no or almost no access to non-Russian gas. Russia's suspension of deliveries was a lengthy one this time. Exacerbating its effects was a dramatic insufficiency of storage

capacities and inter-state pipeline interconnectors in those Gazprom-dependent markets, although the infrastructure situation was beginning to improve slightly by 2009 compared with 2006.[56]

Together, the 2006 and 2009 gas crises had a serious mobilizing effect on the European Commission and some EU member states to reduce dependence on Russian gas through supply diversification, to unify the European gas market, build pipeline interconnectors with reverse-flow capability, expand storage capacities, and de-monopolize Gazprom-controlled markets on EU territory. Work is advancing in all these directions: According to the results of an energy infrastructure and market stress test, carried out in mid-2014 by the European Commission, Europe is significantly better prepared to deal with Russian gas supply disruptions today than it was five or ten years ago.[57]

Moreover, the advent of shale gas has boosted Europe's supply diversification away from pipeline-delivered Russian gas. With diminishing demand and diminishing revenue in Europe, Gazprom can no longer afford to disrupt supplies for political or predatory purposes. And despite protests by Gazprom, an interconnector with a capacity of 27 million cubic meters of gas per day is now fully operational between Slovakia and Ukraine. It has been pumping gas of Russian provenance from European markets back into Ukraine since September 2014.

As a cumulative result of those measures and those trends, Russia is no longer in a position to manipulate gas supplies to Ukraine and European markets as in 2006 and 2009. Russia has not been able to suspend gas supplies to Ukraine during its ongoing war. Nor could Russia threaten to halt or reduce deliveries to Europe in counter-retaliation to the EU's sanctions on Russia over that war. Conversely, the EU itself refrains from introducing sanctions on Russia's energy sector. Many EU countries continue relying on Russian oil and gas supplies to levels that constrain their policy options.

In Southeastern Europe, supply diversification and interconnectivity have trailed behind the EU-wide trend. The Turkey-Bulgaria and Greece-Bulgaria interconnectors are now expected to be ready by 2018 to supply the Balkans with gas from the Caspian Sea. The cross-border interconnection between Romania and Moldova (Iasi-Ungheni), opened in August 2014, is merely symbolic at this stage. It lacks gas supply volumes until at least 2018, and it requires a longer continuation pipeline from the border into Moldova's territory. The Moldovan government hopes to extend this interconnector to Chisinau with EU funding.

The Cancelation of Nabucco and How It Affects Southeastern Europe

Ensuring the free flow of energy from diversified suppliers and along varied transit routes are key energy security goals within Southeastern Europe. For many years, the Nabucco project (later re-envisioned as the shorter Nabucco-West) was widely proclaimed as a strategic means to address this need. However, in mid-2013, after eleven years of futile efforts, Nabucco's shareholders, led by Austrian OMV, decided not to keep the failed project afloat, nor continue financing its operating expenses. Drawing the consequences of Nabucco-West's defeat, OMV's CEO Gerhard Roiss announced: "The Nabucco project is over for us."[58]

Nabucco-West competed with several other proposed pipeline projects for the right to transport natural gas from Azerbaijan to Europe. In the end, Nabucco's most serious challenger was the Trans-Adriatic Pipeline (TAP) project, which would link up with TANAP at the Turkish-Greek border, continue across Greece and Albania, traverse the Adriatic Sea and make landfall in southern Italy, where it would link up with that country's gas grid. During the Nabucco-TAP contest, the European Commission had insisted that the winning project would "open" the Southern Gas Corridor, strongly implying

that the other project would be implemented next. According to this logic, the two projects could be sequenced; the contest over Shah Deniz gas would merely determine the order of sequencing Nabucco-West and TAP; and they would coexist in the future, each supplying Caspian gas to different parts of the European market, once a trans-Caspian pipeline from Turkmenistan materializes.

However, after the Shah Deniz consortium chose TAP over Nabucco, it quickly became clear that this above-mentioned logic will not be borne out for the time being. There will not be another iteration of Nabucco-West without guaranteed supply sources and financing. Connecting the Caspian basin with Central Europe will be a matter for a post-Nabucco project. This will require a stronger consortium and more credible leadership than has been the case until now. But for now, the 10-bcm TAP will be the only outlet for gas from Azerbaijan and the Caspian basin.

Nabucco's demise affects the politics of energy supply along the entire Southern Gas Corridor to Europe. As planned by the European Commission, the Corridor includes the gas producer, transit, and consumer countries situated between Turkmenistan and Central Europe. With Nabucco removed from consideration, planning will have to be revised in light of a post-Nabucco era.

Turkmenistan, long seen as a pivotal regional gas supplier, had offered 30 to 40 bcm, which would have supplied Nabucco to its full capacity. Turkmenistan has avoided commenting openly on Nabucco-West's demise. Nevertheless, a trans-Caspian pipeline from Turkmenistan remains integral to the European Union–planned Southern Gas Corridor. From Ashgabat's perspective, a section of the planned gas highway to Central Europe has now fallen off. Even Nabucco-West could have accommodated significant volumes of Turkmenistan's gas. The TAP project does not have sufficient capacity for that, and its shareholders prefer dedicating TAP's capacity to their own gas. Ashgabat would almost certainly welcome a credible post-Nabucco

pipeline route to Central Europe. Turkmenistani gas could then flow to that market through the planned Trans-Anatolian Gas Pipeline, an Azerbaijani-led project.

Baku is interested in supplying Central Europe with gas from Azerbaijani fields other than Shah Deniz. The Absheron, Umid-Babek, Shafag-Asiman, and ACG-Deep projects are envisaged to start commercial production by 2020 and thereafter. According to the president of Azerbaijan's State Oil Company (SOCAR), Rovnag Abdullayev, "We see the pipeline route toward Austria as a natural market for this gas. The development planning of both pipeline routes lays the foundation for future growth."[59]

Bulgaria is the sole Nabucco country that will not necessarily lose from Nabucco's defeat. The TAP consortium has already pledged to supply Bulgaria, via the Interconnector Greece-Bulgaria (IGB), with enough gas to cover approximately 40 percent of the country's annual consumption. The IGB, partially EU-funded, has been under construction though behind schedule. Nonetheless, the IGB will transit 1 bcm of Shah Deniz gas to Bulgaria by 2019, and Sofia is in talks with Baku about buying gas from other sources for delivery starting as early as 2017.[60] In mid-2014, SOCAR won the tender for majority ownership of Greece's gas pipelines, and through that, an ownership stake in the interconnector to Bulgaria. Hence, Azerbaijan reaffirmed its known interest in selling small gas volumes in Bulgaria and elsewhere in the Balkans.

Former Romanian president Traian Basescu and the government, while co-habitating as political antagonists, had equally supported the Nabucco project, with a consistency of purpose unmatched elsewhere in the region. Indeed, Bucharest initiated collective appeals by the Nabucco countries to the European Union and to Azerbaijan, making the case for Nabucco-West in the run-up to the pipeline selection decision. Following Nabucco's failure, Basescu and Prime Minister Victor Ponta began emphasizing the commercial potential of local

shale gas as well as natural gas on Romania's Black Sea continental shelf. At present, a consortium of ExxonMobil and OMV explores natural gas offshore. Meanwhile, Chevron has abandoned its onshore shale gas projects in Romania and neighboring Bulgaria.

In Vienna, OMV's CEO Gerhard Roiss indicated a complete shift away from reliance on Caspian gas, commenting: "Our goal now is, European gas for European customers." According to the Nabucco project company's press release, the emphasis would now shift on "developing opportunities based on alternative gas sources." Both assertions allude, first and foremost, to OMV's aforementioned joint project with ExxonMobil in Romania.

The Nabucco pipeline was supposed to terminate at the Continental European Gas Hub at Baumgarten, near Vienna. However, with Nabucco shelved indefinitely, Baumgarten will continue to suffer from limited competition to the Russian gas flooding the terminal. Nabucco gas would have introduced a greater element of competition, contributing to the development of spot-market pricing. Instead, Gazprom can continue to dominate the price-setting process in Central Europe, possibly to a decreasing extent as shale-sourced gas gains market share in Europe.

The Southern Gas Corridor and Competing Gas Projects in Southeastern Europe

Nabucco's rival Trans-Adriatic Pipeline project (TAP, Greece-Albania-Italy, led by Norwegian Statoil) prevailed in the contest for priority access to Azerbaijani gas, eliminating Nabucco-West. On June 26, 2013, the gas producers' consortium at Shah Deniz, in Azerbaijan, communicated this decision to the parties and to the European Union in Brussels.[61]

Initiated in 2002, the Nabucco project held potentially winning cards of a strategic nature. Along with intrinsic comparative advantages,

Nabucco long enjoyed the European Commission's political and (unofficially) advisory support. Given this project's superior potential, the Commission prioritized Nabucco as the mainstay of the planned Southern Gas Corridor to Europe. However, missteps in Vienna detracted from the project's credibility, ultimately offsetting its advantages.

The proposed 4,000-kilometer pipeline, with a 56-inch (1,420-millimeter) diameter and an annual 31-bcm design capacity, seemed moribund by 2011. The transportation project's ambitions were outrunning the actual gas field development in the Caspian basin by many years. Consequently, Nabucco lacked supply sources and investment capital while facing steep cost increases for the project. The project company could not deal with these problems by citing outdated cost estimates, or by voicing wildly premature hopes to access gas from northern Iraq (a hope that could not even look optimistic since it presupposed a long, expensive connector pipeline). By 2011, Nabucco was losing credibility all around in its then-existing form.

Outside the consortium's official framework, OMV from time to time took some steps of its own that were inconsistent with the Nabucco project's logic. At one stage, OMV attempted a hostile takeover of Hungarian MOL, a partner in the Nabucco project. When this failed, OMV sold its large package of MOL shares to Russian Surgut Neftegaz, which used it for its own hostile takeover attempt against MOL. At some stage, the Austrian side proposed allowing Gazprom to, in the future, use part of Nabucco's capacity for Russian gas, which would have defeated this project's supply diversification goals. While the Baumgarten terminal was a major selling point for Nabucco, OMV at one time agreed to share control of the terminal with Gazprom, until the European Commission invalidated that agreement.

In early 2012, Azerbaijan gave Nabucco a chance to survive in a more

realistic form. Azerbaijan's State Oil Company (SOCAR) initiated the TANAP project to build the gas pipeline across Turkey to Europe, with Azerbaijan as main shareholder and project operator. TANAP, in effect, replaced Nabucco on Turkey's territory, taking over the burden of responsibility for two thirds of Nabucco's route.

This enabled the Nabucco company to reconfigure its project as Nabucco-West, from the Turkish-Bulgarian border to the continental gas hub at Baumgarten near Vienna. Its length now reduced to 1,300 kilometers, Nabucco-West looked more affordable and possibly bankable. The new version envisaged a 48-inch (1,220-millimeter) diameter pipeline, with a first-stage capacity of 10 bcm per year, scalable to at least 23 bcm through additional looping. The first-stage capacity would equal the annual export volume from the Shah Deniz field to Europe, avoiding under-utilization of the pipeline. Subsequent capacity increases in Nabucco-West would have been correlated with gas field development in the Caspian basin.

Yet the project's reconfiguration did not address Nabucco's internal weaknesses. The Nabucco consortium should have included at least one major gas producer with experience in the Caspian basin. OMV, a medium-size gas trader and small-size producer, with no Caspian experience, did not fit that bill. The project consortium included six national gas trading and pipeline operating companies (Austrian OMV, Hungarian MOL's unbundled subsidiary FGSZ, Romanian Transgaz, Bulgarian BEH's subsidiary Bulgargaz, Turkish BOTAŞ, and German RWE, each of them holding 16.67 percent of the shares) during most of the project's lifetime. RWE, financially the strongest partner, suffered heavy losses in its nuclear energy division following Germany's decision to phase out nuclear energy, and had to disengage from Nabucco in 2012.

The project company repeatedly changed the main contractors for Nabucco's front-end engineering and design (FEED). London-based Penspen had been in charge of supervising FEED work performed in

the Nabucco countries by their respective engineering companies until 2011. Penspen was replaced by the Australian firm Worley Parsons to coordinate FEED work, as well as verify and review the project's design. In January 2013, the Italian Saipem was chosen in a tender to perform a "re-FEED" for Nabucco-West, amid a corruption investigation of Saipem in Italy and the resignation of the company's management. An Austrian company in Innsbruck became a subcontractor to Saipem.

The continental gas hub at Baumgarten, near Vienna, was rightly viewed as a strong comparative advantage for Nabucco versus its rivals, including TAP. From Baumgarten, Azerbaijani gas could be distributed in several directions to lucrative markets. By late 2012–early 2013, however, those opportunities could be seen to diminish. With RWE withdrawing both from Nabucco and from the Czech pipeline system, Nabucco lost a guaranteed German customer and a possible connection with the Czech gas market from Baumgarten. At the same time, Bavaria's gas trader Bayerngas abandoned negotiations on future gas purchases from Nabucco. Thus, in the short term at least, market opportunities for Azerbaijani gas northward and westward from Baumgarten were no longer in sight. Suddenly, the terminal seemed less attractive. This situation could well have changed with the market's fluctuations, but not before the Shah Deniz gas producers including SOCAR decided to select TAP over Nabucco-West.

The "old" Nabucco project lost the European Commission's strong political support by 2011. The reconfigured Nabucco-West did not seem to regain that support, at least not fully. Instead, the Commission moved toward equidistance between Nabucco-West and its European rivals, ultimately TAP. The United States, formerly a vocal supporter of the Nabucco project, seemed to lose focus on this project and even some of its earlier interest in the wider region.

But even as Europe dithered on which pipeline project to ultimately

support, Azerbaijan led the way in carrying out its strategic vision for opening up the Southern Gas Corridor. In particular, full-scale investment approved at Shah Deniz, and supply contracts secured in Europe, made it possible for pipeline construction to proceed along the 3,500-kilometer Southern Gas Corridor, from Azerbaijan to European Union territory in Italy.[62] The cumulative investments are estimated at $25 billion in the offshore gas project and $20 billion in the construction of transit pipelines. This is one of the largest energy projects in the global energy business in terms of investment costs, technical complexity, territory covered and multinational participation.

Three pipeline projects, along the route from Shah Deniz and Baku to Italy, will comprise the Southern Gas Corridor: the South Caucasus Pipeline, TANAP and TAP. The European Commission is also currently at work to add a fourth, a trans-Caspian gas pipeline from Turkmenistan to Azerbaijan—the previous failure to initiate the construction of this pipeline was one of the elements that doomed the original Nabucco project.

South Caucasus Pipeline

The South Caucasus Pipeline (SCP), almost 700 kilometers in length, runs from Baku across Azerbaijan and Georgia to the border of Turkey. The line is dedicated to the transportation of Shah Deniz gas from Phase I of that field to Georgia, Azerbaijan and Turkey. Since 2006, Georgia receives its gas supplies almost entirely from Azerbaijan through this pipeline.

A consortium identical in its composition with the Shah Deniz producers' consortium, although a legally separate entity, owns and operates the pipeline. Its current shareholding is comprised of BP (formerly known as British Petroleum, the project operator) with 28.8 percent of the shares, Azerbaijan's State Oil Company (SOCAR) with 16.7 percent, Norway's Statoil with 15.5 percent, as well as Total of

France, Russian Lukoil, and the National Iranian Oil Company at 10 percent each, and Turkish Petroleum with 9 percent of the shares. This composition reflects the recent adjustment whereby Statoil sold portions from its former stake to BP and SOCAR.

Designed with a 42-inch diameter and operating since 2006, the SCP has a first-stage capacity of 9 billion cubic meters (bcm) per year, but is chronically underutilized at about 5 bcm in most years. With Shah Deniz production Phase II anticipated at 16 bcm annually, on top of Phase I's 9 bcm, the SCP will be up for a capacity boost to 25 bcm per year by means of additional looping and two new compressor stations. The cost of this boost is estimated at $3 billion. This would fully accommodate Shah Deniz gas export volumes, but not much beyond that. The pipeline's status would change, from dedicated to Shah Deniz gas to dedicated to Azerbaijani gas (i.e., including non-Shah Deniz volumes). As the pipeline has a potential of being connected to producers from Turkmenistan and Kazakhstan through the planned Trans-Caspian Gas Pipeline, Azerbaijan has proposed to expand its capacity up to 60 bcm by building a second line of the pipeline.[63]

Trans-Anatolian Gas Pipeline

The Trans-Anatolian Gas Pipeline (TANAP), approximately 2,000 kilometers in length, is planned to run from the Georgia-Turkey border to the Turkey-Greece border, feeding from the South Caucasus Pipeline and into the planned Trans-Adriatic Pipeline. Once Shah Deniz production comes fully on stream, TANAP would take 16 bcm from the SCP line, drop 6 bcm in Turkey and carry 10 bcm toward EU territory.

Baku initiated and planned this project in 2011, signed a bilateral shareholder agreement with Turkey in 2012, and undertook to invest in the project as majority shareholder. Azerbaijan's initiative rescued the overall Southern Gas Corridor project from imminent demise in

2012, by which time the European Union had failed to mobilize political and financial support for this grand design.

TANAP's shareholding was originally comprised of SOCAR with 80 percent of the shares and operating rights, Turkey's state pipeline company BOTAŞ with 15 percent, and Turkish Petroleum with 5 percent. Preliminary estimates of construction costs ranged widely from $10 billion to $12 billion. Ultimately, investment requirements depended on the capacity and scalability of the SCP and TANAP pipelines. The choice of diameter (48 or 56 inches) awaited a decision. TANAP is envisaged to be scaled up in several phases through additional looping and compression power. Starting at 16 bcm annually, it would reach up to 31 bcm per year, depending on gas volume availability in Azerbaijan and beyond it—most likely from Turkmenistan, northern Iraq or, potentially, from Iran if sanctions on the Islamic Republic are dropped in the coming years.

SOCAR intended to offer minority stakes in TANAP to Shah Deniz partners while retaining a majority of the shares and the operating rights in SOCAR's hands. Statoil and Total declined their options to acquire minority stakes in TANAP (Statoil reduced its major stakes in Shah Deniz and the South Caucasus Pipeline as part of a "rigid prioritization of investments," while Total does not have a strategic interest in this project). For its part, BP agreed to exercise that option and acquired a 12-percent stake in TANAP.

The Turkish government has committed to support this project, ultimately taking a 30-percent stake in TANAP via the Turkish state pipeline company BOTAŞ. These moves were in line with Ankara's desire to maximize its role as a transit country for energy supplies to the EU.

Trans-Adriatic Pipeline

The Trans-Adriatic Pipeline will be the Corridor's Balkan and offshore line. Connecting with TANAP at the Turkish-Greek border, TAP is planned to run 870 kilometers across Greece, Albania, and on the seabed of the Adriatic Sea, terminating in southern Italy and connecting there with the Italian pipeline grid. TAP is designed to carry 10 bcm annually, scaling up to 20 bcm per year by adding compressor capacity, once the additional volumes materialize upstream.

TAP seems positioned de facto to pre-empt the first gas volumes (or the next 10 bcm per year) that would flow from Azerbaijan on top of the initial 10 bcm per year. The TAP consortium approved the Resolution to Construct on December 17, 2013, the same day when the Shah Deniz consortium approved its final investment decision.

TAP's shareholding underwent radical changes. Its composition at the time of the Resolution to Construct was comprised of Statoil (the project's driving force all along), BP and SOCAR, with stakes of 20 percent each; Belgium-based Fluxys with 16 percent; Total with 10 percent; E.On Ruhrgas of Germany with 9 percent; and Axpo of Switzerland with 5 percent. BP and SOCAR, as major shareholders in Shah Deniz, entered the value chain in TAP. The consortium's Western European companies seem likely to market their respective gas volumes primarily in Western Europe.

South Stream

For years, Nabucco's, and later the Southern Gas Corridor's, most serious challenger was a Russian-proposed pipeline: South Stream. Its proposed capacity of 63 bcm per year and its route across Southeastern Europe made South Stream a direct strategic competitor for Nabucco, and threatened to undermine the latter's financial rationale if Russia were able to construct its proposed pipeline first.

Originally announced in 2007 and fleshed out in 2009, South Stream's European geography was reconfigured many times, ruling some countries in, ruling other countries out—with the supply and transit offers to various countries constantly changing, at Putin's and Gazprom's discretion. This process continued all the way up to 2014, and was made possible by the project's overall structure as devised by Gazprom, involving separate agreements with each target country, preventing any coordination between them, and playing off some countries against others.[64]

Gazprom divided the overall South Stream project into separate country sections. The pipeline section in each country was conceived as a joint venture of Gazprom and the national gas company. Each joint venture was supposed to finance, build and operate South Stream's pipeline section in each country. Gazprom, however, would retain control of design, construction and (de facto) operation on each country section, as well as retain commercial control of the overall project as its sole supplier with gas. Pipeline construction costs were supposed to be shared by Gazprom with each participant country (roughly on a fifty-fifty basis, with certain host countries having to borrow from Russia in order to cover their share). Thus, participant countries would themselves subsidize their own long-term overdependence on Gazprom.

The primary supply pipeline was supposed to cross the Black Sea from Russia to Bulgaria. There, it would divide into a route to Greece and southern Italy, and another route to Serbia, Hungary and Austria, terminating at the Baumgarten continental gas hub near Vienna. Branch-off pipelines were being offered to countries situated along these routes. However, Gazprom and the Kremlin continually raised doubts over their plans, offering multiple variations and options for South Stream's route and the proposed branch-offs.

Russia's motivations in promoting South Stream were mainly political. First, the proposed Russian pipeline served to discourage

investment in the EU-backed Nabucco project by making it look as if the pipeline was competing against a powerful Russian rival. The ever-nebulous financial promises, shifting gas pledges and continually changing geography all played a role in making South Stream look like a winner for every interested party. While continual top-level statements of support—from President Putin on down—created the impression that constructing the pipeline as soon as possible was a firm national priority for the Russian government.

Second, by its very design, Gazprom's proposed mega project was meant to threaten Ukraine with a massive shift in the gas transit volume, away from Ukraine's overland pipelines into the proposed South Stream offshore. In 2013, Gazprom paid transit fees to Ukraine at a rate of $3.10 per 1,000 cubic meters for every 100 kilometers traversed through Ukrainian pipelines.[65] This translates to $4–5 billion in payments per year, making up a significant 10 percent of Ukraine's state budget revenues.[66] Thus, any move by Russia to redirect natural gas shipments to Europe away from the Ukrainian pipeline network would severely damage Kyiv's fiscal situation. Furthermore, if Russia were to succeed in fully or partially circumventing Ukraine as the transit state for Russian gas to Europe, Western countries would be less motivated to support Kyiv in any future Russian-Ukrainian disputes that threatened to disrupt gas supplies into Ukraine.

Third, the prospect of circumventing Ukraine's gas transit system, fully or partially, via South Stream could depreciate the Ukrainian system's commercial value, enabling Gazprom to take that system under its control on the cheap. Moscow could (as it hinted) desist from developing South Stream, if Ukraine had consented to Gazprom taking over Ukraine's pipeline system in return for guaranteeing large transit volumes via Ukraine.

And fourth, in a medium-term perspective, South Stream was supposed to create a transportation option for non-Russian gas from

Central Asia and the Middle East, assuming Moscow succeeded in assembling a gas producers' cartel under Russian leadership. So far, however, Russia has not been able to convince any of the world's major gas exporters into coming together under an "OPEC of gas"–type organization.

South Stream's unclear financing and gas sourcing issues notwithstanding, the pipeline's greatest ultimate obstacle over time became EU anti-monopoly legislation. Under the European Union's Third Energy Package, energy producers are precluded from also owning and operating the transmission routes to the same market. The EU's legislation is intended to open the gas markets to competition and diversification of suppliers. By separating transportation from supply ("unbundling"), that helps prevent or reverse monopolization by a supplier such as Gazprom that controls the pipelines. Such had long been the case most acutely in the Baltic States.[67] In addition, the Third Energy Package stipulates that transmission system operators must allow third-party producers some level of access to pipelines servicing the European market. Russia's South Stream failed to adhere to either of these demands.

Although Moscow pressed several EU-member countries—most notably Bulgaria, Austria and Hungary—to lobby the European Union into agreeing to exempt South Stream from Third Energy Package legislation,[68] in the end, Russia was unsuccessful. Moreover, Gazprom could not mobilize financing for the project; and European demand for Russian gas tended to decrease, adding to the doubts on South Stream's overall feasibility. As a result, on his December 4, 2014, visit to Ankara, Vladimir Putin officially declared that Moscow was indefinitely suspending any further development of South Stream.

Turkish Stream

Instead, Russia's president proposed that the money and pre-constructed pipeline sections that were earmarked for South Stream,

would be redirected and re-used for a new pipeline. This proposed alternative, initially presented as a Blue Stream 2, but quickly named "Turkish Stream," would roughly follow South Stream's previously planned 660-km route beneath the Black Sea, but extend a further 250 km toward Turkey instead of making landfall in Bulgaria. Once ashore, Turkish Stream would deliver its gas volumes to a proposed storage facility to be built near the Turkish-Greek border. According to Russian officials, it would then be up to Europe to build further infrastructure to deliver this stored Russian gas to European markets. In late January 2015, Gazprom CEO Alexei Miller declared that Turkish Stream would have a capacity of 63 bcm, just like the nixed South Stream, and it would eventually be composed of four parallel pipelines. According to Miller, the first phase of Turkish Stream would be able to ship 15.75 bcm per year, and will begin deliveries of Russian gas to Turkey by December 2016.[69]

Turkish Stream has generated some early enthusiasm among the countries it will benefit most directly—particularly, Turkey and Greece. However, this South Stream substitute competes with the Azerbaijani-led TANAP as the mainstay of the EU-backed Southern Gas Corridor concept. First, by pumping large quantities of Russian gas to Europe via Turkey, Gazprom could preempt Turkmenistani gas volumes and even Azerbaijani post–Shah Deniz volumes from entering TANAP en route to the European market. Such a move would undercut the Southern Corridor's strategic position as a non-Russian transit route for non-Russian gas supplies. Second, due to Turkish Stream's promised role of directly supplying customers in Southeastern Europe—foremost Turkey, Greece and Bulgaria, but also further downstream—Turkish Stream would further increase the region's overall dependence on Russian energy. Third, the stated purpose of Turkish Stream—just as South Stream's before it—is to shift Russian gas exports away from the Ukrainian pipeline network, thus maintaining the same level of pressure on the government in Kyiv.[70]

EU and US Energy Policy

Considering the vulnerability of most of Central and Southeastern Europe to energy blackmail by Russia, the stakes inherent in the Southern Gas Corridor are high. Both the United States and the European Union have declared their support for finding alternative sources of energy supply and diversified transit routes for the most vulnerable European countries. This support has ranged from technical assistance, all the way up to EU-level infrastructure and energy market initiatives.

EU

As Christian Burgsmüller, Head of the Energy, Transport and Environment Section of the European Union delegation to the United States, noted in a presentation he made on September 13, 2013, at The Jamestown Foundation, Russia will remain a major part of the European natural gas equation.[71] Nonetheless, the EU is committed to diversification. The Southern Gas Corridor has been a priority project for the EU for years. It has always been both an economic project and a geopolitical project. Most important for the EU is to get the gas flowing because within five years much higher quantities will be coming through the Southern Corridor. As Burgsmüler suggested, although initial quantities of gas pumped across European territory will be 10 bcm, this could "rather quickly become 20 or 25 bcm." The Europeans have been working hard on building bidirectional interconnectors because, as illustrated by the TANAP-TAP scenario, the Bulgaria-Greece Interconnector working with reverse flow will deliver gas into Southeastern Europe.

The European Connector Facility program that helped with the financing of interconnectors is probably the biggest European infrastructure program on energy, and its goal is to eliminate all energy islands by 2015. The key dates for Europe have been 2014 for

the completion of the internal European energy market and 2015 for the elimination of the last energy island in the EU.

US

The energy security of the European Union is also a US national security imperative, according to Amos Hochstein, Special Envoy and Coordinator for International Energy Affairs, who leads the Bureau of Energy Resources at the US Department of State.[72] From that perspective, the Southern Gas Corridor is an extremely important development. It is a victory for US policy, continuing what President Bill Clinton started—an initiative to connect the Caspian basin with Europe through a strategic energy infrastructure project.

In recent decades, US strategic objectives have included helping Azerbaijan and Georgia secure their sovereignty and independence, as well as making sure that new supplies of energy from the Caspian Sea reach global markets—first and foremost the European market. Washington has promoted that goal with the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in the past and the current evolution of the Southern Gas Corridor.

Hochstein noted that Azerbaijan is the enabler of the Southern Corridor, but this gas transit route, along with the BTC pipeline, in fact provides Azerbaijan with the oxygen of independence. It is the decision that Azerbaijan's late president Heydar Aliyev made in 1994—to connect Azerbaijan physically with Turkey, with the Euro-Atlantic community and now to European markets—that is critical to Azerbaijan's survival as an independent state.

The other major strategic objective of the US in the region is the sustainability and efficiency of its European allies' economy. One underlying strategic goal is to enable the purely market-based trading of natural gas everywhere in Europe. Once hub-based natural gas trading is developed within the EU, it will be impossible for

monopolists to dominate the market. The US needs to focus on the nuts and bolts of what the EU is doing, which is developing genuine hub-based trading and market-based trading of natural gas.

Although the United States formally remained neutral regarding the choice between TAP and Nabucco, once the commercial decision was made, the US government stepped up its insistence that Bulgaria obtains gas from Greece—both countries are NATO allies of the US. And Washington will also look into the potential of a new pipeline stretching northward from Croatia's proposed LNG terminal on the Adriatic coast. The proposed Ionian Adriatic Pipeline (IAP) and interconnectors branching off IAP, however, look more hypothetical. If built, IAP would provide gas to Croatia, Montenegro and Bosnia-Herzegovina, as well as allow those gas volumes to feed into the Central European market. For now, however, Albania is the more likely prospect as a new natural gas consumer, branching directly off TAP, without requiring continuation pipelines.

The fact that the EU and the US were unable to come up with a pipeline project for Turkmenistani gas is often seen as a key setback that prevented the Nabucco pipeline from being financed. But in fact, presenting Ashgabat with a trans-Caspian pipeline solution will only make sense when the Southern Gas Corridor has physically materialized and gas supplies have started flowing from Azerbaijan.

The EU countries' aggregate demand for gas is currently for over 500 bcm per year. The Southern Gas Corridor will deliver only 10 bcm to Europe in the first few years; therefore, according to US officials, it will not be the silver bullet to energy security. Hence, Washington and Brussels need to continue working together on EU diversification by seeking other options, which may not be multibillion-dollar infrastructure projects. They may include a combination of renewable energy sources and LNG along with developing an integrated gas infrastructure in Europe.

However, current developments in the Southern Gas Corridor are only the beginning of substantial diversification of gas supplies to Southeastern Europe. TANAP is a large pipeline designed to absorb and transit steadily growing quantities of gas from Azerbaijan and other sources in the future. Turkmenistan may decide that it is ready to export gas through the Western route once the Southern Corridor is in place—and this outcome will be the key to truly diversifying Europe's energy supplies and transit routes. There are also more hypothetical proposals for gas deliveries from Cyprus, Israel or even northern Iraq, to diversify supplies to Europe.

The Big Picture: Significance of the Southern Gas Corridor

TANAP: The Key Link

The Trans-Anatolian Gas Pipeline project is the foundation of the Southern Gas Corridor to Europe in a very real and concrete sense.[73] There would have been no Southern Gas Corridor without Azerbaijan initiating TANAP and taking primary responsibility for this project on Europe's behalf. It is even the case that the Trans-Adriatic Pipeline (TAP)—the continuation route of TANAP into Europe—is the child of TANAP. The possible derivations that follow further downstream from the TAP project stretch all the way to Northwestern Europe in the North Sea. They could be seen as grandchildren of the TANAP project, which in turn is a brainchild of Azerbaijan.

The very fact that this project emerged, was formulated and planned in Baku testifies to the rapid growth in maturity of Azerbaijan as a state. It also reflects the maturity of Azerbaijan's leadership, particularly, the long-term vision of President Ilham Aliyev, who has been personally involved in the strategic planning for the TANAP project and other Azerbaijani projects all along. It testifies as well to the successful model of governance in Azerbaijan, which is centered on the executive presidency, guaranteeing stability, continuity of planning, and strategic vision for the long term. And finally, this

project testifies to the growth of the State Oil Company of Azerbaijan (SOCAR) from a local company to a national one and then becoming a major international oil and gas producer—a growth that SOCAR has accomplished in less than one decade. Azerbaijan is the main shareholder in the TANAP project, the project operator, and the main investor proportionately to its ownership stake.

Had it not been for TANAP, the rivalry between the Nabucco Gas Pipeline project (or its shorter version Nabucco-West) and the Trans-Adriatic Pipeline project would have remained an academic matter. Azerbaijan succeeded in terms of strategic planning where the Shah Deniz consortium partners and the EU itself had failed. The Shah Deniz partners were unable or unwilling to build a dedicated pipeline across Turkey for Shah Deniz gas and, beyond Shah Deniz, other Caspian gas. They could not or would not finance a construction for larger volumes of Caspian gas.

The EU, for its part, was unable to mobilize the political and financial support, necessary for building the Nabucco project. Again, Azerbaijan succeeded where the international energy companies and the European Union collectively had failed. TANAP, in effect, replaces the Turkish section of the former Nabucco project. The emergence of TANAP on Turkish territory relieved Nabucco of a major portion of its construction costs and could have made possible the survival of Nabucco. The Nabucco-West gas pipeline was only one third of the length of the original Nabucco project. Yet, in the end, the Shah Deniz consortium partners selected the Trans-Adriatic Pipeline project instead.

With this choice, Azerbaijani gas will, for the first time, go straight into EU markets and EU territory. For the first time, the State Oil Company of Azerbaijan will be entering the European downstream gas business, directly in its own right, starting with Greece and continuing onto Italy and beyond. The Trans-Anatolian Gas Pipeline project, which was conceived in Baku, answers to the EU's main

criteria for such a pipeline project. It is scalable, it is dedicated, and it will be operating under EU-compatible legal and regulatory regimes. It is scalable from 16 billion cubic meters (bcm) annually, as planned for 2020, to 23 bcm planned for 2023, and 31 bcm planned for 2026. There is also discussion about more ambitious capacities beyond 31 bcm. Some Western, Azerbaijani, and Turkish officials and experts are speaking about up to 50 bcm, depending on the availability of Caspian gas volumes from Turkmenistan transiting Azerbaijan, Georgia and Turkey toward Europe. Turkey is promoting this goal in Ashgabat. The TANAP project's cost estimates have risen from an initial $6 billion to $11 billion and even as much as $14 billion.

In August 2013, the TANAP consortium led by SOCAR announced prequalification tenders for construction work. Officially, construction started in Turkey on March 17, 2015, and can now be realistically expected to be completed by 2019–2020. The first commercial gas flow is planned to reach Turkey and the EU territory within that timeframe.[74]

TANAP's capacity and its planned expansion will necessarily be reflected into the expansion of the South Caucasus Pipeline on Georgian territory. The initial capacity of 9 bcm per year will be expanded to reflect the capacity of TANAP because the Georgian section of the pipeline would have to transport at least 16 bcm per year from Shah Deniz. Plus, in the years ahead, it will deliver additional volumes from non–Shah Deniz gas in Azerbaijan and should hypothetically accommodate gas volumes from Turkmenistan.

It is important to keep the non–Shah Deniz projects in mind because they will come on line after Shah Deniz. Those projects include, inter alia:

• Azeri-Chirag-Guneshli Deep (ACG Deep)—the gas deposit beneath the Guneshli offshore oil field, in the perimeters developed by a BP-led multinational consortium;

• Absheron development, led by French Total in partnership with SOCAR; and

• Shafag-Asiman project, where BP is involved as the lead company.

While some of the Western companies involved, including BP, have previously taken a rather narrow corporate-oriented view of the capacity of the Trans-Anatolian Gas Pipeline, Azerbaijan takes a more strategic, long-term view. Azerbaijan sees its future as an exporter not only of oil, but also of gas—and, in the gas sector, not only an exporter, but also as a transit country for major volumes of gas to Europe. For Baku, that is where Azerbaijan's future as a nation lies, and this is why Azerbaijan is interested that a strategic pipeline with maximum scalability be achieved by adding parallel strings and compressor power.

For its part, the Shah Deniz consortium awarded construction contracts, in 2013, for offshore field and infrastructure work:

• A $998 million contract to the Tekfen-Azfen Alliance, a Turkish-Azerbaijani consortium. This is comprised of the Istanbul-based Tekfen Construction and the Baku-based Azfen, the latter being a joint venture of Tekfen with SOCAR. Tekfen has previously been involved in building oil-drilling rigs in Azerbaijan, the Sangachal terminal there, the Baku-Supsa oil pipeline and its terminal in Georgia, and parts of the Ceyhan oil terminal in Turkey. Furthermore, Tekfen is the builder of SOCAR's new skyscraper headquarters and of the Olympic Stadium in Baku.

• A $974 million contract to the ATA Consortium, which includes two joint ventures: AMEC MMC, joint venture of the British-based global consultancy AMEC with the Malaysian MMC (formerly Malaysia McDermott); and the Tekfen-Azfen Alliance, which as a cumulative result has signed a total of $1.1 billion worth of new business. The

ATA consortium will build the topside units of the two offshore platforms at the ATA yard in Bibi-Heybat near Baku.

• A $365 million contract to Houston-based Kellogg Brown & Root (KBR) to provide detailed engineering and procurement services for the construction and installation works.

In September 2013, the Shah Deniz producers also signed gas sale-and-purchase contracts with nine European companies. The contracts were programmed to enter into force on the date of the Shah Deniz consortium's final investment decision. Thus they are in force since December 17, 2013. The nine separate contracts involve, in the aggregate, 10 bcm of gas per year over a period of 25 years, starting with the first gas flow into Europe (2019). All of these European buyers have contracted for fixed annual gas volumes that will remain constant during the contract period.

The contracts envisaged that Gaz de France would buy a total of 65 bcm, at an annual rate of 2.6 bcm during the contract period. The German E.ON Ruhrgas would purchase 40 bcm, at a rate of 1.6 bcm per year during that same period. Gas Natural Fenosa of Spain would procure 25 bcm, at an annual rate of 1 bcm in the same time frame. Bulgaria's Bulgargaz would also purchase 25 bcm, at a rate of 1 bcm per year during the contract period. The Italian Hera Trading (part of the Hera Group of municipal energy utilities) would buy 7.5 bcm, at a rate of 300 million cubic meters per year. Royal Dutch Shell, Axpo Holding of Switzerland (energy utilities of six Swiss cantons), the Italian ENEL (Ente Nazionale per l'Energia Elettrica, national electricity champion, partly state-owned), and Greece's DEPA (Natural Gas Public Corporation, handling procurement and supply) also signed the 25-year contracts for, as yet, unspecified procurement volumes.

In 2013, Azerbaijan's State Oil Company replaced Norway's Statoil as commercial operator for the Shah Deniz consortium. Gas sales and

gas transportation contracts are to be managed by the Azerbaijan Gas Supply Company, established by the Shah Deniz shareholders, under the operatorship of SOCAR. According to SOCAR president Rovnag Abdullayev, this company will be in charge of marketing the entire volume of Shah Deniz gas.

Separately from the sales to European companies, the Shah Deniz consortium is committed to supplying Turkey with 6 bcm per year from Phase II of production during the same period of time.

The Southern Gas Corridor and Turkmenistani Gas

This is also where Turkmenistan comes into play.[75] In the view of the European Commission, Turkmenistan is an integral component of the planned Southern Corridor and in fact, potentially, it might become quantitatively the main supplier of gas into the Southern Corridor. The EU Commission is active in negotiating with Turkmenistan regarding deliveries of Turkmenistani gas volumes into a proposed Trans-Caspian Pipeline—to be fed directly at Sangachal into Azerbaijan's pipeline system for onward transportation via TANAP to Europe.

Bilaterally, Ankara and Ashgabat took a step in this direction by signing a framework agreement, on November 7, 2014, outlining a deal for Turkmenistan to supply its gas to TANAP. Turkey's President Recep Tayyip Erdoğan and President Gurbanguly Berdimuhamedov oversaw the signing of the document between state-owned Turkmengas and the private Turkish company Atagas. None of the details of the framework agreement have been revealed, and the two sides have not commented on how gas from Turkmenistan is to reach pipelines in Turkey in the current absence of a trans-Caspian pipeline. The head of Atagas, Osman Saim Dinc, only noted that the negotiating partners were "working on all alternative routes."[76]

The November 2014 framework agreement notwithstanding, daunting obstacles to securing Turkmenistan's gas for the Southern Corridor remain, even though the European Union hopes to achieve the inclusion of Turkmenistan. The Turkmen side offers up to 40 bcm per year of gas to be fed into the corridor, including 30 bcm from onshore deposits in eastern Turkmenistan. These available volumes can be transported to the Caspian littoral in the western part of the country by the East-West Pipeline, which Turkmenistan has started building through its own funding at a capacity of 30 bcm per year. The construction is much behind schedule, however. Another 10 bcm of Turkmenistani gas is available for westward shipment from Turkmenistan's offshore production.

Turkmenistan would not risk antagonizing or inciting possible retaliation from Russia for just a few bcm to be fed into the Southern Gas Corridor. Only large volumes would make such a risk worth taking (also assuming some security assurances from Western partners). But at the same time, Ashgabat is very reluctant to admit major Western companies into onshore projects in Turkmenistan. It admits Chinese and Korean companies into a consortium, but not major Western companies in production-sharing agreements. Moreover, Ashgabat would like to see the EU as a collective buyer through some sort of a European procurement agency. For now, at least, Europe does not work that way—rather, private or state companies procure gas in their own right, not as a consortium of buyers. But the newly formed European Energy Union might be able to facilitate such buying contracts on behalf of smaller EU members. In any case, Turkmenistan and its prospective partners must act faster than they have. Otherwise, LNG from overseas may saturate European markets before Turkmenistan will have entered those markets.

Azerbaijan's Priorities in Southeastern European Gas Markets

As a gas exporter, Azerbaijan prioritizes markets located at the least possible distances from the production sites in the Caspian Sea, so as to limit transportation costs. Secondly, due to the limited export volumes from its project, Azerbaijan wants to avoid head-to-head competition with Gazprom's huge volumes of gas, but would rather find limited market niches in as many countries as possible to have a diversity of buyers of Azerbaijani gas. The Balkan markets seem to be suited for that. This partly explains Azerbaijan's earlier preference for Nabucco, but Azerbaijan can now achieve a similar result through TAP: in Greece, following the purchase of two thirds of the Greek Natural Gas System Operator (DESFA) and in Albania, which Azerbaijan plans to gasify. Albania currently does not use any gas and is not connected to any gas grid. Therefore, SOCAR plans to gasify Albania through a direct branch-off from TAP. At the same time, by acquiring DESFA, SOCAR becomes a minority stake-holder in the Greece-Bulgaria Gas Interconnector. DESFA itself used to be a 50-percent partner in that interconnector on Greek territory alongside the Italian company Edison. Now DESFA's share is reverting to SOCAR. That interconnector opens the way for Azerbaijan to export 1 bcm of gas per year to Bulgaria. Thus, Azerbaijan has found that the selection of the TAP project corresponds with its market strategies in the Balkans.[77]

But the debate regarding the proper capacity of TANAP could still lead toward larger horizons. If TANAP is built with sufficient capacity for additional gas flows (correlating capacity building with flow availability), Nabucco-West would have a second chance. This is because potential additional volumes, which would or could come on stream in the Caspian basin or in the Kurdish autonomy of Iraq in the future, will need an outlet to Europe. And if the 10-bcm TAP cannot be that outlet, then there would be a second chance for a Nabucco-like route. When speaking about various preferred regional energy transit corridors, former EU Energy Commissioner Günther Oettinger has,

in several statements in mid-2014 used the term "the route toward Austria." This is the route to the Baumgarten Terminal and Distribution Center, the original destination of Nabucco, which could become viable, as Oettinger said, if additional Caspian and northern Iraqi gas volumes become available and start being pumped into Europe via the Southern Gas Corridor. And if that happens, then that route, the post-Nabucco route into Central Europe, would also be a child of TANAP. Because only TANAP would make it possible, just as TANAP, the project planned and conceived by Azerbaijan, has made everything else in the Southern Gas Corridor possible.

Energy Geopolitics of Southeastern Europe Once the Southern Gas Corridor Becomes Operational

Even from its initial phase, the Southern Gas Corridor promises to be a game changer in Southeastern Europe in a number of respects:

Supply Diversification for Greece

First of all, Greece will be directly supplied with perhaps 1–2 bcm of Azerbaijani gas per year. This will amply diversify Greece's roughly 4 bcm of annual imports, of which Russia currently makes up a little over half. Furthermore, the fiscally strapped Greek budget will be able to receive annual tax revenues from TAP since 545 kilometers of this pipeline will cross Greek territory.

Albania Connected to Gas Grid

To date, Albania had not been connected to any European gas grids. But by hosting 211 kilometers of TAP across its territory, this will radically change. Albania will see gasification of its modest internal market from outside sources for the first time. Moreover, once the gas starts flowing through TAP, this will boost prospects for the proposed Ionian Adriatic Pipeline, which will link up to TAP in Fier. If

commercial and political momentum for building the IAP builds following the opening of the Southern Gas Corridor, this will turn Albania into a regional gas hub.

Over a Third of Bulgaria's Gas Consumption From Caspian Sources

Bulgaria stands to become another major beneficiary of the Southern Gas Corridor. Following SOCAR's purchase of the majority stake in the Greek pipeline network operator DESFA, the Azerbaijani state company thereby acquired a 50-percent stake in the Interconnector Greece-Bulgaria (IGB) project. Once TANAP and TAP come on stream, Azerbaijani gas volumes will enter Bulgaria in accordance with the procurement contract with Bulgargaz for 1 bcm of gas per year to the Eastern Balkan country. This quantity represents roughly one-third of Bulgaria's annual gas consumption, substantially reducing the country's hitherto exclusive dependence on Russian gas.[78] The Interconnector Greece-Bulgaria will have an initial capacity of 3 bcm per year, upgradable to 5 bcm in the future.

Further Diversification or Transit Status for Italy

The lion's share of the 10 bcm passing through TAP had initially been earmarked for Italy. However, the Italian gas market was and remains fully saturated and well-diversified with pipeline-delivered and liquefied gas from North Africa, Russia, and the Middle East. Occasional supply disruptions from Russia and recurring disruptions from Libya were offset with extra volumes from the other directions. Moreover, Italy is building new LNG reception capacity while preparing to receive TAP's gas on top of all that. TAP's European shareholders (BP, Norwegian Statoil, Swiss Axpo, the Spanish Enagás and Belgian-based Fluxys), however, seemed increasingly oriented toward Western and even northwestern Europe. Intentions have thus became apparent to turn Italy into a gas transit country, capitalizing on the country's favorable geography to transmit those gas supplies from the south of the peninsula, northward to continental Europe.[79]

No Major Change for Macedonia

Macedonia will not receive any direct, short-term benefit from the Southern Gas Corridor. In the initial stage, none of the proposed branch-off or interconnector projects pass through Macedonia. Consequently, even with Caspian gas entering the European market within the next decade, Macedonia, which utilizes only 1 bcm per year, may remain overwhelmingly dependent on expensive Russian supplies. However, with future increase of gas volumes from Azerbaijan, Macedonia could be supplied with gas via the Greece-Bulgaria Interconnector, using the same link with Bulgaria through which Macedonia currently receives Russian gas supplies.

Limited Likelihood for Supplying Croatia, Bosnia-Herzegovina and Montenegro

On the Adriatic seaboard, the TAP consortium proposes to work with Albania, Montenegro, Croatia and Bosnia-Herzegovina toward construction of a gas supply pipeline that would run through these countries. This coastal line would start from Albania at Fier, the point at which the TAP overland pipeline is planned to submerge into the Adriatic Sea en route to Italy. The coastal line, dubbed the Ionian Adriatic Pipeline (IAP), would run some 515 kilometers from Albania via Montenegro to the Croatian port of Split, there to connect with Croatia's pipeline grid, and with a spur into Bosnia-Herzegovina. The proposed overall capacity is for 5 bcm per year to be offloaded in these countries.

The TAP consortium, the governments involved, as well as Croatia's and Bosnia-Herzegovina's state pipeline companies Plinacro and BH-Gas, have signed a number of declarations, memoranda-of-understanding (MOU), and agreements of intent during 2007–2012 to promote this overall concept. The TAP project consortium has

confirmed the continuity of this intention, albeit in very general terms when announcing the consortium's restructuring on July 30, 2013.

However, this proposal has always raised more questions than it could answer about those 5 bcm (one half of TAP's entire proposed annual capacity well after 2020) or about financing a 500-kilometer pipeline in these small and poor countries. The proposal looks still less convincing following TAP's reorientation toward highly lucrative markets in western and northwestern Europe. The consortium would be bound to sell as much of its Caspian gas as possible in those European countries. TAP plans to invest in pipeline upgrades along the entire route from southern Italy to the North Sea for its Caspian gas.[80]

No Immediate Amelioration of Energy Security Situation in Central Europe

The Shah Deniz consortium's decision to choose TAP over Nabucco-West leaves Central Europe without a means to access the modest levels of Caspian gas that are expected to start flowing by 2019 at the earliest. Hungary remains dependent on Russian gas imports, Romania less heavily. Both are scrambling for diversification solutions that variously look sub-optimal or doubtful.[81]

In countries without access to seaborne supplies of LNG, the post-Nabucco default options include: building inter-connector pipelines with reverse-flow capability, adding gas storage capacities, and advancing energy market integration on a regional basis, within the European Union's evolving energy market. But these are resiliency solutions, rather than strategic supply solutions.

Hungary is a front-runner in this regard. The interconnector pipeline Hungary-Croatia and the network interconnection Hungary-Romania are already operational, with annual capacities of 6 bcm and

up to 5 bcm, respectively. The Slovakia-Hungary interconnector (with a capacity of 5 bcm annually) has been due for completion in 2015.

However, the gas volumes actually available are nowhere near the capacities of those interconnectors. The Croatia-Hungary interconnector is destined, in part, to carry LNG-sourced gas from a long-discussed terminal at Krk in Croatia. That terminal, however, remains to be built. The line under construction in Slovakia is mainly intended to supply Central Europe's landlocked countries with LNG-sourced gas from Poland's Baltic port of Swinoujscie, where the reception terminal had been scheduled to receive its first shipments of liquefied Qatari gas in 2015.

In late 2014, Romania's Transgaz proposed building a gas pipeline corridor that would run from Bulgaria and the Black Sea coast into central Romania (site of once-large, now-depleted gas deposits) and onward to Hungary, potentially all the way to the distribution center at Baumgarten in Austria. The envisioned "Danubian Pipeline" would run 550 kilometers, have a diameter of 32 inches, include three compressor stations and cost an estimated 560 million euros (around $627 million[82]). The proposed completion date of the project is 2019.[83] Presumably this line would be sourced from Romania's offshore deposit in the Black Sea, which is expected to start commercial production by 2018. Austrian OMV is involved in this project while also controlling the Baumgarten terminal near Vienna. Additionally, some of the Azerbaijani gas volumes procured by Bulgaria via the Southern Gas Corridor could also be fed into the proposed Danubian Pipeline, possibly alleviating Hungary's overdependence on Russian gas, or being resold at the Baumgarten gas hub on the basis of spot contracts to the rest of the region—thus fulfilling at least some of the promise of the abandoned Nabucco pipeline. Yet, any volumes available via Bulgaria will be small, while the production volumes at the Romanian project are not yet fully estimated and the sales priorities are not yet determined. Romania and Moldova want Moldova to be the first recipient of Romanian Black Sea gas.

Conclusion

Within the past decade, Europe experienced two dramatic energy disruptions caused by Russia using its gas exports as a weapon; the looming threat of wide-scale cut-offs of Russian energy supplies in response to the West's stand-off with Moscow over the war in Ukraine; a major drop in energy exports from North Africa connected to the civil war in Libya; as well as a serious loss in European industry's competitive advantage compared to the American manufacturing sector thanks to significantly lower energy prices in the United States fueled by the country's shale gas boom. Although the Southern Gas Corridor will not be a magic bullet, it nonetheless, represents an important element of Europe's energy security strategy. By providing a transit corridor that entirely bypasses Russia and delivers non-Russian sources of natural gas, it offers Southeastern Europe a means to lessen its, oftentimes, crippling dependency on Russian energy supplies.

The Southern Gas Corridor also reflects the level of maturity achieved by the government of Azerbaijan since gaining independence in 1991. In the end, the European Union and the United States failed or showed insufficient steadfastness in securing a strategic transit route for Caspian-basin natural gas supplies to reach Europe's most vulnerable markets. The Nabucco Pipeline never obtained enough high-level political support to overcome its economic weaknesses, despite the serious strategic benefits it promised. On the other hand, Azerbaijan has directed and financed a successful effort to open up the Southern Corridor. Moreover, Azerbaijan navigated a narrow political space in the shadow of Russia, without unduly alarming Moscow to its energy export intentions. Finally, it strategically designed the Southern Gas Corridor in such a way as to secure for itself both the role of an initial energy supplier, and a future energy transit state.

With construction of the Southern Gas Corridor's various pipeline legs already underway, all the participating players—Europe, Azerbaijan, Turkey and even Georgia—will now need to step up efforts to attract other Middle Eastern and Caspian-basin gas suppliers as well as work to ensure that competing regional actors do not undermine this grand project's raison d'etre.

NOTES

[1] BP, Statistical Review of World Energy 2014, http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy.html.

[2] International Energy Agency, IEA Energy Statistics, OECD/EIA 2013, http://www.iea.org/statistics/.

[3] "Greece," U.S. Energy Information Administration, May 30, 2013, http://www.eia.gov/countries/country-data.cfm?fips=GR#ng; "Gazprom's Grip," *RFE/RL*, December 19, 2014.

[4] IEA Energy Statistics, OECD/EIA 2013.

[5] *Trend News Agency*, June 17, 2013.

[6] Vladimir Socor, "Azerbaijan Wins Tender for Gas Pipelines in Greece," *Eurasia Daily Monitor*, Volume 10, Issue 120, Washington, DC: The Jamestown Foundation, June 25, 2013, http://www.jamestown.org/single/?tx_ttnews[tt_news]=41069&no_cache=1#.VKRVmntSKHg; "Construction of Gas Interconnector Greece–Bulgaria May Start in March 2016," *Sofia News Agency*, March 30, 2015, http://www.novinite.com/articles/167576/Construction+of+Gas+Interconnector+Greece-Bulgaria+May+Start+in+March+2016.

[7] Orhan Gafarli, "Russian Energy Proposals for Turkey Could Undermine Southern Gas Corridor," *Eurasia Daily Monitor*, Volume 11, Issue 225, Washington, DC: The Jamestown Foundation, December 17, 2014,

http://www.jamestown.org/single/?tx_ttnews[tt_news]=43210&no_cache=1#.VKRgcntSKHg.

[8] "Gazprom's Grip," *RFE/RL*, December 19, 2014.

[9] Ajet Mezini and Niazi Musai, "Oil & Gas Exploitation in Albania," presentation at the South–East Europe Energy Dialogue, Thessaloniki, May 21–22, 2008, http://www.iene.gr/2ndSEEED/articlefiles/Session_III/Mezini_A.pdf.

[10] "Albania," U.S. Energy Information Administration, May 30, 2013, http://www.eia.gov/countries/country-data.cfm?fips=AL#elec.

[11] "Gazprom's Grip," *RFE/RL*, December 19, 2014.

[12] Margarita Assenova, "Bulgaria Suspends South Stream as the Ruling Coalition Falls Apart," *Eurasia Daily Monitor*, Volume 11, Issue 103, Washington, DC: The Jamestown Foundation, June 9, 2014, http://www.jamestown.org/single/?tx_ttnews[tt_news]=42475&no_cache=1#.VKLgRP-oAc.

[13] Peter Green, "Energy, Politics and Putin: Russia's Gas Power Play Traps Europe," *The Street*, October 30, 2014, http://www.thestreet.com/story/12907434/7/energy-politics-and-putin-russias-gas-power-play-traps-europe.html.

[14] Plamen Ralchev, "Russia's Borders: Old Ties Pull Bulgaria in Two Directions," *Epoch Times*, October 30, 2014, http://www.theepochtimes.com/n3/1038025-russias-borders-old-ties-pull-bulgaria-in-two-directions/.

[15] "Romania," U.S. Energy Information Administration, August 2014, http://www.eia.gov/countries/country-data.cfm?fips=RO.

[16] "Gazprom's Grip: Russia's Leverage Over Europe," *RFE/RL*, December 19, 2014, http://www.rferl.org/contentinfographics/gazprom-russia-gas-leverage-europe/25441983.html.

[17] Joshua Posaner, "Romania cuts dependence on gas and Russia," *Interfax News Agency*, March 2, 2015,

http://interfaxenergy.com/gasdaily/article/15402/romania-cuts-dependence-on-gas-and-russia.

[18] "Romania has announced that it will stop importing Russian gas as of April 2015," *Sputnik*, March 21, 2015, http://sptnkne.ws/dkp.

[19] "Romanian PM seeks energy independence by 2019," *Xinhua News Agency*, October 23, 2014, available http://www.globalpost.com/dispatch/news/xinhua-news-agency/141023/romanian-pm-seeks-energy-independence-2019.

[20] "Romanian PM," *Xinhua News Agency*, October 23, 2014; "Romania to become gas independent by 2020: Energy Minister," *Reuters*, October 1, 2014, http://www.reuters.com/article/2014/10/01/us-romania-energy-idUSKCN0HQ4QG20141001; "Romania expects to produce more electricity and natural gas than needed," *Balkans.com*, September 11, 2014, http://www.balkans.com/open-news.php?uniquenumber=196845.

[21] Ebi Spahiu, "In the Balkans, Putin's Winning Ticket Is Kosovo," *Eurasia Daily Monitor*, Volume 11, Issue 225, The Jamestown Foundation, December 17, 2014, http://www.jamestown.org/single/?tx_ttnews[tt_news]=43211&no_cache=1#.VKMF_f-oAc.

[22] "Russian investment in Serbian oil business," *Voice of Russia*, December 18, 2013, http://sputniknews.com/voiceofrussia/2013_12_18/Russian-investment-in-Serbian-oil-business-8361/.

[23] "Gazprom's Grip," *RFE/RL*, December 19, 2014; "Serbia," *CIA World Factbook*, June 20, 2014, https://www.cia.gov/library/publications/the-world-factbook/geos/ri.html; "Delivery Statistics," *Gazprom Export*, http://www.gazpromexport.ru/en/statistics.

[24] "Gazprom's Grip," *RFE/RL*, December 19, 2014; "Delivery Statistics," *Gazprom Export*.

[25] "Slideshow: 10 facts about FYR Macedonia's energy sector," *The World Bank*, http://www.worldbank.org/en/news/video/2013/07/23/macedonia-energy.

[26] "Macedonia," U.S. Energy Information Administration, May 30, 2013, http://www.eia.gov/countries/country-data.cfm?fips=MK.

[27] Nektar Zogjani, "Kosovo Facing New Energy Crisis Over Winter," *Balkan Insight*, November 4, 2014, http://www.balkaninsight.com/en/article/kosovo-facing-yet-another-difficult-energy-situation.

[28] "Statement of Security of Supply for Kosovo (Electricity, Natural Gas and Oil) – July 2013," *Energy Community*, July 2013, p. 22, https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/2422181/Statement_of_Security_of_Supply_for_Kosovo_%28Electricity_Gas__Oil%29_Final_Eng.pdf.

[29] "Gazprom's Grip," *RFE/RL*, December 19, 2014.

[30] "Putin's Reach: Merkel Concerned about Russian Influence in the Balkans," *Spiegel*, November 17, 2014, http://www.spiegel.de/international/europe/germany-worried-about-russian-influence-in-the-balkans-a-1003427.html.

[31] Margarita Assenova, "South Stream Not Bankable After Fresh US Sanctions," *Eurasia Daily Monitor*, Volume 11, Issue 130, The Jamestown Foundation, July 17, 2014, http://www.jamestown.org/single/?tx_ttnews[swords]=8fd5893941d69d0be3f378576261ae3e&tx_ttnews[any_of_the_words]=republika%20srbska&tx_ttnews[tt_news]=42634&tx_ttnews[backPid]=7&cHash=12cf90cb5bf597ad5b8a32ab1d3a3211#.VKRrFntSKHg.

[32] "Gazprom's Grip," *RFE/RL*, December 19, 2014.

[33] "Natural gas in Slovenia," Geoplin, http://www.geoplin.si/en/natural-gas/slovenian-market.

[34] "Energy, Slovenia, December 2014 - provisional data," *Statistical Office of the Republic of Slovenia*, January 26, 2015, http://www.stat.si/eng/novica_prikazi.aspx?id=6788.

[35] "Croatia," U.S. Energy Information Administration, May 30, 2013, http://www.eia.gov/countries/country-data.cfm?fips=HR&trk=m#pet.

[36] "Croatia: Balances for 2012," *IEA*, http://www.iea.org/statistics/statisticssearch/report/?year=2012&country=CROATIA&product=Balances.

[37] "How Much Europe Depends on Russian Energy," *The New York Times*, September 2, 2014, http://www.nytimes.com/interactive/2014/03/21/world/europe/how-much-europe-depends-on-russian-energy.html.

[38] Guy Chazan, "Europe seeks alternative gas supplies," *Financial Times*, April 27, 2014, http://www.ft.com/intl/cms/s/0/b943b2c4-b8ed-11e3-98c5-00144feabdc0.html#axzz3NhPi6axw.

[39] Marta Szpala, "Russia in Serbia – soft power and hard interests," *OSW Commentary*, Centre for Eastern Studies, October 29, 2014, http://www.osw.waw.pl/en/publikacje/osw-commentary/2014-10-29/russia-serbia-soft-power-and-hard-interests#_ftn2.

[40] "U.S. Worried It Could 'Lose' Hungary to Russia Over MOL Gas Deal," *The Moscow Times*, November 3, 2014, http://www.themoscowtimes.com/business/article/u-s-worried-it-could-lose-hungary-to-russia-over-mol-gas-deal/510566.html.

[41] "South Stream demise leads Croatia to revive gas terminal project," *EurActiv*, December 10, 2014, http://www.euractiv.com/sections/energy/south-stream-demise-leads-croatia-revive-gas-terminal-project-310727.

[42] "Montenegro reconfigures its energy strategy," *UNDP*, http://www.eurasia.undp.org/content/rbec/en/home/ourwork/environmentandenergy/successstories/montenegro-reconfigures-its-energy-strategy/.

[43] Jannis Papadimitriou, "TAP pipeline offers Europe new gas supply," *Deutsche Welle*, October 5, 2014, http://www.dw.de/tap-pipeline-offers-europe-new-gas-supply/a-17974204.

[44] Vladimir Socor, "Naval Basing and Maritime Borders in the Black Sea After Russia's Annexation of Crimea," *Eurasia Daily Monitor*, Volume 11, Issue 54, Washington, DC: The Jamestown Foundation, March 21, 2014, http://www.jamestown.org/single/?tx_ttnews[tt_news]=42131&no_cache=1#.VLQz1HtSKHg.

[45] UNIAN, Interfax-Ukraine, March 18, 19, 2014 as found in Socor, "Naval Basing," *Eurasia Daily Monitor*, March 21, 2014.

[46] Maksym Bugriy, "The Cost to Ukraine of Crimea's Annexation," *Eurasia Daily Monitor*, Volume 11, Issue 70, The Jamestown Foundation, April 14, 2014, http://www.jamestown.org/single/?tx_ttnews[tt_news]=42227&no_cache=1#.VLQ5bHtSKHg.

[47] Andy Judge and Jack Sharples, "Bulgaria and Macedonia would be hardest hit by a suspension of Russian gas exports through Ukraine," *The European Geopolitical Forum*, March 24, 2014, http://gpf-europe.com/forum/?page=post&blog=energy&id=157.

[48] Ilya Arkhipov and Elena Mazneva, "Putin Warns Europe Russia to Cut Gas If Ukraine Steals Supplies," *Bloomberg*, October 16, 2014, http://www.bloomberg.com/news/2014-10-16/putin-warns-europe-russia-to-cut-gas-if-ukraine-steals-supplies.html.

[49] Nicole Lundeen and Sean Carney, "Russian Gas Supplies to Central Europe Still Falling," *Wall Street Journal*, September 22, 2014, http://www.wsj.com/articles/russian-gas-supplies-to-central-europe-still-falling-1411391144.

[50] "Deliveries Of Russian Gas To Bulgaria Decrease," *Novinite.com*, October 29, 2014, http://www.novinite.com/articles/164416/Deliveries+Of+Russian+Gas+To+Bulgaria+Decrease.

[51] Vladimir Socor, "Kremlin Stops Gas Deliveries to Ukraine," *Eurasia Daily Monitor*, Volume 3, Issue 1, The Jamestown Foundation, January 3, 2006, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=31237&no_cache=1#.VMLADC5SKHg.

[52] Vladimir Socor, "Controversial Aspects of Russia-Ukraine Gas Agreement Disclosed in Kyiv," *Eurasia Daily Monitor*, Volume 3, Issue 4, The Jamestown Foundation, January 6, 2006, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=31249&no_cache=1#.VMLSVS5SKHg.

[53] "Ukraine 'stealing Europe's gas'," *BBC News*, January 2, 2006, http://news.bbc.co.uk/2/hi/europe/4574630.stm.

[54] Andrew E. Kramer, "Russia-Ukraine feud goes beyond gas pipes," *The New York Times*, January 4, 2009, http://www.nytimes.com/2009/01/14/world/europe/14iht-gazprom.2.19349065.html?pagewanted=all.

[55] "Russia to cut Ukraine gas supply," *BBC News*, January 5, 2009, http://news.bbc.co.uk/2/hi/europe/7812368.stm.

[56] Simon Pirani, Jonathan Stern and Katja Yafimava, "The Russo-Ukrainian gas dispute of
January 2009: a comprehensive assessment," Oxford Institute for Energy Studies, February 2009, http://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/NG27-TheRussoUkrainianGasDisputeofJanuary2009AComprehensiveAssessment-JonathanSternSimonPiraniKatjaYafimava-2009.pdf.

[57] Margarita Assenova, "Russia-Ukraine War's Impact on European Energy—A Net Assessment of Developments in Europe's Energy Security Strategy Since the Start of 2014," *Eurasia Daily Monitor*, Volume 11, Issue 185, Washington, DC: The Jamestown Foundation, October 20, 2014, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=42971&no_cache=1#.VMa3XC5SKHg.

[58] Vladimir Socor, "Old and New Options Considered in the Post-Nabucco Era," *Eurasia Daily Monitor*, Volume 10, Issue 123, The Jamestown Foundation, June 28, 2013, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=41090&no_cache=1#.VMbIfS5SKHg.

[59] "Shah Deniz targets Italian and Southeastern European gas markets through Trans Adriatic Pipeline," BP Press Release, June 28, 2013, http://www.bp.com/en_az/caspian/press/pressreleases/Shah-Deniz-targets-Italian-Southeastern-European-markets-through-TAP.html.

[60] Drew Leifheit, "Interconnector Bulgaria-Greece: Bulgaria's Key for Diversification," *Natural Gas Europe*, September 22, 2014,

http://www.naturalgaseurope.com/interconnector-bulgaria-greece-bulgaria-diversification.

[61] Socor, "The Curtain Falls," June 28, 2013.

[62] Vladimir Socor, "SCP, TANAP, TAP: Segments of the Southern Gas Corridor to Europe," *Eurasia Daily Monitor*, Volume 11, Issue 8, The Jamestown Foundation, January 15, 2014, http://www.jamestown.org/single/?tx_ttnews%5Bswords%5D=8fd5893941d69d0be3f378576261ae3e&tx_ttnews%5Bany_of_the_words%5D=Statoil&tx_ttnews%5Btt_news%5D=41821\&tx_ttnews%5BbackPid%5D=7&cHash=afc2067be4307e56147de91d55eb4da4#.VMqzIy5SKHg.

[63] Vladimir Socor, "Azerbaijan Drives the Planning on Trans-Anatolia Gas Pipeline Project," *Eurasia Daily Monitor*, Volume 9, Issue 164, Washington, DC: The Jamestown Foundation, September 11, 2012, http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=39827&tx_ttnews%5BbackPid%5D=27&cHash=5e24ec143db19cf571aeefee2edfa4cd.

[64] Vladimir Socor, "South Stream: A Project with Changeable Geography," *Eurasia Daily Monitor*, Volume 9, Issue 143, Washington, DC: The Jamestown Foundation, July 27, 2012, http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=39686&cHash=a2e58f8639699323f265b63d50e89029#.VMvrpS5SKHg.

[65] "Eurobonds prospectus: Ukraine, Russia discuss changing gas transit tariffs," *Kyiv Post*, December 24, 2013, http://www.kyivpost.com/content/ukraine/eurobonds-prospectus-ukraine-russia-discuss-changing-gas-transit-tariffs-334190.html.

[66] Volkan Özdemir, "Russia-Ukraine Gas Crisis: Implications over Energy Security in East Europe," *EPPEN* (*Institute for Energy Markets & Policies*), July 11, 2014, http://energysummit.org/VolkanOzdemir.pdf.

[67] Vladimir Socor, "Lithuania Decides to Unbundle Pipelines From Gazprom's Control," *Eurasia Daily Monitor*, Volume 8, Issue 130, The Jamestown Foundation, July 7, 2011, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=38144&no_cache=1#.VNU-ey5RKHg.

[68] Margarita Assenova, "South Stream: Bypassing Ukraine and Dividing the EU," *Eurasia Daily Monitor*, Volume 11, Issue 83, The Jamestown Foundation, May 5, 2014, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=42315&no_cache=1#.VNVI1S5RKHg.

[69] Therese Robinson, "Russia and Turkey agree Turkish Stream plans," *Interfax*, Januar 28, 2015, http://interfaxenergy.com/gasdaily/article/15118/russian-and-turkey-agree-turkish-stream-plans.

[70] Gafarli, "Russian Energy Proposals," December 17, 2014; Stephen Blank, "Russia Gives EU, Turkey and Azerbaijan an Ultimatum on 'Turk Stream'," *Eurasia Daily Monitor*, Volume 12, Issue 13, The Jamestown Foundation, January 22, 2015, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=43431&no_cache=1#.VNk7wy5RKHg.

[71] "Azerbaijan and the Southern Gas Corridor to Europe: Implications for U.S. and European Energy Security," The Jamestown Foundation, September 13, 2013, Washington, DC, available http://www.jamestown.org/programs/recentreports/single/?tx_ttnews%5Btt_news%5D=42021&tx_ttnews%5BbackPid%5D=63&cHash=369e6079df00bcfe94b688f00ab790c4#.VNqLZy5RKHg.

[72] "Azerbaijan and the Southern Gas Corridor to Europe," The Jamestown Foundation, September 13, 2013.

[73] *Ibid.*

[74] Vladimir Socor, "Shah Deniz Investment Decision Validates Commercial Agreements, Triggers Construction Contracts," *Eurasia Daily Monitor*, Volume 11, Issue 7, The Jamestown Foundation, January 14, 2014, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=41819&no_cache=1#.VNvMay5RKHh.

[75] "Azerbaijan and the Southern Gas Corridor to Europe," The Jamestown Foundation, September 13, 2013.

[76] Marat Gurt, "Turkmenistan inks deal with Turkey to supply gas to TANAP pipeline," *Reuters*, November 7, 2014,

http://www.reuters.com/article/2014/11/07/turkmenistan-turkey-tanap-idUSL6N0SX2QK20141107.

[77] "Azerbaijan and the Southern Gas Corridor to Europe," The Jamestown Foundation, September 13, 2013.
[78] "Azerbaijan, Bulgaria become strategic partners," *Caspian Energy News Agency*, March 4, 2015, http://www.caspianenergy.net/en/investor-en/20171-azerbaijan-bulgaria-become-strategic-partners.

[79] Vladimir Socor, "TAP Gas Consortium Looks at Markets from Bulgaria to Britain," *Eurasia Daily Monitor*, Volume 10, Issue 132, The Jamestown Foundation, July 18, 2013, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=41142&no_cache=1#.VN51ti5RKHg.

[80] Vladimir Socor, "Gas Supply Diversification Prospects Uncertain in Central and Southeastern Europe," *Eurasia Daily Monitor*, Volume 10, Issue 142, The Jamestown Foundation, August 1, 2013, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=41210&no_cache=1#.VN5NcS5RKHg.

[81] Socor, "Gas Supply Diversification Prospects," The Jamestown Foundation, August 1, 2013.

[82] Currency conversions based on exchange rates as of March 1, 2015. Historic exchange rates available at http://www.oanda.com/currency/converter/.

[83] "The Development of the Romanian Gas Transmission System in Order to Accommodate the Gas Volumes From the Caspian Region and the Black Sea," *Transgaz*, Romania Gas Conference, Bucharest, Romania, October 28–29, 2014, http://www.petroleumclub.ro/downloads/RoGasForum/2014/Sorin_Keszeg-Transgaz.pdf?.

The Emerging Balkan Dimension in Azerbaijani Foreign Policy

Zaur Shiriyev

Introduction

Since the fall of the Communist empire two decades ago, the South Caucasus and Southeastern Europe—sometimes referred to as the Balkans[1]—have faced a number of similar challenges in consolidating national sovereignty and economic prosperity. The instability that followed independence—frequently gained through violent conflict—is another shared legacy.[2] It would be misleading to suggest too many similarities between the two regions merely on the basis of their shared Communist past. The function of the comparison here is first to illuminate the very different ways in which two similarly fragile areas have dealt with shared challenges of conflict resolution and European integration, and second, to provide context for Azerbaijan's foreign policy outreach in the Balkan region.

Azerbaijani foreign policy has gained strategic strength since the early 1990s, as a consequence of its vast energy wealth and export capacity, a boon for the European market. In geopolitical terms, it has become part of the Black Sea region, despite the absence of geographical contiguity. This lack, however, has been compensated for by several factors, among them energy and economic interests, political alignment and strategic considerations. Notably, the last two decades have seen the development of partnerships with the EU and NATO.

At a more local level, Baku has sought to develop cross-regional synergies through membership in regional institutions such as the Organization of the Black Sea Economic Cooperation (BSEC) and geostrategic alignments like the GUAM Organization for Democracy and Economic Development, comprised of Georgia, Ukraine, Azerbaijan and Moldova. When these four post-Soviet states announced the formation of an openly pro-NATO regional bloc bound by common economic interests, several Russian commentators reacted with consternation, calling the entity "anti-Commonwealth."[3] Through these external memberships, Azerbaijani foreign policy has taken on a clear Black Sea dimension.

However, this trajectory did not emerge until the early 2000s. Throughout the 1990s, both Azerbaijan and the Balkan states were submerged in violent conflicts, inward rather than outward looking. To the extent that outside help or influence was sought, it was from powerful global actors rather than nearby regions facing similar chaos. Thus, during this period, Azerbaijan's activity in the area was limited to participation in the NATO peacekeeping mission in Kosovo, as part of a general strategy seeking means of engagement with NATO, and testing the waters. This was particularly relevant following the establishment of GUAM in 1997, modeling the Visegrad Group, which represented the joint efforts by Central Europe's post-communist countries toward collective engagement with Euro-Atlantic institutions. In this period, Azerbaijan also saw active Western (and in particular NATO) engagement in the Balkans aimed at restoring peace and stability, and wanted the same efforts put to resolve the problems of the South Caucasus. It is very likely that Azerbaijan's encounter with Western engagement in the Balkan countries, where the situation was similar in many respects to that of the South Caucasus, led Baku to move closer to the West. Notably, this period coincided with the initial phase of implementation of key energy projects.

In the 2000s, a number of external developments led Azerbaijan to pursue closer cooperation with some Balkan countries, over two periods. In the first instance, the BSEC organization started to undertake more activities in the region. Notably, since the launch of the EU's new security doctrine in 2003, which placed greater emphasis on its eastern neighborhood, Azerbaijan actively sought cooperation with the Balkan countries, five of which were BSEC member states—Greece, Albania, Bulgaria, Serbia and Romania. The EU's European Neighborhood Policy (ENP) became another platform for cooperation. However, this changed with Kosovo's declaration of independence, in 2008. In protest, Azerbaijan quickly withdrew its peacekeepers from NATO's KFOR presence, in which it had participated since 1999. Involvement in KFOR was a significant first step for Baku in its foreign policy toward the region. However, the unilateral and widely recognized declaration of independence by Kosovo sparked fears in Baku about a potential secession of Karabakh. Baku was afraid that the Kosovo precedent would begin a broader trend, leading other separatist entities to take the same path, notably Karabakh. Further, it weakened the United Nations Security Council (UNSC) in Baku's eyes; by accepting the circumstances that make Kosovo a *sui generis*, i.e. unique case, it was the view of Azerbaijan that the terms of UNSC 1244 resolution (1999) had been breached. The Resolution states that the UN-administered regime in Kosovo could only be modified or terminated by the Security Council.[4] Azerbaijan's position on Karabakh relies heavily on the weight of UN Security Council Resolutions, four of which have called upon Armenia to withdraw its forces.

As a later consequence of this development, Belgrade became a flagship country in Azerbaijan's Balkan policy. In not recognizing Kosovo's independence, Baku sought to decelerate Karabakh's drive for international recognition.[5]

Increased bilateral and regional consultations with the Balkan countries have gained visibility since Azerbaijan became a non-

permanent member of the UNSC for 2012–2013. However, the central platform for cooperation has been Azerbaijan's investment in the region since 2011 and the resulting geopolitical dynamics. In particular, the selection of the Trans-Adriatic Pipeline (TAP) as a primary exporter pipeline determines Baku's increased presence in the region over the coming years.

Azerbaijan's Balkan Presence: Reasons and Visions

Azerbaijan's relations with the Balkan countries were established following its independence from the former Soviet Union. The recognition and formation of diplomatic relations took place during 1992–1995, and lastly with Serbia in 1997. In understanding Azerbaijan's diplomacy in the Balkan region, the bilateral ties with Albania provide a useful example for demonstrating the general trends of policy development. The policy memo on Albania from Azerbaijan's Ministry of Foreign Affairs indicates a brief active period in 1992–1993, then one of the first highest level visits in 2002–2003.[6] Since 2011, the two countries have enjoyed positive diplomatic, economic and cultural relations. This trajectory is more or less illustrative of Azerbaijan's relations with all of the Balkan countries.

In order to fully understand Azerbaijan's mixture of policy instruments and aims in building strategically important relations in the Balkan region, it is essential to analyze its ties with Serbia. After 2010, Baku and Belgrade developed growing diplomatic, economic and cultural relations, as well as mutual support at the international level. At the same time, the regional policy rationale is borne out by the relationship with Bosnia-Herzegovina. Taking into account Bosnia's domestic ethnic tensions, Azerbaijan has maintained sensitivity toward Bosniaks, Serbs and Croats, opposing separatist efforts while supporting the dialogue on the political stalemate to strengthen the country's unity.[7] According to one Azerbaijani diplomat, success also relied on "highlighting Muslim closeness and exchanging greetings as Turks with the Bosniaks; stressing the

strategic partnership with Serbia and Russia when talking to the Serbs; and emphasizing culture and Croatia's role in the unity of Bosnia-Herzegovina when talking with the Croats. We focused on similarities; a simple one being that for all three groups, 'hello' is the same word: 'zdravo.' "[8]

In general, energy interests alone cannot explain Azerbaijan's increased presence in the region since 2010. The selection of the Trans-Adriatic Pipeline over Nabucco-West pipeline was only made in 2013, but Azerbaijan's growing attention to the area pre-dates this. Other factors that led to Baku's increased engagement with the Balkans include economic interests, the NATO and EU membership status of the countries in the region and, lastly, energy. Additional factors can be found in the country's multi-vector foreign policy philosophy and related external developments.

Azerbaijan's Foreign Policy Orientation and Regional Interests

In terms of the key structural determinants of Azerbaijan's foreign policy, there are three dominant factors that are helpful in further understanding the country's emerging foreign policy dimension in the Balkans.

First and foremost, Azerbaijan is pushing moderate and rational politics. Baku is aware of and seeks to resist pressures from its powerful neighbors—Russia and Iran. Yet, it does not always receive the support from Western partners that it wants and needs. In this regard, the country remains committed to national interests retaining certain flexibility. Flexibility allows for making small directional changes in a constantly fluctuating environment, in relation to the behavior of intra-regional and external powers. Thus, in this context, the visible US support for a multi-pipeline policy was a determining factor in the country's independent and Western-oriented energy policy, bypassing Russia and taking national control of decision making on energy exports. Undoubtedly, this was Azerbaijan's

motivation for moving closer to the West, which has been supported by attempts to institutionalize the relationship—by joining several Western organizations and actively participating in NATO's peacekeeping operations in Kosovo, Afghanistan and Iraq.

The second feature is geopolitical determinism. The country's geographical location and the continued occupation of 20 percent of its sovereign territory by Armenia are significant factors that shape its foreign and security policy. The construction of major energy export lines and the implementation of other regional projects have consolidated a strong strategic relationship with neighboring Georgia, which benefits from Azerbaijan's financial help and support in the international arena. In this way, Georgian territory has become a geopolitical extension to the Black Sea region. In addition, the current regional geopolitical vision isolates Armenia from regional projects; this shall remain the case until the Karabakh conflict is resolved in line with the territorial integrity of Azerbaijan. Both the near and far neighborhoods are equally important in the country's foreign and security policy.

The third feature is the use of investments and financing as a foreign policy instrument. Since the country became wealthier through its energy exports, Azerbaijan has become more open to financing small but strategic assets.

Two key tools exist within this component of Azerbaijan's foreign policy. One is the humanitarian and international development assistance delivered by several Azerbaijani government agencies. For this purpose, the Azerbaijan International Development Fund was set up in 2011. Azerbaijan provides financial aid to a range of countries. For example, in 2012, financial support was provided to the Gaza Strip and humanitarian assistance given to Panama and to Syrian refugees. Additionally, various development assistance programs have been implemented, including an e-governance project in Afghanistan, development support for the Palestinian city of Al-Quds, and others.

In the Balkans, humanitarian aid was sent by Azerbaijan to Bosnia-Herzegovina in 2014 in the wake of the devastating floods, and Romania when it faced heavy snowfall and severe stormy weather in 2012.[9] Deployment of aid is also not limited to government agencies; the Chambers of Commerce and Cultural Centers are also active in various countries. Azerbaijan has also helped to finance cultural development and road construction in Serbia and invested in tourist resorts in Montenegro.

The second tool is the purchase of strategic assets—especially in the energy field—particularly since 2008, because of the global financial crisis and the Russian-Georgian war in August 2008, which pushed Azerbaijan to diversify its energy policy. In this direction, the Azerbaijan State Oil Company (SOCAR) has established joint ventures across the globe with companies from a broad range of sectors, aiming to contribute to its ongoing international and downstream growth. For instance, in the Balkan region, SOCAR currently has 31 fuel stations in Romania[10] and has also acquired the control package in the Greek natural gas grid operator, DESFA.

The aim is to promote the country abroad and establish and/or strengthen bilateral relationships. This investment policy helps Azerbaijan to quickly form close strategic partnerships where, previously, there has been no engagement. In this sense, Azerbaijan's increasing visibility in the Balkans runs contrary to the view of some theorists that "a geopolitical vision requires at least a Them-and-Us distinction and emotional attachment."[11] However, looking at Baku's strategy, it is using its massive wealth and energy resources in a deliberative manner to increase its influence in different regions in order to gain international support. In this way, Azerbaijan gains support from a circle of "friendly countries" that can bring issues of national concern—including the Karabakh conflict—to the attention of international organizations. Azerbaijan's ascent regionally or globally is not solely due to its own work, it is also a consequence of its geopolitical significance and the regional system that has opened

up space and opportunity to its current position. For instance, the country benefitted from the support of 155 UN members in its election as a non-permanent member of the United Nations Security Council in 2011, as a result of Azerbaijan's own diplomatic work, support from influential countries, and Slovenia's last minute withdrawal of its candidacy.[12] However, it should be recalled that, this kind of foreign policy is still not successful in resolving the hard issues like the Karabakh conflict.

Azerbaijan's Evolving Relations With the Balkan Countries

The Balkan dimension of Azerbaijan's foreign policy is best analyzed in three periods: 1992–2002, 2002–2010, and 2010 to the present.

The Post-Independence Period

The break-up of the Soviet Union and the Yugoslav Federation came at the same time, and in both regions, post-Communist independence was marred by wars, trauma and economic collapse. During the first years of independence, Azerbaijan's main preoccupation was the Nagorno-Karabakh war, which posed a direct threat to its national security.

Nevertheless, given the similarities in the challenges they were facing, Baku issued an official statement on the situation in Bosnia-Herzegovina on June 9, 1992, stating that Azerbaijan:[13]

> - Demands the world community to condemn the policy carried out by the authorities in Belgrade: this policy has led to the genocide of the Muslims and other ethnic minorities;
>
> - Opposes the "resettlement of the nations and shift of borders by the use of force, and deems necessary to start negotiations to achieve a cease-fire and ensure the right of the refugees to

> return to their homes. Serbian troops should be withdrawn from Bosnia-Herzegovina immediately;
>
> - Calls UN bodies, and authorized representatives and observers of CSCE/OSCE to hold an emergency meeting to stop aggression with the use of its authority, and to make decisions that will prevent similar situations in the whole geopolitical area that was previously named the union of the socialist countries.

However, Azerbaijan's more substantial position on this matter was further developed at the end of the 1990s. Its support was not religiously motivated, and Baku did not side with Muslim entities in the Balkans. Many countries around the world joined in the condemnation of Serb aggression during the breakup of Yugoslavia, and Azerbaijan was no exception. Nevertheless, Azerbaijan's reaction and demands were linked to Western response to the crisis in the Balkans, in addition to the West/US approach to conflict resolution in Azerbaijan.

On the one hand, Azerbaijan could draw parallels between the Armenian occupation of Karabakh with the Serb occupation and aggression in Bosnia. This line of argument later became stronger, especially following the international intervention and the signing of the Dayton Peace Agreement. To Azerbaijan, this reflected a double standard in terms of reactions to massacres and approach to conflict resolution. This position was clearly emphasized by Azerbaijan's first Ambassador to the US, Hafiz Pashayev, in 1994: "the US has rightly assessed the blame in the case of Bosnia. But in the case of Azerbaijan, because of the political clout of a large and powerful Armenian-American diaspora, Congress has overruled both the Bush and Clinton Administrations to tilt American policy in favor of Armenia."[14]

On the other hand, also in relation to parallels with the Bosnian War, Azerbaijan wanted to make clear its unhappiness with the implementation of Section 907 of the Freedom Support Act in 1992 by the United States, which banned direct US aid, including humanitarian assistance, to the Azerbaijani government. The Freedom Support Act intended to provide assistance to the newly independent former Soviet republics in their transition from the Communist system to democracy and a market economy; only Azerbaijan was excluded from the aid package. According to Hafiz Pashayev, "[For Azerbaijanis], this piece of legislation [came] to be known as the 'Freedom Denial Act.' "[15] The ban was imposed during the war with Armenia, enacted with the influence and support of pro-Armenian congressmen in the US, who blamed Azerbaijan for a "blockade and offensive use of forces against Armenia and Nagorno-Karabakh." But in reality, Azerbaijan did not deploy offensive forces against Armenia, and Karabakh was and is the internationally recognized territory of Azerbaijan. Therefore, in the view of the Azerbaijani authorities, the US and the West punished Serbia and regarded it as an occupying force, showing support to the victims of the occupation. However, in a similar situation with Armenian forces occupying Karabakh, Azerbaijan was punished while Armenia was supported. This perception among Azerbaijani authorities was strengthened following the NATO intervention in Serbia in 1999, which punished the Serbian government for its actions in Kosovo. At the same time, the international approach to the Karabakh conflict resolution has not shown the same level of support.

In the later conflict in Kosovo, however, Azerbaijan's approach was different, both before and after the unilateral declaration of independence in 2008. The difference for Azerbaijani policymakers was that until Kosovo's independence, Azerbaijan's peacekeeping force was the only strong element of its presence in the Balkans. At that time, the country lacked the resources to develop relations with the Balkan countries and also felt the effects of its Muslim image in the region.

Until the end of the Bosnian war in the Balkans, the Bosniaks were identified not by their ethnicity, but as Muslims; thus ethnic identity was replaced by Muslim identity. Meanwhile, Muslim belonging was equated with Turkish identity, mainly because of the Ottoman policy to propagate Islam in the region, which then remained the area's subconsciousness. Muslim countries helped Bosnia throughout the war because the victims were mostly Muslims. During the time when Azerbaijan was trying to carry out a policy toward Yugoslavia, the perception of its Muslim identity made that policy less successful. However, the awareness of Azerbaijan's Turkic identity complicated the issue, which was a handicap for Baku in its relations with Serbia and Greece, in particular. Furthermore, since independence, Azerbaijan has developed strong ties with Turkey, and the authorities pushed a pro-Turkic policy during 1992–1993. Turkey's problems with Serbia and Greece affected Azerbaijan's standing with those two countries. Thus, until Turkey's partial normalization with Greece at the end of the 1990s, Athens expressed little or no interest in Baku, and so Azerbaijan's relations with Greece developed later than those with Serbia. With regard to Serbia, Baku's relations with Belgrade benefited from their common Communist past, which helped develop bilateral relations after the Milošević government was removed. Since the Kosovo independence issue in 2008, these relations have deepened more dramatically. Serbian policymakers have relinquished the view that Baku was formulating its policy along religious lines or Turkic identity, or merely following in the footsteps of its close strategic partner, Turkey.

Beyond the Western Balkans, Azerbaijan's relations with Bulgaria, Romania and Slovenia advanced more quickly after the mid-1990s because these countries were less affected by the Yugoslav wars and, after independence, developed in a more stable manner.

From the mid-1990s until the beginning of the 2000s, Azerbaijan established strong economic relations with Bulgaria, Croatia,

Romania and Greece, as shown in Table 1. Romania, Bulgaria and Greece were treated by Baku until the 2000s as Eastern European countries. However, with the introduction of the EU's policy toward the South Caucasus and emerging regional initiatives in the Black Sea, relations started to burgeon. These countries played a significant role in Azerbaijan's efforts within the Organization of the Black Sea Economic Cooperation and other related projects.

Table 1. Azerbaijan's exports to the Balkan region and Trade Turnover (thsd. USD)[16]

Indicators / Years	**2009**	**2010**	**2011**
Albania	2735	6,940.2	9.8
Bulgaria	128,470.8	136,535.8	410,410.5
Bosnia-Herzegovina	0	2.1	
Croatia	193,740.5	787,168.9	347,710.7
Macedonia	0	1.1	48
Montenegro	0	0	3.7
Romania	55,024.3	94,249.5	53,041.9
Serbia			14.7
Slovenia	60,453.8	4.1	6.3
Greece	179,745.3	255,012.6	208,123.8
Trade Turnover	20,824,469.3	27,960,821.8	36,326,867

Indicators / Years	**2012**	**2013**
Albania	0	0
Bulgaria	597,561.5	119,110.7
Bosnia-Herzegovina	2.1	0
Croatia	330,588.8	213,251.2
Macedonia	0	43.6
Montenegro	2.2	11.5
Romania	59,600.6	92,388.5
Serbia	22	14.1
Slovenia	17.9	19.1
Greece	833,834.5	810,325.4
Trade Turnover	33,560,854.3	34,687,919.3

Azerbaijan's developing relationship with the Balkan countries began in the mid-1990s, clearly intended to establish closer relations with the EU and NATO. The Balkans, located on the European frontier, gained far more attention from Euro-Atlantic institutions. In addition, these countries could be supportive of Azerbaijan's integration into Western institutions. For reasons of geopolitical determinism, Azerbaijani (and Georgian) foreign policy in the period 1995–2000 pursued a pro-European agenda, and for Baku, embracing the Balkans was part of this strategy.

Two more specific reasons exist for Azerbaijan's close attention to the Balkan countries:

First of all, in the second half of the 1990s, Western actors were preoccupied with the Balkan crises and were not prepared to engage in the South Caucasus conflicts. Such engagement would have required a firm commitment of political support, financial resources, and military forces for peacekeeping. In this respect, Azerbaijan and Georgia from the South Caucasus, along with Moldova and Ukraine, established the GUAM, which was a foster model for EU and NATO integration. Azerbaijan also hoped to develop relations with the Balkan countries as a potential useful diplomatic avenue through which to advance its concerns. Further, the first Balladur Stability Pact of 1994–1995 (the EU's preventative diplomacy toward the Balkan region), along with the second Balkan Stability Pact of 1999 (a soft conference mechanism), revealed models that could be reproduced in the South Caucasus. This stability initiative was realized with a principled commitment from the EU, NATO and US, substantial presence on the ground, and generous funding pledges.

The other reason was directly linked to integration with NATO. By participating in NATO's Kosovo intervention, Azerbaijan found a practical way in improving its relations with the Alliance on the ground. NATO integration was supported not only at the

governmental but also the public level; at the same time, the country's expectations of the Alliance were increasing. In one major public opinion survey in Azerbaijan, expanding collaboration with NATO was seen as very positive. Particularly frequently mentioned were such positive effects as strengthening the international status and position of the country—44.2 percent, helping to attract Western investments—38.8 percent, helping to resolve existing regional conflicts—38.2 percent, expanding access to the world, global market—40 percent, and providing additional guarantees for security—32.2 percent.[17] The Azerbaijani public clearly perceives NATO as an entity capable of adequately protecting not only its own members, but partner countries as well. The public believes that Azerbaijan's NATO membership is a critical factor in the country's path toward integration with the West, offering a major chance for safety and prosperity.

Seeing Kosovo as a victim of ethnic cleansing, Azerbaijan wanted the West to demonstrate the same approach to the Karabakh conflict. However, Baku's position on this issue changed after 2008 with Kosovo's unilateral declaration of independence. In that respect, Azerbaijan's peacekeeping mission in Kosovo was ultimately more linked to gaining respect from the US and NATO. But in political terms, the late President Heydar Aliyev made the country's position clear in 1999: "It goes without saying that we are against granting independence to Kosovo-Albania. At the same time, we are against the violation of the rights of the people of Kosovo. We believe that the best solution would be to ensure the territorial integrity of all Yugoslavia, but extend autonomy to Albanians of Kosovo within Yugoslavia."[18] What is certainly the case is that Azerbaijan's involvement in the peacekeeping mission in Kosovo was a useful way to bring the attention of the Azerbaijani leadership and public to issues in the Balkans. From the mid-2000s, this interest was replaced by increased economic investment and improving bilateral relations.

The Intermediate Period: Reaching the Balkans Through the Black Sea

Azerbaijan's more active engagement in the Balkan region started in 2001, when the Black Sea connection and related energy proposals linking the Black Sea to Southeastern Europe rose to prominence.

Two main factors shaped this change in Azerbaijan's foreign policy. First of all, the 9/11 terrorist attacks changed US policy toward the Caucasus–Central Asia region. With the new focus on Afghanistan, Washington increased its support to the South Caucasus and Central Asian states at varying levels. It was this support that helped finalize both the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline, which gave Azerbaijan a strategic position stretching from the Caspian to the Mediterranean.

The second factor, closely linked with the first, is that the EU launched a more active policy toward the region with the adoption, in 2003, of its new security doctrine, which stated explicitly: "[Europe] should now take a stronger and more active interest in the problems of the Southern Caucasus, which will in due course also be a neighboring region."[19] Thus, the strategic shift in the security paradigm toward the East gave the EU an important role in the Black Sea area with the 2004 enlargement; later on, the South Caucasus countries were added to the EU's Eastern Neighborhood Policy. In time, EU engagement meant that the South Caucasus countries were regarded as partners under the umbrella of Black Sea regional cooperation. The most successful period was 2004–2007, due to domestic changes in Georgia and Ukraine; Turkey's actions in pursuit of EU membership aspirations; as well as the EU accession of Bulgaria and Romania—all factors that consolidated and deepened the EU's engagement in the Black Sea region.

These two global developments led to more active participation by Azerbaijan in all Black Sea regional initiatives; this was the major

factor in driving closer partnerships with the Balkan countries, first of all Greece, Bulgaria and Romania.

The strategic essence of that approach was rooted in the Euro-Atlantic dimension; with NATO's April 2004 enlargement, Bulgaria and Romania became members of the Alliance and were readying to undertake EU membership. Due to these developments, the Azerbaijani leadership focused, in particular, on developing relations with Bulgaria and Romania. The Azerbaijani president visited Romania in October 2004, and the Bulgarian president visited Azerbaijan during that same period.[20] Collaboration with Romania increased also, and Bucharest took on a more prominent position in Azerbaijan's foreign policy toward the Black Sea region, the EU and NATO.

The emergence of close partnership with Romania was entrenched in Azerbaijan's relationships with NATO and the EU. In the case of NATO, following the 2004 Istanbul Summit, a special NATO representative and a liaison officer were assigned to the South Caucasus. The visit by the Azerbaijani president to NATO's headquarters in Brussels, on May 19, 2004, saw the presentation of the country's first Individual Partnership Action Plan (IPAP). In 2009, the Romanian Embassy in Baku became the NATO contact point in Azerbaijan and has maintained this responsibility since then: the close partnership that Azerbaijan sought to develop in 2004 is showing its benefits. In regard to increased access to EU decision-making and influence, Romania as an EU member became an important country for Azerbaijan. Even before it joined the EU, however, Bucharest's activities in the BSEC and its engagement with GUAM had a positive impact on the evolution of the partnership with Azerbaijan at the strategic level. For instance, Romania's participation at GUAM's Summit in Chisinau in 2005 was essential; it also solidified Azerbaijan's belief in the significance of this institution in terms of Black Sea–Caucasus relations. In Chisinau, on April 22, 2005, the Azerbaijani president declared, "Our organization [GUAM] is

emerging as a powerful force, participating in resolving problems in the Caspian–Black Sea region."[21] The development of two new initiatives took place over the next year: the indigenous Black Sea Forum for Partnership and Dialogue (BSF), and then the EU-sponsored "Black Sea Synergy." These programs meant that Romania was playing an active role in the Black Sea, and with its institutional memberships, it was a stable and important country for Azerbaijan.

Azerbaijan's relationship with Greece also saw changes during this period, when they faced the Cyprus question. After the 2004 peace plan had failed to unite Cyprus, Azerbaijan sought to assist Turkish Cypriots in order to alleviate their economic isolation, but did not provide formal recognition. In 2005, two Azerbaijani planes landed at Ercan Airport and cooperation protocols were signed during the visit, but this development created problems with Greece and Cyprus. Cyprus blocked negotiations on developing EU action plans for Azerbaijan, Georgia and Armenia. The most devastating blow was when a Greek telecommunications company, Intrakom, signed a cooperation agreement with the Armenian mobile operator Vivacell, active in the occupied Karabakh region. The agreement envisaged a 22.8 million euro investment in Vivacell by Intrakom.[22] There is no longer any state or private sector contact with Turkish Cypriots by Azerbaijan, and so the relationship with Greece has been resolved by mutual understanding.

In spite of this difficult development, Greece, along with Romania and Bulgaria, was one of Azerbaijan's main trade partners in the region during 1990s, while trade with the Western Balkan region was small, as shown in Table 2.

Table 2. Azerbaijan's exports to Balkan region and Trade Turnover 2002–2008 (thousand USD)[23]

Indicators / Years	2002	2003	2004
Albania	0	0	1,653.9
Bulgaria	2,586.9	13,933.9	49,309.5
Bosnia-Herzegovina	4.6	0	0
Croatia	7,277.1	61,075.6	109,169.4
Macedonia	47.1	0.5	0
Romania	28,353.7	1,641.9	82,295.3
Serbia and Montenegro	2,605.7	577.8	3,043.2
Slovenia	4,811.2	7,083.7	11,450.2
Greece	54,123.6	71,425.9	20,226.1
Trade turnover	3,832,883.8	5,216,559	7,131,365

Indicators / Years	2005	2006	2007	2008
Albania	0	636.6	11,191.4	8,348.4
Bulgaria	0	6,308.2	5,693.1	194,441.1
Bosnia-Herzegovina	0	0	0	0
Croatia	176,909.7	3,559.4	39,863.6	542,567.4
Macedonia	0	0	0	0
Romania	119,120.1	80,122.2	85,401.4	161,077.9
Serbia and Montenegro[24]	0.3	0	6.8	0
Slovenia	3,764.1	3,463.2	0	82,121.4
Greece	20,226.1	181,983	115,060	290,884.3
Trade turnover	8,558,373	11,638,909	11,770,571	54,926,021.1

Following the difficulties raised between Baku and Athens by the Cyprus case, another problematic development occurred with Albania, though this was quickly solved with Turkey's help. In July 2007, Albania's state-owned weapons firm sent 60 containers of Soviet-era weapons that were either imported from China or produced domestically, including an aging fleet of MiG airplanes

destined for Armenia, which was stopped in the Bosporus by Turkey.[25] Diplomatic negotiations between Azerbaijan and Albania led to the halt of arms sales, followed by Tirana's official ban on arms sales to any countries involved in a conflict.

The strategic changes that took place in 2008 mark a period of "strategic diversification" for Azerbaijan, starting with energy policy, foreign policy and bilateral relations.

One of the key changes was in the philosophy and practice of the country's energy policy. The Russian-Georgian war of August 2008 prompted Baku to diversify its energy pipeline policy. This move followed the diversification of the EU's energy policy in the wake of the 2006 Russian-Ukrainian gas crisis, which gained further impetus with the 2008 war in Georgia. By 2008, various EU institutions and individual members stated their readiness to finance the construction of a gas pipeline from Azerbaijan via Georgia and Turkey to the Balkans, with possible extensions to Moldova and Ukraine, if Azerbaijan would endorse the project.[26] The possibility of an Azerbaijani gas connection to the Balkan region started materializing in November 2007, when Greece and Turkey signed an agreement on the construction of a pipeline, a joint venture between DEPA and BOTAŞ (the Greek and Turkish state gas utilities) to link western Anatolia and northeastern Greece via a pipe running beneath the Marmara Sea.[27] With US encouragement and the Greek-Turkish agreement, it was concluded that the pipeline would carry up to 400,000 cubic meters of Azerbaijani gas to help cover demand in Greece's recently liberalized electricity market. This tiny contribution marked the strongest engagement yet between Azerbaijan and Southeastern Europe's energy market.

In 2008, the energy priorities of both Azerbaijan and the EU were rebalanced, and the EU's Southern Gas Corridor (SGC) vision coincided with Azerbaijan's desire to find energy export options via the Black Sea to Southeastern Europe. In 2008, the European Commission's Communication "Second Strategic Energy Review—

An EU Energy Security and Solidarity Action Plan" stated: "A southern gas corridor must be developed for the supply of gas from Caspian and Middle Eastern sources, which could potentially supply a significant part of the EU's future needs."[28] The same communique also encouraged the development of an alternative LNG supply to the European gas market. This strategic shift was followed by the development of two options for delivering Azerbaijani gas to European markets via the Black Sea connection. Both developments ensued as a result of Azerbaijan's search for alternative gas export routes. Negotiations with Turkey on the delivery of gas to the European market were slow, and so unsurprisingly, both initiatives bypassed Turkey; however, these routes have not yet been realized.

The first of these was the Bulgarian route. In November 2009, agreements of intent on the transportation of Azerbaijani gas to Bulgaria and onward to Europe were signed. The cornerstone of the deal concerned the transportation of compressed natural gas (CNG) from Azerbaijan, via Georgia and the Black Sea, to Bulgaria and then further into European Union territory.[29] The feasibility study has not yet been conducted and the agreement remains contingent on its conclusions, but Azerbaijan envisages the possibility of delivering 7–8 bcm of gas annually, some of it to Bulgaria, but most deeper into EU territory.

The other project was the Azerbaijan-Georgia-Romania Interconnector (AGRI), which resulted in a Memorandum of Understanding signed on September 14, 2010, in Baku, to mark the launch of the project between state-owned energy companies from Azerbaijan, Georgia and Romania. Hungary joined the project later. The project intends to transport Azerbaijani gas by pipeline to a Black Sea port in Georgia for liquefaction and further transportation to the Romanian Black Sea port of Constanta via tanker. The gas will then be pumped through Romania's pipeline system to the rest of Europe. Although the project has not been implemented, feasibility studies

were concluded in 2014, and there is a chance that it could re-emerge as a possibility in the future.

In the post-2008 period, following the proclamation of Kosovar independence and Azerbaijan's decision to recall its peacekeepers and then the Russian-Georgian war, Baku began to pursue a more independent regional policy vision, no longer fully aligned with the EU, while maintaining a balanced approach to Russia. Consequently, many observers in the region were surprised when Azerbaijan announced its decision to join the non-aligned movement in May 2011. However, in reality, this was a strategic move by Baku aimed at establishing new partnerships with various regions, as well as to broaden its investments. With the 2008–2009 global financial crisis, Baku saw new investment opportunities in the Balkan region.

A Period of Closeness: Strategic Partnerships, Investments and Energy Connection

Azerbaijan's new approach to the Balkan region includes more investments and initiatives toward high-level cooperation across different sectors. These changes reflect the broader evolution of Azerbaijan's foreign policy approach, namely the desire for diversification. The country's increased financial capacity has enabled it to take a long-term perspective on the expansion of its business interests across different regions. Meanwhile, the Balkans fell into a recession following the global financial crisis, and when these countries started to recover, a new debt crisis emerged to threaten the region: Greece.

While these developments negatively impacted the countries of Southeastern Europe, they did also open up more opportunities for foreign direct investment. Azerbaijan sought to maximize these opportunities, along with other resource-rich and growing middle-income countries, which are increasing their presence in the Western Balkans through investments. This is a trend, which may spur a

"second wave" of privatization in the region.[30] The Balkans missed the first wave of privatization in Eastern Europe, because it was mired in conflict and war until well into the 1990s.[31]Due to these factors, the level of trade turnover between the Balkan countries and Azerbaijan increased significantly post-2008, as seen in Table 3.

Table 3. Azerbaijan's exports to the Balkan region and Trade Turnover 2009–2013 (thousand USD)[32]

Indicators / Years	2009	2010
Albania	2735	6,940.2
Bulgaria	128,470.8	136,535.8
Bosnia-Herzegovina	0	2.1
Croatia	193,740.5	787,168.9
Macedonia	0	1.1
Montenegro	0	0
Romania	55,024.3	94,249.5
Serbia		
Slovenia	60,453.8	4.1
Greece	179,745.3	255,012.6
Trade Turnover	20,824,469.3	27,960,821.8

Indicators / Years	2011	2012	2013
Albania	9.8	0	0
Bulgaria	410,410.5	597,561.5	119,110.7
Bosnia-Herzegovina		2.1	0
Croatia	347,710.7	330,588.8	213,251.2
Macedonia	48	0	43.6
Montenegro	3.7	2.2	11.5
Romania	53,041.9	59,600.6	92,388.5
Serbia	14.7	22	14.1
Slovenia	6.3	17.9	19.1
Greece	208,123.8	833,834.5	810,325.4
Trade Turnover	36,326,867	33,560,854.3	34,687,919.3

Azerbaijan's strategic investment policy seeks to strengthen bilateral ties; to this end, large amounts of capital have been invested in

neighboring Turkey and Georgia, and have played a significant role in cementing sustainable and mutually beneficial relationships. The expansion of this policy to Southeastern Europe was, according to the Azerbaijani leadership, led by the view that "investment strengthens economic ties and plays an important role in making these relations long-term."[33] In this scope, Azerbaijan's activities in the Balkan region can be broadly categorized under the following headings: Investments and Economic ties; Military Security Cooperation; and Energy Cooperation.

Investments and Economic Ties

Relations with the Balkan countries developed differently than those with the Black Sea countries. For instance, Azerbaijan and Bulgaria established an intergovernmental joint commission on trade, economic, scientific and technical issues in 1999. However, with the Western Balkan countries, development of economic ties took place through commercial frameworks: through Business Forums and agreements on the avoidance of double taxation on income and property.

Azerbaijan also used the business forum format to encourage bilateral investments with Bulgaria, Romania and Greece, and since 2010, with Croatia, Montenegro, Bosnia-Herzegovina and Serbia. Albania and Macedonia have reached agreements on mutual promotion and protection of investments with Baku, but the business forum component is missing from the relationship because mutual economic interests have not yet risen to the required level.

The history of Azerbaijan's investments in the Western Balkans is most usefully illustrated by data from the last three years, as seen in Table 4. It is also likely that Azerbaijan will consider a number of new investments. In this regard, the development of business forums will play an important role, providing a more open format for exploring bilateral investment opportunities.

Table 4. Azerbaijan's current investments/loans in the Western Balkan region.[34]

Country	Investment/Loan	Amount/Status
Bosnia-Herzegovina	Benkons Bosnia, founded by the company Benkons based in Azerbaijan, plans to build a factory in Doboj.	30 million euros
	Construction of a "Friendship Bridge" in Sarajevo.	404,564 euros
Croatia	The Croatian government has invited Azerbaijan to invest in the Kupari tourist hotel complex, which consists of five hotels in the former army recreation center in Kupari, in the vicinity of old town Dubrovnik.	Invited to invest
	LNG terminal at Omisalj on the northern Adriatic island of Krk.	Interested
Montenegro	Tourist Resort Development in the Kumbor base on the Adriatic coast of Montenegro.	500 million euros
Serbia	Loan to Serbia for the construction of 40 kilometers of a highway (E-763) that runs to Romania, Montenegro and Italy.	300 million euros
	Restoration of Belgrade's 16th century Bajrakli Mosque.	1.14 million euros
	Restoration of the St. Petka Church outside the city of Novy Sad.	647,619 euros
	Restoration of Belgrade's Tashmaydan Park.	325,300 euros

Azerbaijan's engagement in the Western Balkan countries has not been limited to loans and investments; Baku has also funded a number of cultural projects and provided humanitarian aid. For Azerbaijan, this is usually a precursor to higher-level political consultations and boosting the partnership status to the strategic level. Accordingly, Azerbaijan has signed strategic

partnership agreements with Serbia (February 8, 2013), with Montenegro (March 13, 2013),[35] as well as an unofficial declaration with Croatia (March 11, 2013).[36]

Military Security Cooperation

Military cooperation between Azerbaijan and the Balkan countries has been relatively limited. That cooperation has taken place mostly with Bulgaria and Romania, becoming possible after the US lifted its embargo on providing military assistance to Azerbaijan following the 9/11 terrorist attacks. The US asked its European partners to do the same, in order to provide Azerbaijan with the military equipment required to assist in the NATO mission in Afghanistan. However, defense and defense industry cooperation with the Western Balkan countries has developed since 2008, especially with Serbia and Croatia. Most significantly, Serbia's biggest military production firms (Zastava Arms SJC, Sloboda JSC, Koncern Farmakom Livnica Pozega JSC) are involved in negotiations with Azerbaijan. The first agreement to be made public was signed in 2011 with Zastava Arms on the transfer of Zastava's arms-manufacturing technology to Azerbaijan. Under the contract, Zastava Arms will build and equip a $30 million infantry weapons factory in Azerbaijan, which will produce a variety of grenade launchers.[37] Production started in 2013, and the first items were 40- and 46-mm revolver grenade launchers.

Azerbaijan is also cooperating with Serbia's state-owned defense industry company Yugo import SPDR, which offered to sell or jointly produce VB-10 gear (Future Soldier-10 gear) used in outfitting infantrymen, section commanders and platoon commanders. The company also proposed to assist in designing Azerbaijan's equipment subsystems and components based on defined tactical-technical requirements for the level of combat power of infantry soldiers.[38] This cooperation emerged after the Azerbaijani military began considering possible options for the modernization of infantry equipment. In 2013, the parties announced that cooperation is at the concept level.[39]

The partnership with Croatia has improved as a result of a 96 million euro ($107 million) deal with Geofoto, a company that sells aerial survey, digital photogrammetry and geo-information systems, which can strengthen Azerbaijan's capacity to observe military movement in and around the Caspian Sea.

In addition, the Croatian shipyard company Adria Mar is cooperating with Azerbaijan. This company specializes in repairing vessels built by the Soviet arms industry and handles the repairs of Azerbaijan's small Triton-2 submarines.[40]

Possibilities exist for developing these various directions of cooperation in the future; the development of Serbian and Croatian defense industry heralds new and increasing opportunities.

Energy Cooperation

With the selection of the Trans-Adriatic Pipeline (TAP) as an export line for Azerbaijani natural gas from Shah Deniz Phase II, scheduled to have an initial capacity of 10 bcm/annually, the region gained strategic significance for Azerbaijan. To this end, the Vice President of Azerbaijan's State Oil Company's (SOCAR) stated that "Since the Balkans is the first destination immediately after Turkey in the European Union and, from the point of view of transportation costs and savings on the transportation, if we compare delivery of gas to other regions of Europe, the Balkans is naturally our priority."[41] Through TAP, Azerbaijan will not only be able to export its gas to the Balkan market, but also to Greece, where SOCAR has purchased 66 percent of the country's natural gas distributing system (DESFA) in 2013. Azerbaijan is also building a national gas distributing system in Albania, which it will operate.

The key feature of TAP, as it pertains to the current study, is that it will substantially increase Azerbaijan's involvement in and support

for the development of integrated gas infrastructure in Southeastern Europe. The region has long been vulnerable to shortages and shocks due to old grids, lack of interconnections between countries and policies limiting competition. This will mean that already signed agreements with the developers of the Ionian Adriatic Pipeline (IAP) can be implemented. The IAP is planned to stretch from Albania up to Montenegro, through Bosnia-Herzegovina and onward to Croatia and Slovenia.[42]

Furthermore, discussions between Azerbaijan and Bulgaria have begun, following a letter of intent on September 20, 2014, which envisages talks between SOCAR and Bulgargaz, Bulgaria's state-owned energy company. The subject of this conversation will be gas deliveries to Bulgaria via the Greece-Bulgaria gas grid interconnection by 2017, linking TAP to the Bulgarian market.

Through the construction of the Trans-Anatolian Gas Pipeline and the link to TAP, Azerbaijan will be able to realize a mini version of the Southern Gas Corridor and become a valuable player in Southeastern Europe's gas market. Following Russia's termination of the South Stream pipeline project in December 2014 and the new agreement between Russia and Turkey, Azerbaijan faces new challenges for its position in the Southeastern European gas market. Under this agreement, Gazprom will supply more than 60 bcm of gas annually to Turkey via a new undersea pipeline that will run between Russia and Turkey, crossing the Black Sea. The so-called Turkish Stream—which would see Russia selling gas directly to Turkey as well as transporting further volumes for sale in Europe—would, in fact, be considerably more damaging to Azerbaijan than South Stream. If built, Turkish Stream would not only sustain and enhance Gazprom's dominant role in EU gas markets; it would risk putting Gazprom in a position to block the entire Southern Gas Corridor, preventing diversified gas flows to the EU from Azerbaijan and, as hoped, from Turkmenistan, Iraq and the Eastern Mediterranean, as well. A number of concerns

persist for Azerbaijan in regard to the realization of the Southern Gas Corridor in the next context of the so-called Turkish Stream.

First of all, Russia and Azerbaijan are now, potentially, in direct competition for Southeastern Europe's energy market. Since the Ukraine events, Russia's leverage with the West, as well its economic strength, has decreased. However, Moscow maintains its "pressure points" toward Azerbaijan, and a number of problems could arise in relation to increasing the export volumes of Azerbaijani gas to Turkey (TANAP) and Europe (TAP). Following the announcement of Turkish Stream, some Russian officials have claimed that "Azerbaijan is unlikely to be able to supply more than 15 billion cubic meters [via TANAP], so Gazprom has the right to count on the remaining capacity of the pipeline."[43] Robert Cutler well describes this situation: "the question here is to what degree Baku, which has somewhat de-Westernized its geo-economic orientation over the last two years due to pressure from Moscow that the West ignored or did not care enough to balance, would cede to Russian wishes for decreased Azerbaijani gas exports to Europe, in order to increase the pressure from the new threatened Russian cutoff."[44]

Second, the possible export of Russian gas via the Turkish-Greek border—i.e. the same direction/destination as the TAP pipeline—undermines the EU's energy security strategy aimed at increasing access to non-Russian gas. The envisioned large volumes of Russian gas would decrease Azerbaijan's geopolitical importance: Baku will have greater difficulty attracting Turkmen and Iraqi gas to TAP. The economic significance stems from the fact that the Azerbaijani-Turkish TANAP entailed the export of non-Russian gas to Europe, which would mean reduced gas prices for European consumers. However, Turkish Stream means another monopoly, a Russian *Trojan horse* in the European energy market; this could enable Russia to manage gas prices.

Turkey's position is another destabilizing point. Turkey's attempt to align with Russia and become an energy hub is somewhat ironic. Previously, Turkey saw the Southern Gas Corridor as a means to achieving its energy hub aspirations, but now it is basically presenting the Turkish Stream as an alternative to the Southern Gas Corridor. This is worrying for Azerbaijan, because Baku made the Southern Gas Corridor happen by building TANAP and undertaking the lion's share of the financial burden in the process. If Turkish Stream is constructed, Turkey will defeat the fundamental purpose of the Southern Gas Corridor. However, the international sanctions and oil prices have likely stripped Russia of its ability to finance big international projects, which diminishes the possibility of materializing the idea of a Turkish Stream. This is what Azerbaijan is hoping will happen—otherwise Turkish Stream could herald a political stalemate between two strategic partners in the long term and weaken Azerbaijan's position in the Turkish and Southeastern European energy markets.

Conclusion

Azerbaijan's regional foreign policy has been primarily influenced by the implementation of giant energy projects connecting the Caspian to the Mediterranean and Black Sea during the mid-2000s. With the fall of Communism and the dissolution of the Soviet Union, the political geography of Europe changed, which at first was confusing for Azerbaijan. Former Warsaw Pact countries, until yesterday a part of the Soviet bloc or even the Soviet Union (like the Baltic states), were suddenly perceived as Eastern European. Over time, these countries integrated with Euro-Atlantic institutions and the region was redefined. Some of them became Central European, some Eastern European. Until Romania and Bulgaria's NATO membership, the Balkan countries were strategically situated between the Adriatic Sea and the Black Sea, but have been gradually moving toward integration with the European Union. In the 1990s, Azerbaijan's only significant engagement in the Balkans was its participation in NATO's

peacekeeping force in Kosovo. The main motivation behind this was to achieve practical, military cooperation with NATO and political cooperation with the US.

By the mid-2000s, when the EU's security strategy declared the South Caucasus countries its immediate neighbors and encouraged regional countries to integrate with Europe, cooperation in the Black Sea region developed. Azerbaijan expanded cooperation with Romania, Bulgaria and Greece. The Black Sea provided a venue for Azerbaijan's firm commitments to energy security and the EU integration module. Especially following Romania and Bulgaria's accession into NATO, Baku was keen to develop formal relations at the strategic level. But at this stage, the Balkan connection remained weak for Azerbaijan; the region was still geographically and geo-strategically distant.

The emergence of the Balkans as a significant region for Azerbaijani foreign policy began in earnest in the post-2008 period, for two main reasons. The first was the Russian-Georgian war in August 2008, which pushed Azerbaijan to undertake a strategic diversification policy, both in terms of investment and energy. The other was the 2008 global financial crisis and, in particular, the Greek debt crisis, which opened up the economies of Southeastern Europe to foreign investments. These developments signaled the beginning of a period of strategic closeness between Azerbaijan and the Balkan region, characterized by increased economic, military and energy ties, which elevated the bilateral relationship to a strategic level. The selection of TAP as the export line of Shah Deniz II gas to Europe was, as mentioned, crucial in this three-year period.

Azerbaijan's Balkan policy faces two main challenges in the near future. The first relates to pipeline politics; as detailed above, the realization of the TAP and related energy projects will shape Azerbaijan's further interest and investments in the region. However, the risk of the so-called Turkish Stream is significant, and this will have to be addressed as developments emerge. The other factor is

financial: currently Azerbaijan's investments in the Balkan countries play an important part in its evolving foreign policy dimension. However, Azerbaijan's wealth is energy dependent, and one consequence of the decline in oil prices will be that Azerbaijan is forced to limit its investments both at home and abroad. On this basis, Azerbaijan cannot limit its engagement in the region to large-scale financial instruments. That is not to say that this tool may be retired—rather that investment can be deployed creatively and in smaller volumes, for instance in small and midsize businesses, with greater engagement in the industry sector.

The other factor that could influence Azerbaijani policy is political-economic change in the Balkan countries, especially in those where Azerbaijan has major investments. The primary example is Greece. The victory of the left-wing coalition SYRIZA could be seriously damaging to Azerbaijan's interests in Greece. SYRIZA supports the nationalization of strategic entities, including energy companies and distribution infrastructure as well as closer relations with Russia (which means support for Turkish Stream and the perception of this project as energy diversification for Greece). Finally—and crucially—since the termination of South Stream and the announcement of Turkish Stream, a number of Southeastern European countries are seeking alternatives. Bulgaria and Hungary have proposed an energy hub project. Until EU countries reach a consensus on energy security matters, the fragmentation of the EU could be another point of concern in relation to the implementation of the Azerbaijan-led Southern Gas Corridor.

Thus, in the long term, Azerbaijan's Balkan policies will not only be shaped by how successfully Baku is able to use its traditional instruments such as energy resources and financial investments in expanding its influence and deepening relations with the region's countries, but also by the geopolitical triangle in the Balkan region: Turkey, Russia and the EU, and the evolution of the relationship in this context.

NOTES

[1] The author will refer to the Balkan region, which for the purposes of the current analysis will include Albania, Montenegro, Croatia, Slovenia, Serbia, Bosnia-Herzegovina, Macedonia, Kosovo, Bulgaria, Romania and Greece (although Greece was not a Communist country).

[2] For a detailed analysis on the similarities and differences between the South Caucasus and the Balkan region, see Ana Dinescu, "The Balkans and the Caucasus: the Limits of the Comparative Perspective," pp. 235–236, in Biliarsky, Cristea and Oroveanu (eds), *The Balkans and Caucasus: Parallel Process on the Opposite Sides of the Black Sea*, Cambridge Scholars Publishing, 2012.

[3] Celestine Bohlen, "Crisis in the Balkans: Russia; New Alliance Highlights Ebb of Russian Clout," *New York Times*, May 2, 1999, http://www.nytimes.com/1999/05/02/world/crisis-in-the-balkans-russia-new-alliance-highlights-ebb-of-russian-clout.html.

[4] Written Statement of Azerbaijan**,** Case concerning accordance with international law of the unilateral declaration of independence in respect of Kosovo (Request by the General Assembly of the United Nations for Advisory Opinion), April 17, 2009, http://www.icj-cij.org/docket/files/141/15668.pdf.

[5] "The world reacts to Kosovo independence," *Financial Times*, February 18, 2008, http://www.ft.com/cms/s/0/890b8142-de18-11dc-9de3-0000779fd2ac.html#axzz3O1efy6hz.

[6] Azerbaijan-Albania relations, Memo, Ministry of Foreign Affairs of the Republic of Azerbaijan, http://mfa.gov.az/files/file/Azerbaijan_-_Albania_relations_08.09.2014.pdf.

[7] "Bosnia and Herzegovina Faces Stark Choice - Fail Together or Succeed Together by Standing Up to Those Wishing to Reopen Past Wounds," United Nations, UN Security Council Meeting Coverage, 6966th Meeting, May 14, 2013, http://www.un.org/press/en/2013/sc11009.doc.htm.

[8] Author's discussions with an Azerbaijani diplomat in Serbia, who spoke on condition of anonymity, April 21, 2014, Belgrade.

[9] "Azerbaijan provides humanitarian aid to Romania," *News.az*, February 13, 2012, http://news.az/articles/society/54493.

[10] "SOCAR opens 31st Petrol Station in Romania," *Azertag Agency*, December 16, 2014, http://azertag.az/en/xeber/SOCAR_opens_31st_Petrol_station_in_Romania-818475.

[11] Gertjan Dijink, *National Identity and Geopolitical Visions: Maps of Pride and Pain*, New York: Routledge, 1997, p. 11.

[12] "Azerbaijan wins final vacancy on Security Council," *UN News Center*, October 24, 2011, http://www.un.org/apps/news/story.asp?NewsID=40174#.VLjWm9H9nX4.

[13] Statement by the Parliament of the Republic of Azerbaijan in response to the events in Bosnia and Herzegovina, Azerbaijan Parliament, N.161, June 1992.

[14] Hafiz Pashayev, "Physics and Politics. The Essential Differences as they Relate to the Azerbaijan/Armenia Conflict," *Azerbaijan International*, Summer 1994 (2.2) Pages 54–55, http://azer.com/aiweb/categories/magazine/22_folder/22_articles/22_physics.html.

[15] Hafiz Pashayev, "Racing up Hill: Selected Papers of Azerbaijan's First Ambassador to the United States of America," *Global Scholarly Publication*, New York, 2006, p. 3.

[16] The State Statistical Committee of the Republic of Azerbaijan, available as an interactive table at http://www.stat.gov.az/.

[17] Tair Faradov, "Foreign Policy Orientations in Azerbaijan: Public and Elite Opinion," NATO-EAPC Individual Research Fellowship 2001–2003, Final Report, Baku, June, 2003; pp. 28–29, http://www.nato.int/acad/fellow/01-03/faradov.pdf.

[18] "President Aliyev Visits the U.S.," *Azerbaijan International*, Summer 1999 (7.2), pp. 14–16, http://azer.com/aiweb/categories/magazine/72_folder/72-articles/72_aliyev.html.

[19] "A Secure Europe in a Better World," *European Security Strategy*, Brussels, December 12, 2003, p.9, http://www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf.

[20] See Memo of Azerbaijan's MFA on bilateral relations with Romania and Bulgaria, available at http://mfa.gov.az/files/file/Azerbaijan_-_Romania_relations_08.09.2014.pdf; http://mfa.gov.az/files/file/Azerbaijan_-_Bulgaria_relations_12.01.2015.pdf.

[21] "GUAM Leaders Pledge to Boost Regional Cooperation," *Civil.ge*, April 22, 2005, available at http://www.civil.ge/eng/_print.php?id=9681.

[22] "Greece replies to Azerbaijan for Northern Cyprus," *Trend Agency*, July 22, 2005, http://en.trend.az/azerbaijan/politics/843164.html.

[23] The State Statistical Committee of the Republic of Azerbaijan, available as an interactive table at http://www.stat.gov.az/.

[24] Despite the separation of Serbia and Montenegro in 2006, Azerbaijan's State Statistical Committee failed to distinguish between the two in terms of trade statistics until 2008, which limits analysis of the 2006–2008 period.

[25] "Albania tells Azerbaijan it will stop arms sales," *Today's Zaman*, August 2, 2007, http://www.todayszaman.com/diplomacy_albania-tells-azerbaijan-it-will-stop-arms-sales_118328.html.

[26] "EU to finance construction of Azerbaijan-Balkans gas pipeline," *Pipelines International*, February 16, 2006, http://pipelinesinternational.com/news/eu_to_finance_construction_of_azerbaijan_balkans_gas_pipeline/010536/.

[27] "Greece and Turkey open gas pipe from Azerbaijan," *Financial Times*, November 19, 2007, http://www.ft.com/cms/s/0/fac8210c-9640-11dc-b7ec-0000779fd2ac.html#axzz3NGmFPFs2.

[28] "A Second Strategic Energy Review – An EU Energy Security and Solidarity Action Plan," European Commission, Brussels, 13.11.2008COM(2008) 781 final, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF.

[29] Vladimir Socor, "Azerbaijan Considers Georgia–Black Sea–Bulgaria Route for Compressed Natural Gas to Europe," *Eurasia Daily Monitor,* Washington, DC: The Jamestown Foundation, Vol. 6, Issue 211, November 16, 2009, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=35734&no_cache=1#.VHrfDNFxnX4.

[30] "From Recession to Reform: The Western Balkans and the Impacts of a Double Dip Recession," The World Bank, December 18, 2012, http://www.worldbank.org/en/news/feature/2012/12/18/from-recession-to-reform-western-balkans-and-impacts-of-double-dip-recession.

[31] "South East Europe Regular Economic Report No.3: From Double-Dip Recession to Accelerated Reforms," The World Bank, December 18, 2012, http://www.worldbank.org/content/dam/Worldbank/document/SEERER_3_Report_FINAL_eng.pdf.

[32] The State Statistical Committee of the Republic of Azerbaijan, http://www.stat.gov.az/.

[33] Ilham Aliyev's interview with the Montenegrin newspaper *Pobjeda*, Official web site of President of the Republic of Azerbaijan, March 13, 2013, http://en.president.az/articles/7605.

[34] This data has been compiled from various public sources and does not include energy investments. This table may not include smaller investments or deals not yet concluded.

[35] Signing ceremony of Azerbaijan-Montenegro documents, Official web site of President of the Republic of Azerbaijan, March 13, 2013, http://en.president.az/articles/7597.

[36] "Azerbaijan, Croatia sign Zagreb Declaration on strategic partnership and friendly relations," *Azertag Agency*, March 11, 2013, http://azertag.az/en/xeber/230983http://azertag.az/en/xeber/Azerbaijan_Croatia_sign_Zagreb_Declaration_on_strategic_partnership_and_friendly_relations-230983.

[37] "Azerbaijan and Serbia to start producing grenade launchers this year," *News.Az*, March 27, 2013, http://www.news.az/articles/politics/78216.

[38] "Soldier of the Future VB-10 – a project by Yugoimport SDPR," *Balkan Security Agenda*, http://www.balsec.org/blog/bsa-defence-industrial-group/soldier-of-the-future-vb-10-a-project-by-yugoimport-sdpr/.

[39] "Serbia invites Azerbaijan to participate in 'Future soldier' gear project," *APA Agency*, June 29, 2013, http://en.apa.az/xeber_serbia_invites_azerbaijan_to_participate_195544.html.

[40] "Azerbaijani submarines to be repaired in Croatia," *News.az*, August 1, 2014, http://news.az/articles/economy/90772.

[41] "SOCAR: Balkans were and will be priority for producers in Azerbaijan," *Trend Agency*, February 19, 2014, http://en.trend.az/business/energy/2243976.html.

[42] Interview with Michael Hoffman: TAP's role in European Energy Security, *Turkish Policy Quarterly*, Summer 2014, pp. 94–97, http://www.turkishpolicy.com/dosyalar/files/vol_13-no_2-hoffman.pdf.

[43] "Russian gas may be supplied to Europe via Azerbaijan's TANAP," *News.az*, December 2, 2014, http://www.news.az/articles/economy/93991.

[44] Robert M. Cutler, "Russia's 'Turkish Stream' Pipeline Idea: A New Energy Move against Europe?," *Eurasian Security*, January 14, 2015, http://www.eurasiansecurity.com/research-analysis/policy-analysis/turk-stream-russia-new-energy-move-against-europe/#The_Place_of_Ukraine_Azerbaijan_and_Iraq.

Azerbaijan's Relations With the Euro-Atlantic Zone and Its Balkan Connection

Janusz Bugajski

Introduction

Relations between Azerbaijan and the EU and NATO allies have passed through several phases since Azerbaijan gained its independence in 1991. During the last decade, more concrete ties have steadily developed in various domains, but they have also been marked by problems and setbacks. In particular, the EU's internal financial and economic crises and the geopolitical disengagement of the United States from the South Caucasus under the Obama administration's "reset" with Russia have negatively affected Azerbaijan's access to Europe and the US.

Nonetheless, a new era appears to be dawning and prospects for Baku developing mutually beneficial relations with Washington and Brussels look brighter for two core reasons. First, Azerbaijan can contribute to Europe's energy security with its substantial natural gas supplies and related economic investments, and through the entry point of the Balkan Peninsula. And second, the escalating confrontation between the West and Russia over the future of Ukraine and other post-Soviet states provides Azerbaijan with a more pivotal strategic position that can be highlighted to strengthen the country's

security, promote its independent development and link it closer with Europe.

In this strategic context, Southeastern Europe has become a significant gateway for practical cooperation between Azerbaijan and the US, NATO, and the EU. This chapter examines Baku's relations with the EU, NATO, and the US and the prospects for expanding and concretizing these ties not only as a result of Azerbaijan's contribution to European energy security but also as a consequence of the country's longer-term aspirations. In particular, the development of closer relations with the Southeastern European countries, including EU member states, NATO allies, and EU and NATO aspirants, will enable Azerbaijan to enhance its position vis-à-vis Brussels and Washington.

Evolving EU Relations

Azerbaijan's government has expressed its commitment to working with the EU to strengthen its economy and political structure and develop ties in various arenas. Azerbaijan's President, Ilham Aliyev, stated on April 24, 2004: "Azerbaijan's current strategic choice is integration in Europe, European family and institutions. We are strongly committed to this policy."[1] Aliyev's government sees the benefits to working with European partners and is actively engaged in welcoming European business and investment together with various forms of institutional assistance. Support for Azerbaijan's pro-Western and EU orientation is also visible among the political opposition. In June 2014, about 100 activists issued a declaration calling for the government to sign the EU Association Agreement.[2] Given this context, it is valuable to examine both the advances and setbacks in relations between Baku and Brussels.

Baku relations with the EU as a multi-national organization have steadily developed over the past decade since Azerbaijan joined the European Neighborhood Policy (ENP) in 2004. The ENP is the EU's foreign relations instrument that seeks to tie countries bordering

Union territory to the east and south of the EU.[3] The ENP's action plan for Azerbaijan was adopted on November 14, 2006, after being approved by the Azerbaijani government and the European Commission. The key items in the EU's ENP program have included investment in Azerbaijan's infrastructure, partial integration of the Azerbaijani economy with the EU and a partnership with Baku in extracting oil from the Azerbaijani controlled portion of the Caspian Sea. Specifically, Brussels developed a three-year assistance plan for Azerbaijan, titled the National Indicative Program (NIP), for which the EU allocated a budget of 92 million euros ($103 million[4]) over three years (2007–2010). The primary goals of the program were to develop more efficient government agencies and help Azerbaijan improve its internal infrastructure to promote foreign investment and business growth.

Launched in 2009, the EU's Eastern Partnership program was intended to enhance the ENP, as a joint initiative between the EU countries and Eastern European partner states. It was designed to enable partner countries that are interested in moving towards the EU to increase their political, economic, and cultural links with the Union. Brussels has put forward concrete ideas for each partner country to improve relations, particularly through Association Agreements negotiated bilaterally with several capitals. These are earmarked to replace the Partnership and Cooperation Agreements (PCA) concluded with the post-Soviet states during the 1990s, but criticized for being too tentative in forging tighter economic and political connections.

Negotiations are ongoing between Brussels and Baku to replace the PCA signed between the EU and Azerbaijan, in April 1996, with a closer Association Agreement (AA), offered to several countries of the former Soviet Union. Although no AA was initialed at the EU's Vilnius summit in November 2013, a Joint Declaration praised the progress in talks and stated that the EU was willing to negotiate a Deep and Comprehensive Free Trade Area (DCFTA) agreement with

Azerbaijan once it joined the World Trade Organization (WTO).

Baku has voiced dissatisfaction with the limited harmonization evident in the proposed AA and aimed to draft a partnership agreement with the EU that more adequately reflected the level of relations and cooperation with the Union. Azerbaijan's Deputy Foreign Minister Mahmud Mammadguliyev claimed that the Association Agreement neither met the interests of Azerbaijan nor of the EU, and he offered discussions on a "higher level" of partnership.[5] In addition, in November 2013, Baku took a step toward closer relations with Europe by initialing a visa facilitation agreement with the EU during the Vilnius summit.

In a speech delivered by President Ilham Aliyev at a summit marking the five-year program of the Eastern Partnership in Prague on April 29, 2014, he stated that strong cooperation between Azerbaijan and EU should be continued.[6] Azerbaijani officials also indicated that they would study the successful experience of Norway, which is not an EU member but is involved in the overall EU market through the European Economic Area (EEA). The EEA, established in 1994, allows Oslo to pursue free trade in goods and services, as well as the free movement of capital and labor resources.

Azerbaijani Foreign Minister Elmar Mammadyarov announced in July 2014 that Baku had signed agreements on simplifying visa requirements and re-admission with the EU. During a visit to Baku by Jose Manuel Barroso, then-President of the European Commission, a protocol was also signed on Azerbaijan's participation in EU programs in education, research, culture and science. Baku is also ready to work on a legally binding strategic document on future cooperation with the EU. Officials sought to expand trade in spheres other than energy by increasing the range of exports to the EU.[7]

The authorities and public in Azerbaijan perceive the future of the country to be connected with Europe, especially because the Russian

model of governance and economic development is not attractive for Azerbaijan, and Europe presents a large and promising market. Novruz Mammadov, the deputy head of the Azerbaijani Presidential Administration, stated that Baku is not thinking of joining the Eurasian Economic Union (EEU), which Russia, Kazakhstan, and Belarus established on 29 May 2014.[8] The EEU, successor to the Moscow-led Customs Union, began operating on January 1, 2015. Azerbaijani analysts point out that the country has little economic, financial, energy, transport or communications dependence on Russia or the other EEU members. As a result, Russia has limited opportunities to pressure Baku to join the EEU through economic instruments. Despite diplomatic enticements and political incentives from Moscow, Baku has declined to join the Eurasian Economic Union. Vafa Guluzade, the former state advisor on external policy, underscored that because the EEU and Russia's Customs Union are created to oppose the EU and NATO, Azerbaijan will not join them.[9]

An essential ingredient in developing EU-Azerbaijani relations has been the energy sphere, as Baku's role in the supply of fossil fuels contributes to energy diversification in Europe. This role will be boosted in the aftermath of Russia's aggression against Ukraine and the growing EU priority of diversifying its energy sources and supplies. Azerbaijan and the EU share a common energy agenda and both support the building of a pipeline to bring Azerbaijani natural gas to Europe. Such prospect will also help develop the Azerbaijani economy and its infrastructure.

Although Baku will remain careful not to alienate Moscow, it is now positioned to intensify energy projects with Europe through the Southern Gas Corridor. The SCG could be extended from the planned Balkan route, through Turkey, Greece, Albania and Italy, to France and Spain, thus increasing the supplies of Azeri gas. In this way, Baku is gradually becoming an important partner for the EU and for those Balkan countries that aspire to EU membership. In addition, Baku is interested in diversifying its business portfolio in the Balkans and

beyond through investments in a wide array of sectors, including infrastructure, transportation and services.

On the negative side, two questions have served to sour relations between Baku and Brussels. First, the Azerbaijani government is wary of criticism by EU governments and officials concerning the pace of democratic development in the country. And, second, the EU's inability to resolve the lingering conflict over Azerbaijan's territories occupied by Armenia since the collapse of the Soviet Union has undermined bilateral relations. Baku sees the EU as applying a double standard toward Armenia and Azerbaijan. In May 1994, a ceasefire between Armenian and Azerbaijani forces went into effect and led to the formation of the OSCE Minsk Group, which has monitored the ceasefire but failed to resolve the conflict. The ongoing status quo has enabled Armenia to retain possession of nearly 20 percent of Azerbaijani territory. Some Azerbaijani analysts have complained that while the EU and the US imposed political and economic sanctions against Russia for occupying Ukraine's Crimea in March 2014, the Armenian government has avoided having international sanctions imposed despite its prolonged occupation of Azerbaijan's territory, including the Karabakh region and seven other districts between Nagorno-Karabakh and the Armenian border.[10]

NATO Partner Relations

Relations between Azerbaijan and NATO have developed positively in several areas over the past two decades.[11] In 1994, Azerbaijan joined NATO's Partnership for Peace (PfP) program focused on practical bilateral cooperation between individual partner countries and the North Atlantic Alliance. PfP allowed partners to build up separate relationships with NATO by choosing their own priorities for cooperation.[12] In the case of Azerbaijan, this has included assistance in democratic, institutional, and defense reforms, and various forms of practical collaboration. Azerbaijan's Individual Partnership Action Plan (IPAP) lays out the program of cooperation with NATO for two-

year periods. Key areas include good governance and civilian control of the defense and security sector, defense planning and budgeting, and the reorganization of the armed forces structure using NATO standards.

Azerbaijan's Defense Ministry successfully implemented the first three stages of IPAP, which covered the years 2005–2007, 2008–2010 and 2011–2013.[13] The country's Military Doctrine was adopted in 2010 and a Strategy for Maritime Security was approved in 2013, in accordance with IPAP commitments. Baku has also prepared and submitted for approval to NATO a proposal for the fourth stage of the IPAP program, covering the years 2014–2015. In addition, Azerbaijan plans to increase the number of its officers serving at NATO headquarters in Brussels.

Another core objective of NATO's cooperation with Azerbaijan is to develop interoperability between the two armed forces so that Baku can assist in future NATO-led operations. Cooperation is ongoing in reorganizing military units in accordance with NATO standards and improving the command-and-control capabilities and logistics of each of Azerbaijan's armed services. Azerbaijan has also contributed directly to Euro-Atlantic security by supporting NATO-led operations in various regions. From 1999 to 2008, troops from Azerbaijan were part of the NATO-led peacekeeping operation in Kosovo (KFOR). Azerbaijan has also actively supported the International Security Assistance Force (ISAF) operation in Afghanistan since 2002, where it gradually increased its forces to about 95 personnel. An infantry company, de-mining units, medical assistants and staff officers served alongside NATO forces, under the Turkish contingent in Afghanistan.

Baku has declared a number of military units available for NATO's PfP activities, on a case-by-case basis. These include infantry components, combat support and combat service support units, and two medium transport helicopters. Azerbaijan's Internal Troops, in

cooperation with NATO, are also developing a police support unit to be made available for NATO-led operations.

Azerbaijan cooperates with NATO and other NATO Partner countries in a wide range of areas through PfP, the Planning and Review Process (PARP), and the Euro-Atlantic Partnership Council (EAPC). NATO assists Azerbaijan in developing selected units, so they are interoperable with those of the Allies, including a Peacekeeping Battalion potentially available for the full spectrum of NATO operations. Azerbaijan also aims to improve maritime security and its capabilities to reduce illegal activities such as smuggling in the Caspian Sea in cooperation with several NATO members and regional Partner countries. NATO member states also support efforts to improve Azerbaijan's border security.

Military drills have also been held with the presence of NATO observers. For instance, a drill took place in a training center outside Baku on May 7, 2014.[14] About 900 servicemen, 100 pieces of military hardware, and 4 helicopters were involved in the two-day drills codenamed "Qaraheybat 2014" at the Qaraheybat training center. Azerbaijan's Defense Minister Zakir Hasanov, NATO generals and military attaches from over 20 countries accredited in Azerbaijan visited the training center and observed the exercises.

Baku actively contributes to the campaign against international terrorism through its participation in NATO's Partnership Action Plan on Terrorism (PAP-T). This includes sharing intelligence and analysis with NATO and cooperating with the Allies on enhancing national counter-terrorist training capabilities and improving border and infrastructure security. Information exchange through NATO's terrorist threat intelligence unit is also being developed with plans to establish an international Anti-Terrorism Training Centre at the Academy of the Ministry of National Security in Baku. In cooperation with NATO and through its participation in activities organized by NATO's Euro-Atlantic Disaster Response Coordination Centre

(EADRCC), Azerbaijan is steadily developing its national civil emergency and disaster-management capabilities. According to Azerbaijan's Minister of Communications and High Technology, Ali Abbasov, a large-scale DATA center is also planned to be created in Azerbaijan in cooperation with NATO to protect data against cyber attacks.[15]

Reiterating Azerbaijan's National Security Doctrine from 2007, Karim Valiyev, Azerbaijani deputy defense minister, has stated that integration into NATO is a "strategic goal" for Baku although he offered no specific timetables.[16] Valiyev also claimed that the majority of Azerbaijani soldiers were studying at NATO schools and Baku wanted to develop its armed forces according to NATO standards. However, because the military is equipped with Russian armaments officers need to receive military education in Russian schools as well.

In the wake of Russia's attack on Ukraine in the spring and summer of 2014, NATO has been considering options for strengthening its troop presence throughout Central and Eastern Europe including the establishment of more permanent military bases. The Alliance also intends to expand cooperation with Azerbaijan, Moldova and Armenia to support its partners in the region, including more frequent joint exercises and the advanced training of military personnel.[17] NATO officials began to send signals to Baku after Moscow's aggression that they were attaching special significance to cooperation with Azerbaijan.[18] Assistant Secretary General for Emerging Security Challenges Ambassador Sorin Dukaru stated at a conference in Baku that Azerbaijan's cooperation with NATO is important in the light of the withdrawal of troops from Afghanistan in 2014. He added that NATO intends to expand cooperation with Azerbaijan in the areas of security, energy security, as well as terrorism and information technologies.

Azerbaijan has not voiced aspirations to join NATO as a full member, viewing such a step as unnecessarily provoking Russian government

retaliation. The Georgian case has provided a negative lesson for Baku: despite Tbilisi's qualifications and contributions to NATO missions, the Alliance has denied Georgia a membership path and left it vulnerable to a Russian attack and territorial occupation and partition. Ultimately, without membership, no country can benefit from NATO's security guarantees whatever the intensity of bilateral cooperation with the Alliance during peacetime.

Russia's assault on Ukraine in March 2014 and the annexation of Crimea sent shock waves through all post-Soviet states bordering the Russian Federation, as their territorial integrity was directly challenged by a large neighboring state. While Azerbaijan is unlikely to seek candidacy status for NATO entry in the immediate future, a resurgent Russia that no longer respects the sovereignty and territorial integrity of its neighbors could make NATO a more attractive destination for Azerbaijan. Baku will seek to enhance its security in order to maintain the country's independence while working to regain its occupied territories.

In the midst of the Russia-Ukraine crisis, the Kremlin appointed Dmitry Rogozin, Russia's deputy prime minister in charge of defense, as co-chair of the Russian-Azerbaijani Intergovernmental Commission. The move was a clear attempt to exert greater control over a neighboring country and send a warning to Baku and the West to curtail their cooperation. Azerbaijan is threatened by Russia from at least three sides: the presence of approximately 5,000 Russian troops at the military base of Gyumry in Armenia, a build-up of Russian forces in the captured Georgian provinces of Abkhazia and South Ossetia after the 2008 war, and Russia's substantial naval presence in the Caspian Sea. In addition, Moscow directly supports the Armenian occupation of Azerbaijani territories by supplying military equipment and other forms of assistance to Yerevan. Russia and Armenia signed a military agreement in August 2010 formally extending Moscow's military presence in Armenia until 2044 in

exchange for security guarantees and the provision of newer weapons to Armenia's military.

Unsurprisingly, Azerbaijan's government is actively seeking defense arrangements and even some security guarantees from NATO, pointing to the fact that its troops have served in the ISAF mission in Afghanistan and it has been a reliable partner of the North Atlantic Alliance. Sorin Ducaru, NATO's Assistant Secretary-General for emerging security challenges, claimed that Alliance relations with Azerbaijan had reached the level of a "strategic partnership."[19] Ducaru spoke at a conference in Baku marking the 20th anniversary of Azerbaijan's participation in NATO's Partnership for Peace program.

Developing US Relations

Despite the strategic importance of Azerbaijan and Georgia for regional security, energy supplies, and access to Central Asia, after the inauguration of the Obama administration in January 2009, the US, in effect, downgraded practical relations with the South Caucasus countries. Instead, it focused on repairing and developing America's ties with Russia in the forlorn hope that this would resolve any outstanding regional disputes, failing to understand that Moscow purposively maintains disputes in zones that it seeks to dominate. The geostrategic significance of the South Caucasus was neglected by Washington, although support was periodically voiced encouraging Azerbaijan as an energy supplier to Europe to help promote energy diversification. Azerbaijan's relations with Washington also experienced some tensions revolving around two issues: Azerbaijan's democratization and the status of territories occupied by Armenia.

The OSCE Office for Democratic Institutions and Human Rights (ODIHR) criticized the October 2013 presidential elections in Azerbaijan for falling short of international standards, and the US State Department echoed the ODIHR report.[20] In May 2014, Novruz Mammadov, the deputy head of Azerbaijan's Presidential

Administration, criticized US Ambassador Richard Morningstar for his interview with the Azerbaijani service of Radio Free Europe.[21] He described Morningstar's remarks on the possibility of a Ukrainian Maidan-type revolt in Baku as interference in Azerbaijan's internal affairs. The government in Baku views such statements as unwarranted attempts to destabilize the country at a time when it was under growing pressure from a resurgent Russia and its territories remained occupied by Armenia.

In July 2014, outgoing Ambassador Morningstar appeared to retract his previous statement by asserting that the US primarily wants to help Azerbaijan maintain stability and the most effective way to ensure this is by allowing for greater openness and freedom of expression.[22] He also stated that Washington will stand by Azerbaijan at a time when it is trying to protect its sovereignty, indicating that the White House understood the potential threats to Azerbaijan's independence.

Mammadov has also criticized Washington, as co-chair of the OSCE Minsk Group, for failing to resolve the dispute over Azerbaijani territories occupied by Armenia.[23] He complained that US officials might be favoring Yerevan by not clearly stating that the conflict needed to be resolved within the framework and principles of international law that recognizes the territorial integrity of independent states.

Azerbaijani Deputy Foreign Minister Araz Azimov said that the position of James Warlick, the US co-chair of the OSCE Minsk Group, left Azerbaijan with no choice but to ask for his replacement.[24] Azimov claimed that Warlick displayed an apparent pro-Armenian bias in favor of Karabakh separatism. Baku threatened to cease working with Warlick and to request that the OSCE nominate a credible replacement. As a result of Warlick's undiplomatic statements through social media that seemed to favor Armenia, Deputy Foreign Minister Azimov asserted that a crisis was developing within the Minsk Group, while security in the region could deteriorate. He also

implicitly questioned the practical value of the "strategic partnership" with the US.

At the core of Baku's dissatisfaction with the Western powers are the double standards that seem to be applied over the territories occupied by Armenia.[25] Russia's coercive annexation of Ukraine's Crimea in March 2014 provoked Western sanctions against Russian officials and businesses, whereas Yerevan's forceful occupation of Azerbaijan's territory has not resulted in similar measures against Armenia. Since Moscow's attack on Ukraine, President Barack Obama has been outspoken in asserting that the norms of international law must be upheld concerning Ukraine, but failed to apply the same principles to Azerbaijan. The government in Baku openly supports the territorial integrity of Ukraine and expects the same standards to apply to Azerbaijan. Officials in Baku argue that for twenty years members of the OSCE Minsk Group have failed to make any breakthrough in settling the territorial conflict, as the West does not voice a clear position on this matter. Baku also objected to the content of the proposed EU Association Agreement, which fails to mention the importance of Azerbaijan's territorial integrity.

The effect of criticisms of Azerbaijan's political system and the inability to resolve the dispute with Armenia over occupied Azerbaijani territories may convince Baku that it has to appease Russia. However, any extension of Moscow's influences in the region will undermine Western interests, threaten Europe's energy diversification, promote corrupt governance and increasingly isolate the South Caucasus and Central Asia from the West. In such a geostrategic context, US diplomatic statements that equalize Armenia and Azerbaijan in the dispute over occupied territories and its insufficient commitment to conflict resolution actually favor Russia's position. Moscow is intent on maintaining the dispute, playing off Baku and Yerevan in a policy of "divide and rule," and damaging Western interests in the broader Caspian region.

As Russia's intransigence and aggression toward Ukraine became more evident during the summer of 2014, the potential passage of a bill proposed by Robert Corker, the ranking Republican on the Senate foreign relations committee—the Russian Aggression Prevention Act of 2014—could presage a new US approach toward Russia and its neighbors.[26] The bill proposes "Major Non-NATO Ally" (MNNA) status for Georgia, Ukraine and Moldova and closer interaction by the US military with these three countries plus Azerbaijan. It calls for increasing military exercises and training and for bolstering NATO's security assistance. However, the bill has fallen short of Baku's expectations. Above all, Azerbaijan is seeking the removal of Section 907 of the Freedom Support Act, which has banned US government financial aid to Azerbaijan since 1992. Since 2001, the ban has been subject to an annually renewable presidential waiver. Baku also wants the repeal of the Jackson-Vanik amendment, which limits bilateral trade. Repealing both pieces of legislation would significantly boost bilateral ties between the US and Azerbaijan.

Southeastern European Dimensions

Relations between Azerbaijan and the countries of Southeastern Europe have only slowly developed over the past two decades. While ties with Bulgaria, Albania and Romania were established shortly after Azerbaijan gained independence from the Soviet Union and the Soviet bloc collapsed in 1991, relations with the post-Yugoslav countries were gradually established during the 1990s, as each of them moved toward statehood and international recognition following the collapse of Yugoslavia.

Bilateral political connections have been supplemented by growing economic links, especially in the energy sector. Azerbaijan's efforts to bring Caspian Basin gas to and through Southeastern Europe will diminish the region's dependence on Russian supplies and contribute to broader European energy diversification. Such moves also open more opportunities for closer relations with Brussels and

Washington. The Balkan countries, whether as members of the EU and NATO or as candidates and aspirants, can play a significant role for enhancing Baku's ties within the EU and the US.

Energy links and other economic investments with Azerbaijan will help stabilize and secure a region that has been prone to conflict and where several outstanding disputes over state legitimacy and territorial integrity persist. This will underscore Baku's constructive role as a regional stabilizer and a neutral player, in stark contrast to Russia's energy connections, which are widely viewed as a cover for gaining political influence and geostrategic advantage. Baku's economic policies will win support in both Brussels and Washington, as they will assist all countries in the region in qualifying for EU membership.

The US and the EU can also be involved to secure the new energy routes from the Caspian to Europe. In this initiative, the Balkans would be an essential region for enhanced protection. Cooperation with Azerbaijan in this vital security component will also serve to strengthen relations not only with the Balkan states benefiting from Azerbaijan's energy supplies and routes, it can also buttress Baku's relations with the EU and the US.

Construction of the Southern Gas Corridor, from Azerbaijan to Italy was launched in an official ceremony in Baku in September 2014 with the attendance of the presidents of Azerbaijan, Bulgaria and Georgia, the prime ministers of Greece and Montenegro, and the energy ministers of Turkey and Albania.[27] According to Bulgaria's President Rosen Plevneliev, finding alternative gas suppliers and routes has become a matter of national security for Europe; one of Europe's biggest vulnerabilities is its energy dependence.[28] During his working visit to Azerbaijan, President Plevneliev signed a joint statement with President Aliev highlighting the importance of the contract under which Azerbaijan will supply Bulgaria with up to 1 billion cubic meters of natural gas a year for a period of 25 years, starting in 2020.

They also explored prospects for the expansion of other forms of business and economic cooperation.

During a meeting in Baku in early September 2014, Azerbaijan's Foreign Minister Elmar Mammadyarov and Serbian Foreign Minister Ivica Dačić expressed support for each other's sovereignty and territorial integrity.[29] In terms of economic relations, Azerbaijan provided a 300-million-euro ($336 million) loan to Serbia for the construction of a motorway section from Ljig to Preljina and has encouraged the inter-governmental commission on bilateral economic cooperation to intensify its work. The two countries signed a declaration on friendly relations and strategic partnership in 2012; their trade in 2013 was only registered at 42 million euros, and both sides sought to boost their transactions. Dacic is seeking Azerbaijani capital in the privatization of Serbian companies and in capital investments in projects related to infrastructure, energy, agriculture, food production, chemical and pharmaceutical industries and information technology.[30]

In the longer term, a valuable model for the Balkan region in its relations with Azerbaijan could be the link between Baku and the Visegrad Four (V4) states in Central Europe.[31] Azerbaijan's Foreign Minister Elmar Mammadyarov spoke at the Visegrad Group Eastern Partnership meeting of foreign ministers in Budapest, Hungary, on April 29, 2014. He stated that trade turnover with the V4 countries totaled around $1 billion in 2013, and this trend was increasing. Both sides have diversified their trade portfolio by moving beyond the traditional energy sector to such fields as agriculture, construction, heavy industry and pharmaceuticals.

In the Western Balkans as in the South Caucasus, two factors need to be carefully watched: separatist aspirations and Moscow's involvement. The actions of local separatists following Russia's partition of Ukraine will depend on their own capabilities, the response of national governments and the engagement of outside

actors, especially the major Western institutions. The tepid Western reaction to Moscow's attack on Ukraine can encourage separatist yearnings in parts of both regions.

For instance, leaders of the Serb Republic entity in Bosnia-Herzegovina may calculate that they have less to fear from potential pressures from either Brussels or Washington in opting for secession. They may perceive Moscow as a potential patron that can dispense diplomatic and economic assistance as protection against Western sanctions. Moves toward Bosnia's partition could unleash a chain reaction of separatism in parts of the Western Balkans that could destabilize states such as Macedonia and Kosovo. This would serve Kremlin interests in embroiling the Western powers in conflict prevention and distracting their attention from its expansive policies in the South Caucasus and elsewhere.

Along Russia's southern flank, it is imperative that Washington pay attention to the security of the South Caucasus corridor through Georgia and Azerbaijan, which is crucial for energy supplies between the Caspian Basin and Europe. Baku is particularly worried about the security of its gas transportation through Georgia to Turkey, which is currently being expanded to become the Southern Gas Corridor. Without control over the South Caucasus corridor, Russia will find it harder to secure the Caspian Sea and the Balkans as its spheres of direct influence. Hence, Moscow's pressures are likely to intensify over the coming years.

Moreover, both the land and air corridor through Georgia and Azerbaijan has proved vital for the NATO war effort in Afghanistan. Obama's "reset" policy with Moscow had a negative impact in the region as relations between Washington and Baku and Tbilisi deteriorated while enabling greater scope for Russian pressure to distance the South Caucasus from the West. For instance, the Kremlin pressured Armenia not to sign the Association Agreement with the

EU in November 2013 and cajoled Yerevan to join the Customs Union with Russia, Belarus and Kazakhstan.

Moscow can intensify its pressures in the South Caucasus to undercut the region's Western connections. Both Baku and Tbilisi voiced dismay at the relatively tepid Western reaction to Russia's partition of Ukraine. Benefiting from its substantial military presence in Armenia, Moscow could restore conflict with Azerbaijan over the disputed territory of Karabakh. It can also sever Georgia territorially by creating a military corridor across the country to link Russia with Armenia. Such moves would have a lasting impact on the stability of governments in Azerbaijan and Georgia, and without Western support this could push these countries into an enforced Russian orbit. Such developments would also embroil Turkey in a conflict close to its borders especially if tensions between Armenia and Azerbaijan are heightened or the war over Nagorno-Karabakh and other occupied Azerbaijani territories reignites.

Conclusion

Moscow's offensive in the South Caucasus and its interference in the Balkans through energy contracts and support for local nationalisms could intensify regional conflicts and set back Europe's attempts to pursue energy diversity. Additionally, a more prominent Russian role in the South Caucasus would contribute to curtailing US and EU connections with Central Asia. If the struggle between Europe and Russia escalates, Baku's balancing act between West and East will become increasingly precarious. This may compel the Azerbaijani government to choose to ally itself explicitly either with the West or with Russia. Such a scenario would unsettle Azerbaijan's balanced foreign policy that avoids involvement in broader geopolitical rivalries.

Azerbaijan's intensified connections with Europe and the US will contribute to the country's security and independence. This will help

Baku in its resistance to being drawn into those Russia-centered organizations that envisage a long-term confrontation with the West. Conversely, Azerbaijan's growing involvement in the Balkan region can help to stabilize and develop Southeastern Europe and become a valuable and practical avenue for Baku's expanding relationship with the West.

NOTES

[1] "President of Azerbaijan: Priorities/Foreign Policy," in http://www.president.az/browse.php?sec_id=34, September 18, 2006.

[2] "Azeri Opposition Urges Authorities to Sign EU Association Agreement," Baku, *Turan,* June 23, 2014.

[3] For some details on the EU's European Neighborhood Policy see http://eeas.europa.eu/enp/index_en.htm.

[4] Currency conversions based on exchange rates as of March 1, 2015. Historic exchange rates available at http://www.oanda.com/currency/converter/.

[5] "Azerbaijan's proposal to raise level of partnership met no objection in EU," *ABC.az*, May 21, 2014, http://abc.az/eng/news/81179.html.

[6] "Azerbaijan May Use Norway's Experience in its Ties with EU – MP," *News.az*, April 26, 2014, http://www.news.az/articles/politics/88104.

[7] "Azeri foreign minister praises level of EU cooperation," Baku, *APA Online,* July 23, 2014.

[8] "Azerbaijan Not to Join Eurasian Economic Union - Senior Official," Baku, *APA Online*, May 30, 2014.

[9] "Azerbaijan Has No Intention of Joining Eurasian Economic Union Yet," Moscow, *Interfax*, June 23, 2014.

[10] Paul Goble, "The Armenian-Azerbaijani Ceasefire at 20," *Window on Eurasia -- New Series*, May 12, 2014.

[11] NATO website, http://www.nato.int/cps/en/natolive/topics_49111.htm.

[12] NATO website, http://www.nato.int/cps/en/natolive/topics_50349.htm.

[13] Sara Rajabova, "Azerbaijan to Expand Representation in NATO," *Azer News*, March 25, 2014.

[14] "Military Drills with NATO Generals in Attendance Held Outside Azeri Capital," Baku *ANS Television*, May 7, 2014.

[15] Nigar Orujova, "Azerbaijan to Set Up Large-scale DATA Center," *Azer News*, April 11, 2014.

[16] "Official Says Integration into NATO Azerbaijan's 'Strategic Goal'," *Haqqin.az*, July 18, 2014.

[17] *Turan Information Agency*, April 1, 2014.

[18] "NATO Official Says Ties with Azerbaijan to Develop," BBC Monitoring Trans Caucasus Unit, *BBC Worldwide Monitoring*, April 15, 2014.

[19] "NATO Official Praises Azerbaijan's Partnership In Alliance," *Radio Free Europe/Radio Liberty*, April 11, 2014, http://www.rferl.org/content/nato-azerbaijan-partnership-praised/25329822.html.

[20] US Department of State, Press Statement on Azerbaijan Presidential Election, October 10, 2013, http://www.state.gov/r/pa/prs/ps/2013/10/215283.htm.

[21] "Senior Official Slams US Envoy for 'Meddling' into Azerbaijan's Affairs," Baku, *1news.az,* May 17, 2014.

[22] "USA Wants to Help Azerbaijan Maintain Stability - Outgoing Envoy," Baku, *APA Online*, July 24, 2014.

[23] "Azeri Official Slams Envoy's Remarks on Karabakh, Accuses USA of Armenia Bias," Baku, *1news.az,* May 17, 2014.

[24] "Azeri Deputy Foreign Minister Says Baku Unhappy With US Mediator," Baku, *APA Online*, May 1, 2014.

[25] "Senior Azeri Official Bemoans International 'Double Standards," Baku, *1news.az*, April 29, 2014.

[26] Zaur Shirlyev, "Russian Aggression Prevention Act of 2014: Ramifications for the South Caucasus," *Eurasia Daily Monitor*, Vol. 11, Issue 142, August 4, 2014.

[27] "Construction of South Gas Corridor, including TAP, Gets Underway: Gjiknuri in Azerbaijan," *ATA*, Tirana, September 22, 2014.

[28] "Plevneliev: Southern Gas Corridor Will Boost Europe's Energy Security," Sofia, *Novinite.com,* September 20, 2014.

[29] "Serbia-Azerbaijan Relations 'Excellent': Belgrade," *B92 Online*, September 10, 2014.

[30] "Dacic: Invitation to Azerbaijan to Invest in Serbia," Belgrade, *Tanjug,* September 10, 2014.

[31] Sabina Ahmadova, "Azerbaijan Builds Relations with EU Based on Mutually Agreed Priorities," *Trend News Agency*, Baku, April 29, 2014, http://en.trend.az/news/politics/2268641.html.

Russia's New Greek Project: The Balkans in Russian Policy

Stephen Blank

Introduction

The Balkans have figured prominently in Russia's foreign policy as a target of Russian imperialism since Peter the Great and still do so today.[1] If anything, the region's importance for Moscow appears to be rising. Russia's invasion and annexation of Ukrainian territory have catapulted the Balkans into the center of the East-West struggle. Not only has this attack raised Balkan and Western threat perceptions concerning Russian activities in the Southeastern Europe, it has also stimulated the European Union, Germany and the United States to all take a much greater public interest in resolving Balkan issues and strengthening the security of the Balkan states.[2] Undoubtedly, this threat assessment is warranted. Apart from the evidence presented below, the invasion of Ukraine, according to Ukrainian sources, also involved military moves in the Balkans.

By seizing Crimea, attempting to capture Odesa, and starting a military build-up in the Black Sea, Russia is trying to establish control over the wider Black Sea region, which could threaten every Southeastern European state. The Balkans, where Russia has been extremely active in penetrating local economies, inciting or exploiting ethnic discord and internal political rivalries, and fostering political corruption, are especially vulnerable to Russian threats, given the fact

that Moscow evidently regards itself as not bound by any prior security agreements with anyone. As a result of the Ukraine crisis, Moscow has now brought the energy weapon into full play in regard to the Balkans, which are heavily dependent on Russian oil and gas exports.

The lack of alternative energy supplies and diversification options in a region with limited hydrocarbon reserves has forced Balkan consumers of Russian gas to pay a disproportionately high prices for this resource, a condition that would have been exacerbated if South Stream had materialized. Given the upheaval generated by Russian actions in Ukraine and the collapse of the original South Stream project, as well as the prospect for Azerbaijani gas to reach the region by 2019, one may expect more intense, political and economic struggles over Balkan energy routes in the future. It demonstrates how closely energy and geopolitics figure in Balkan politics. The struggles already seen developing over Russia's new Turkish Stream proposal to reroute the defunct South Stream project through Turkey to Europe already indicate the intensity of the clashes to come. The current struggle for the Balkans, now occurring through competitive energy projects and political models, ties into the larger East-West geo-economics and geopolitical rivalry, founded on control of energy supplies and routes from the Caspian through the Caucasus and Ukraine.

As analysts have observed, Russian energy policy in the Balkans is directly related to the competition for access, control and influence over the oil and gas business in the Caspian basin and Central Asia. For these two regions, the Balkans are the entry point for natural gas deliveries to the European markets and oil deliveries to sea ports, transporting oil further to the world market.[3]

Russia's Balkan Quests

As the war in eastern Ukraine was raging in 2014, Ukrainian sources reported that Moscow widened the airport in Tiraspol, the "capital" of Moldova's breakaway Transnistrian republic, so heavier forces could land there. It also stationed 2,000 Spetsnaz (special operations) forces in Transnistria and planned "humanitarian intervention" exercises to create and then exploit a pretext for entering Ukraine from this separatist enclave. Since the Ukrainian port city of Odesa is only 80 kilometers (50 miles) from Transnistria, that operation would have bisected Ukraine and captured the strategic city.[4] As Odesa is Ukraine's last remaining seaport, its seizure would fatally cripple Ukraine's military capabilities and give Russian forces a direct land bridge to the Balkans. These threats show the urgent need to station allied forces in the Black Sea and Southeastern Europe to thwart Russian efforts to capture Odesa and then menace the Balkans. These threats also comport with earlier Russian initiatives in the Balkans, e.g. its request to Serbia for a base at Nis, from which to conduct "humanitarian operations," and Russian interest in a naval base or berth at Bar in Montenegro.[5] Thus beyond Ukraine, Russia threatens all of Europe's East.

Since the annexation of Crimea, Moscow has also launched a huge buildup of all of its forces—land, sea and air—in the Black Sea, threatening the entire Balkan Peninsula. This modernization program and the war in Ukraine possess profoundly significant consequences and potential threats, especially given Russia's ambitions for European and Middle Eastern security. According to Adam Klus, a scholar at the University of Eastern Finland:

> Now that Moscow's military presence is no longer constrained by former legal agreements with the Ukrainian side, it can fully utilize the geostrategic potential of Crimea by implementing a broad spectrum of mutually reinforcing instruments. The Iskander surface-to-surface tactical ballistic

> missile (either in conventional or nuclear form–author), for example, with a 400-kilometer operational range, could cover the entire southern part of Ukraine—including important industrial cities like Odessa, Krivyi Rih, and Dniepropetrovsk, a large part of Moldova, the entire Romanian coastline and a significant part of the Turkish Black Sea coast. The surface-to-surface systems can be further complemented by long-range anti-aircraft and anti-ship missiles providing a full spectrum of capability to strike ground targets, interdict maritime traffic, and impose no-fly zones.[6]

If Moscow can add its new Rapid Reaction forces, which include its airborne and Special Operations Forces (SSO)—as an effective reserve force of the Commander-in-Chief to conduct not only classic operations, but also anti-terrorist, counterinsurgency forces—Russia would have a formidable strike force for the entire Black Sea zone.

Furthermore, by seizing Crimea and converting the Black Sea into a Russian lake, Moscow has reenacted its 18th century progression that made it a Balkan power and facilitated Catherine the Great's so-called "Greek" project to destroy the Ottoman Empire and add the Balkans to her domains. Consequently, today Russia can employ any of the diverse instruments at its disposal to threaten every Balkan state. Thus, its means of coercion in most cases do not need to rely on the military arm, however creatively deployed.

And as a result of the Ukraine crisis, Moscow has now brought the energy weapon into full play with regard to the Balkans. In December 2014, because the EU had blocked Bulgaria from moving forward on the South Stream gas pipeline and because the costs had ballooned to an unaffordable $40–50 billion, Moscow peremptorily and abruptly canceled the South Stream pipeline that was supposed to provide energy to Bulgaria, Hungary and Serbia. The shock of this decision, although Russian sources say it was not unplanned, was immense. Balkan governments were totally caught by surprise and forced to find

alternatives.[7] Moscow argued that it would build an alternative pipeline across the Black Sea and Anatolia and ship the planned 63 billion cubic meters (bcm) of gas per annum, which South Stream was supposed to provide to the Balkans, through Turkey.[8] Many economic and political obstacles stand in the way of Russia's projected plan. But as of the beginning of 2015, Moscow appears determined to realize this project in its new guise.

On January 14, 2015, Moscow unilaterally and abruptly cut off gas to Ukraine and six other Balkan countries—Bulgaria, Greece, Macedonia, Romania, Croatia and Turkey—that depend on those gas flows. The fresh gas shut off highlighted the country's continuing lack of strategic restraint and its willingness to use force to achieve its goals.[9] Moscow has many motives for making this move. First of all, it is attempting to force an easing, if not an end, to EU sanctions for invading Ukraine. Second, Russia is blackmailing Balkan and other European states into allowing it a free hand as well as major leverage on their economics and politics by threatening them with gas cutoffs—a long-standing Kremlin policy.[10] Third, Moscow wants to destroy any hope of Ukraine's self-rule and force it into eternal dependence on Russian gas by threatening to freeze it out, especially during the winter. Fourth, it aims to prevent European integration and enlargement through Association Agreements and Deep and Comprehensive Trade Area (DCFTA) agreements offered to the former Soviet republics as part of the EU's Eastern Partnership policy. Fifth, it wants to establish Turkish dependence on Russia as the dominant provider of gas to Turkey. In this connection, Moscow's December 2014 decision to terminate the South Stream project through the Balkans and reroute it through Turkey would, as Turkish analysts admit, generate an outcome where Turkey would depend on Russia for over 70 percent of its gas.[11] Moscow's sporadic interruptions of gas supply to Ukraine, Turkey and five other Balkan states underline the real dilemma that Turkey could face due to this excessive dependence on Russian gas.

Sixth, and equally crucially, by rerouting South Stream through Turkey, Russia is striking at Azerbaijan and, beyond it, at potential Central Asian exporters to Europe. The Southern Gas Corridor is currently embodied exclusively by the Azerbaijani-Turkish program to bring gas through the Trans-Anatolian Gas Pipeline (TANAP) to the Turkish-Greek border and thence to the Balkans through the Trans-Adriatic Pipeline (TAP) and regional interconnectors. If Turkey becomes excessively dependent on Russia, Moscow could exploit that dependency to place enormous pressure on Ankara to downgrade the TANAP-TAP line and block the Southern Gas Corridor's intentions to integrate Central Asian gas producers with European markets. The failure to realize the potential of the Southern Gas Corridor would marginalize Azerbaijan, restrict its access to key markets, curtail Baku's ability to move toward Europe, and entail the diminution of its sovereignty and influence. Since Azerbaijan has moved strongly in the last four years to become a genuine player in Balkan energy markets and forge strong commercial ties with European energy companies, Russia's recent gambits openly threaten vital Azerbaijani interests, including the Southern Gas Corridor.[12] Adding to the threat to Baku's vital interests are Russian moves in the Caucasus, most notably Moscow's new treaties with South Ossetia and Abkhazia that are leading to their direct incorporation into Russia, further violating Georgia's sovereignty.

Thus, both Moscow's use of force majeure in Ukraine and its coercive and forceful deployment of the energy weapon underscore the centrality of the Balkans to the East-West struggle and European security as a whole. Furthermore, they highlight that Balkan security is an inextricable part of the fabric of Eurasian security. In the historical perspective, this confirms the old point that major crises in European security invariably spill over into—if they do not originate in—the Balkans. Consequently, while experts may have underestimated the significance of the Balkans in contemporary international security agendas, that underestimation is entirely unwarranted. The most recent developments only continue Russia's

long-standing efforts since the Yugoslav wars in the 1990s to expand its influence across this region.

Therefore, for many reasons, Russia's invasion, occupation and annexation of Crimea should intensify the international spotlight on the Southeastern Europe. First, Russia's aggression and acts of war raise the prospect of another Russian move either against Moldova or to incorporate Transnistria into the Russian Federation. In the winter of 2013, Russia's Deputy Prime Minister Dmitry Rogozin demanded that Moldova not initial and sign an Association Agreement with the EU. When Chisinau refused to surrender to his threats, he said that he hoped the country would have a warm winter. It was a direct threat since Moldova is entirely dependent on Russian gas. Instead, Moldova initialed an Association Agreement with the EU at Vilnius in November 2013, despite Russian intimidations. Meanwhile, Transnistria not only called for incorporation into Russia, but also announced intentions to introduce Russian laws into the territory. As noted above, Putin's projected Novorossiya (New Russia) was an attempt to connect Russia physically with Transnistria, while Russia's military buildup in the Black Sea and quest for Balkan bases underscores its drive to project military power into Southeastern Europe.

Neither are Russian threats only military ones. Russia has periodically imposed sanctions, blockades, oil and gas shortages, and price hikes to force Moldova to renounce its European choice to no avail. President Putin even falsely told President Obama that Ukraine and Moldova were blockading the "Russian province of Transnistria," thereby indicating his belief that Transnistria is actually part of Russia and presumably of the "Novorossiya" (New Russia) that he tried to conjure as a result of the invasion of Ukraine. Finally, Russia's moves in 2014–15 regarding South Stream conform to a long-established pattern of waging bare-knuckled economic warfare against recalcitrant energy consumers.[13]

Moscow apparently fomented a referendum among a minority people, the Gagauz, a Christianized people of Turkic origin, in Moldova. The Gagauz voted to join Russia's Customs Union, thereby creating a precedent that Moscow could use for a future military intervention there. Russia also exploited the tensions between Transnistria and Moldova to block any solution of the problem before the parliamentary elections in November 2014. The Crimean crisis, meanwhile, has allowed Russian officials like Rogozin to warn again that if Moldova signs an agreement with the EU, this will complicate the Crimean situation. Moscow may desist from moving directly against Moldova for a while, but it has undoubtedly created a climate of alarm in Moldova and in neighboring Romania, which is now increasing its defense spending. Finally, Russia retains the power to, at any moment, initiate an operation against Moldova, similar to the one it mounted in Ukraine.[14] Given the tepid European and US responses to the crisis in Ukraine, Moldova has every reason to need and seek reassurances.

Furthermore, Putin and his subordinates have tirelessly and mendaciously reiterated the seeming Western precedent of NATO's Kosovo operation as justification for their activities in Georgia and Ukraine, even as they act to prevent a peaceful resolution between Serbia and Kosovo.[15] Therefore, one may expect a future stronger emphasis by Moscow on preventing a genuine Kosovar-Serb reconciliation and frustrating the progress made by the EU regarding that process since 2013.[16] This task might become even more urgent for Moscow as Serbia's effort to join the EU gains traction, since resolving this conflict is clearly a precondition for EU membership. That membership, which adds real substance to the progress of European integration in the Balkans, represents the greatest threat to Russia, short of the unlikely threat of outright invasion.

Third, President Vladimir Putin's actions and his speech to the Russian Duma on March 18, 2014, justifying the annexation of Crimea, and his remarks of April 17, 2014, claiming the right to send

the Russian army abroad to defend Russian "citizens," explicitly undermined the sovereignty of every post-Soviet state and former Soviet satellite. It showed conclusively that Russia respects neither their sovereignty nor their territorial integrity and is prepared to destroy both in the name of its great power interests.[17] Putin's subsequent justification of Crimea's annexation as a "restoration of historic justice" and his call for Russian self-determination, made in Crimea on May 9, 2014, reiterated this attack on the international order across Eurasia, not only the Balkans.[18]

Fourth, these actions confirm that Russia regards the sovereignty and integrity of its neighbors, despite solemn agreements to which it is a party, as being merely "a scrap of paper." Logically and in the context of other reports of Russian cheating, e.g. on the Intermediate-Range Nuclear Forces (INF) Treaty, this puts all agreements with Russia, including arms control accords, under a malevolent cloud.[19] Beyond that sobering conclusion, it is clear that the Balkan states, where Russia is extremely active in inciting or exploiting ethnic discord and internal political rivalries, are especially vulnerable on that basis. Russia has made clear that it regards itself as not bound by any prior security agreements with anyone. And, of course, these states are also extremely vulnerable to the Russian energy weapon.

Fifth, it is equally clear that unless the West, acting under American leadership and through institutions like the EU and NATO, resists Russia decisively, the gains of the last 25 years regarding European security will be lost and the region will return to the bipolar confrontation and Hobbesian struggle for power that was the primary cause of the Cold War. Such resistance does not mean using force preemptively. Rather, it requires displaying credible deterrence in tandem with all the instruments of power since the task is also fundamentally non-military. The need for such deterrence clearly applies as much to the Balkans and the Caucasus as it does to Ukraine, Poland and the Baltic States.

Sixth, Russia readily threatens the Balkan states with force if they incline toward the EU/NATO integration model. Thus, the director of the Russian Federation's Institute for Strategic Studies—allegedly "Putin's think tank"—Leonid Reshetnikov, not only stated that Russia opposes Montenegrin membership in NATO, but also added that, "It is absurd that Russian missiles will have to be turned toward Montenegro in case of need, but there it is."[20] This is a standard Russian intimidation tactic, regularly deployed against everyone in Eastern Europe from the Baltic to the Black Sea. In 2011, Russia's Ambassador to Serbia, Aleksandr Konuzin, said, "Serbia in NATO would be a threat to Russia."[21] Reshetnikov also argued against Montenegro's membership in the EU, claiming falsely that Russia's Eurasian integration program actually offers an alternative to many Balkan and East European states: Serbia, Greece, Montenegro, Bulgaria, Slovakia, the Baltic States, the Czech Republic, etc.[22] Similarly, Foreign Minister Sergei Lavrov, in a 2009 article argued that, "NATO and then the EU, too, must understand that they do not operate in a vacuum and that the field of their 'missionary' activities is not pagan territory."[23] Indeed, this religious metaphor is apt, for what is at stake is not only a contest over interests and power, but also a struggle over political and social values.

Sovereignty, Territorial Integrity and Russian Policy

The making of such threats cannot be disregarded as they (wrongly) were in the past. As Ukraine shows, Moscow disposes of multiple instruments of power and force that it can use when it deems necessary to create unstable and even failed states in countries that resist its imperial tendencies. Indeed, the incitement of such conflicts is a standard tactic and staple of Russian policy, and not only in the Balkans. Thus, Russian policy threatens not only Moldova, but also the Balkans as a whole, as well as all members of the Commonwealth of Independent States (CIS).

Speaking in 2012, President Vladimir Putin admitted that the war with Georgia in 2008 had been planned for two years with the conscious use of separatists to foment it. This should remind everyone that security throughout Eurasia cannot be taken for granted.[24] Putin's admission not only prefigured his Ukraine policy, but also highlights the fact that Russia still refuses to accept the finality of the territorial settlement that occurred in the wake of the Soviet disintegration. Perhaps even more importantly, there is abundant evidence that Russia does not believe in the genuine and full sovereignty of the countries of the post-Soviet space or Eastern Europe. The evidence in favor of this assertion is overwhelming and long-standing.[25]

Russia's revisionism, as related to these states' sovereignty and territorial integrity, is a fundamental attribute of the Putin system. Therefore, it should evoke much greater public concern from governments from Washington through Europe to Central Asia. As James Sherr has written,

> While Russia formally respects the sovereignty of its erstwhile republics, it also reserves the right to define the content of that sovereignty and their territorial integrity. Essentially Putin's Russia has revived the Tsarist and Soviet view that sovereignty is a contingent factor depending on power, culture and historical norms, not an absolute and unconditional principle of world politics.[26]

Not only does Crimea confirm this, it also confirms the equally important insights observed by Susan Stewart. She notes that,

> Russia is more than willing to tolerate instability and economic weakness in the neighboring countries, assuming they are accompanied by an increase in Russian influence. In fact, Russia consciously contributes to the rising instability and deterioration of the economic situation in some, if not all, of these countries.[27]

But even without public displays of this card in the former Soviet Union, the laws allowing for Russian imperial adventures abroad carry a lethal charge. The Russian Duma has enacted legislation making it easy for foreign nationals to become Russian citizens or for Russia to invade neighboring states' territories.[28] In fact, a law permitting invasion of these states to defend the "honor and dignity" of Russians has already been on the books since 2009.[29]

One year after Russia's invasion of Georgia, President Dmitry Medvedev urged the Duma to pass a new law amending the previous Defense Law, which subsequently was adopted and signed into law by the president. The October 2009 amendments specified four legal grounds on which Russian Armed Forces may be deployed abroad "with a view to protecting the interests of the Russian Federation and its citizens and maintaining international peace and security." The four cases are the following:

1. To repel an armed attack on Russian Federation Armed Forces formations, other troops or organs deployed beyond the territorial boundaries of the Russian Federation;

2. To repel or prevent an armed attack on another State which makes a corresponding request to the Russian Federation;

3. To protect Russian Federation citizens beyond the territorial boundaries of the Russian Federation from armed attack;

4. To combat piracy and ensure the security of shipping.[30]

A subsequent decree adopted by the Federation Council in December 2009 empowered the President of the Russian Federation "to take decisions on the operational deployment of the Russian Armed Forces

beyond the territorial boundaries of the Russian Federation."[31]

The law provides a "legal" basis for the offensive projection of Russian military force beyond Russia's borders and thus attempts to justify the war of 2008 and any subsequent attack against Georgia in response to alleged attacks on "the Russian citizens" of the supposedly independent states of Abkhazia and South Ossetia. It also provides a basis for justifying the offensive use of Russian force against every state from the Baltic to Central Asia on the selfsame basis of supposedly defending the "honor and dignity" of Russian citizens and culture from discrimination and attack. Medvedev's instruction to the Duma indicated his awareness, even if it remained implicit, that the war with Georgia was illegal under Russian law at the time. This should not be surprising. After all, in the wake of the Russo-Georgian war, Medvedev announced that he would henceforth base his foreign policy on five principles. Among them are principles that give Russia a license for intervening in other states, where the Russian minority's "interests and dignity" are allegedly at risk. Medvedev also asserted that Russia has privileged interests with countries that he would not define, revealing that Russia not only wants to revise borders or intervene in other countries, it also demands a sphere of influence in Eurasia as a whole.[32] Here again legal nihilism is directly linked to the threat of politicized military action abroad on the flimsiest of bases.

In many respects, the language of this new law contradicts international law and the UN's language pertaining to relevant situations. As one Russian source told Kommersant, the president has received what amounts to "general power of attorney independently to decide issues of the Russian military's participation in operations outside Russia."[33]

Beyond that, due to its vague and ambiguous wording, the new Russian legislation has radically expanded the range of circumstances under which Moscow considers it legitimate to deploy troops abroad,

as well as the list of states in which Russia may station armed forces in accordance with the law.[34]

Second, the clause concerning the protection of Russian citizens in foreign states grants Moscow the right of unilateral military intrusion into any country where Russian citizens reside on a permanent or temporary basis, under a wide set of arbitrarily construed circumstances. It does not specify precisely what "an armed attack" constitutes, how many Russian citizens need to be under attack to justify Russian intervention, whether such an attack would be carried out by armed forces or law enforcement agencies of a foreign state or by non-state armed groups, and whether the Russian government has to obtain an official sanction to act in a foreign territory from the UN Security Council or from the authorities of the particular state where Russian citizens are under attack. [35]

Third, this law radically alters the security situation in the CIS because it gives Russia a "legal" platform for justifying its unilateral intervention into any of the other members' territory. Such interventions are not provided for in the founding documents of existing treaty organizations in the CIS and thus undermine their validity and, with it, the protection of those other states' sovereignty and integrity. As Yuri Fedorov writes,

> Russia's self-proclaimed right to defend its troops against armed attacks affects Moscow's relations with Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, all of which are parties to the Collective Security Treaty Organization (CSTO) and, with the exception of Belarus, the Shanghai Cooperation Organization (SCO), and which also have bilateral arrangements on military assistance with Russia. Russian troops and military facilities are deployed in all of these states, with the exception of Uzbekistan. Neither the Collective Security Treaty, nor any bilateral arrangements imply Russia's right to make unilateral decisions about the

> form, scope and the very fact of employing its forces in the aforementioned states. All of these issues were to be decided either by all parties to the CSTO collectively, or by parties to the corresponding bilateral treaty. Decisions on counter-terrorist activities in the framework of the SCO are made by consensus. The new Russian legislation did not cancel out the multilateral or bilateral decision-making procedures yet it devalued those procedures in a sense. If Russian troops deployed in some of these countries are involved in international or internal conflicts, which is quite possible, Moscow will have a pretext for using them and duly deploying additional units in a unilateral manner. The right to defend Russian troops on foreign soil is of particular importance for Russia's relations with Ukraine and Moldova. The Ukrainian government has demanded the withdrawal of the Russian naval base after 2017, while Moldova insists on the immediate departure of Russian troops from Transdniestria. In turn, Moscow has set its sights on stationing its troops there indefinitely. In such a context, skirmishes of any degree of gravity involving Russian servicemen in these countries may furnish Moscow with a pretext for military intervention.[36]

Fourth, this law directly contradicts the language of the draft treaty on European security submitted by Medvedev to European governments on November 29, 2009.[37] While that draft treaty preaches multilateralism, the new law shows that "Moscow favors a unilateral approach towards security issues and wants a free hand if and when conflict situations arise."[38] Fifth, Medvedev here freed himself and all of his successors from any constraint of consultation with legislative bodies over this decision. When the law was passed in October 2009, he had to agree to a proviso in the law that he had to consult with the Federation Council on the question of dispatching troops abroad in these circumstances. But by December, he was demanding unfettered power to make this decision unilaterally. In other words, a Russian president may send troops abroad for the vaguest of pretexts without

any accountability whatsoever; legal nihilism only begins to describe this situation.[39] Or, as Russian defense and security expert Pavel Felgenhauer observes, this law represents a constitutional coup.[40] Thus, the Duma decision granting Putin the right to invade Ukraine was not even necessary.

Finally and sixth, this law may also shed some light on Moscow's thinking about future power projection scenarios beyond Russia's borders, as witnessed in Ukraine with the annexation of Crimea just four years after the law came into effect. According to Fedorov,

> Another scenario presupposes the engineering of ethnic clashes in Estonia and/or Latvia, which may be exploited by Moscow as a pretext for military intervention, or at least for the threat of such intervention. Widespread rioting and looting in Tallinn in April 2007, provoked by the decision to relocate the Soviet Army monument, yet fuelled and orchestrated by Russian agents, confirmed that Moscow has enough instruments at its disposal to destabilize the situation in large cities in Latvia and Estonia with a substantial proportion of ethnic Russians.[41]

East-West Geopolitical Rivalry

European and Russian analysts underscore the fact that the geopolitical rivalry over the former Soviet empire in Europe, including the Balkans, remains at the core of the European security agenda and underscores the rivalry between two competing socio-political systems. As European political expert Sabine Fischer observes,

> Ukraine's foreign policy orientation does not only involve a choice between different partners for political and economic cooperation. It is a strategic decision between two models of development, and as such essentially a decision on the

> identity and future of the country. It forms part of Ukraine's state and nation-building processes, and its outcome will have a decisive impact on the future of the region, and Europe in general.[42]

Russian analysts like Dmitry Furman also acknowledged that "The Russia-West struggle in the CIS is a struggle between two irreconcilable systems."[43] Furman even conceded the link to the old regime, saying, "Managed democracies are actually a soft variant of the Soviet system."[44] Similarly, Tesmur Basilia, Special Assistant to former Georgian President Edvard Shevardnadze for economic issues, wrote that in many CIS countries, e.g. Georgia and Ukraine, "the acute issue of choosing between alignment with Russia and the West is associated with the choice between two models of social development."[45] Oxford professor of European politics Jan Zielonka argues that the EU and Russia represent rival empires with opposed systems of internal governance that contend for influence in adjoining peripheries like the Balkans. The ensuing struggle between these two empires also entails rivalry over models of internal governance with Russia being the challenger to the Western imposed settlement of the 1990s.[46] Zielonka argues that,

> The EU's imperial policies are even more pronounced in the Balkans, even if most of the Balkan states are not yet considered as suitable candidates for EU membership. Kosovo and Bosnia-Herzegovina are de facto semi-protectorates governed by European officials under the formal auspices of the United Nations. European institutions and EU members are by far the largest donors to these countries. They have their peacekeepers and police forces on the ground there. Most of the laws and institutions in these countries are being set up and run under EU supervision. EU officials frequently intervene in detailed economic and fiscal provisions.[47]

Consequently, in the Balkans, a Russian or Russifying project competes against an EU one. Washington, meanwhile, has shown little interest in the Balkans during the Obama administration, in keeping with its generally diminished interest in Eastern European politics, though it does support EU initiatives.[48] In the early 2000s, European analysts postulated a developing alternative Russian model in the so-called near abroad, which they called Russification and which opposed the liberal values inherent in the EU and Westernization project.[49] Although they were discussing Transnistria and Abkhazia then, the metaphor and the process apply as well throughout the Balkans. By Russification they meant not only the integration of targeted areas' domestic structures with those of the Russian Federation, but also a process aiming to stall if not reverse the movement toward democratic governance, the genuine self-determination of the people as an active political subject, and the rule of law. Mature Putinism, the contemporary crystallized version of this model, is an authoritarian, wholly corrupt, if not criminalized regime driven by informal deals and understandings among elites that disdains checks and balances and is increasingly willing to use repressive force to retain power. Thus, these experts already saw in 2003 the rivalry between East and West as leading to a stalemate that has now fully crystallized.[50]

Apart from the readiness to exploit ethnic or other cleavages throughout the former Soviet Union, Moscow also continues to exploit unresolved ethnic tensions in the Balkans as a matter of high policy. Indeed, the West's failure to advance European integration or to foster conflict resolution in the Caucasus aggravates the European crisis and gives Russia much greater opportunities for advancing its agenda. Moscow's view ostensibly is a Europe without dividing lines, but this essentially means leaving Russia as an unconstrained integrator of the CIS against many of its states' will, and an unchecked factor supporting disintegration, or at least preserving trends toward disaggregation, in all of Southeastern Europe. Essentially, Russia's position is one of favoring regional bipolarity and maintaining the

state of siege in world politics that Vladimir Lenin introduced in 1917. This is because bipolarity and simmering or so-called frozen conflicts are a precondition for the continuation in power of this regime, whether they occur in Bosnia or the Caucasus. A 2006 assessment of Russian policy toward the frozen conflicts in the South Caucasus, published by the Netherlands Institute of International Relations, highlights the problem and epitomizes its general approach to these conflicts, including Balkan ones.

> Russia, however, has been gradually forced to retreat from this region. In countering this, one of Russia's tactics is slowing down Western advance by keeping the so-called 'frozen conflicts' intact. If this is indeed the case, disputes—harmful to the economic development of the South Caucasus—are likely to continue until the time that (some of) these countries are consolidated into Western structures.[51]

It, therefore, follows that the best strategy toward conflict resolution in the Caucasus and the Balkans is steady progress toward genuine European integration. In the larger Balkan context, the London-based Centre for European Reform found that Russia not only sought to undermine efforts to build a viable Bosnia-Herzegovina, but its overall behavior in the Balkans was generally "fundamentally opportunistic" and had as its goal "to weaken the authority" of NATO, the EU and the US. The Balkans duly served as "a convenient platform for this broader goal."[52] Moscow also utilizes every opportunity to keep Kosovo in a state of Serbian non-recognition of its "finality." Moscow's larger geopolitical prospect is to forestall and prevent the integration of Europe and regions such as the Western Balkans into a single democratic model.[53] It regards such trends as a mortal geostrategic and political blow to the modus operandi of mature Putinism, as well as to its geopolitical ambitions of restoring some form of neo-imperial authority in the former Soviet Union and Eastern Europe.

Although Russian officials piously deny that Russia interferes in Bosnia-Herzegovina's internal affairs—after all the EU is doing so, too—they also deny that they are attempting to blackmail politicians there or seek to block NATO through its ties with Bosnian Serb leaders in Republika Srpska (RS), one of the two entities comprising Bosnia- Herzegovina. But they do not deny Moscow's interest in opening the entire territory of Bosnia-Herzegovina to Russian investment.[54] Similarly, they rebuff, despite Moscow's visible interest in the RS, that they are undermining the sovereignty of Bosnia-Herzegovina, even though Moscow recognizes the sovereignty of the Bosnian Serb entity. Indeed, Russian Ambassador to Bosnia-Herzegovina claims that there can be no possibility of a strong and efficient Bosnia-Herzegovina state without the recognition of entities like the RS, even though, in practice, the recognition of entities like the RS undermines Bosnia-Herzegovina.[55] Moscow also sees opportunities to safeguard the RS either as part of a divided Bosnia-Herzegovina or of a future wider Serbian territory—another sign of its opposition to the post-Dayton and post-Kosovo status quo.[56] In this context, Moscow sees in the RS a strong protector of its revisionist policies and opponent of further Euro-Atlantic integration, even though the government of Bosnia-Herzegovina has opted for that alternative. The Bosnian Serb leader Milorad Dodik firmly opposes NATO membership for Bosnia-Herzegovina as well as Euro-Atlantic integration in general.[57] Indeed, he publicly stated that he would block Bosnia-Herzegovina's entry into NATO, unless Serbia approves; and he knows full well Serbia will not do so, unless he approves—thus, Dodik becomes the key player in this intricate minuet.[58]

As it conducts this "dialectical" policy, Russia seeks to close down the EU's Office of the High Representative to Bosnia-Herzegovina (OHR), revoke its "special powers" that allow the OHR to govern in a very strong manner and transform it into an office of a special EU representative—all this allegedly on the grounds that Bosnia's citizens can govern themselves without foreign interference. This, of course, would allow Dodik and the Bosnian Serbs to block any progress

whatsoever either toward democratization or Euro-Atlantic integration in Bosnia-Herzegovina. Shutting down this office, along with the Hague Tribunal as part of this process, would also terminate all investigations into war crimes during the 1990s. Ethnically rivalrous judicial institutions will hardly bring, let alone try, such cases in the future.[59] This kind of politics exemplifies how Moscow plays the nationalist card and its endlessly supple and totally opportunistic policies on questions of sovereignty and territorial integrity in Eastern Europe.[60]

We see similar Russian policies concerning the legal status of Kosovo. Russia's position on Kosovo has been to obstruct consistently Western efforts to resolve the hostility between Serbia and its former province.[61] In mid-2011, Moscow openly attacked the concept of a "greater Albania" as being opposed to the interests of the international community in strengthening security in the Balkans, making this statement at both its embassy in Serbia (which opposes the idea due to its implications for the former Serb-controlled province of Kosovo) and Albania. Strangely, Moscow acted thusly despite there being no Albanian statement or action to provoke that riposte. Possibly, Moscow thereby intended to warn Serbia about supporting the idea, launched by Serbian President Boris Tadic in his talks with Albania, for a dialog with Tirana in resolving the Kosovo issue. Albanian papers reported that Moscow was concerned not because a greater Albania with some unspecified dimensions might emerge out of part of Kosovo, but rather because Serbia sought a way out of its own dead end on the Kosovo issue.[62]

This commentary observed that Moscow opposes any effort to resolve the Kosovo issue, not for reasons of principle, but rather because Moscow wants to perpetuate a state of conflict in the Balkans between Serbia and Kosovo that will prevent consolidation of a stable new Balkan order, based on peaceful relations among all components of former Yugoslavia. Moscow also seeks to play a Balkan card against NATO and the EU by blocking conflict resolution. And Moscow's

third and possibly greatest concern is that Serbia, unencumbered by the Kosovo question, might then follow the path of democracy and full integration into the Euro-Atlantic zone.[63] Consequently, as Albanian journalist Shabhan Murati writes,

> Russian diplomacy is raising all sorts of obstacles to every step of Serbia's real or virtual advance toward European or Atlantic integration. During Prime Minister Putin's Belgrade visit on 23 March this year (2011), Serbia was formally and publicly threatened that, if it joined NATO and allowed an Atlantic anti-missile system to be stationed on its territory, Russia would then train its nuclear missiles on Serbian territory. This clear threat from Russia towards its only strategic ally in the Balkans gives the measure of Moscow's concern and its attempts to impede any alternative of Serbia going toward Atlantic integration. Russia has been trying to tie Serbia to it by all sorts of agreements and enticements, ranging from power projects to the offer of military accords or a treaty of friendship and cooperation. These efforts have been stepped up recently and have assumed such expressions as to make some consider Russia's policy toward Serbia as "colonialist and degrading" according to a definition by the former Deputy Prime Minister of Serbia and the Chairman of the Liberal Party, Cedomir Jovanovic.[64]

This policy apparently caught Albania in its vise, because a pro-Western Albania, though not nearly as important as a similarly inclined Serbia, is nonetheless a negative for Russia as that too would foster democratization and Euro-Atlantic integration. At the same time, this intimidation tactic of "be my friend or else I'll blow you up" illustrates the general pattern of Russian (inherited Soviet if not Tsarist) behavior seen in Konuzin's and Reshetnikov's statements. This recurrent posture also epitomizes the Mafia-like element of Russian diplomacy, which stands clearly exposed as a crude version of the classic protection racket. This episode also shows that, in large

measure, Russo-Albanian relations are hostage to the twists and turns of Moscow's relations with Serbia on all matters having to do with the unresolved Kosovo situation.

As significant governance problems that obstruct integration still exist across the region, integration cannot be a panacea, but must accompany steps toward conflict resolution. Indeed, only through democratic integration can those lingering conflicts be resolved or overcome, as it is likely that the ethnic animosities, which exploded in the 1990s have not fully subsided.[65] There is also no doubt that the severity of the economic crisis has diminished the EU's standing and prestige throughout the Balkans, triggering serious doubts among local governments about the advisability of joining the EU or further democratic integration along the EU's normative path, even though many of them are in the middle of that process. Indeed, a disintegrating EU, which is now a real possibility, would not export its institutional values to the Western Balkans but rather its instability.[66] And Russia clearly exploits this opportunity due to the EU's failure to master its current crisis.

Energy

A seventh reason for concern pertains to Russia's energy policies. Russia's continuing energy threats against Ukraine and Europe demonstrate just how ruthlessly Moscow is prepared to use its gas supplies to Europe to advance its aims and how the importation of Russian gas into Europe has undermined Western solidarity. As former Polish Prime Minister and now EU President Donald Tusk has observed, dependence on Russian energy threatens European sovereignty.[67] We have long known how Russia uses the threat of boycotts, shutoffs, etc. to punish other countries and this crisis has or should refocus our attention on blocking the further politicization of gas.[68]

As if to confirm this point, Paolo Scaroni, Chief Executive of the Italian firm ENI warned that if tensions with Russia or sanctions cut off oil and gas supplies through Ukraine, Italy would experience disrupted supplies and face higher prices for gas next winter. Since ENI was a major investor in the Russian South Stream project, this was hardly disinterested advice. Confirming Italy's self-induced perception of dependence he said, "if we don't have Russian gas in the winter we are in trouble, but Russia is not in trouble if they get our money the day after."[69] Tusk's and Scaroni's observations show that the academic discussion about interdependence is misconceived in the real world. Despite all the talk of Russian dependence upon the European market, big market players are afraid to use that dependence to Europe's advantage. Though both sides may be relatively equally dependent on each other, as many observers have noted, Russia's dependence on the European market for its revenues, the perception of dependence and the willingness to put it at risk are crucial factors here. If one actor does not perceive or is willing to place at risk its dependence on the other, while the other perceives itself to be too dependent on the other side to run such risks, there is no interdependence. Instead, there is an asymmetry driven by will in Russia-Europe energy relations; and Russia has, so far, prevailed.

Energy exports, particularly of natural gas, are Russia's principal foreign policy instrument. Russia uses energy exports as a multi-purpose security tool, much like a Swiss Army knife that cuts in all directions.[70] Moscow seeks to control pipelines from Eurasia to Russia and then Europe and thus set the price of gas to its clients.[71] It then tries to tie Balkan and other states into long-term contracts that restrict these states' ability to buy gas freely at real market prices. The "take or pay" clauses are vital to the overall Russian enterprise. The control of the pipelines and thus of prices in the Balkans and CIS allows Moscow to behave as a monopolist and tell gas suppliers in the CIS and Balkan consumers "accept our prices, or you freeze."[72] Russia can also offer to reduce gas prices, provided that the targeted state rejects the EU's Second and Third Energy Packages, renounces

integration with the EU and does not switch suppliers. Thus, it offers subsidies to exclude political as well as economic competitors.

Using the revenues acquired from gas and oil sales abroad, Russia has also eagerly sought to buy up downstream assets in Europe to gain control over gas distribution networks and other "commanding heights" of European economies. Some examples are oil companies and industries in other key sectors that are in the process of privatization, thereby transmuting economic clout into lasting political leverage over local governments to corrupt public institutions and political leaders in these countries.[73] Thus, one may observe a conscious policy of state support for efforts to monopolize gas flows, in particular into the Balkans, acquiring downstream assets there and in the rest of Europe, and then branching out into other industries to aquire economic-political influence over these states.[74] In the Balkans, Gazprom and its oil subsidiary Gazpromneft are busy looking to set up Balkan subsidiaries.[75]

Russian energy policy is a particularly salient problem in the Balkans, since no region of Europe or Asia is as dependent on Russian gas as is Southeastern Europe. As a result, the Balkans have become the area in Europe where present and future energy battles were already shaping up before the Ukrainian crisis of 2013–14. Once Azerbaijan and Turkey announced that their projected Trans-Anatolian Gas Pipeline would link up with the Trans-Adriatic Pipeline in 2013, the scene was set for continuing rivalry over gas between Moscow and Baku. Even though Baku may have opted for the TAP line rather than Nabucco—in part to sidestep a direct confrontation with Russia and Gazprom—both governments were already competing for influence over Greece's distribution network, through the battle to control the Greek National Natural Gas System Operator (DESFA), which Azerbaijan ultimately won.[76] Given the new salience of European energy dependence on Russia as a source of weakness, it is to be expected that pipeline routes through the Balkans, namely the TAP and South Stream (or any new modifications of it), would receive even greater and more intense

scrutiny. Indeed, the EU stopped support for South Stream in its original incarnation precisely because it violated EU regulations and laws.[77]

SOCAR, Azerbaijan's state energy company, has bought into Greece's Public Gas Corporation (DEPA)—part of which is DESFA, now acquired by Baku—a move that checks Russia, enhances Azerbaijani influence in the Balkans and gives it access to the Italy-Turkey-Greece Interconnector (ITGI). While the ITGI is no longer in the running for the projected European Balkan pipeline, it is easy to see that Azerbaijan's presence there would enhance its ability to supply Greece and Italy with gas from TANAP or other, future alternatives.[78] Azerbaijan has also invested $10 billion in Turkey's Petkim petrochemical complex over ten years that will go from a 25- to a 40-percent share.[79] And beyond that investment, Azerbaijan is reportedly planning to invest $17 billion in Turkey to build an oil refinery, hydro-energy power plant and a shipping container terminal.[80] Under the circumstances, it is hardly surprising that Azerbaijan's President Ilham Aliyev openly voiced his ambition for Azerbaijan to become a leading gas supplier to Europe for at least a century, especially since many EU countries are thinking of shunning nuclear power as an energy source. As he said, Azerbaijan's connection to the Black Sea and Mediterranean countries can give it access to Europe's gas markets.[81]

At the 2014 Davos World Economic Conference, Aliyev outlined the future course of Azerbaijan's projects. Phase II of the development of the Shah Deniz field is underway, along with the three pipelines connecting it with EU members. Now that investment decisions have been made, construction can begin on all three pipelines that together comprise the Southern Gas Corridor. These three pipelines are the South Caucasus pipeline connecting Azerbaijan to Georgia, the TANAP and the TAP. Total costs are preliminarily estimated at $45 billion, considerably cheaper than South Stream, which would have undoubtedly gone still higher, and probably cheaper than Turkish

Stream will be—if it is built.[82] Since Azerbaijan's State Oil Company, SOCAR, is a shareholder in each of these four consortiums of production and transportation, it is now a major player across the entire Southern Gas Corridor. SOCAR plans to enter Southeastern European markets and the Greece-Bulgaria Interconnector that is now under construction through DESFA, which it owns. SOCAR will also enhance TAP by gasifying Albania either through TAP or DESFA.

Baku envisages a future capacity for TANAP of over 30 bcm/year to accommodate its own gas and the transit of third-party supplies, thus linking together European and Azerbaijani interests. Moreover, since the EU never actually mobilized the requisite financial, economic and political resources to build any variant of the projected Nabucco pipeline, it is solely the construction of the TANAP-TAP that has opened up for the first time the direct possibility of tying together Caspian suppliers with European consumers.[83] And Baku has done this without directly challenging Russia and South Stream. Opting for the Nabucco-West route instead of the TAP would have been extremely dangerous for Baku in the absence of guaranteed political cover by the West. Furthermore, to expand gas exports to Europe, Azerbaijan has invited Iraq to ship gas through its TANAP pipeline to Europe, an offer that Iraq apparently welcomed.[84] And if Iraq can also export gas through Turkey to Europe after 2016, as it appears to expect, that gas could also go through Turkey to the TAP or through interconnectors to other Balkan destinations.[85]

Another factor that will undoubtedly enhance the struggle for the Balkans through the medium of energy grows out of Moscow's actions in Ukraine. The Ukrainian crisis has also led to economic measures such as the cessation of EU cooperation with Russia on the construction of the South Stream project (or its potential replacement). South Stream was Russia's critical gas project for supplying southern Europe with gas that would bypass Ukraine and had the political purpose of punishing Kyiv.[86] Since South Stream (or

its potential substitute Turkish Stream) is intended to supply 63 bcm of gas annually and remove the current 31 bcm that goes through Ukraine to Europe as part of that figure, Russia would have had to come up with the additional volumes of 32 bcm to ship to Crimea or southern Russia and thence through the Black Sea to Europe. And it remained something of a mystery where that gas would come from and whether the distances it has to travel to reach the starting point on the Black Sea shore would add so much to the already exploding cost of the project as to render it uneconomical. This is the case even though Russia has been building interconnectors from Siberia and the Arctic to bring gas to the Black Sea coast, from where it was supposed to be shipped via South Stream. The advent of Turkish Stream to replace South Stream does not change this math.

Beyond that, the crisis over Ukraine ensured that the European Union would not give South Stream the many legal authorities it needed to move forward through EU countries, including Bulgaria and other Balkan states. And without those legal approvals South Stream, for all its and Russian publicists' professed confidence, remained a pipe dream.[87] Moscow's decision, in December 2014, to reroute it through Turkey, discussed above, may signal its determination to coerce Europe and the Balkans into a settlement, but it is not particularly likely that this pipeline will be built the way Moscow wants it, if it is built at all.[88] This will remain the case despite the efforts by Bulgaria, Hungary and Austria—whose governments are heavily dependent on Russian financing or political support—to evade the EU and move South Stream forward despite EU sanctions on Russia.[89] As it turned out, those actions blew up in their faces. Likewise, the EU's legal charges against Gazprom for violating EU legislation in its gas sales will have hefty consequences, and this too will make it harder for Gazprom to operate in Europe.[90] Thus, the intensification of sanctions, plus the legal actions against South Stream probably caused its demise as a practical project. As a result, the availability of much of the projected gas from South Stream is clouded at best, a fact that also suggests a lack of compelling economic reasons for building this

pipeline, other than Moscow's determination to subjugate Ukraine to its dictates. But this whole affair underscores the necessity of a strategic EU plan linked to each European country's energy strategy to ensure that they do not rely excessively, if at all, on Moscow's tender mercies for their gas.

The evidence also suggests that this project was not based on any economic rationality but was actually something of a scam. Assuming the gas for South Stream would actually become available thanks to Russia's construction of interconnectors, the cost of building Russia's version of a "southern gas corridor" (in distinction to a trans-Caspian southern gas corridor) was nowhere to be found in the estimates of South Stream's overall costs. It is inconceivable that Russia would not have tried to recoup its costs for its investment in interconnectors through the prices it would have charged for South Stream gas. Furthermore, Gazprom admitted that, for the first quarter of 2012, the tariff for gas transit to Germany through the Nord Stream pipeline in the Baltic Sea, which has a capacity of 55 bcm/yr, was twice the transit cost through Ukraine. Thus, Germany and other recipients are paying much higher prices so that Russia can circumvent, and thus isolate, Ukraine.[91] Essentially, they are subsidizing Moscow's power plays in Europe. Accordingly, South Stream was a truly bad economic deal for the Balkan states, as they would have been paying much higher prices and thereby subsidizing a much less reliable gas supply that would be subject to all manner of corrupt chicanery and political use against them. But the eventual failure of South Stream and the Ukraine crisis have made the Balkans and Ukraine into frontline states in an enormous struggle between the EU and Russia, a struggle whose implications have huge geopolitical consequences as well as lasting economic impacts.

Thus, it appears that the Balkan consumers of Russian gas have long been paying a disproportionately high and politicized, rather than market, price for Russian gas, a condition that would have probably continued if South Stream had materialized.[92] That overpricing

translates into Balkan and German (through Nord Stream) subsidization of Russian efforts to deprive them of their sovereignty, place their territorial integrity at risk, and corrupt their political and public institutions. Clearly, that is not a good bargain for the Balkan states, though it certainly benefits Russia. Accordingly, one may expect more intense, political and economic struggles over Balkan energy routes in the future, given the upheaval generated by Russian actions in Ukraine and the collapse of the original South Stream project. This analysis also duly demonstrates how closely energy and geopolitics figure in Balkan politics and validate Balkan analysts' claims about the importance of energy. The current struggle for the Balkans, now occurring through competitive energy projects and political models, ties into the larger East-West geo-economic and geopolitical rivalry founded on control of energy supplies and routes from the Caspian through the Caucasus and Ukraine. Serbian foreign relations scholar and former diplomat Milan Simurdic has duly observed that,

> Russian energy policy in the Balkans could be viewed as part of the competition for access, control and influence over the oil and gas business, especially in the Caspian basin and in Central Asia. The Balkans represent the final stage of oil and gas delivery from that region towards, in the case of gas and gas pipelines—the European markets, and, in the case of oil to sea ports, transporting oil further to the world market. More and more, the Balkan region is being connected to the "New Great Game," i.e. the modern re-run of the struggle between Imperial Britain and Imperial Russia of the XIX century for influence in Central Asia.[93]

Similarly, a Macedonian newspaper observed that the Balkans' geostrategic importance as of 2012 was (and still is) in no small measure due to the fact that it is the heartland of the confrontation between rival energy pipelines, the EU's Nabucco pipeline and Russia's South Stream project. Similar arguments can also be made for

the Caucasus and Caspian states, where energy is intrinsically linked to competing geopolitical agendas.[94] Since the Bosphorus and the Dardanelles are limited in the amount of energy that can be transported through them, the Balkan landmass, including Turkey, becomes all the more important in this context and each state, therefore, does its utmost to ensure that oil and gas pipelines traverse their territory.[95] But as the current Ukrainian crisis and the periodic previous eruptions of gas crises between Kyiv and Moscow since 2006 remind us, this linkage between energy and geopolitics applies as well to Ukraine and the Caspian region. Analogously, the fact that the Caspian Sea is landlocked ensures that the energy holdings of the littoral states will be an object of geopolitical contention.

Therefore, the decision to rely mainly on Russian pipeline projects like the South Stream gas pipeline or on the emerging TANAP-TAP network and the struggles to bring Central Asian oil and gas to European markets are as much, if not fundamentally, geopolitical decisions and have geopolitical outcomes rather than purely economic ones. Neither is this true only in Europe or even the CIS, as Azerbaijan's invitation to Iraq shows. If Iraq does gain such access, it might be able to overcome the debilitating rivalry with the Kurdistan Regional Government (KRG)—considering the apparent independence movement among its Kurds—which has made deals with Turkey and Russia and is embroiled in a struggle with the government in Baghdad over control of energy proceeds. This struggle could bring Iraq to its knees, as Iraqi elites know, and represent another example of how both Moscow and Ankara, in pursuit of their energy goals, like to fish in troubled waters.[96] But access to Europe through Azerbaijan would not only provide Iraq with a huge and growing market and vital revenues, it would also probably help bring about a negotiated settlement with its Kurds while strengthening the Southern Gas Corridor and reducing Moscow's leverage over Europe and Turkey.

It may well be the case, as some Balkan ministers have claimed, that if

their countries do not have Russian gas, delivered by pre-existing Soviet-built pipelines, their countrymen will freeze during the winter. However, this attribution of a primary geopolitical importance to pipeline choices is still correct, because what is at stake is not just energy supplies, but rather decisive influence over economic-political affairs in Balkan and CIS governments. But the geopolitical importance of these lines extends beyond those states in Europe, whose interest in secure and diverse supply sources is constant and arguably growing. It also extends eastward to the states of the Caspian littoral, for whom finding reliable markets and access to them is a vital strategic interest, and diversification of their customers is an equally critical issue of their overall security.

The Balkans' current geostrategic importance is due to its being the heartland of the confrontation between rival energy pipelines: Russia's South Stream pipeline, in both its original and projected new forms (Turkish Stream), and the competing Western pipeline schemes such as the TANAP originating in Azerbaijan or the EU's Nabucco pipeline, or the TAP. Therefore, each Balkan state does its utmost to ensure that pipelines traverse its territory.[97] Moreover, decisions to rely mainly on one or another pipeline project are as much geopolitical decisions with geopolitical and domestic economic-political outcomes rather than purely economic ones. At stake in pipeline decisions are not just energy supplies, but rather decisive leverage over economic-political affairs in Balkan governments. Similarly, any future enlargement of either the EU or Russia's proposed Eurasian Economic Union possesses as much geopolitical as domestic economic content and repercussions.[98]

In this context Russia also wants Europe to rescue its energy sector from the trap it has fallen into, due to the global recession and the combination of depressed demand and prices for gas, by merely accepting Russian dominance of supply routes of gas to Europe. Stanislav Tsygankov, Head of Gazprom's International Business

Department, told a roundtable on foreign affairs in Moscow in 2009 that,

> The Energy Summit held in Sofia in April (2009) was a kind of touchstone that revealed the true position of the European Union in these issues. Whereby keeping in mind the latest events, we no longer find general words sufficient with respect to Gazprom's efforts to diversify natural gas delivery routes to Europe. We expect unequivocal support of specific projects from the EU, primarily at the practical implementation stage of the North Stream project, as well as the planned South Stream gas pipeline. If Europe is truly concerned about its energy security, it should understand that the only way to ensure it is to diversify the gas delivery routes, thus balancing out the significance of each of them.[99]

Moscow basically demanded that Europe give it a free hand to decide how it would supply gas and dominate European gas supply.[100] Moscow wanted the EU to include the South Stream pipeline as one of its priority projects to prevent any other rival pipeline from coming into being.[101] South Stream should, therefore, have been given a special status.[102] Accordingly, Gazprom sought exemptions from EU law for the various branches of the South Stream pipeline throughout Europe (which clearly included much of the Balkans and would have created an "EU-free" zone of Russian influence there). The exemptions Gazprom sought would have excluded the EU from any participation or supervision of the pipeline and ensured that it was as opaque as other Russian energy ventures.[103]

Russian energy ambitions in the Balkans have also spread further north into Hungary where Hungary's energy company MOL holds a sizable stake in Croatia's INA energy company. Gazprom's attempt in 2014 to buy MOL's stake in INA and acquire another 19-percent stake from the Croatian government, would have given Moscow decisive leverage over both Hungary, which is already showing itself to be a

pro-Moscow illiberal government in Central Europe, and Croatia.

> Chances of a third party (apparently a Russian) buying MOL's are increased by the fact that even Croatia's Supreme Court confirmed a guilty verdict on former Prime Minister Ivo Sanader in a graft case (in which he was accused of taking a bribe from MOL to ensure the Hungarian company gets management rights in INA). This indicates it very well how important this issue is politically in Croatia. At the same time, this also reduces chances that a swift deal will be reached on what is to happen with INA. A Russian buyer, however, does not seem to be such a good idea because of Moscow's previous intervention in Ukraine and the Western sanctions on Russia that followed. In such an environment, it would probably make some waves if an EU member state forged a long-term strategic cooperation with a Russian company.[104]

This example underscores the shadowy links between energy, official corruption, and pro-Russian policies throughout the Balkans. It only adds to the fact that the Russian energy sector is enmeshed in corruption at home and abroad. Eurasian political and economics expert Anders Aslund observed that Gazprom, perhaps Russia's key foreign and economic policy instrument, is run in a way that either resembles or is that of an organized crime syndicate.[105] Its market value in the last few years has plummeted from $360 billion to $97 billion, signifying its embedded mismanagement. In addition, there is an extensive record of linkages between Russian energy firms, organized crime, political subversion projects and influence peddling from the Baltic to the Balkans. Indeed, Russia makes no effort to hide the fact that its energy policies are a lever for acquiring enduring positions of political influence in Balkan governments.[106]

At the same time, Moscow incites Balkan countries against each other to stimulate their competition in offerring Moscow the best terms for shipping gas to them through Russian-dominated pipelines, such as

the now defuct South Stream pipeline. Russian diplomacy typically promises everyone that, if they join Russian energy plans, they will become a hub or major player and/or rack up hefty revenues from the energy trade. In 2009, Dusan Bajatovic, General Manager of Serbia's state energy company Srbijagas, said that the South Stream pipeline through Serbia would have a capacity of 36–41 bcm, which is four times the initially announced amount. He said also that both sides had agreed to build several large storage facilities in Serbia with capacity of up to 7 bcm to serve as distribution centers and that Serbia could earn $750 million annually from gas transit revenue taxes and become a hub for Russian gas to Europe.[107] Russia has also done this with both Greece and Turkey.[108] Greek Prime Minister Konstantin Karamanlis publicly embraced the idea that the Burgas-Alexandropoulos oil pipeline and South Stream gas pipeline would turn Greece into an energy hub.[109] Russia made the same pitch about becoming an energy hub to Bulgaria as Energy Minister Sergei Shmatko said in 2009, in speaking about Russian projects with Bulgaria:

> We do not doubt that the implementation of those three projects is exceptionally important for Bulgaria itself. The projects will allow Bulgaria to become a very important energy center in South Europe and a powerful energy transit junction in Europe. I think that Bulgaria's current leadership, which has in mind the country's long-range national interests, must excellently understand this.[110]

And we see similar statements and offers being made in regard to Turkish Stream. Of course, if every Balkan state is a hub, none of them are, and the initiative rests solely with Russia. Nonetheless, Moscow continues to employ this tactic throughout the region, with at least some success.[111]

Neither are Russian economic games confined to energy. The unfortunate experience of the KAP aluminum plant in Montenegro exemplifies the tactic by which consortia of Russian "businessmen,"

oligarchs, and criminals collude with local, in this case Montenegrin, officials and criminals to loot assets after taking them over and use the proceeds to corrupt businessmen and officials in the local countries. This case also demonstrates how Russian businesses, by investing in key energy and other sectors, seek to gain leverage over energy, power and other "commanding heights" of Balkan economies.[112]

Arms Sales as an Instrument of Russian Policy

Another important and neglected instrument of Russian penetration and access to elites in targeted countries is arms sales. Indeed, Russian Deputy Prime Minister Dmitry Rogozin, who oversees the defense industry, claimed that Russia's arms sales establishment constitutes a second foreign policy organization.[113] Moreover, in the Balkans, as in Vietnam, Syria, Cyprus and, before 2009, in Libya, one sees a strong linkage between arms sales, energy deals and Russia's quest for naval or air bases.[114] This is significant given the reports of Russian interest in a base or berth at Bar in Montenegro.[115] Similarly, its arms sales to Balkan countries also aim to erode their attachments to NATO and/or the EU. Moscow's unceasing campaign to sell weapons to Greece and invite it into Russia's energy projects clearly represents part of its larger effort to undermine Greece's attachment to NATO, a project that has enjoyed some success. [116] Since Russia now calls its arms sales to Iraq a vital Russian priority, one also cannot exclude a future Russian interest in a base in Iraq or Kurdistan.[117] Thus, Russia's arms sales policy goes beyond purely commercial motivations.[118] One may also add that both energy deals and arms sales, as part of the overall trajectory of Russian diplomacy, share common purposes beyond the fundamental priority of safeguarding Russia's domestic system of power. In particular:

- Russia seeks to convince itself, foreign governments and international public opinion that it is a great international military power that can produce the entire range of

competitive military systems for domestic use and foreign exports.

- It still needs to have money coming into defense industrial firms in order to sustain them, since many depend on arms sales to survive.

- It seeks lasting influence upon its customers' foreign and defense policies and on the policies of third parties with a vital interest in what those customers do. This clearly applies to the Balkan states and Turkey, but also to NATO members as well.

- It also pursues cooperative relationships with consumers like India and with potential rivals in Europe and the US, and even sells weapons to NATO.

- It uses arms sales as one instrument of a policy intended to challenge US interests and policies in several key regions and prevent the consolidation of a US-led order in them—e.g. Latin America, the Middle East, or globally with regard to Russia's relationship with China.

Foreign observers have confirmed these conclusions. For example, French international relations scholar Thomas Gomart has written,

> The lack of interests in the operational dimension of events in Chechnya is often accompanied by a reading of Russian arms sales that is often incomplete. Russia has three main clients who cannot but be of interest to the [NATO] Alliance: India, China, and Iran, with which it officially maintains civilian nuclear cooperation. Furthermore, Russia also sells weapons systems to Syria, Venezuela, and Algeria. With these sales, Russia is looking for foreign earnings and to keep its defense industry afloat, while at the same time exercising a global influence. Russia is thus cultivating an intermediate

> international position between the Western powers and those countries that are overtly seeking to challenge the established order. Moscow considers that its diplomatic room for maneuver lies in a continuous alternation between inclusion and exclusion with respect to Western standards, while at the same time being fundamentally wary of any excessively rapid rise to power by countries like China, India, or Iran. The result is a paradoxical situation in which short-term interests (earnings from arms sales and immediate political influence) run up against long-term ones (military balance and demographical balance) with respect to rising future powers. This raises the issue of whether Russians and Westerners intend to meet the rise of these nations by neutralizing each other or by working together. This in turn raises the question of whether their main security interests lie inside or outside the US/Europe/Russian triangle.[119]

This policy also appears in the CIS, where Moscow, by virtue of $4 billion in arms sales to Azerbaijan since 2010 and its concurrent arms transfers to and acquisition of a military base at Gyumri in Armenia, has been able to manipulate both states and prevent any genuine resolution of the conflict over Nagorno-Karabakh.

Serbia affords an example of the gains that Moscow hopes to obtain from establishing a long-term "military-technical" relationship. Rusian goals here are quite evident, namely preventing Serbia's decisive integration with NATO and the EU. Beyond those goals, it also seeks a lasting military base in Serbia at Niš. Toward this end, it employs energy deals, large-scale economic investments in key sectors, diplomatic support for preventing the resolution of the Kosovo problem, as well as arms sales—all to establish multiple levers of influence upon Serbian economics and politics. And the gradual deepening of Russia's "investment" in Serbia also parallels the steady decline of East-West relations into the frozen hostility that characterizes them today, even before the Ukrainian crisis.

Already in early 2008, the Russian Chief of the General Staff, General Yuri Baluyevsky, confirmed Russia's readiness to extend military assistance to Serbia, if Belgrade requested such aid to defend its positions in Kosovo and Metohija (Belgrade's name for Kosovo). He even would not exclude a nuclear strike "as the last means of defending the territorial sovereignty of Russia and its allies"![120] Serbian discussions of Moscow's willingness to send forces to Kosovo to defend Serbia against NATO counted on those Russian forces' readiness to deter NATO on Serbia's behalf.[121] By 2009, Serbia was expressing its "vital" interest in "military-technical cooperation" with Russia against alleged external threats.[122]

But Moscow was not and probably will not provide such cooperation and risk European entanglements without receiving a tangible and offsetting strategic gain, namely a military base. This was already clear in 2009. In October 2009, President Dmitry Medvedev visited Belgrade to sign agreements extending South Stream to Serbia and thence onto Europe and to set up a military base in Niš for ostensible humanitarian interventions.[123] Undoubtedly, this was facilitated not just by arms sales, but by large-scale Russian investments to buy 51 percent of Serbia's NIS energy company, acquisition of the land through which the South Stream pipeline would go, and investment in the natural gas storage facility at Banatski Dvor. Moscow was also interested in building a nuclear power plant in Kostolac.[124] Later, in 2012, both government announced the recent establishment of bilateral cooperation to build a factory in Serbia to assemble complex combat systems—probably tanks and light-wheeled combat vehicles.[125] Although both sides pretended that the Niš base would strictly be for humanitarian interventions, Russian Minister of Emergency Situations Sergei Shoigu (later defense minister) admitted that it would be used to fight "terrorism and militancy." Furthermore, leaks pointed to Russian efforts to use the town of Niš to maintain logistic support and supply lines stretching along the entire projected length of South Stream through Serbia, using its army to guard the

pipeline.

Western sources quickly speculated that the planned base would offset NATO's Camp Bondsteel in Kosovo and could be used as a way to rapidly project more lasting Russian military power into the Balkans, a move, that as Serbian President Boris Tadic recognized, would preclude Serbia's stated goal of achieving EU membership.[126] By 2011, diplomatic sources in Moscow were saying that there were negotiations under way concerning Serbia's potential adhesion to the Russian-sponsored Collective Security Treaty Organization (CSTO), Moscow's primary instrument of security coordination in the CIS. While Serbia denied these rumors and nothing has come to pass, the linkages between energy investments, arms sales, military bases, and participation in a "counter-NATO" such as the CSTO highlight the instruments and goals of Russian foreign policy here.[127] Meanwhile, Serbia is still discussing new arms buys from Russia.[128] Serbia is only one example of the linkages between arms sales, energy policy and power projection in Southeastern Europe. Russo-Greek or Russo-Bulgarian relations could serve as another illustration. But the point is the ubiquity of these linkages across the entire Balkan region and the ends to which Moscow seeks to direct these relations.

Conclusion

Indeed, the myth that the Balkans, primarily Serbia and Montenegro, still "belong" to Russia and that the Russian Federation is a superpower still lives on.[129] Simurdic too cites this myth, observing that, "The Balkans have long had the image of being a special sphere of Russian interests, and they will hardly get rid of this image in the near future." And he reads this as a Russian wish to create a counterbalance to the Balkan states' tendency towards NATO and the EU."[130] Thus, even if some of these states are members of the EU or NATO or in the middle of one or both of these membership processes, Moscow aims to stall or even reverse the process and/or hollow out the substantive integrationist impulses of these organizations and

those institutions themselves. Russia's emphasis on bilateral understandings with key EU members fits right into that objective of undermining the actual, as opposed to nominal, cohesion of the EU and, if possible, NATO. The avoidance of multilateralism thus does not only reflect suspicion of multilateral venues generally; it is also an instrument to prevent the real rather than the nominal integration of the Balkans into a larger European project. By doing so, Moscow hopes to achieve a situation whereby Eastern European countries like those in the Balkans are effectively subordinated to the larger goals of Russian foreign policy that aims to make deals with the West about the East. As Gerhard Mangott has written, "Moscow's chief aim is converting Central and East European countries to accept a subordinate role as catalysts for Russia's dealing with individual Western European powers above their head."[131] That, of course, is a full reversion to the unhappy past of European diplomacy, and one can see its consequences in Crimea. In this framework, "Russia is most interested in keeping regional cooperation, let alone integration, at a very low level. Historically, Russia has always profited from intra-regional divisions, rivalries and disputes."[132]

Writing about Russian policy in 2010, Aleksandar Fatic noted how the energy, nuclear, arms sales and defense elements of Russian policy come together. Thus, Fatic observes that,

> The information published so far about ideas to nuclearize the south of Serbia and build a military base there is consistent and should be treated as an indication of Moscow's intent to make its last anti-NATO stand in southeastern Europe. Such policies by Russia come together with economic assistance packages, which make it difficult for the countries directly affected to oppose them. All of the initiatives that Russian diplomacy broaches in the region, while not presented as a coherent security strategy, clearly fall together in a plan that would see Russia's energy security strategy merge with its military strategy.[133]

This strategy includes all the dimensions of power, diplomacy, military force, information and economics (including energy) in a sustained strategy to prevent the integration of Europe and the spread of liberal democracy that Moscow now regards as coterminous threats to it. The Ukrainian crisis triggered by Moscow's determination to prevent an EU-Ukrainian Association Agreement (not membership) confirms that not only NATO but also the EU are considered threats to Russia, as is any sign of their expansion into the former Soviet Union. But by its actions, Moscow has confirmed not only that it is a rogue state, which cannot give credible guarantees to anyone. It has also shown that it will use unprovoked force to gain its way and destroy other states' sovereignty and integrity if necessary. Such a power, in the final analysis, cannot be integrated into Europe. Instead, it must be contained. And as it has amply demonstrated, it intends to subvert Balkan governments, enforce a diminished sovereignty upon them and its neighbors from Eastern Europe to Central Asia, as well as hold their territorial integrity at risk. The instruments it employs—energy, arms sales, and the exploitation or incitement of any potential fissure within a country or between two countries—indicates that it cannot exist other than in a state of siege with its interlocutors. Worse yet, its leaders apparently believe it can only survive as an empire, i.e. at the expense of its neighbors' sovereignty and integrity. Those neighbors now include the Balkan states.

Thus, the conquest of Crimea functions as an analogy to Catherine the Great's Greek project that aimed to destroy the Ottoman Empire (including Crimea) and incorporate it into Russia. Whatever else one may call it, this is a policy of war and empire-building, even if the empire can only be an informal one. The West must recognize this policy for what it is and take the needed steps to strengthen not only the Balkan states but also those in Russia's neighborhood. Ukraine shows that peace in Europe and European security are indivisible. Continuing obliviousness to this lesson will ensure not security but further crises and wars. And given the Balkans' role in history, this is

a lesson that we ignore not only at the Balkans' peril but our own as well.

NOTES

---

[1] Hence the title of this paper with its not so oblique reference to Catherine the Great's "Greek Project."

[2] "Merkel Warns of Wide-Spreading Consequences of Ukraine Conflict," *Deutsche Welle*, November 17, 2014, http://www.dw.de/merkel-warns-of-wide-spreading-consequences-of-ukraine-conflict/a-18068718; Keith Johnson, "Sofia's Choice," *Foreign Policy,* January 16, 2015, http://foreignpolicy.com/2015/01/16/sofias-choice-bulgaria-russia-gas-energy-kerry-hochstein/; Cornelia Stranulat*, EU Integration and Party Politics in the Balkans*, EPC Issue Paper No. 77, European Policy Centre, 2014.

[3] Milan Simurdic, "Russian Energy Policy and the Balkans," www.isac-fund.org/.../06e-Milan%20Simurdic%20-, pp. 3–4.

[4] Conversations with Ostap Kryvdyk, Washington, D.C. June 19, 2014.

[5] Aleksey Nikolsky, "The Syrian Crisis as a Catalyst for Naval Presence," *Moscow Defense Brief*, No. 2 (40), 2014, http://mdb.cast.ru/mdb/2-2014/item1/article2/; Visr Ymeri, "Big Brother of Northern Neighbor," Tirana, *Korrieri*, in Albanian, November 26, 2009, *Open Source Center, Foreign Broadcast Information Service, Central Eurasia*, (Henceforth *FBIS SOV*), December 6, 2009.

[6] Adam Klus, "The New Strategic Reality in the Black Sea," *New Eastern Europe*, April 22, 2014, http://www.neweasterneurope.eu/interviews/1197-the-new-strategic-reality-in-the-black-sea.

[7] Putin announced this decision on December 1, 2014 in Ankara, but up to the last week of November, Bulgarian, Hungarian and Serbian newspapers were confidently printing articles about the impending beginning of construction of their respective sectors of South Stream, "Severed Streams," *Russia Today*,

December 4, 2014, http://rt.com/op-edge/211539-pipeline-south-stream-balkans-turkey/.

[8] Friedbert Pflueger, "Cancellation of South Stream is Not Retaliation, but a Business Decision," *Energy Post Online*, December 9, 2014, www.energypost.com.

[9] Robert Lea, "Europe Plunged into Energy Crisis as Russia Cuts Off Gas Supply via Ukraine," *Daily Mail Online*, January 19, 2015, http://www.dailymail.co.uk/news/article-1106382/Europe-plunged-energy-crisis-Russia-cuts-gas-supply-Ukraine.html. The six countries are Bulgaria, Greece, Macedonia, Romania, Croatia and Turkey.

[10] Robert Larsson, *Nord Stream, Sweden and Baltic Sea Security*, Stockholm Swedish Defense Research Agency, 2007; Robert Larsson; *Russia´s Energy Policy: Security Dimensions and Russia´s Reliability as an Energy Supplier*, Stockholm: Swedish Defense Research Agency, 2006; Marshall Goldman, "Putin, Petroleum, Power, and Patronage," The Jamestown Foundation, 2006, http://www.jamestown.org/media/events/single/?tx_ttnews%5Btt_news%5D=133&tx_ttnews%5BbackPid%5D=19&cHash=6; Author's conversations with members of European foreign ministries and intelligence services, 2008; Anita Orban, *Power, Energy, and the New Russian Imperialism*, Washington, D.C.: Praeger, 2008; Edward Lucas, *The New Cold War: Putin's Russia and the Threat to the West*, Updated and Revised Edition, New York and London: Palgrave Macmillan, 2009; Janusz Bugajski, *Dismantling the West: Russia's Atlantic Agenda,* Washington, DC: Potomac Books, 2009; Janusz, Bugajski, *Cold Peace: Russia's New Imperialism,* Westport, Conn: Praeger, 2004, passim; Richard Krickus, *Iron Troikas,* Carlisle Barracks, PA: Strategic Studies Institute of the US Army War College, 2006.

[11] "Turkey's Gas Deals with Russia Raise Concerns of Dependency," *Today's Zaman*, December 2, 2014, http://www.todayszaman.com/national_turkeys-gas-deals-with-russia-raise-concerns-of-dependency_365960.html.

[12] Stephen Blank, *Azerbaijan's Security and U.S. Interests: Time for a Reassessment,* Institute for Security and Development Policy, Stockholm, 2013, www.isdp.eu.

[13] Robert Larsson, *Nord Stream, Sweden and Baltic Sea Security*, Stockholm Swedish Defense Research Agency, 2007; Robert Larsson; *Russia´s Energy Policy: Security Dimensions and Russia´s Reliability as an Energy Supplier*, Stockholm: Swedish Defense Research Agency, 2006; Marshall Goldman, "Putin, Petroleum, Power, and Patronage," Jamestown Foundation, 2006, http://www.jamestown.org/media/events/single/?tx_ttnews%5Btt_news%5D=133&tx_ttnews%5BbackPid%5D=19&cHash=6; Author's conversations with members of European foreign ministries and intelligence services, 2008; Anita Orban, *Power, Energy, and the New Russian Imperialism*, Washington, D.C.: Praeger, 2008; Edward Lucas, *The New Cold War: Putin's Russia and the Threat to the West*, Updated and Revised Edition New York and London: Palgrave Macmillan, 2009; Janusz Bugajski, *Dismantling the West: Russia's Atlantic Agenda,* Washington, DC: Potomac Books, 2009; Janusz, Bugajski, *Cold Peace: Russia's New Imperialism,* Westport, Conn: Praeger, 2004, passim; Richard Krickus, *Iron Troikas,* Carlisle Barracks, PA: Strategic Studies Institute of the US Army War College, 2006.

[14] Jaroslav Adamowski, "Romania hikes Defense Spending Following Ukraine Crisis, www.defenenews.com, May 1, 2014; Moscow, *Interfax*, in Russian, September 3, 2013, *FBIS SOV*, September 3, 2013; Moscow, *Interfax,* in English, *FBIS SOV*, December 27, 2013, Chisinau, *Timpul*, in Romanian, January 17, 2014, *FBIS SOV*, January 17, 2014; "Romania: Angst over Russian Pressure on Moldova Linked to Historical Roots," *Open Source Center, OSC Analysis*, in English, April 11, 2014.

[15] Address by the President of the Russian Federation," March 18, 2014, http://eng.kremlin.ru/transcripts/6889.

[16] Elizabeth Pond, "Serbia Reinvents Itself," *Survival*, LV, NO. 4, July-August, 2013, pp. 7–30.

[17] "Address by President of the Russian Federation."

[18] Speech at Gala Concert to Mark the 69th Anniversary of Victory in the Great Patriotic War and 70th Anniversary of the Liberation of Sevastopol From the Nazis, www.kremlin.ru, May 9, 2014, http://eng.kremlin.ru/transcripts/7159.

[19] "Russia Mulls Banning US Nuclear Arms Inspections-Source," www.en.ria.ru/military, March 9, 2014; Mark B. Schneider, "Confirmation of Russian Violation and Circumvention of the INF Treaty":

National Institute for Public Policy, Fairfax, VA, National Institute Information Series, No. 360, February 2014.

[20] Novica Djuric, "Reshetnikov: If Montenegro Joins NATO Russian Missiles Will be Turned Toward it," Belgrade, *Politika Online*, in Serbian, June 15, 20913, *FBIS SOV*, June 15, 2013.

[21] "Serbia in NATO Would Be a Threat to Russia" *B92, Danas*, March 20, 2011, http://www.b92.net/eng/news/politics.php?yyyy=2011&mm=03&dd=30&nav_id=73524.

[22] Djuric.

[23] "Article of the Minister of Foreign Affairs of Russia Sergei Lavrov, 'International Relations in the New Coordinate System,' *Rossiyskaya Gazeta*, September 8, 2009, Ministry of Foreign Affairs of the Russian Federation, www.mid.ru.

[24] "Putin Admits Russia Trained South Ossetians Before 2008 Georgia War - Transcript President of Russia, August 10, 2012, www.kremlin.ru.

[25] Stephen Blank, "Russia and the Black Sea's Frozen Conflicts in Strategic Perspective," *Mediterranean Quarterly*, XIX, No., 3, Summer, 2008, pp. 23–54; Idem., "The Values Gap Between Moscow and the West: the Sovereignty Issue," *Acque et Terre*, No. 6, 2007, pp. 9–14 (Italian), 90–95 (English).

[26] James Sherr, *Hard Diplomacy and Soft Coercion: Russia's Influence Abroad:* London: Chatham House, 2013, pp. 61–62.

[27] Susan Stewart, "The EU, Russia and Less Common Neighborhood, "*SWP Comments*, Stiftung Wissenschaft Und Politik, January 2014, pp.2–3.

[28] Frances Martel, "Russian Legislators Present Bill to Facilitate Annexation of Ukrainian Crimea," www.breitbart.com, February 28, 2014, http://www.breitbart.com/Big-Peace/2014/02/28/Ukraine-Turmoil-Russian-Legislators-Present-Bill-To-Facilitate-Annexation-Of-Crimea.

[29] Yuri E. Fedorov, *Medvedev's Amendments to the Law on Defence: The Consequences For Europe,* Finnish Institute of International Affairs, Briefing Paper No. 47, November 2009.

[30] Law on Amendments to the Law on Defense of the Russian Federation, http://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2010)05.

[31] *Ibid.,* Official Kremlin website, August 10, 2009, http://www.kremlin.ru/events/president/news/5152; Law on Defense o the Russian Federation, Part 4, Paragraph 10, Article 2.1, Ministry of Defense of the Russian Federation, http://mil.ru/elections/documents/more.htm?id=10928924@egNPA#txt.

[32] "Interview given by Dmitry Medvedev to Television Channels Channel One, Russia, NTV,"August 31, 2008, http://www.kremlin.ru/eng/speeches/2008/08/31/1850_type82916_206003.shtml.

[33] Alla Barakhova, Irina Granik, Maxim Ivanov, "Supreme Commander in Chief Wants to Be Instantaneous. Dmitry Medvedev Asks to Be Allowed to Use Army Without Wasting Time on Approval By Federation Council," Moscow, *Kommersant Online,* in Russian December 9, 2009, *FBIS SOV,* December 9, 2009.

[34] Fedorov, p. 5.

[35] *Ibid.,* p. 6.

[36] *Ibid.*

[37] European Security Treaty," November 29, 2009, http://eng.kremlin.ru/text/docs/2009/11/223072.shtml.

[38] Fedorov, p. 6.

[39] "Medvedev's Push for Control of Russian Military Unsettles Caucasus" *Deutsche Welle*, http://www.dw-world.de/dw/article/0,,5004308,00.html?maca=en-rss-en-all-1573-rdf, December 11, 2009.

[40] Pavel Felgenhauer, "Military-Constitutional Coup," Moscow, *Novaya Gazeta Online*, in Russian, December 11, 2009, *FBIS SOV*, December 11, 2009.

[41] Fedorov, p. 7.

[42] Sabine Fischer, "Ukraine As a Regional Actor," Sabine Fischer Ed., *Ukraine: Quo Vadis*, Chaillot Paper No. 108, Paris: Institute for Security Studies, European Union, 2008
p. 119.

[43] Dmitri Furman, "A Silent Cold War," *Russia in Global Affairs*, IV, no. 2, April-June, 2006, p. 72.

[44] *Ibid.*, p. 73.

[45] Tesmur Basilia, "Eurasian Commentary," Jan H. Kalicki and Eugene K. Lawson, Eds., *Russian-Eurasian Renaissance?: U.S. Trade and Investment in Russia and Eurasia*, Stanford, CA: Stanford University Press, 2003, p. 166.

[46] Jan Zielonka, "Empires and the Modern International System," *Geopolitics*, XVII, No. 3, 2010, pp. 502–525.

[47] *Ibid.,* p. 514.

[48] Jacques Rupnik, "The Balkans as a European Question," Jacques Rupnik, Ed., *The Western Balkans and the EU: 'The Hour of Europe,'* Paris: European Union Institute for Security Studies Chaillot Papers, No. 126. 2011, p.18.

[49] Bruno Coppieters, Michel Huysseune, Michael Emerson, Nathalie Tocci, Marius Vahl, "European Institutional Models as Instruments of Conflict Resolution in the Divided States of the European Periphery," *CEPS Working Document*, No. 195, 2003, www.ceps.eu; Franco Frattini, Foreword, Federiga Bindi and Irina Angelescu, Eds., *The Frontiers of Europe: a Transatlantic Problem?,* Washington, D.C.: Brookings institution Press, 2011, p. 12.

[50] *Ibid.,* pp. 12–13.

[51] Marcel de Haas, Andrej Tibold, Vincent Cillessen, *Geo-strategy in the South Caucasus: Power Play and Energy Security of States and Organizations,* The

Hague: Netherlands Institute of International Relations, Clingendael, 2006, p. 68.

[52] "Is Russia a Partner to the EU in Bosnia?" Center for European Reform, www.cer.org.uk, March 10, 2009.

[53] *Ibid.*

[54] Edina Becirevic, Nerzuk Curak, and Vlado Azinovic, "Russia Is Not Against NATO; We Are Against Its Expansion," A Conversation with Alexander Bottson-Kharchenko, Russian Ambassador to Bosnia and Herzegovina, *Democracy and Security in Southeastern Europe: Russia and the Western Balkans*, Sarajevo: Atlantic Initiative, I, NO. 4–5, 2010, p. 9.

[55] *Ibid.*, p. 11.

[56] Radovan Vukadinovic, "The Geopolitics of Orthodox Solidarity," *Ibid.*, p. 22.

[57] *Ibid*, pp. 22-23, *Radio Free Europe Radio Liberty Newsline*, February 5, 2007.

[58] *FBIS SOV*, September 29, 2012.

[59] Sarajevo, *Dnevni Avaz*, in Serbian, Croatian, and Bosnian, February 11, 2012, *FBIS SOV*, February 11, 2012.

[60] "Interview with Russian Ambassador to Serbia Aleksandr Konuzin, "NATO Not Only Option For Serbia," Belgrade, *Vecernje Novosti*, in Serbian, February 5, 2010, *FBIS SOV*, February 5, 2010; Moscow, *ITAR-TASS*, in English, November 12, 2010, *FBIS SOV*, November 12, 2010.

[61] David L. Phillips, *Liberating Kosovo: Coercive Diplomacy and U.S. Intervention*, Foreword, Nicholas L. Burns, Cambridge, MA: Belfer Center for Science and International Affairs and MIT Press, 2012, pp. 163, 169, 175–177.

[62] Shabhan Murati, "Serbia Sells It, Russia Does Not Give It," Tirana, *Gazeta Shqiptare*, in Albanian, June 27, 2011, *FBIS SOV*, June 27, 2011.

[63] *Ibid.*

[64] *Ibid.*

[65] Bugajski; Dan Bilefsky, "Region's Struggles Seen in a Romanian Scandal," *New York Times*, October 29, 2012, www.nytimes.com; John Peet, "EU Enlargement: Benefits and Obstacles," in *The Frontiers of Europe: A Transatlantic Problem?* Washington, D.C.: Brookings institution Press, 2011, p. 40; the political crises in Romania in 2012–2013, Hungary's turn away from democracy and large-scale corruption in Bulgaria, which for example, Moises Naim characterized as a criminalized state, attest to this fact., Moises Naim, "Criminal States: Organized Crime Takes Office" *Foreign Affairs*, May-June, 2012, http://www.foreignaffairs.com/articles/137529/moises-naim/mafia-states, or http://www.moisesnaim.com/writings/mafia-states

[66] "Integrated Circuit," *The Economist*, September 12, 2012, www.economist.com/blogs/easternapproaches/2012/09/balkans-and-eu.

[67] "Germany's Dependence on Russian Gas Poses Risks for Europe - Polish PM," *Reuters*, March 10, 2014, http://uk.reuters.com/article/2014/03/10/poland-germany-ukraine-idUKL6N0M71JA20140310.

[68] Robert Larsson, *Nord Stream, Sweden and Baltic Sea Security*, Stockholm Swedish Defense Research Agency, 2007; Robert Larsson; *Russia´s Energy Policy: Security Dimensions and Russia´s Reliability as an Energy Supplier*, Stockholm: Swedish Defense Research Agency, 2006; Marshall Goldman, "Putin, Petroleum, Power, and Patronage," Washington, DC: The Jamestown Foundation, 2006, http://www.jamestown.org/media/events/single/?tx_ttnews%5Btt_news%5D=133&tx_ttnews%5BbackPid%5D=19&cHash=6.

[69] Ed Crooks, "Europe At Risk From Higher Gas Prices, Says ENI," *Financial Times*, March 18, 2014, p. 3.

[70] Ministry of Energy of the Russian Federation, *Energeticheskaya Strategiya Rossii Na Period do 2030 Goda*, Moscow, 2009.

[71] Bertil Nygren, *The Rebuilding of Greater Russia: Putin's Foreign Policy Towards the CIS Countrie*s, London: Routledge, 2008; Bertil Nygren, "Putin's Use of Natural Gas to Reintegrate the CIS Region," *Problems of Post-Communism*, LV, No. 4, July–August, 2008, pp. 4–17;

Oliver Morgan, "Kremlin Ready To Take on the West," *The Observer,* January 7, 2007; Andrew Kramer, "Falling Gas Prices Deny Russia a Lever of Power," *New York Times*, May 16, 2009, www.nytimes.com.

[72] Nygren*, Ops. Cits.*

[73] *Ibid.*

[74] *The Future of the Natural Gas Market in Southeast Europe*, passim.; Open Source Center, "Report: East Europe: Overview of Energy Issues, Dependence on Russia," May 16, 2007, *FBIS SOV,* May 16, 2007*; Open Source Center, Analysis:* Russian Oil Companies Expand Influence in Balkans With Kremlin's Support*,* August 7, 2009, *FBIS SOV*, August 7, 2009.

[75] *Ibid;* Moscow, *Interfax*, in English, August 31, 2011, *FBIS SOV*, August 31, 2011; Alexander Fatic, "A Strategy Based on Doubt: Russia Courts Southeast Europe," *Contemporary Security Policy*, XXXI, NO. 3, September, 2012, p. 448.

[76] Baku, *APA Online*, in Azerbaijani, December 21, 2013, *FBIS SOV*, December 22, 2013; Paris, *AFP (North European Service*, in English, December 21, 2013*, FBIS SOV,* December 21, 2013.

[77] Valentin Stoyanov, "Dissecting the Prospects for South Stream Beyond the Media Hype*," European Geopolitical Forum*, September 25, 2013, http://gpf-europe.com/forum/?blog=energy&id=145; "EU Warns to Block Gazprom's South Stream Gas Pipeline," www.balkans.com, December 5, 2013.

[78] Moscow*, Interfax*, in English*,* September 17, 2012, *FBIS SOV,* September 17, 2012.

[79] Moscow, *Interfax*, in English, November 28, 2011, *FBIS SOV*, November 28, 2011.

[80] Tbilisi, *The Messenger Online*, in English, June 8, 2012, *FBIS SOV*, June 8, 2012.

[81] "Azerbaijan Hopes to Become Key Gas supplier for Europe," *Kyiv Post*, March 13, 2012, www.kyivpost.com.

[82] Vladimir Socor, "Azerbaijan Considers Long-Term Strategy on Natural Gas Exports, Part I," *Eurasia Daily Monitor*, Washington, DC: The Jamestown Foundation, January 28, 2014.

[83] *Ibid.*

[84] Baku, *Turan*, in English, February 11, 2014, *FBIS SOV*, February 11, 2014; "Azerbaijan Offers Iraq Access to Europe Gas Pipelines," *Agence France Presse*, February 11, 2014, www.hurriytdailynews.com.

[85] *Ibid.*

[86] Stoyanov; "EU warns to Block Gazprom's South Stream Gas Pipeline," www.balkans.com, December 5, 2013.

[87] *Ibid.*

[88] "Europe and Russia After South Stream," *Natural Gas Europe*, http://www.naturalgaseurope.com/europe-and-russia-after-south-stream-cancellation, December 20, 2014.

[89] Drew Leifheit, "South Stream: Gains for Bulgaria, Gains For Europe," *Natural Gas Europe*, April 29, 2014, http://www.naturalgaseurope.com/south-stream-gains-for-bulgaria-gains-for-europe; Dominykas Broga, "Austria-Russia Energy Deal Exposes EU Disunity Over Ukraine," *Global Risk Insights*, May 20, 2014, http://globalriskinsights.com/2014/05/20/austria-russia-energy-deal-exposes-eu-disunity-over-ukraine/.

[90] Stoyanov; "EU warns to Block Gazprom's South Stream Gas Pipeline."

[91] Frank Umbach, "Energy: Ukraine's Cut-Price Gas Deal With Russia Is Another 'Virtual Discount,' " *Geopolitical Information Service*, February 14, 2014, p. 2.

[92] Conversations with Balkan diplomats, Washington, D.C., March and April 2015.

[93] Milan Simurdic, "Russian Energy Policy and the Balkans," *International and Security Affairs Centre* (*ISAC*), Belgrade, http://www.isac-

fund.org/download/06e-Milan%20Simurdic%20-%20Russian%20Energy%20Policy%20and%20the%20Balkans.pdf, pp. 3–4.

[94] Ogutcu, p. 56.

[95] Mersel Bilalli, "Utter Isolation," Skopje, *Dnevnik*, in Macedonian, *Open Source Center*, October 17, 2010, *FBIS SOV,* October 17, 2010.

[96] Stephen Blank, "Russia's High-Stakes Game in Iraq: Expanding Their Role in the Middle East," *Second Line of Defense*, January 19, 2014, www.sldinfo.com.

[97] Mersel Bilalli, "Utter Isolation," Skopje, *Dnevnik*, in Macedonian, October 16-17, 2010, October 17, 2010.

[98] Federiga Bindi and Irina Angelescu, "Introduction: Defining the Frontiers of Europe From a Transatlantic Perspective," Federiga Bindi and Irina Angelescu, Eds. *The Frontiers of Europe: a Transatlantic Problem?* Washington, D.C.: Brookings Institution Press, 2011, p. 2; "Putin Sets Russia's APEC Summit Priorities in The Wall Street Journal Article," *The Voice of Russia*, http://english.ruvr.ru/2012_09_05/Putin-sets-Russia-s-APEC-summit-priorities-in-The-Wall-Street-Journal, September 5, 2012.

[99] Stanislav Tsygankov, Head of Gazprom's International Business Department, in the Round Table, "The Energy Industry and the Crisis," *International Affairs* (Moscow), No. 4, 2009, p. 81.

[100] *Ibid*, pp. 78-82.

[101] Moscow, *ITAR-TASS*, in Russian, May 19, 2009, *FBIS SOV*, May 19, 2009.

[102] Moscow, *Interfax*, in English, June 1, 2010, *FBIS SOV,* June 1, 2010; Moscow, *Interfax,* in English, June 21, 2013, *FBIS SOV*, June 21, 2013.

[103] *Ibid.*

[104] "Russia's Gazprom Eyes INA Stake of Hungarian MOL," *Energy Economics Journal*, http://www.energynomics.ro/en/russias-gazprom-eyes-ina-stake-of-hungarian-mol/, July 15, 2014.

[105] Anders Aslund, "Why Gazprom Resembles a Crime Syndicate," *The Moscow Times*, February 27, 2012, *FBIS SOV*, February 29, 2012.

[106] *Energeticheskaya Strategiya Rossii Na Period do 2030 Goda*, Moscow, 2009; The World Bank, *The Future of the Natural Gas Market in Southeast Europe*, Washington, D.C.: The World Bank, 2010; Open Source Center, "Report: East Europe: Overview of Energy issues, Dependence on Russia," *FBIS SOV,* May 16, 2007*;* Open Source Center, "Analysis: Russian Oil Companies Expand Influence in Balkans With Kremlin's Support*,"* *FBIS SOV*, August 7, 2009; Stephen Blank, "Russian Energy and Russian Security," *Whitehead Journal of Diplomacy and International Relations*, XII, No. 1, Winter-Spring, 2011, pp. 173–188.

[107] "Serbia Seen as Hub for Russian Gas in Europe," www.cbsnews.com, October 22, 2009.

[108] Moscow, *ITAR-TASS*, in English, September 10, 2009, *FBIS SOV*, September 10, 2009; "Putin Sees Turkey As Energy Hub," www.upi.com, September 15, 2009.

[109] Moscow, *ITAR-TASS*, in English, September 28, 2009, *FBIS SOV*, September 28, 2009.

[110] Tsvetana Krusteva, "Interview With Russian Defense Minister Sergei Shmatko," Sofia, *BTA Radiotelevizionen Monitor Online*, in Bulgarian, September 17, 2009.

[111] "After Joining EU, Croatia Will Be More Attractive for Russian Energy Interests," www.balkans.com, June 21, 2013, http://www.balkans.com/open-news.php?uniquenumber=177121.

[112] Esad Kircic, "Montenegrin Aluminum Plant's Woes Cast Geopolitical Shadow, *Radio Free Europe Radio Liberty*, July 15, 2013, www.rferl.org; Janusz Bugajski, *Expanding Eurasia: Russia's European Ambitions*, Washington, D.C.: Center for Strategic and International Studies, 2008, p. 124.

[113] "Rogozin: The Forward Movement of Russian 'Oboronki 'Products – Is the Most Important of Supporting and Capitalizing Russia's Relations with Other Countries," Moscow, *Interfax-AVN Online*, in English, December 11, 2013, *FBIS SOV*, December 11, 2013.

[114] Stephen Blank, "Russia Seeks Naval and Air Bases in Cyprus," *Eurasia Daily Monitor*, Washington, DC: The Jamestown Foundation, July 17, 2013; Stephen Blank, "Russia's Growing Ties With Vietnam," *The Diplomat*, www.thediplomat.com, September 19, 2013.

[115] Aleksey Nikolsky, "The Syrian Crisis as a Catalyst for Naval Presence," *Moscow Defense Brief*, No. 2 (40), 2014, http://mdb.cast.ru/mdb/2-2014/item1/article2/.

[116] Moscow, *Agentstvo Voyennykh Novostey Internet Version*, April 28, 2008, *FBIS SOV*, April 28, 2008; Loukas Dhimakas, "The Russian Tanks Create Headache For Two," Athens, *Ta Nea Internet Version*, in Greek, December 8, 2007, *FBIS SOV*, December 8, 2007; John C.K. Daly, "Russia Wants To Sell Greece Weapons As well As Gas," *Eurasia Daily Monitor*, Washington, DC: The Jamestown Foundation, November 20, 2007.

[117] "For Russia, $4.3 Billion Arms Deal With Iraq Is Vital," www.upi.com, July 16, 2013.

[118] Bobo Lo, *Russia's Eastern Direction—Distinguishing the Real From the Vertical*, Russie.NEI. Reports No. 17, Institut Francais des Relations Internationales, 2014, www.ifri.org, p. 21.

[119] Thomas Gomart, "NATO-Russia: Is the 'Russian Question' European?" *Politique Etrangere English Edition*, No. 4, 2009, p. 132.

[120] I. Marinkovic, "Nuclear Bomb Because of Kosovo," Belgrade, *Press*, in Serbian, February 27, 2008, *FBIS SOV*, February 27, 2008.

[121] *Ibid.*

[122] Moscow, *Interfax-AVN Online*, in English, March 24, 2009, *FBIS SOV*, March 24, 2009.

[123] Visr Ymeri, "Big Brother of Northern Neighbor," Tirana, *Korrieri*, in Albanian, November 26, 2009, *FBIS SOV* December 6, 2009.

[124] Aleksandar Fatic, "A Strategy Based on Doubt: Russia Courts Southeastern Europe," *Contemporary Security Policy,* XXXI, No. 3, December, 2010, p. 450;

Boris Subsic, "Russian Base South Stream," Belgrade, *Neeljni Telegraf*, in Serbian, October 28, 2009, *FBIS SOV*, October 28, 2009.

[125] Zoran Radovanovic, "Armored Combat Vehicles From Krusevac,?" *www.danas.rs*, in Serbian, September 9, 2012, *FBIS SOV*, September 9, 2012.

[126] Pedja Obradovic, "Serbia Dismisses Concerns Over Russian Base," Sarajevo, *Balkan Insight.com*, in English, November 2, 2009, *FBIS SOV*, November 8, 2009.

[127] Moscow, *Interfax*, in English, May 5, 2011, *FBIS SOV*, May 5, 2011; Belgrade, *Tanjug*, in English, May 18, 2011, *FBIS SOV*, May 18, 2011.

[128] "Serbia Looks to Buy Several MiG-29 Fighters From Russia," *RIA Novosti*, May 6, 2013, http://en.ria.ru/military_news/20130506/180999564/Serbia-Looks-to-Buy-Several-MiG-29-Fighters-From-Russia.html.

[129] Sergey Romanenko, "Some Problems and Characteristics of Russian Politics in the Western Balkans in the Early 21st Century," *Democracy and Security in Southeastern Europe: Russia and the Western Balkans*, Sarajevo: Atlantic Initiative, I, No. 4-5, 2010, p. 15.

[130] Simurdic.

[131] Gerhard Mangott, "Russian Policies on Central and Eastern Europe: An Overview," *European Security*, VIII, No. 3, Autumn, 1999, p. 47.

[132] *Ibid*., p. 49.

[133] Fatic, p. 451.

Part Two

The Southern Gas Corridor: Transit Countries

Azerbaijan-Turkey Relations and Baku's Energy Strategy for Southeastern Europe

Gulmira Rzayeva

Introduction

The relationship between Azerbaijan and Turkey, particularly in the energy sphere, is both strategic and commercial. The two countries have a mutual interest in developing their energy relations and transforming them into wider potential business opportunities. Particularly important are the relations between their national energy companies—the State Oil Company of Azerbaijan (SOCAR) and Turkey's national oil company BOTAŞ Petroleum Pipeline Corporation (BOTAŞ).

The core element of this relationship is the Southern Gas Corridor and its three segments, which Turkey and Azerbaijan have a strong incentive to construct from both strategic and commercial perspectives.

Azerbaijani-Turkish energy relations entered a new stage of development in 2007 when Azerbaijan began exporting natural gas to Turkey via the South Caucasus Pipeline, sometimes also called Baku-Tbilisi-Erzurum pipeline. Subsequently, they signed a contract for transit of natural gas in 2011. This relationship is expected to last for

decades to come. Perhaps the most important project that will firmly tie the two countries is the Trans-Anatolian Natural Gas Pipeline (TANAP), which runs entirely through Turkish territory. TANAP should be considered the backbone of the Southern Gas Corridor.

Both international oil companies and SOCAR play a crucial role in constructing the energy corridor. They collaborate in developing Azerbaijani energy resources, building strategic infrastructure and defining the most commercially viable marketing arrangement for the natural gas. This chapter will focus on the growing share of SOCAR and its business prospects in pipe gas and, eventually, liquefied natural gas (LNG) imports, natural gas distribution, gas storage, and investment in the downstream market in Turkey. These market prospects will extend to Greece after SOCAR completes the acquisition of the Greek National Natural Gas Transmission System Operator S.A. (DESFA).

Considering the diversity of current and potential supply sources in Turkey's neighborhood, the partnership between the two countries—Turkey as a transit and consumer country, and Azerbaijan as a resource and infrastructure owner—could bring the vast volumes of natural gas from other sources into TANAP and further toward the truly liberalized European markets. With the help of such a partnership, Turkey can meet its rapidly growing domestic natural gas demand. Moreover, it can also transmit additional volumes of gas to the European markets, which are desperate to diversify their sources of supply, especially since the start of the conflict in Ukraine in 2014.

Azerbaijan can benefit from bringing more gas into the export pipelines, thus increasing the economics of the project. These aspects will be analyzed in the following pages.

Business Opportunities for SOCAR in Turkey

According to BOTAŞ's forecasts in 2012, Turkey's domestic natural gas demand will almost double from 47 billion cubic meters (bcm) in 2013, to 81 bcm by 2030. The primary driver of this rapid growth will be gas-fired power generation, whereby demand, according to BOTAŞ, will likely grow to 45 bcm per year (bcm/a) by 2030.[1] Demand for power is forecasted to increase at a rate of 6–7 percent per year, which can significantly contribute to overall natural gas consumption growth.

However, BOTAŞ's projection of 81 bcm seems to be overly optimistic, according to a study on the natural gas demand in the Turkish domestic energy market by the Oxford Institute for Energy Studies. The study argues that even in a high scenario, natural gas demand in Turkey is most likely to be at the level of around 67–70 bcm by 2030.[2]

Nevertheless, the Turkish government is concerned about the rapid natural gas demand growth in the long run and faces several important tasks that include:

a) Ensuring Turkey's energy security, and

b) Meeting the natural gas demand in the long run and making sure that no periodic supply shortages occur during the next two decades.

For this reason, the Turkish government's two main state entities supervising the energy sector, the Ministry of Energy and Natural Resources (MENR) as the decision-making and strategy prescribing body and the Energy Market Regulation Authority (EMRA) as the policy implementing body, have been trying to:

- achieve a progressive liberalization of the domestic market, and

- increase the role of the private sector in all segments of the natural gas market by reducing significantly the role of the state monopolist BOTAŞ, which is regulated by the Natural Gas Market Law No. 4646.

As of 2014, the share of private companies in the domestic natural gas market of the country was 22 percent. The new draft amendment to the Natural Gas Market Law considers increasing that share to 50 percent and consequently decreasing the proportion of BOTAŞ to 50 percent to ensure competitive prices and supplies.

The law creates competition between private firms interested in bringing more natural gas to the domestic market at competitive prices and increasingly attracting local and foreign companies' interest. New investors, attracted by wholesale competition, are potentially emerging as importers, paving the way for import competition. This could bring more natural gas to the domestic market in an efficient way.

Within this policy, SOCAR is gradually gaining ground in the Turkish domestic natural gas market. Other local and foreign companies, such as Shell, Bosporus Gaz, Akfel, Enerco Energy, Avrasiya Gaz, Kibar Enerji and Western Line, have secured import licenses and purchase gas directly from Gazprom since 2011. This gas comes to Turkey via the Western route—the so-called Trans-Balkan gas pipeline, whose two strings run through Ukraine. SOCAR's Turkish entity is interested in obtaining a permission license from EMRA to directly import gas from suppliers, primarily from the Shah Deniz consortium.

However, the process of issuing an import license is much more complicated than receiving a wholesale or distribution license. According to the provisional Article 2 of the Natural Gas Market Law, a private company should win natural gas volumes at an auction organized by BOTAŞ and obtain the consent of the seller.

Subsequently, BOTAŞ implements contract transfers, but the supplier/s should give its/their consent to sell that gas to companies other than BOTAŞ.

SOCAR Turkey Enerji A.Ş. has already applied for an import license from the EMRA, but due to the complex process of granting this type of license, the company has not obtained it yet. Besides, EMRA's decision depends on the demand dynamics at any given time. If there is a necessity to import higher volumes of natural gas, EMRA will grant more licenses.

Although there have been delays with SOCAR's import permit, its petroleum distribution company SOCAR Petrol Energy Distribution Turkey has secured a spot LNG license, which gives permission for spot import of LNG only. However, third party access to an LNG regasification terminal is complicated by legislation; therefore, no licensee has been issued for importing LNG, except for the terminal owner.

The Turkish domestic natural gas market is quite complex, composed of suppliers, wholesalers, network operators, distributors and consumers (eligible and non-eligible). The market mechanism is as follows: suppliers and importers (BOTAŞ and private companies) deliver gas to wholesalers. The wholesalers sell the gas to various distributors via BOTAŞ's distribution system, paying fees for the transportation and use of the system. Finally, the distributors sell the gas to the consumers.

At the same time, importers and domestic producers may sell gas directly to the distributors, thereby bypassing the wholesalers. In this case, according to the Natural Gas Market Law, to ensure fair competition, the distributor cannot be a legal entity of the importer but should be a business with different legal ownership. It is worth mentioning that all importers in Turkey also hold wholesale licenses.

However, domestic suppliers cannot sell to the distributors directly without having a wholesale license. All market players are allowed to import LNG if they hold an import permit from EMRA.[3]

SOCAR Gas Trade Inc., a joint venture of SOCAR Turkey Enerji A.Ş. and the Turkish gas company Çığ Enerji, is keen to participate in this chain of activities in the market directly, from commercial and strategic perspectives. SOCAR Gas Trade Turkey has been granted a wholesale license by EMRA at the end of 2012 and has been active since then in buying gas directly from BOTAŞ. The company has been selling this gas mainly to industry entities in Turkey starting from January 2013.[4] One of its principal natural gas consumers is Petkim, the petrochemical complex in İzmir, in which SOCAR has a 50-percent stake. SOCAR Turkey Enerji A.Ş. also sells natural gas to the power generators.

The distribution business is similarly within the scope of commercial interest of the company. As of 2015, SOCAR Gas Trade Inc. has not been involved in any gas distribution businesses. The company has shown interest in the privatization of the IGDAŞ, a natural gas distribution company in Istanbul with its five million consumers. The Turkish government has announced the privatization tender for this company in November 2014.[5] According to the Natural Gas Market Law (Article 7, part d), a wholesale company such as SOCAR can sell gas to its distribution company at no more than 50 percent of the total distributed volumes. Thus, in case SOCAR takes over any distribution company in Turkey, it may only supply gas for half of its total sales.

Through its companies in Turkey, such as SOCAR Gas Trade, SOCAR Petroleum, Petkim, Star refinery and the TANAP project, SOCAR is becoming the biggest investor in this country. The overall long-term investment volume is approaching $20 billion. The company is pursuing its commercial goal of participating in the entire value chain in Turkey's domestic natural gas market to maximize its revenues. From Azerbaijan's strategic investment perspective, Turkey is an ideal

spot for long-term investments, given the country's market size and lack of natural resources. This will be especially true once the Southern Gas Corridor comes on stream with its most important segment, TANAP, passing through Turkish territory from east to west and making this country more attractive for a long-term partnership.

Azerbaijan-Turkey Partnership Within the Southern Gas Corridor

The European Union initiative of launching the Southern Gas Corridor in 2008 signified the necessity for diversifying Europe's sources of supply, particularly those of countries that are almost entirely reliant on one supplier. The initiative was proposed in the European Commission's Communication "Second Strategic Energy Review—An EU Energy Security and Solidarity Action Plan" (COM/2008/781).[6]

In the immediate aftermath of several consecutive gas supply crises in 2006, 2008 and 2009, resulting from Russia's gas price disputes with Ukraine, the European Commission initiated the Southern Gas Corridor to bypass Russia in transporting natural gas from the Caspian Sea and Middle East regions.

The heads of government of the EU member states approved the Southern Gas Corridor and emphasized the importance of the Caspian region for the EU by adopting an action plan. The action plan specified that "new gas supply routes should be opened up in particular from the Caspian Sea area and Northern Africa."[7]

In the period before the economic recession of 2009, the European energy demand was at its peak, with the trend projected to continue developing upward, according to Cambridge Energy Research Associates and the International Energy Agency. This situation made all energy supply sources, especially the Caspian Sea, important for European consumers and the EU, which was worried about its energy security in general and gas supplies in particular.

For Azerbaijan, as a natural gas–producing country, securing access to the open, transparent and liberated markets, such as the European gas market, as well as expanding and developing new export routes has remained a priority in its energy strategy.

The transportation of natural gas, particularly pipe gas, is still a bilateral matter, not only between suppliers and buyers, but also between suppliers and transit countries, in which long-term agreements and uninterrupted flows are crucial. In the relationship between supplier and transit country, long-term contracts between actors may commonly reflect the seller's requirement for assurances that:

- the terms and conditions of the transit country are favorable,
- the legal framework is applied fairly, and
- the pipeline operates in accordance with uniform and non-discriminatory standards.

The transit country's interest is to secure long-term transit fee revenues and access to such a vital infrastructure.

TANAP

Before the Azerbaijani government initiated TANAP, Baku and Ankara completed lengthy negotiations on transit of gas from the Shah Deniz Phase II through Turkish territory. The negotiations were held between the Azerbaijani and Turkish governments, on the one hand, and SOCAR and BOTAŞ, on the other.

The gas transit negotiations between the two countries started in 2009. The process took two years and was fraught with political and

commercial difficulties. The Turkish-Armenian détente in 2010 had a negative influence on the negotiations and made them even more complex.

From a commercial point of view, agreeing on transit fees, gas price for BOTAŞ, and other terms and conditions made the negotiations especially prolonged. Both the European Union and the United States urged the sides to complete the negotiations sooner.

The Turkish-Azerbaijani transit agreement was needed to set out specific duties and obligations on the Turkish side to secure transiting Shah Deniz II gas to the Turkish-European border via the BOTAŞ transmission system. Once signed, the companies developing the Shah Deniz gas and condensate field would have a clear set of arrangements that would enable them to sell their gas and allow prospective customers to buy their gas under fully settled commercial conditions.

After protracted negotiations, the agreement was finally signed in 2011 and all terms and conditions on transiting Shah Deniz II gas via BOTAŞ's system were agreed upon.

Nevertheless, one major problem with this arrangement became a stumbling block for further pursuing this agreement: The existing BOTAŞ transmission system is capacity-constrained and not sufficient to transport bigger volumes of gas, apart from gas needed for the country's internal consumption. The contract stipulated that some additional investment would be made by the suppliers to upgrade the system. However, this would not have been enough for future larger volumes of natural gas from Azerbaijan's next generation fields, expected to come on stream beyond 2020.

BOTAŞ was already facing problems with regional gas shortages, especially at times of peak demand, which are arising mainly from Turkey's infrastructure problems rather than from national gas supply

shortages. For example, in the event that a natural gas–fired plant in Turkey needs to operate at full capacity during cold winter days, the highest daily value of gas dispatch via the BOTAŞ transmission system may only reach 200–212 million cubic meters (mcm). Given the demand growth in all sectors of the country and the fact that Turkey's new underground storage facilities will not be operational for several years, daily demand in winter time may often exceed the current maximum daily dispatch capacity. Therefore, supply shortages may still occur because of constrained transport system capacity.[8]

Not being able to take all contracted gas volumes, mainly from the eastern neighbors Iran and Azerbaijan, BOTAŞ would have to pay compensations in accordance with the "take or pay" clause. "Take or pay" provisions exist in all contracts, obliging Turkey to take a minimum of a specified proportion of the contracted volumes each year or pay for the gas even if it is not consumed. The natural gas not taken in any given year can, however, be used in a make-up period of 4–5 years.[9]

BOTAŞ has not been able to take all contracted volumes, especially from sources to the east of the country (Azerbaijan and Iran), because of the insufficient capacity of the BOTAŞ transport system, specifically the shortage of compression capabilities. BOTAŞ has been taking almost 90 percent of the natural gas coming from the Western Line and Blue Stream, but overall has had to pay billions of dollars for untaken volumes, effectively increasing the price of imports from Azerbaijan and Iran. In the contracts with Shah Deniz Phase I, the imported gas price depends on the percentage of gas that has been actually taken: utilizing all the contracted volumes of gas results in a lower price.

Despite the fact that the transit agreement was signed in 2011, after tough negotiations, it became apparent and of more immediate concern that Azerbaijan and its partners cannot use the existing Turkish transmission system.

The need for a new pipeline was apparent—a standalone dedicated pipeline, which would be regulated by the Turkish law but would operate under the terms and conditions agreed in a contract with the Shah Deniz consortium. This alternative initiative came from Azerbaijan in 2011 with the announcement of the Trans-Anatolian Pipeline project, which would substitute both the eastern part of the planned Nabucco pipeline (Nabucco East) and the insufficient Turkish infrastructure.

Azerbaijani President Ilham Aliyev and Turkish Prime Minister Recep Tayyip Erdoğan signed an Intergovernmental Agreement in İzmir on June 26, 2012, while the energy ministers of the two countries initialed a Host Governmental Agreement (HGA). The pipeline is envisaged to be operational by the end of 2018, bringing 10 bcm of gas to the European market in 2020 and 6 bcm to the Turkish market at its first stage in late 2018. It will start at the Georgian-Turkish border at Türkgözü and end at the Turkish-Greek border (İpsala-Edirne). The project lifetime is considered to be 49 years.

As initiator and owner of the project, SOCAR had a clear vision and invited the partners of the Shah Deniz consortium to participate in the TANAP project, creating and operating a midstream consortium for the first time. Developing and operating the pipeline together with partner companies would be beneficial for SOCAR in terms of sharing technical risks and financial burden. According to publicly available information, the TANAP construction cost is estimated at $12 billion dollars. SOCAR will be keeping 58-percent ownership; the company would be ready to give out the remaining shares.[10]

Participating in strategic projects such as TANAP would give international oil companies additional strategic advantages in transporting the gas they extract from Shah Deniz Phase II and other gas fields in the future, thus making them a part of the entire value chain. For Total, this would be gas extracted from the Absheron field;

for BP, from the Shafarg-Asiman field; and for Statoil, from the Zafar-Mashal field. Having a share in the transportation infrastructure gives more economic advantages to the gas-producing companies.

However, Total and Statoil did not join the TANAP project, noting other investment priorities. Additionally, from a commercial interest perspective, both companies had different priorities. For Statoil, which was to have taken a 12-percent interest in the project, raising "cash calls" for each segment of the value chain was financially burdensome. Basic calculations based on publicly available figures show that Statoil's share of "cash calls" in the Shah Deniz Phase II would be approximately $3.875 billion (15.5 percent of Statoil's interest in Shah Deniz II of the total $25 billion dollar investment cost).[11]

Statoil's investment in the South Caucasus Pipeline expansion (SCPx) segment is approximately $650 million (10-percent interest out of the total $6.5 billion investment). In total, Shah Deniz II and SCPx cash calls of Statoil would be equal to approximately $4.525 billion. If the projected investment in TANAP is added to this amount (12 percent of the total $12 billion construction cost), this would have increased the amount by $1.44 billion, resulting in almost $6 billion in total investment by Statoil in the entire Southern Gas Corridor chain.

The question was whether Statoil would be interested in allocating this amount of investment in one mega-project and one region. From the company's perspective, it would rather direct this investment to several upstream projects in Russia, Australia and Norway than to one mega-project in the Caspian Sea region.

The French Total was supposed to take a 5-percent interest in TANAP, but later pulled out of the project. Similarly, the company was driven mainly by commercial reasons in its decision. Total's investment cost would have been even lower than that of Statoil, as its share in Shah Deniz II and SCPx is only 10 percent. The French

company seems to see its priority in developing projects where the company is also an operator.

Total prefers to invest massively and develop within a short period the natural gas and condensate field Absheron, where it has a 40-percent stake and is the operator of the project. The company would rather direct all its financial capacity and launch the production as soon as possible than invest $600 million in TANAP and transport its 10 percent of the total gas production at this stage.

According to an interview given by the President of SOCAR, Rovnag Abdullayev, to Azerbaijani State Television after the signing of the Final Investment Decision (FID) on Shah Deniz II on December 17, 2013: "Statoil and Total will not join the TANAP consortium, because they were denied a veto right in the consortium's decision-making process regarding the pipeline."

In addition, SOCAR, as the owner of the project with a share of 51 percent (if Total and Statoil were to join), would want to have a sole decision-making right when it comes to strategic questions, such as third party access to the infrastructure of potential suppliers such as Turkmenistan, Iraq, Iran and others in the future. As of early 2015, the stakes in TANAP are distributed as follows: SOCAR—58 percent, BOTAŞ—30 percent and BP—12 percent (BP has reached agreement, in principle, to take a 12-percent equity in TANAP in December 2013).

Gas Supplies to Turkey

SOCAR and BP signed a Shareholder Agreement and, most importantly, a Gas Transport Agreement (GTA) on May 30, 2014. Including the transportation of 6 bcm of gas for Turkish domestic consumption was crucial for increasing the commercial viability of the TANAP pipeline. Additional volumes of gas transported through

the pipeline increase its commerciality and bring more revenues to the shareholders.

Moreover, Turkish TPAO enlarged its investment stake from 9 percent to 19 percent of the Shah Deniz consortium by buying Total's 10-percent share in SCP and the Shah Deniz field for $1.45 billion, in June 2014. Two different Turkish state companies, BOTAŞ and TPAO, along with BP and SOCAR will have a stake both in the upstream and the midstream part. However, it seems that TPAO will have more advantages vis-a-vis its partners, as another Turkish monopolist, BOTAŞ, will also be a buyer of natural gas, 19 percent of which will belong to TPAO. In effect, TPAO will have access to the accurate data on production costs and transportation. This advantage might strengthen BOTAŞ, which is bargaining with partners for lower prices of gas for the Turkish market.

Baku's Energy Strategy for Southeastern Europe

Greece

The winner of the tough pipeline contest for bringing Shah Deniz II gas to Europe, the Trans-Adriatic Pipeline (TAP), gives the producers an excellent opportunity to penetrate regional markets. Italy, where TAP will terminate after crossing the Adriatic Sea, should not be considered the final destination for Shah Deniz II gas since there is existing infrastructure for transporting gas further to other European countries. TAP is supposed to be connected via Italian Snam Rete Gas system with neighboring countries such as Switzerland and France via the Transitgas interconnector, and Germany and Belgium via a link to the TENP system.

In order to transport gas from Italy to these neighboring countries, investment is needed in the reverse flow of those pipelines. This issue is closely scrutinized by the Italian governement, and the final

decision on investment in the reverse flow of those interconnectors is planned to be signed during 2015.[12] The question of bringing gas to farther destinations, however, is on the commercial viability of such ambitious plans.

The Shah Deniz consortium has a long-term expectation that pipelines are expandable and natural gas can freely flow between the continent's regions, where it is most needed. However, these projects must be commercially viable and able to obtain financing. Sending gas farther inland should provide an adequate rate of return that allows the partners to invest back and be able to maintain "cash calls" within their obligations.

With the selection of TAP among other rival projects to bring Shah Deniz II gas to the Italian market, passing through Greece and Albania, Southeastern Europe is gaining more value and importance both strategically and commercially. As one of the three primary recipients of Shah Deniz gas, Greece is probably the country that will benefit most from this project.

Among other advantages, two billion euros ($2.24 billion)[13] of new investment is expected to come to Greece. Most importantly, given Greece's persistent financial problems, this will not be money coming from EU institutions or credits from international financial institutions. Greece will also benefit from the creation of 2,000 direct and 10,000 indirect jobs, contributing significantly to the country's recovery from the economic downturn.

At the start of the Southern Gas Corridor and later when the Interconnector Turkey-Greece-Italy (ITGI) project was eliminated by the Shah Deniz II partners, Greece was an outsider having no direct role to play. With the TAP project passing through Greek territory, however, the country is no longer a spectator and has a political and geopolitical role to play. For the first time, Greece has a tool to pursue its energy diplomacy wisely. This diplomacy should be firstly directed

to ensure energy security, secure the diversification of energy supply sources, and turn the country into a linking point between Greece, Bulgaria and other countries of Southeastern Europe.

In this respect, Greece could play a significant role in creating a *vertical corridor* that would connect all gas volumes going in the east-west direction. Developing the necessary infrastructure to support such an initiative is crucial. SOCAR, a company that has an interest in all segments along the industrial energy value chain, including Greece's gas transmission system operator DESFA, has a particular role to play here.

Azerbaijan and its State Oil Company SOCAR understand the increasing role of Greece in providing the necessary infrastructure to bring more gas from alternative sources toward the Southeastern and Central European markets. The natural gas transmission system operator DESFA, which will be under SOCAR's control once the European Commission approves the acquisition (expected in the first quarter of 2015), will play a significant role.

The infrastructure that could find a place in such a vertical corridor is TAP, the EastMed Pipeline, and LNG facilities (Revithousa) in Piraeus that would be linked to the infrastructure in Southeastern and Central Europe. Greece can increase LNG imports via Revithousa by increasing the terminal regasification capacity.

The EU has already agreed to finance 160 million euros ($179 million) for the expansion of the LNG plant within the EU Project of Common Interest (PCI) initiative, which will give Greece an opportunity to import more LNG. Revithousa LNG terminal is situated in the Gulf of Megara (Kolpos Megaron) on Revithousa Island (Nisos Revithousa) and is some ten nautical miles west of Piraeus. The terminal is owned by DESFA S.A.[14] SOCAR, which acquired 66 percent of the Greek transmission system operator in December 2013, has automatically become owner of the regasification plant as well.

Within this context, however, SOCAR has faced difficulties in acquiring the necessary approvals from the EU because having a stake in upstream, midstream and downstream projects in one value chain must be vetted against Article 11 of the EU Third Energy Package. The new Greek government also seems to be averse to the privatisation of DESFA, a deal concluded by the previous government. However, as it turned out, reversing the privatization deal could be a risky move for Greece. Such behavior of the new Greek government would break the principles of the Energy Charter that both Greece and Azerbaijan are members of, as well as those of the World Trade Organization (WTO)—which Azerbaijan has not joined yet, but of which Greece is a member.

The main violation of the principals of the Energy Charter is that the new Greek government is attempting to impose different criteria on transmission system operators, if they are non-EU owned. Therefore, such treatment would be discriminatory and in breach of the principles of national treatment, fair and equitable treatment, and most-favored-nation treatment.

With the expansion of Revithousa LNG terminal's regasification capacity, additional volumes of LNG can be imported to the Greek market and further to neighboring countries such as Bulgaria, Macedonia and Albania (once, and if, the country is gasified). Re-gasified gas can be sent to the northern borders of Greece via the existing transmission system operator DESFA.

In order for the gas to move freely from Greece to other regional markets, interconnectors between Greece and those countries need to be built as well as a transportation and distribution grid in Albania, which currently does not exist. Some lesser investment is required to link the national grids of Greece and other Southeastern European countries; this investment is easily accomplishable and affordable.

Within the vertical corridor context, the other option is using SOCAR TSO in Greece. This option could include creating a floating LNG terminal in northern Greece, which will be linked to the national grid and provide additional quantities of gas.

SOCAR's export portfolio can add more volumes of gas imported via LNG and floated LNG terminals to improve energy security and diversification of supply sources in Greece, which imports 64 percent of its gas from one supplier—Russia.

Furthermore, in the future, natural gas from new reserves in the Eastern Mediterranean and Cyprus, planned to be transported to Greece via the EastMed Pipeline under DEPA's operatorship, could be delivered to the TAP pipeline through SOCAR's transmission system operator and further exported to a broader range of countries via the interconnectors linked to TAP.

Because TAP has a third-party exemption from the EU's Third Energy Package for 25 years for 10 bcm/a, the gas from Cyprus could also be added to the SOCAR or TAP partners' gas export portfolio and shipped as a partner's own gas.

Putting additional volumes of gas from alternative sources to SOCAR's portfolio would generate more revenues for the company being a sole transporter of the natural gas and enjoying 25 years of exemption of the transportation of gas via TAP. Needless to say, all these scenarios will depend on the market—supply and demand dynamics, price and the price formation mechanisms—to ensure the commercial viability of those projects.

A combination of all possible supply sources, together with the transportation infrastructure, concentrated in Greece within the so-called vertical corridor, could turn Greece into the linking point of suppliers, transporters and consumers in the South, Southeastern and Central European markets. The country could take advantage of both

the existing critical infrastructure such as DESFA TSO, Revithousa LNG Terminal and the planned ones—TAP, a floating LNG terminal and the EastMed pipeline.

SOCAR can also benefit from east-west gas flows within the scenarios described above as the State Oil Company of Azerbaijan participates in all the segments of this chain, including the downstream projects in Greece.

Gas to Bulgaria

Another piece of critical infrastructure in Greece envisaged to bring Shah Deniz gas to the Bulgarian market is the Greece-Bulgaria Interconnector (IGB). Slightly less than one bcm/a of gas was contracted by the Shah Deniz gas producer companies and Bulgargaz. The delivery point for the Bulgargaz Gas Sales Agreement (GSA) will be the town of Komotini in northern Greece, not far from the Greek-Bulgarian border.

It is worth mentioning that the delivery point for the DEPA and Bulgargaz GSAs may be amended depending on how the TANAP project develops. The Bulgargaz GSA is conditional on the final investment decision for the interconnector between Greece and Bulgaria before January 1, 2017.

The Final Investment Decision (FDI) and commencement of construction works of the 182-km-long (113 miles) pipeline with a maximum 5 bcm/a capacity have been long delayed. The fact that up to one bcm/a of Shah Deniz gas has been contracted for sale to Bulgargaz suggests that work on the pipeline may finally begin. It will also be partly due to the inclusion of such strategic interconnection projects in the European Commission's Projects of Common Interest (PCI). In March 2015, the Commission has reportedly agreed to provide financing to the gas pipeline.[15]

The interconnectors open the possibility for Azerbaijani gas to eventually reach significant European markets, not just in Southern Europe (Italy), but also in Southeastern Europe. Indeed, the construction of a small additional number of relatively inexpensive interconnectors could implement an entirely reversible gas ring in Southeastern Europe, sourced from Azerbaijan.

Taking into account the delay in the construction of the Greece-Bulgaria interconnector, it seems that the decision on the delivery point was made by the sellers at the Shah Deniz consortium, without the participation of the companies that would transport gas to Bulgaria. Bulgargaz will be fully responsible for transporting the gas to the country and building the necessary infrastructure.

Another possible option of transporting Azerbaijani gas to the Bulgarian market is using already existing pipelines. The Trans-Balkan pipeline, stretching all the way from Ukraine to Greece, currently transports Russian gas to Romania, Bulgaria, Greece and Macedonia via Ukraine. The total capacity of the pipeline is 27 bcm/a, but the current operation capacity is 18.3 bcm/a. The pipeline has almost 9 bcm of free capacity to transport additional volumes of gas. For this pipeline to be used, negligible investment in developing reverse flow will be needed.

Pursuant to the third-party access rule of the EU Third Energy Package, the Shah Deniz II gas producers could have access to the Trans-Balkan gas pipeline by booking capacity for one bcm of Shah Deniz II gas and any other gas coming from Azerbaijan. For that, the capacity of the pipeline will need to be expanded.

Establishing reverse flow of the Trans-Balkan pipeline will provide additional possibilities for SOCAR to freely move gas within the region as well as send it all the way to Ukraine. Therefore, having access to the infrastructure with multiple entry and exit points, the State Oil Company of Azerbaijan can also realize swap operations.

Thanks to being able to access such an infrastructure, SOCAR can swap gas with Russia for Bulgaria, while not necessarily participating in the transportation of gas via the Trans-Balkan pipeline.

Consequently, SOCAR can ship to the Greek market 1 bcm more than contracted, and Gazprom can decrease its export of gas to Greece by 1 bcm and sell this volume of gas to Bulgaria as Shah Deniz gas. In fact, swap operations with consequent access to multiple pipelines will open greater opportunities for the Shah Deniz gas sellers. Likewise, the natural gas can be sent as far as the UK market, however fantastic it might seem at present, once all the European natural gas markets are linked and connected.

The scenarios mentioned above seem realistic, affordable and accomplishable considering a number of EU directives adopted to enhance and interconnect the European energy infrastructure. The EU 2020 strategy adopted in 2010 puts energy infrastructure at the forefront and underlines the need to upgrade and interconnect Europe's energy networks.

The EU accepted a number of other documents in this direction, including the Projects of Common Interest Initiative, which was adopted in 2013 and includes 140 energy and infrastructure projects in Europe that will be financed by the EU. Among those projects, the entire Southern Corridor, with all of its segments, was included as a project of common interest. These projects will benefit from their priority status in national legislation, a reduced period for granting permission for receiving grants, which is currently 4–4.5 years, as well as possible financial aid.

This initiative will contribute to market integration, security of supply and sustainability. Within this context, the Southern Gas Corridor can be a catalyst for building interconnectors between the Balkan countries, where Azerbaijani gas can flow.

Conclusion

The Southern Corridor should not be considered a single value chain. It should be seen as a multiple pipeline network with various exits and entry points, which will not only ensure energy security of the countries in the South, Southeastern and Central Europe, but will also provide security of demand for the companies developing the Second Phase of the giant Shah Deniz natural gas and condensate field in Azerbaijan. Consequently, the Greece-Bulgaria Interconnector, the Trans-Balkan pipeline, the prospective Ionian-Adriatic Pipeline (IAP), which is envisaged to connect to TAP and transport Shah Deniz II gas to other Balkan countries, and the existing Italian Snam Rete Gas transport system should all be built and connected to the Trans-Adriatic Pipeline as part of the Southern Gas Corridor.

The EU needs to actively pursue the adopted directives and documents on single energy infrastructure, connect all European countries by 2020, and finance the projects of common interest.

SOCAR's natural gas transport system operator DESFA would allow the shipment of additional volumes of gas, potentially coming from alternative sources within the Greek market, and their transportation to neighboring countries via TAP and other pipelines.

The realization of potential projects to bring more gas to the regional market through Greek territory can make Greece an important transit route, providing energy security for countries that are in much need of diversification. The energy issues in such a sensitive region are fraught with political complications. However, strictly economic merits should be taken into account while making critical decisions. Otherwise, it would be impossible to attract international investment in building infrastructure as investment decisions are based on commercial considerations.

NOTES

[1] Gulmira Rzayeva, "Natural Gas in the Turkish Domestic Energy Market: Policies and Challenges," *Oxford Institute for Energy Studie*s, February 2014, http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf.

[2]*Ibid*.

[3]*Ibid*.

[4] Official website of SOCAR: http://www.socar.com.tr/, accessed March 12, 2015.

[5]Asli Kandemir and Seda Sezer, "Gazprom, Marubeni, Turkish firms eye Istanbul gas grid sale," *Reuters*, November 4, 2014, http://af.reuters.com/article/energyOilNews/idAFL6N0ST35M20141104.

[6] "Communication from the Commission of the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions. Second Strategic Energy Review—An EU Energy Security and Solidarity Action Plan," European Commission, November 13, 2008.

[7] Council of the European Union, Presidency Conclusions, March 8/9, 2007, European Council Action Plan (2007–2009): Energy Policy for Europe, Brussels, European Council. Published May 2, 2007.

[8] Gulmira Rzayeva, "Natural Gas in the Turkish Domestic Energy Market: Policies and Challenges," Oxford Institute for Energy Studies, February 2014, http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf.

[9] "Turkey's Natural Gas Market: Expectations and Developments," *Deloitte*, 2012.

[10] Guy Chazan and Daniel Dombey, "Total and Statoil pull out of Tanap gas pipe deal," *Financial Times*, December 16, 2013, http://www.ft.com/intl/cms/s/0/2d2e749a-666d-11e3-8675-00144feabdc0.html#axzz3Tco1AfyS.

[11]"Shah Deniz Final Investment Decision Paves Way for Southern Corridor Gas Link with Europe," BP Press Release, December 17, 21, http://www.bp.com/en/global/corporate/press/press-releases/shah-deniz-final-investment-decision-paves-way.html.

[12] "Ten-year development plan of the natural gas transmission network 2014–2023," Snam Rete Report, http://www.snamretegas.it/repository/file/ENG/Thermal_Year_20132014/ten-year-plan/snam_piano_decennale_ing_def.pdf.

[13] Currency conversions based on exchange rates as of March 1, 2015. Historic exchange rates available at http://www.oanda.com/currency/converter/.

[14] Revithoussa LNG Terminal, Marine Procedures Manual, http://www.desfa.gr/files/YFA/ENGLISH%20VERSION%20DOC/Marine%20Procedure%20manual%20rev%202011.pdf.

[15] "Prime Minister Boyko Borissov: I Have Šefčovič's Assurance that the Gas Interconnector with Greece will be Financed by the European Commission," Official Website of the Council of Ministers of Bulgaria, March 20, 2015, http://www.government.bg/cgi-bin/e-cms/vis/vis.pl?s=001&p=0137&n=352&g=&vis=000168.

The Shale Gas Revolution and US Strategy on the Southern Gas Corridor: The Strategic Cooperation of Azerbaijan and Greece

Anthony Livanios

Introduction

Lord Browne, as Group Chief Executive of BP in the 1990s and 2000s, was a protagonist in the exploration and production of oil and gas in Azerbaijan. He writes in his memoirs that one of the great moments of his career was to be part of the official inauguration of the new Ceyhan marine export terminal and the Baku-Tbilisi-Ceyhan pipeline on July 13, 2006. "It was a hot, sunny, clear day on the coast of the Mediterranean," he recalls. "You could see as far as Syria. The heads of the three 'pipeline countries' were there with me: Ahmet Necdet Sezer, President of Turkey; Ilham Aliyev, President of the Republic of Azerbaijan; and Michael Saakashvili, President of Georgia. In my speech, I commented not only on the heroic engineering achievement, but also on the strategic significance: 'the commissioning of the Baku-Tbilisi-Ceyhan pipeline is a significant step in the long history of the oil industry. It reintegrates significant oil supplies from the Caspian into the global oil market for the first time in a century.' "[1]

Today, Lord Browne, as Chairman of Cuadrilla Resources Ltd., a British exploration firm, focuses his efforts on shale gas development in the English countryside. Browne says the upheaval in Ukraine should spur European political leaders to clear the way for shale gas. "I hope this reminds people that having indigenous sources is a good thing," he says.[2]

The crisis in Ukraine demands a further rethinking of Europe's energy security strategy because it is unfolding at a moment when the Southern Gas Corridor is in full development and the shale gas revolution in the United States is changing the commercial and geopolitical dynamics of the global gas trade. The crisis in Ukraine acts as a catalyst for the West to find alternative sources of natural gas and simultaneously develop their own shale gas deposits. This is true for both Americans and Europeans. Fadel Gheit, an oil industry analyst at Oppenheimer & Co. in New York believes that "John Browne is on the right track. Fracking has transformed our thinking in the US about our energy future. And Europe will have to finally wake up and realize that it needs to make some hard choices about developing its own domestic resources."[3]

The Southern Gas Corridor, which will deliver Caspian gas from Azerbaijan to Europe, is coming at a critical time for European energy security. It offers both an alternative route and alternative source of energy. The corridor will traverse Georgia, Turkey, Greece and Albania and will finally reach Italy through a pipeline under the Adriatic Sea. This chapter will analyze US foreign energy policy toward the Southern Gas Corridor as it is influenced by the dynamics of the shale gas revolution. It will look into the impact of the shale gas revolution on US foreign energy policy and the new US energy geostrategy in relation to the Southern Gas Corridor. It will also explore how the 2014–2015 crisis in Ukraine has affected US energy geostrategy. The chapter will further analyze the new emerging relationship between two key countries for the Southern Gas

Corridor—Azerbaijan and Greece—and look into how this relationship strengthens energy security in Europe.

Greece is a critical part of the Trans-Adriatic pipeline (TAP), the third part of the Southern Gas Corridor that starts at the Greek–Turkish border. Political and energy developments in Greece can affect the advancement of the Southern Gas Corridor. The January 2015 victory of the radical left in Greece raises uncertainty about the country's economic and financial future and calls into question whether the new government of Syriza will honor Greece's previously undertaken commitments to the Southern Gas Corridor. For one, the Greek government of Alexis Tsipras seems to pursue a closer cooperation with Russia. Furthermore, his government intends to ask for more benefits from the already signed agreement with TAP.[4] In addition, Syriza plans to re-examine the privatization of DESFA (the Greek natural gas transmission system operator) with SOCAR (the State Oil Company of Azerbaijan). However, it does not intend to cancel it, according to the new Greek Energy Minister.[5] On the other side of the Aegean, Turkey has agreed with Russia to develop the Turkish Stream pipeline aiming to deliver Russian gas to the EU. Russian President Putin announced the cancellation of South Stream and committed to Turkish Stream, a shorter-version pipeline that aims to carry the same amount of gas to Europe via Turkey and Greece. The two "ambivalent" NATO allies seem to pose new challenges to the North Atlantic Alliance and the EU's energy policy of diversifying natural gas routes and resources.

The analysis will conclude with policy recommendations for the United States foreign energy policy.

The US Shale Gas Revolution: Toward a New US Energy Strategy

Michael Levi of the New York–based Council on Foreign Relations writes that that for forty years, Americans tried to exercise a foreign energy policy to make the United States less dependent on foreign oil

imported from volatile regions. Now, with domestic oil and gas supplies surging, many are convinced that the goal is within reach. According to Levi, the domestic oil and gas boom is simply the answer to foreign oil.[6]

In 2000, shale gas represented less than 2 percent of total US natural gas production. By 2012, that figure skyrocketed to 37 percent. According to energy authority Daniel Yergin, by 2020 shale gas could represent half or more of total US natural gas supply and could sustain increasing energy independence in the Western world.[7] In the 1980s and 1990s, George Mitchel, a Texas oilman, who was born in Galveston, Texas, to Greek immigrant parents, started drilling for shale gas in Barnett Shale, a thick geological formation that covers five thousand square miles, fanning out from Dallas to the west and south. A petroleum engineer, Mitchel is considered the father of hydraulic fracturing. He has refined it by "trial and error" and by applying horizontal drilling, which led to the shale gas revolution.[8]

Robert A. Heffner III, a pioneer of the US oil and gas industry, who developed ultra-deep natural gas in the Anadarko Basin during the 1970s and succeeded in convincing the US Congress to deregulate deep natural gas below 15,000 feet in the 1980s, stated that "natural gas has been a godsend for the United States. [...] The shale boom has created hundreds of thousands of new high-paying jobs, and now, more than one million Americans work in the oil and gas industry—an increase of roughly 40 percent between 2007 and 2012. Moreover, because natural gas currently supplies about 25 percent of the total energy consumed in the United States (a figure that is rapidly growing), the boom is saving US consumers hundreds of billions of dollars a year. Combined with the other benefits, those savings have given the United States a long-term economic advantage over its competitors and help the country recover from the Great Recession."[9] The Paris-based International Energy Agency has forecasted that the 21st century will be the "Golden Age of Gas." As the global demand for natural gas is primarily driven by gas-fired power plants that are

replacing the traditional coal-fired power plants, US shale gas is making the American economy more competitive while also reducing the carbon dioxide emissions, as natural gas is a cleaner form of energy.

Furthermore, domestic shale gas production strengthens US energy independence. The geopolitical consequences for the United States are as important as the economic ones. For more than four decades since the 1973 oil crisis, the US had to rely on foreign oil and gas. US foreign policy had to secure the steady flow of oil to international markets, maintain the US Navy in risky areas, such as the Strait of Hormuz in the Persian Gulf, and rely on oil-rich but not democratic regimes in the Middle East for importing oil. This energy dependency has generated, especially over the last decade, a growing international and domestic debate over the decline of American power. All this is about to change.

Shale gas and tight oil have significant implications for US foreign policy. "The combined impact of native commercial innovation and creativity, open energy markets and effective political and economic statecraft by the United States, pushes very hard against the received wisdom of 'American decline.' [...] By generating a structural increase in supply, the stability of Russia and Saudi Arabia are threatened. Both states operate on the calculation that the structural increase in demand stemming from Chinese and Indian development will ensure long term, stable, high oil prices. Long-term lower prices are likely to make it difficult for both countries to maintain the current spending, which ensures their social stability. Significant internal turmoil in these countries will most certainly impact on their neighbors and may well affect international security more widely. In the Middle East in particular, this could present a significant challenge for the US."[10]

Eurasia and in particular the Caspian region could also present a significant challenge for the US. Russia will try to exploit any reluctance of the US to support and promote the flow of Caspian gas

to the European and international markets. After the end of the Cold War, and especially under President Vladimir Putin, Russia has sought to: purchase Caspian oil and gas and resell them to Europe or construct pipelines to transit Caspian energy resources via its territory. With the development of the Baku-Tbilisi-Ceyhan oil pipeline in the 1990s, Azerbaijan succeeded in bypassing Russia for the oil that is being produced at the Azeri-Chirag-Guneshli oil field. Today, Azerbaijan aims to develop the Southern Gas Corridor with the international consortium of the Shah Deniz gas field, led by BP, and with the support of other Western strategic partners. This is the largest upstream and midstream natural gas investment in Europe to the excess of $45 billion: $25 billion in the offshore gas project and $20 billion in the construction of transit pipelines. As the United States increases its power and strengthens its energy security, it can be more effective in supporting Azerbaijan and the other Caspian countries to be independent from Russia and export their oil and gas supplies via diversified and secure routes. The US can achieve this goal with stronger diplomatic efforts and by promoting midstream investments of American firms in the region.

As the US is turning to its domestic development of shale gas and tight oil production, it may run into a geopolitical risk, if it underestimates recent international developments. This is a risk because Russia will seek to exploit such a scenario. Russia is trying to exercise more influence on the oil- and gas-rich Caspian region through the Eurasian Union, which came into effect in January 2015. Kazakhstan, the country with the largest proven oil reserves in the Caspian Sea, is one of the three founding members of the Moscow-led Eurasian Economic Union. Moreover, Kazakhstan trades all of its gas via Russia. This is an ideal model for Russia, which President Putin would like to apply to all of the former Soviet countries. In a similar line of thinking, the Russian president is aiming to create the Gas Exporting Countries Forum (GEFC), sometimes known as the "Gas OPEC," with which he could, in the future, control international gas supplies and thus affect gas prices. President Putin envisions Russia's role in

the Gas OPEC as similar to the one of Saudi Arabia in OPEC.[11] US shale gas production is a serious threat to President Putin's plans to use gas as a weapon in achieving Russia's geopolitical objectives.

Previous US administrations, especially under President Bill Clinton, have paid close attention to the strategic importance of direct Caspian energy exports to Europe and the Mediterranean that would bypass Russia. In 2010, former US National Security Advisor Zbigniew Brzezinski said at a Jamestown Foundation conference in Washington, DC: "I was President Clinton's emissary to [Heydar Aliyev, President of Azerbaijan] back in the relatively early-'90s. I was asked to, in effect, convince [Heydar Aliyev] that he ought to commit to the Baku-Ceyhan [oil] pipeline, not because it was a potentially lucrative economic undertaking but because that commitment would entail a strategic partnership with the United States. […] I sat down with Aliyev, told him about the interest of the United States in the Baku-Ceyhan line and the reasons for it, but then also emphasized this was not just a commercial agreement, this was a strategic choice. In effect, the United States was offering Azerbaijan a formal strategic partnership, which would have implications for the area, which would make the Caspian Sea accessible to the West."[12]

After the end of the Cold War, the United States has aimed to diversify its oil and gas supplies and the supplies of its European allies by developing the oil and gas resources of the Eurasian region. The success story of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline was primarily the result of the US strategy and foreign oil policy in the post-Soviet states. The BTC oil pipeline was a strategic priority for the Bill Clinton administration. The challenges that Azerbaijan, Georgia and Turkey faced from Russia at that time were overcome by this effective US strategy. As Richard Cheney said before an audience of US businessmen in Washington in 1998: "I can't think of a time when we've had a region emerge as suddenly to become as strategically significant as the Caspian."[13] Oilmen and the media called the success

of the BTC pipeline "the contract of the century." This was a reflection of the power and the new geo-strategy of the US in Eurasia.

Today, it is in the US interest to continue strengthening this strategy toward Azerbaijan and the Caspian region. The US can be even more effective with its enhanced power deriving from extraordinary domestic shale gas and tight oil production. The Caspian Sea, which is at the heart of Eurasia, is an arena for power struggle for China and Russia, where they are challenging the United States. A stronger America, both in political and economic terms, as a result of the shale gas and tight oil revolution, can serve as a leading power and source of stability in the region. In the Caspian region, Azerbaijan is the country closer to the West that is now producing oil and gas and in the future could be transiting Caspian oil and gas from Kazakhstan and Turkmenistan, thus becoming a bridge to the West via Georgia and Turkey.

The US geo-strategy in Eurasia aims to strengthen US energy security and protect the commercial interests of American oil majors. To illustrate, Chevron in 1993 signed a 50/50 Production Sharing Agreement (PSA) with Kazakhstan for the Tengiz oil field. Along with Chevron, more US oil companies followed: Exxon, Mobil, Texaco, Halliburton and Phillips Petroleum. Between 1996 and 2000, 35 more PSAs were signed in the Caspian, including the one for Azerbaijan's giant gas field Shah Deniz. Moreover, PSAs were signed for the Karachaganak oil field in Kazakhstan, estimated at 2.3 billion barrels of oil, and the Kashagan offshore oil field, with an estimated 10 billion barrels of oil—the largest oil discovery in the world during the last decade. As a result, the world's proven oil and gas reserves increased with the new discoveries in the Caspian. The United States, being traditionally dependent on oil imports from the Persian Gulf, was now in a position to diversify its oil supplies. The two oil shocks in 1973 and in 1979 had left the US vulnerable. Since then, the United States has been on a quest to achieve real energy security; and today, the shale gas revolution brings the country well on its way toward this

goal. It is in the national interest of the United States to increase its support for Azerbaijan and the Southern Gas Corridor. US oil majors and American foreign policy accomplished the realization of many upstream and midstream projects that helped the former Soviet states open up their societies and bring free market prosperity to their people that were oppressed for almost a century under Communism. Today, US shale gas production and the increased American power can enhance the economic well being of the Caspian region.

Daniel Yergin, a leading international authority on oil and gas, asserts that the questions of who would produce the Caspian oil and gas and who could succeed in bringing it to market became US priority in the Eurasian region.[14] Energy security was a top priority for Washington in the early 1990s. "Saddam's grab of Kuwait and the Gulf War, just concluded, had once again demonstrated the risks of the world's overdependence on the Persian Gulf. If the Caspian could be reintegrated into the world energy industry, […] that would be a very large step in diversification of petroleum supplies, making a most significant contribution to the global energy security. To be prevented was the flip side—these resources slipping back under exclusive Russian sway or, even worse, under Iranian influence."[15]

The United States faced a dual challenge in the Caspian region regarding the Southern Gas Corridor: Russia and Iran. Both countries share borders with Azerbaijan. As Yergin claims, "the prize [of the new Great Game] was the oil and natural gas,"[16] but the competition was for influence over three countries—Azerbaijan, Kazakhstan and Turkmenistan. US strategy aimed to bring them closer to its sphere of influence. Moscow saw growing American influence in the Caspian as an attempt to undermine Russia. Tehran saw an independent Azerbaijan—more tolerant, secular, more prosperous and allied with the United States—as a threat. Meanwhile, the strategic objective of the three newly independent Caspian littoral states was to maintain and consolidate their newly acquired sovereignty and solidify themselves as independent nations.

International relations analyst and journalist Roger Howard claims that Iran's vast resources of oil and natural gas have not only emboldened the Tehran regime, but also put increasing strains on the United States' international influence. "Iran's contemporary challenge to the United States, in short, represents an explosive tension between politics and resources."[17] This "explosive tension" has been a supreme challenge of the US geo-strategy in Eurasia. Thane Gustafson emphasizes the internal challenges of Russia's oil and gas industry and the repercussions for Eurasia as well as US determination to help Azerbaijan, Kazakhstan and Turkmenistan achieve their political and economic independence from Russia.[18] Furthermore, the US strategy aimed that economic prosperity of these countries is based on efficient production of oil and gas.

The aforementioned foreign energy policy was unfolding for more than two decades in the Caspian region and resulted in two major achievements: the construction and successful operation of the BTC oil pipeline and the ongoing work on the Southern Gas Corridor, comprised by the South Caucasus Pipeline, the Trans-Anatolian Gas Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP). Will the United States continue this foreign energy policy in the years ahead as it becomes energy independent with shale gas and tight oil production growing? Does it make sense commercially for the US to support and promote the Southern Gas Corridor? What are the geopolitical advantages of the US to support the Southern Corridor and bring Azerbaijan closer to the West? What are the risks of inaction and how will Russia exploit it? How can the US co-operate with its long-term NATO ally Greece in bringing Azerbaijani gas to Europe and strengthen the European energy security? These are the fundamental questions sought to be answered in the following pages.

In a research study on shale gas and national security, sponsored by the US Department of Energy, the James A. Baker III Institute for Public Policy at Rice University demonstrated that "U.S. shale gas can

help abate the enhancement of geopolitical power wielded by key petro-states as global primary energy use shifts increasingly to natural gas. Specifically, shale gas will play a critical role in diminishing the petro-power of major natural gas producers in the Middle East and Russia."[19] In this authoritative research, the Baker Institute examines the geopolitical consequences of rising supplies of natural gas and the potential implications for US national security. The study uses an advanced quantitative technique by utilizing the Rice World Gas Trade Model (RWGTM). This is a spatial general equilibrium model where supply and demand are balanced at each location. Furthermore, the model quantifies geopolitical influences on resource development and trade flows.[20] It is worth utilizing this model, because its conclusions are of utmost relevance to Russia, Azerbaijan and the Southern Gas Corridor.

Specifically, related to Russia and Europe the research draws on the following key conclusions:

1) Falling market share for Russian gas in non–former Soviet Union Europe from 27 percent in 2009 to about 13 percent by 2040, thus diminishing the likelihood that Moscow can use energy as a tool for political gains.

2) Lower likelihood of a long-term monopoly of a potential Gas OPEC or a single producer such as Russia that exercise dominance over large natural gas consumers in Europe or elsewhere.

3) Virtual elimination of US demand for imported LNG for at least two decades. Reduced competition for LNG supplies from the Middle East, thereby moderating prices and spurring greater use of natural gas.[21]

The Baker Institute study is making the following observation regarding Russian exports: "…shale development has already had, and will continue to have, significant impacts on regional production,

demand, and pricing. Shale gas development has already had a major impact on Russia's status as a global gas exporter and will bring about a more dramatic weakening of Russia's position in Europe over time."[22]

This conclusion could provide an interpretation of the annexation of Crimea by Russia and the on-going crisis in Ukraine. Since the study was published in October 2011, Russia has been losing ground in the European gas market, as evident by a number of important developments:

- First, EU countries have been renegotiating gas supply contracts with Gazprom in order to achieve a more competitive price on gas.
- Second, former European Union Energy Commissioner Günther Oettinger had initiated a legal inquiry into the monopolistic practices of Gazprom in the EU member states.
- Third, the EU countries have successfully unbundled their gas distribution networks from the gas trading companies.
- Fourth, the European Commission has been developing a unified single European market of natural gas where gas can be traded freely and price can be determined by demand and supply. Consequently, the EU has been promoting an energy policy where the price of natural gas will not be linked with the price of oil. While Gazprom is seeking to maintain long-term oil-indexed gas supply contracts, the EU is trying to enforce free market principles.
- Fifth, Gazprom's contracts routinely contain a "take-or-pay" clause together with a "destination clause" that forbids any gas reselling by the buyer. The European Commission has included this practice in its antitrust probe against Gazprom. The Commission has considered destination clauses as anti-competitive in Gazprom's agreements with ENI (Italy), OMV (Austria), E.ON Ruhrgas (Germany) and Poland.

All these forms of contracts imposed by Gazprom have been rapidly changing over the last five years. In 2009, when yet another Russian–Ukrainian crisis over the price of natural gas took place, the development of shale gas already began making an impact on the US domestic energy market. However, experts from Russia and Europe were still underestimating the impact of US shale gas on the global gas market, as witnessed at the European Gas Conference in Vienna, Austria in 2010. Three years later, at the Frankfurt Gas Forum in Germany in December 2013, there was a clear consensus among the participants that shale gas was changing the market and could potentially strengthen European energy security.

Undoubtedly, the shale gas revolution will help the United States become more powerful economically and geopolitically in the next few years. As the US is achieving energy independence, additional gas supplies will be made available in the world energy markets, thus Europe will have more options. Furthermore, a more powerful America in the future will most probably help its European allies to stand up to Russia. In addition, as EU's energy supply market diversifies and energy regulations strengthen, Russia's gas market in Europe will be shrinking. Arguably, these developments might have prompted Russian President Vladimir Putin to show that Russia is still powerful and could start a security crisis in Europe—as he did by annexing Crimea and aiding the separatists in eastern Ukraine.

Discussing the prospective Nabucco pipeline project, the Baker Institute report concludes that shale gas development will affect negatively Azerbaijan's gas exports. "Azerbaijan is the exporter most hurt by the advent of shale gas because it closes its opportunity to export its supply via a Nabucco-type project. All together, shale gas development impacts gas suppliers from FSU countries in the Caspian region similar to the manner in which it impacts Russia—lower production and reduced market share in end-of-pipe markets in Asia and Europe," the Baker Institute report argues. According to the authors, "the EU and the United States will have greater difficulty

developing energy corridors to link the Caspian region countries more closely to the West, and therefore other economic and political avenues will need to be developed to achieve this geopolitical goal, as natural gas exports are unlikely to play a major role in strengthening ties between the two regions."[23]

The US Energy Strategy Toward the Southern Gas Corridor and Azerbaijan

The last conclusion of the otherwise credible Baker Institute report can be challenged[24] by first quoting a report on European energy security by the Congressional Research Service (CRS): "US Administrations have contested that exports from Azerbaijan could boost energy security for European customers currently relying more on Russia. According to former US Special Envoy and former US Ambassador to Azerbaijan Richard Morningstar, Azerbaijani natural gas 'is absolutely essential to the development of the Southern Corridor.' […] Azerbaijan will supply all the natural gas for the TANAP pipeline and the forward project to Europe."[25] According to the US Energy Department, "Azerbaijan has 7 billion barrels of proven oil reserves and 30 trillion cubic feet of proven natural gas reserves."[26] The CRS report continues: "In addition, gas has been discovered in 2011 at the Umid and Absheron offshore fields. Critics argue that oil and gas from Azerbaijan will amount to a tiny percent of world exports of oil and gas, but successive US administrations have argued that these exports could nonetheless boost energy security for European customers relying more on Russia. Azerbaijan is hoping that its gas exports will be greatly increased when Phase II production begins at its offshore Shah Deniz gas fields in 2017–2018. In a testimony before the House Foreign Affairs Committee in June 2011, Richard Morningstar, US Special Envoy for Eurasian Energy at the time, stated: "US policy encourages the development of new Eurasian oil and gas resources to increase the diversity of world energy supplies. In the case of oil, increased supplies may directly benefit the United

States," he said. "A second US goal is to increase European energy security, so that some countries in Europe that largely rely on a single supplier (presumably Russia) may in the future have diverse suppliers. A third goal is assisting Caspian regional states to develop new routes in the market, so that they can obtain more competitive prices and become more prosperous."[27]

Furthermore, "the 112th US Congress also expressed concern about European energy security. Section 1233 of the FY2012 National Defense Authorization Act requires Secretary of Defense to submit to 'the appropriate committees of Congress a detailed report on efforts by the Department of Defense, including within NATO, to address the energy security of NATO alliance.' "[28]

Consequently, the United States is determined to support and promote the Southern Gas Corridor and to strengthen its relations with Azerbaijan. Although Azerbaijan is not a member of NATO, its new relations with Greece raise the significance of Azerbaijan in the Atlantic Alliance. How does the relationship between Azerbaijan and Greece strengthen energy security of the Southeastern flank of NATO? What is the impact of TANAP and TAP pipelines to the Turkish–Greek relations and what is the future role of Azerbaijan? What are the energy policy priorities of Greece and how do they relate to the Southern Gas Corridor? How can US foreign policy achieve closer energy cooperation between Turkey, Azerbaijan and Greece? How does it affect US national security?

United States, Azerbaijan, Greece and the Southern Corridor: Commercial and Security Implications

In 2007, Turkish Prime Minister Recep Tayyip Erdoğan and Greek Prime Minister Costas Karamanlis inaugurated the Greek-Turkish gas pipeline, Interconnector Greece-Turkey (ITG), to transfer 750 million cubic meters of Azerbaijani gas to Greece from the Shah Deniz gas field Phase I. Until December 2011, the Greek public natural gas

supply corporation DEPA had a gas supply contract with the Turkish BOTAŞ for the resale of natural gas purchased from the State Oil Company of Azerbaijan (SOCAR). At the end of 2011, Azerbaijan and Turkey agreed on a transit tariff that opened the way for Caspian gas into the EU.[29] This was a historical development because, for the first time ever, Caspian gas was flowing into the European Union.

Progress on the Southern Gas Corridor has move forward a long way since then.[30] The vision of now-president Erdoğan and former prime minister Karamanlis was to strengthen the energy security of Turkey and Greece, stabilize the Turkish-Greek bilateral relationship, contribute to the diversification policy of EU gas supplies and commit to long-term energy cooperation. The Greek-Turkish pipeline brought closer the two NATO allies, which had often been adversaries after the 1974 crisis in Cyprus. Furthermore, with the ITG pipeline, Turkey was moving closer to the EU and demonstrated to the West its determination to act as a future natural gas transit country for Caspian and Middle Eastern gas.

In the summer of 2012, in the midst of the worst economic crisis in modern Greece's history, Antonis Samaras was elected prime minister after a dramatic second snap election. Economic troubles topped his agenda, followed by the issue of the Southern Gas Corridor. At that time, Greece had not signed an intergovernmental agreement with Italy and Albania for the construction of the Trans-Adriatic Pipeline (TAP). This was a concern for the Shah Deniz consortium shareholders because the agreement was a precondition for the selection of TAP as the preferred pipeline route for the transit of Shah Deniz gas.[31]

In September 2012, the foreign ministers of Greece, Italy and Albania signed a memorandum of understanding (MOU) in New York, where they were attending the United Nations annual assembly. At the end of the year, an intergovernmental agreement between Greece, Italy and Albania was signed in Athens, giving TAP the legally binding

agreement that was necessary for the Shah Deniz consortium.[32] In the spring of 2013, a few weeks before the final decision of the Shah Deniz consortium on the gas route selection, Prime Minister Samaras travelled to Baku, Azerbaijan and met with Azerbaijan's President Ilham Aliyev to support TAP and advocate for its selection. Furthermore, the Greek prime minister discussed the privatization of DESFA, the Greek Gas Transmission System Operator, and expressed his strong interest in SOCAR's bid to acquire DESFA. In the summer of 2013, the Shah Deniz consortium selected TAP over Nabucco-West[33] as the preferred pipeline to be connected with TANAP at the Turkish-Greek border. Moreover, DESFA was privatized in favor of SOCAR. The European Commission is expected to make a decision whether the deal is in compliance with its competition rules in the first half of 2015.[34]

Although Washington supported Nabucco-West as the best choice for transferring Caspian gas to Europe, based on its geopolitical value in counterbalancing Russian supplies and transit routes, the US nevertheless considered TAP the second-best option. During the last twelve months before the selection of the pipeline route, the Barack Obama administration supported TAP on an equal footing with Nabucco-West. For the United States, the most important geo-strategic goal was the opening of the Southern Gas Corridor and the flow of Azerbaijani gas to Europe, thus strengthening the energy security of the EU by diversifying routes and resources. Furthermore, throughout its long history of oil and gas diplomacy, the US government never interfered in the oil companies' commercial decisions. The guiding principle of US foreign oil policy during the last century has been to let the oil companies make the commercial decisions for themselves.[35]

As of 2014, it seemed the only challenges ahead of the Southern Gas Corridor would be technical, though perhaps requiring a herculean effort from engineers.[36] Greece and Italy were implementing an energy policy where TAP would be constructed according to the

necessary environmental licenses that local communities approve. There have been problems in Puglia, Italy, because the local community has been protesting against TAP. Such challenges require the commitment of the host governments and the partner companies to demonstrate the benefits of the pipeline. Until January 2015, Greece did not have any challenges similar to Italy and was focusing its energy policy on completing the privatization sale of DESFA to SOCAR and promoting its upstream agenda. Greece, along with Israel and Cyprus, was coordinating its energy policy in order to proceed with exploration and production of oil and gas in its exclusive economic zone. However, Greece is still lagging behind Israel and Cyprus, as it has not yet delimitated its exclusive economic zone.[37] In the period 2010–2015, the most tangible energy policy of Greece was vested in the Southern Gas Corridor and its evolving relationship with Azerbaijan.

On January 25, 2015, the left wing Syriza won the Greek elections. It is the first time in the history of modern Greece that a radical left party was elected to power. In the wake of the Eurozone crisis, Greece's own financial troubles—due to years of unrestrained spending, cheap lending and failure to implement financial reforms—led to a severe policy of austerity that frustrated the Greek people. This wide-scale frustration translated into a plurality of votes for the Syriza party, which promised to end austerity and renegotiate the terms of debt repayment. Besides the audacious economic policy plan to end austerity, Syriza aspires to create new geopolitical dynamics by strenthening its ties with Russia.[38] On February 13, 2015, Russian Foreign Minister Sergei Lavrov met with his Greek counterpart in an attempt to quickly strengthen the relations of their two countries.[39] It is unclear what policy Greece and Russia would pursue in the energy sector and how it would affect the Southern Gas Corridor. However, Greece and Russia plan to cooperate closer in the implementation of the Turkish Stream natural gas pipeline, according to Russian Minister Lavrov. "We talked about bilateral cooperation in the energy sector, bearing in mind the interest the Greek government has shown

in the plans for the construction of a natural gas pipeline from Russia toward Turkey and the Greek border. We believe that this plan has very good prospects," Lavrov said. [40]

It seems that both Turkey and Greece are seeking to co-operate with Russia on the Turkish Stream pipeline. This might be a challenge for the Southern Gas Corridor. At the same time, however, Greece supports TAP and Turkey supports TANAP, which—in addition to the South Caucasus Pipeline—are the fundamental components of the Southern Gas Corridor. The new Greek energy minister, in his recent visit to Baku, reiterated the commitment of his government to TAP. Yet, he asserted that Greece needs more benefits from its construction.[41] It is too early to predict how Turkey and Greece will manage the Turkish Stream and its impact on the Southern Gas Corridor. One can conclude that all these developments demonstrate new challenges to a sensitive geopolitical region. Logically, the markets would probably prevail over politics in the end.

TAP and the acquisition of DESFA by SOCAR constitute the fundamental elements for the strategic partnership between Greece and Azerbaijan.[42] Senior management officials from SOCAR have been visiting Athens since 2013, and there has been close coordination at the policy level. Greece is a strategic country for the landlocked Azerbaijan as it is one of the two points of entry of Azerbaijani gas to the EU. The other point of entry is Bulgaria. Greece offers to Azerbaijan access to the Mediterranean via its LNG terminal in Revithousa, operated by DESFA. SOCAR's newly acquired control of DESFA offers a strategic advantage to Azerbaijan by securing its gas sales along the value chain of the entire Southern Gas Corridor. SOCAR is a majority shareholder and operator of TANAP and a minority shareholder of TAP. SOCAR is the key energy company along the value chain with the highest incentive to cooperate efficiently. Azerbaijan's solution to its landlocked geopolitical position in the Caspian is solidified with SOCAR's strong presence in Greece. The significance of the Baku-Tbilisi-Ceyhan oil pipeline for

Azerbaijan and Turkey in the last decade is now mirrored in the Trans-Adriatic Pipeline for Azerbaijan and Greece. The commercial advantages of SOCAR are directly related to the prosperity of the people of Azerbaijan and the economic development of the country.

However, the new Syriza government is opposing all privatization plans of the previous conservative Samaras government. Syriza promised that it would cancel all privatization agreements. This is another challenge to the DESFA/SOCAR privatization deal, and a potential challenge to the strategic energy partnership between Azerbaijan and Greece. Yet, the ultimate decision on the privatization of DESFA lies with the European Commission, and not the Greek government. In November 2014, the European Commission started a procedure to assess whether the acquisition of DESFA by SOCAR is in line with the EU Merger Regulation. The Commission will approve the privatization agreement if it does not violate the competition rules of the European energy market and the prospects for the European energy union. This is a slippery slope for Greece and Azerbaijan. Many expect that the commerciality of the privatization of DESFA and the EU energy policy of diversification would prevail as the main factors of deciding to go ahead with the DESFA/SOCAR agreement.

The Azerbaijani-Greek economic partnership is a win-win opportunity for both countries. Greece benefits with $2 billion direct investment from TAP and the creation of 2,000 new jobs.[43] Furthermore, the privatization of DESFA brings new money to the Greek economy and is helping achieve the targets set forth by the International Monetary Fund, the European Commission and the European Central Bank. SOCAR is a strategic investor in the Greek energy sector as its investment is directly linked with the economic development of Azerbaijan.

Next to the commercial and economic advantages, there are crucial geopolitical consequences.[44] The energy partnership between Turkey and Greece that was initiated with the Greek-Turkish ITG pipeline is

now strengthened with TAP and Azerbaijan. Turkey and Greece have cooperated effectively since 2007 in the energy sector, and Azerbaijani gas is flowing uninterrupted to Greece. Furthermore, the bilateral relationship between Turkey and Greece is the best it has been for decades in all spheres of economic activity. This productive cooperation between Turkey and Greece will be stronger after TANAP and TAP become operational.[45] Greek–Turkish relations have not always been this positive good. The two NATO allies have often perceived themselves as enemies. Although this is an oxymoron, it is nonetheless the reality in the Greek–Turkish relations especially after the 1974 crisis over Cyprus and the 1995 crisis over Imia/Kardak islands. In 1995, US President Bill Clinton had to intervene personally with both Turkish Prime Minister Tansu Ciller and Greek Prime Minister Kostas Simitis in order to avoid a war between the two NATO allies. Since then, there has been progress in the Greek-Turkish relationship, but often the animosity between the two countries is unpredictable.

If a disagreement between Turkey and Greece makes the headlines again, Azerbaijan can play a key role in resolving it. In order to sell its gas to Europe, it is in the absolute interest of Azerbaijan that both Greece and Turkey cooperate with each other. Thus, for Azerbaijan, the friendly relationship between Greece and Turkey is vital to its interests. There is a new symbiotic relationship between the two countries, and Azerbaijan can act as an effective stabilizer in a potential Greek-Turkish dispute. At times of crisis, Turkey can communicate better with Azerbaijan and, similarly, Greece can communicate better with Azerbaijan. This reality raises the geopolitical role of Azerbaijan in the North Atlantic Alliance and increases the geostrategic value of Azerbaijan for US interests.

The three most important allies of the United States in the Eastern Mediterranean and the Middle East are Israel, Turkey and Greece. The relationship between those three countries is crucial for US national security. After 1974, US foreign policy faced the challenge of

the Cyprus crisis, which had poisoned the Greek-Turkish relationship and posed a serious problem for the Southeastern flank of NATO. Moreover, after the 2010 incident at Mavi Marmara, when Israeli forces raided the Gaza Freedom Flotilla, Turkish-Israeli relations have been deteriorating. Although three years later Israeli Prime Minister Benjamin Netanyahu apologized on behalf of Israel to his Turkish counterpart, Erdoğan, the relationship between the two countries remains cold. At the same time, Israel has developed a strong strategic partnership with Cyprus that has resulted in Exploration & Production (E&P) of deep offshore natural gas. The new relationship between Israel and Cyprus is being developed on common energy grounds. Consequently, the United States today faces a challenge and an opportunity with America's most important allies—Israel, Turkey and Greece—which are all essential to its national security.

Azerbaijan also has a role to play in the Israeli-Turkish relationship as it exports approximately 75,000 barrels of crude oil[46] per day that is produced at the Azeri-Chirag-Guneshli oil field via the BTC oil pipeline.[47] Then, from the Turkish port of Ceyhan the oil is shipped to Israel. Although, Azerbaijan does not have the same influence in the Middle East as it does in the Southern Gas Corridor, a stronger Azerbaijan that cooperates closely with NATO would enhance its influence on America's key strategic allies.

Conclusion

The development of the Southern Gas Corridor is an important opportunity for the United States to restate America's position in the Caspian region, strengthen the energy security of the EU, fortify the transatlantic partnership and prevent potential Russian aggression to the Caspian oil and gas resources. A strong US engagement in the Caspian region is enhanced with the increased American economic and political power, which is derived from the indigenous shale gas and tight oil production. Consequently, the US cannot afford to

diminish its presence in the Caspian region, because other competing powers such as Russia and China will try to fill the power vacuum that an absent America will create. As Zbigniew Brzezinski has predicted, Eurasia is the region where America's interests are most likely to be challenged and where a potential power seriously challenging the United States could rise.

The Southern Gas Corridor project promises to bind Azerbaijan closer with the EU. Europe is seeking to achieve a unified natural gas market where gas will be traded freely on the spot market. Creating a free market of natural gas with a liquid and flexible gas infrastructure, where reverse-flow pipelines constitute the foundation of the EU gas grid, will make Europe more independent from Russian gas. Azerbaijan and the EU should sign new agreements aiming at establishing a stronger legal framework for Azerbaijan's energy market that will be more cohesive with that of Europe.

Greece is a strategic country for the trading of Azerbaijani gas because it is the first EU member country that the Southern Gas Corridor will enter. When Azerbaijani gas reaches the Greek border, it reaches the EU, thus taking advantage of the largest gas market in the world. The development of the Southern Gas Corridor and the reverse flow pipelines in Southeastern Europe will result in flexible trading of Azerbaijani gas on the entire EU market.

The privatization of DESFA by selling it to SOCAR is the cornerstone of the energy partnership between Greece and Azerbaijan. The privatization agreement solidifies the Southern Gas Corridor and brings Azerbaijan closer to Europe. At the same time, the new Syriza government's opposition to the privatization deal is a fresh challenge to the Sothern Gas Corridor. Therefore, Azerbaijan, in cooperation with the EU, needs to make every effort to finalize the privatization of DESFA with the Greek government as soon as possible.

The geo-strategic significance of the Southern Corridor goes well beyond the transit of Azerbaijani gas supplies. In the future, the Trans-Caspian pipeline from Turkmenistan and Kazakhstan and new gas supplies from Iraq will eventually feed the Southern Gas Corridor. The secure flow of gas in the Southern Gas Corridor will be implemented as a result of a long-term strategy that supports Azerbaijan's sovereignty and bolsters its relations with the North Atlantic Alliance and the EU.

NOTES

[1] John Browne, *Beyond Business: An Inspirational Memoir from a Visionary Leader,* Weidenfeld & Nicolson, London, 2010, pp. 174–175.

[2] Edward Robinson, "The Lord of Fracking," *Bloomberg Markets,* May 2014, p. 44.

[3] *Ibid*, p. 44.

[4] "Greece wants benefits for TAP Support, Lafazanis says," *Energy Press*, The Greek Energy Portal, February 12, 2015, www.energypress.com.

[5] "Desfa: The Privatization doesn't Freeze: Meeting of Energy Minister Lafazanis with Azerbaijani Ambassador Mustafayev" (Δεσφα: Δεν Παγωνει η Ιδιωτικοποίηση, Συνάντηση Λαφαζάνη και Αζέρου Πρέσβη) Econews, February 3, 2015, www.econews.gr.

[6] Michael Levi, *The Power Surge: Energy, Opportunity, and the Battle for America's Future,* A Council on Foreign Relations Book, Oxford & New York: Oxford University Press, 2013, p. 3.

[7] Daniel Yergin, "Shale Gas Development: An Energy Game-Changer," in the website of Daniel Yergin: *The Quest*, http://danielyergin.com/shale-gas-development/.

[8] Russel Gold, *The Boom: How Fracking Ignited the American Revolution and Changed the World*, New York: Simon & Schuster, 2014, pp. 7–10.

[9] Robert A. Heffner III, "The United States of Gas: Why the Shale Revolution Could Have Happened Only in America," *Foreign Affairs*, Volume 93, Number 3, Published by the Council on Foreign Relations, New York, May/June 2014, p. 9.

[10] Alan Riley, "The Geostrategic Implication of the Shale Gas Revolution," The Institute for Statecraft, this publication is supported by NATO's Public Diplomacy Division, March 12, 2012, p. 2. http://www.statecraft.org.uk/research/geostrategic-implications-shale-gas-revolution.

[11] "The Gas Exporting Countries Forum" (GECF), sometime referred to as the "Gas OPEC" is composed of some of the world's leading natural gas producers and exporters. It is not a cartel in the same sense as OPEC in that it does not control marginal production in an effort to influence prices. There are structural differences in global natural gas and global oil that make this type of control difficult. Nevertheless, the GECF provides a venue for its members to discuss topics of interest such as production projects, exports, etc. Its members, which include Algeria, Bolivia, Equatorial Guinea, Iran, Libya, Nigeria, Qatar, Russia, Trinidad and Tobago, and Venezuela, control 36 percent of world production and 47 percent of global trade. Kazakhstan, The Netherlands and Norway have observer status at the GECF. Major natural gas producers that are not affiliated with the GECF include Australia, Azerbaijan, Canada, Indonesia, Malaysia, Oman, Turkmenistan, the United States (the world's leading natural gas producer) and the United Arab Emirates." Congressional Research Service, "Europe's Energy Security: Optons and Challenges to Natural Gas Diversification," CRS Report for Congress, Prepared for Members and Committees of Congress, 7-5700 R42405, Washington, D.C., August 20, 2013, p. 9.

[12] Dr. Zbigniew Brzezinski, "Azerbaijan's Role in the World Today," in *US-Azerbaijani Relations: State of the 'Strategic Partnership'*, Washington, DC: The Jamestown Foundation, November 9, 2010, p. 22.

[13] "The Great Caspian Game," *Christian Science Monitor*, October 25, 2001, http://www.csmonitor.com/2001/1025/p8s1-comv.html.

[14] Daniel Yergin, in his classic book *The Prize: The Epic Quest for Oil, Money and Power*, New York: Free Press, 2008. The second edition of the 1991 Pulitzer Prize–winner analyzes the history of oil from US perspective and illustrates the leading role of oil in shaping the global geopolitics of the modern world.

[15] Daniel Yergin, *The Quest: Energy, Security and the Remaking of the Modern World*, New York: Penguin Press, 2011, p. 47.

[16] *Ibid,* p. 46.

[17] Roger Howard, *Iran Oil: The New Middle East Challenge to America*, New York: I.B.Taurus, 2007, p. 9.

[18] Thane Gustafson, *Wheel of Fortune: The Battle for Oil and Power in Russia*, Cambridge, Massachusetts: Belknap Press of Harvard University Press, 2012.

[19] "Shale Gas and U.S. National Security," Baker Institute Policy Report, Number 39, Houston, Texas: James A. Baker III Institute for Public Policy, Rice University, October, 2011, p. 2.

[20] *Ibid,* pp. 3–4.

[21] *Ibid,* p. 2.

[22] *Ibid,* p. 8.

[23] Baker Institute Policy Report, p. 9.

[24] See: Anthony Livanios, "Fish or Cut Bait: Is there a Decisive US Policy in the Southern Corridor" *Natural Gas Europe*, February 12, 2013, www.naturalgaseurope.com/us-policy-southern-gas-corridor.

[25] Congressional Research Service, *Europe's Energy Security: Options and Challenges to Natural Gas Supply Diversification*, CRS Report for Congress, Prepared for Members and Committees of Congress, 7-5700-R42405, Washington, D.C., August 20, 2013, p. 20.

[26] US Energy Department, Energy Information Administration, *Azerbaijan: Country Analysis Brief,* January 9, 2012.

[27] Congressional Research Service, *Azerbaijan: Recent Developments and U.S. Interests,* CRS Report for Congress, Prepared for Members and Committees of Congress, 7-5700-97-522, Washington, D.C., February 22, 2013, pp. 11–12.

[28] CSR Report for Congress, *Europe's Energy Security: Options and Challenges to Natural Gas Supply Diversification*, p. 5.

[29] Vladimir Socor, "Azerbaijan and Its Gas Consortium Partners sign Agreements with Turkey," *Eurasia Daily Monitor*, Washington, DC: The Jamestown Foundation, November 1, 2011, http://www.jamestown.org/regions/turkey/single/?no_cache=1&tx_ttnews%5Btt_news%5D=38603&tx_ttnews%5BbackPid%5D=622#.VGy0UEuQz1o.

The official website of the Turkish Ministry of Foreign Affairs states: "Through these agreements Azerbaijan has gained the right to transit 10 bcm of gas through Turkey's national gas network and the opportunity to start negotiations on the possible construction of a new standalone pipeline through Turkey. A Memorandum of Understanding was signed between Turkey and Azerbaijan concerning a standalone pipeline in Ankara on 24 December 2011, namely the Trans-Anatolian Pipeline (TANAP). The Intergovernmental Agreement and the Host Government Agreement regarding development of the standalone pipeline (Trans Anatolian Pipeline, TANAP) project, was signed by Turkey and Azerbaijan on 26 June 2012 in Istanbul." Republic of Turkey, Ministry of Foreign Affairs, "Turkey's Energy Strategy," www.mfa.gov.tr/turkeys-energy-strategy.en.mfa.

[30] For the challenges and opportunities of the development of the Southern Corridor see: Anthony Livanios, "The Conundrum of the Southern Corridor: What are the Risks for Europe and Azerbaijan? The viewpoint of an insider," *Actuelles de l'Ifri*, Institut Francais des Relations Internationales (Ifri), Paris, France, April 2013, http://ifri.org/?page=detail-contribution&id=7644&id_provenance=103&provenance_context_id=16.

[31] Anthony Livanios, "Greece is Risking to Be Out of the New Pipeline Projects" (Κίνδυνος Εξόδου της Ελλάδας απο τα Σχέδια των Νέων Αγωγών), *Energy World,* January 2013, No. 42, Athens, Greece, pp. 16–20.

[32] Anthony Livanios, "Shah Deniz Gas: Key to the Southern Corridor," *Natural Gas Europe*, October 2012, www.naturalgaseurope.com/shah-deniz-gas/.

[33] After Azerbaijan undertook the construction of the Trans-Anatolian pipeline and the expansion of the South Caucasus pipeline, the remaining portion of the initial Nabucco pipeline project that was supposed to be built on European territory became known as Nabucco-West.

[34] "Privatization of DESFA faces possible challenge," *Natural Gas Europe*, November 14, 2014.

[35] For an excellent analysis of US oil policy and the role of the US government in American oil companies, see: Stephen J. Randall, *United States Foreign Oil Policy Since World War I: For Profits and Security,* Montréal, Québec: McGill-Queen's University Press, 2007.

[36] Author's discussion with a senior BP executive in London, UK, May 2014; also: Al Cook, Vice President, Shah Deniz Development, BP, at CERA Week, March 2014, under heading Shah Deniz Project updates, www.bp.com.

[37] Author's discussions with senior public policy officials at the Ministry of Energy and the Ministry of Foreign Affairs in Nicosia, Cyprus, and at the Cyprus High Commission in London, United Kingdom, in May 2014.

[38] Takis Mihas, "Athens Rekindles its Russian Romance: Syriza is indulging an old Russophilia in distracting and dangerous new ways," *Wall Street Journal*, January 29, 2015.

[39] James Marson, "Deepening Ties between Greece and Russia Show Concerns in West," *Wall Street Journal*, February 13, 2015.

[40] Sergey Lavrov, in "Joint Statement of Greek Foreign Minister and Russian Foreign Minister Lavrov, " Moscow, February 11, 2015, as it is stated in the website of the Greek Ministry of Foreign Affairs, www.mfa.gr, February 12, 2015.

[41] "Greece wants benefits for TAP Support, Lafazanis says," *Energy Press*, The Greek Energy Portal, February 12, 2015, www.energypress.com.

[42] Author's discussions with senior management of SOCAR in Baku, Azerbaijan, February 2014.

[43] Rikard Skoufias, "TAP: The Most Direct and Economical Route," *Natural Gas Europe*, June 7, 2012, www.naturalgaseurope.com.

[44] Gulmira Rzayeva, "A Complicated Corridor: Gas to Europe—it's not just economics," *Caucasus International*, Vol. 2, No. 2, "The Caspian Energy Dance: Towards a New Age of Partnership?" Istanbul, Summer 2012, p. 150.

[45] Author's discussions with senior management of DESFA and public policy officials in the Ministry of Energy and the Ministry of Foreign Affairs in Athens, Greece, December 2013.

[46] US Energy Information Administration, Countries, Israel, http://www.eia.gov/countries/country-data.cfm?fips=is.

[47] "A History: Israel-Azerbaijan Relations," *The Algemeiner*, March 30, 2012, http://www.algemeiner.com/2012/03/30/a-history-israel-azerbaijan-relations/.

Albania and Azerbaijan: New Partnership, New Possibilities

Remzi Lani

Introduction

A mere quarter of a century after the fall of Communism, Albania has become a new democracy and a moderate voice in the troubled Balkan region. A NATO member and a European Union candidate, this small Southeastern European country has maintained a clear and consistent pro-Western orientation. Today, Albania is not only a security consumer, but also a security provider by contributing peacekeeping troops to conflict zones such as Bosnia-Herzegovina, Afghanistan, and Chad.

Despite chronic political struggles, which remain very bitter in Albania, Albanians have wholeheartedly embraced democracy as the most effective form of government and as the main goal of the country's political transition. Nonetheless, Albania continues to struggle with establishing the rule of law.

Albania's economic transition was long considered a success story. However, it did not withstand the ripple effect of the severe financial crisis that hit Albania's neighbors. The rapidly growing energy demand, especially in the last few years, has shed light on the serious challenges—and opportunities—facing Albania. The country's vast water resources rank as the second largest reserves per capita in

Europe. While historically Albania has not been a major producer of crude oil, in 2013 its crude oil output amounted to more than 1.2 million tons. Despite the increases in domestic production, the country continues to import a significant share of the oil needed for domestic consumption.

In light of this, the Shah Deniz consortium's decision in June 2013 to build the Trans- Adriatic Pipeline (TAP) instead of Nabucco-West is regarded as a critically important opportunity for Albania. As Albania's Prime Minister Edi Rama has noted, TAP represents a strategic project and a major milestone for the country's future.[1]

The pipeline's construction will have a multidimensional impact on Albania. First, it will, for the first time, place Albania on the map of international gas routes, thus significantly raising its geopolitical status and importance.

Second, TAP will allow Albania—along with its partner countries—to solidify political credibility by decisively contributing to the Energy Security Strategy of the European Union. For a country on the path to EU integration, this is undoubtedly a bonus.

Third, by linking Albania to international and regional gas transportation and distribution networks, TAP will diversify Albania's energy sources and significantly improve its energy security. Fourth, as the largest single direct investment in Albanian history, worth one billion euros ($1.12 billion)[2], TAP will give a significant boost to Albania's economy and foreign investors' confidence.

Fifth, TAP brings about a significant re-evaluation of Albania's geographical position. The possibility of building the Ionian Adriatic Pipeline in the future—connecting the Albanian town of Fier to Split in Croatia—would turn Albania into an important energy hub for the region.

Although relations between Albania and Azerbaijan are relatively new, they have noticeably intensified in recent years. Despite differences in the democratic models the two countries are implementing, Tirana and Baku have made rapid progress on the path to cooperation based on mutual interests.

The Balkans is a relatively new region for Azerbaijan. Because of its history and long isolation, Albania is even newer. But TAP is just the first station on the road to the future.

A Political Overview

In the quarter century since the fall of its Communist regime—the harshest in Europe—Albania has undergone a long and difficult transition. Despite the twists and turns of this process, this small Balkan country has arguably experienced the deepest and most comprehensive political and economic transformation among all former Communist states.

It is useful to view Albania's political transition together with the changes that have taken place in its society and exerted a significant influence on the nature and intensity of the political transformation process. The political transition from dictatorship to democracy has gone hand in hand with an economic transition from a collective economy to a free market economy (albeit to some extent similar to a type of Wild West capitalism), a social transition from a rural to an urban society, and a psychological transition from the most isolated society in Europe to an open society. The interaction between these factors has undoubtedly played its part in making the political transition process more complicated and more complex.[3]

Whereas in other Eastern European countries the political transformation, i.e. the building of democracy, took place in a more balanced environment, in Albania the difficulties were of a different magnitude. To a great extent, the process of transition was a process of

foundation building because, in contrast to other former Communist countries, the state and democratic tradition in Albania were less developed and more limited. If the focus was understandably on political transformation during the first years after the collapse of Communism, it soon became clear that, in the absence of harmonization of the various elements of economic and social development, the political transformation itself could not only stall—it could even be reversed, as the crisis of 1997 proved.

Albania has made significant progress since 1997, when the country fell into a state of anarchy following the collapse of so-called pyramid, or Ponzi, schemes. However, if in the spring of 1997, Albania was a country on the brink of chaos, with practically no army, no security, and almost no law and order, nowadays Albania is a NATO member that has contributed peacekeeping troops to missions ranging from Bosnia-Herzegovina, to Afghanistan and Chad. If in 1997, the main challenge of the Albanian government was to reestablish the authority of the state over the whole territory of the country, its main challenge today is to consolidate democratic institutions and make them fully functional.

The June 2013 general elections marked the second peaceful rotation of power in Albania since the fall of Communism. Former right-wing Prime Minister Sali Berisha, a dominating force in the country for the last two decades, fell from power. The former Socialist mayor of Tirana, Edi Rama, won by a landslide and assumed the reins of government composed of new leaders, of whom seven are women.

Although the elections of June 2013 cut through the "Gordian knot" of contested elections in Albania, the political scene in the country remains tense and polarized. Both socialists and democrats are still perceived as two fiercely antagonistic blocks, rarely coming together to discuss or negotiate the country's most urgent issues.[4]

Fierce rivalry and intractable conflict between the two main political blocks dominates the political scene. The left is comprised of the

Socialist Party of Prime Minister Edi Rama and the Socialist Movement for Integration, headed by the Speaker of the Parliament Ilir Meta. The right is represented by the Democratic Party chaired, by the Tirana's Mayor Lulzim Basha—who took Berisha's place—and by several small parties.

Paradoxically, although they share the same vision on fundamental issues affecting the country's development and orientation—such as European integration, NATO membership, policy toward the US and Russia, or regional policies—the main political blocks find it very hard to reach a consensus on day-to-day issues of domestic politics. Compromise is usually seen as a sign of weakness while consensus is perceived as the right to veto the initiatives of the opponent. Public discourse remains highly toxic, except when it comes to the nationwide agreement on embracing democracy and making it the goal of the country's transition. No political parties, social groups or other relevant actors have ever contested the legitimacy or constitutional organization of the democratic institutions.[5]

In other words, democracy is the only game in town in Tirana, but the rule of law is not. Indeed, the main challenge the country faces today concerns the rule of law. Albania may be considered a typical case of dysfunctional democracy. While part of the ingredients that make up a democracy do exist—a strong opposition, an active civil society, free media—other, just as important, ingredients, are lacking: an independent justice system, an efficient public administration and impartial institutions.

Although it has some of the most advanced legislation on the continent, the enforcement of the law in Albania is still highly problematic. The justice system and especially the courts are far from being functional or independent. Opinion polls and surveys speak of a clientelistic and corrupt justice system.

Albanian Economy: A Success Story?

For a long time, Albania was considered a success story as far as its economic transformation was concerned. According to the Bertelsmann Transformation Index 2014, which, among other things analyzes the pace of economic transformation, Albania ranked 43rd among 129 countries. For almost a decade since the year 2000, economic growth reached an average of 6 percent annually. Initially, the Albanian economy proved quite resilient in the face of the global economic and financial crisis, and Albania was one of the few countries in Europe that recorded a positive growth (an average of 3 percent in the years 2009–2011). However, the effects of the crisis have been felt since 2012. According to the 2014 Transition Report by the European Bank for Reconstruction and Development (EBRD), growth in 2012–2013 has slowed significantly, reflecting domestic problems as well as falling remittances and difficulties in EU periphery countries that have strong trade links with Albania. Economic growth in Albania slowed down to 1.1 percent in 2012 and 0.4 percent in 2013.[6]

Thus, the severe financial crisis that hit Albania's neighbors did have consequences for Albania. Remittances, a significant catalyst for economic growth, fell from 12–15 percent of GDP before the financial crisis of 2008 to a mere 7 percent of GDP in 2012, mostly from Albanians residing in Greece and Italy.[7] More than 700 thousand Albanians work in Greece and approximately 500 thousand more work in Italy. The loss of jobs among these immigrant workers, mainly in Greece and Italy, has pushed many of them to return to their home country, thus increasing the unemployment rate.

The Bank of Albania has adopted cautious policies in order to keep inflation under control; for a long time it has remained at the level of 2–4 percent. The Bank of Albania has lowered the base interest rate at the lowest historical level of 2.0 percent. At the same time, the Albanian currency, the Lek, continues to be one of the most stable in

the region and has experienced no serious fluctuations in value despite the deepening of the economic crisis.[8]

True to its electoral promise, the Rama Government reformed the tax system, replacing the 10-percent flat tax applied since 2008 with a progressive tax. Nevertheless, the effects of the new tax system are still unclear. One of the most serious problems Albania faces is the rapid growth of the public debt. At the end of 2014, the public debt reached 71.7 percent of GDP, the highest level in recent years. In addition, the significant presence of an informal economy, estimated to be 35–40 percent, emphasizes the country's limited progress toward a full market economy.

Faced with an economic and financial crisis that turned out to be much more serious than initially perceived, the Government invited back to Albania the International Monetary Fund (IMF), which left the country in 2009. In December 2013, Albania and the IMF reached an agreement, according to which the IMF will give Albania budgetary assistance worth 331 million euros ($370 million). If one looks at the terms and conditions of this agreement, it seems that the Albanian government has succeeded in obtaining a deal that focuses more on encouraging growth than on austerity measures.

On the other hand, in May 2014, the World Bank approved a loan of $220 million to Albania to improve the supervision of local banks and their safety nets and help reduce bad loans.[9] According to the World Bank, this loan aims to strengthen the financial sector's regulatory and supervisory regime and mitigate the vulnerabilities of the banking and non-banking sectors.

Despite these developments, expectations are that the Albanian economy will overcome the crisis gradually. In January 2015, Standard & Poor's raised its outlook for the Albanian economy from "stable" to "positive." On the other hand, Moody's has affirmed Albania's B1 government bond rating with a stable outlook.

A positive indication of business environment reforms is Albania's significant jump in the World Bank Doing Business 2015 report. The country climbed 40 positions, ranking 68th out of 189 countries for ease of doing business.[10]

According to the Economist Intelligence Unit, the IMF and World Bank data, economic growth for 2014 showed an improvement, reaching 2 percent. Meanwhile, the forecast for 2015 is optimistic. The IMF and the World Bank predict economic growth will reach about 3 percent in 2015.

The Difficult Road Toward Europe

A survey by the Balkan Gallup Monitor in 2014 claims that more Albanians believe in the European Union than in God. Albania is a country in which Euro-skepticism is an unknown phenomenon. According to surveys and opinion polls, approximately 90 percent of the population support their country's European integration, as do all political forces. Indeed, EU membership has become a priority in the political platform of all main political actors.

However, despite the broad popular support and the political consensus concerning integration, Albania's road toward EU membership appears longer and harder than imagined.

In January 2003, the European Union started official negotiations for a Stabilization and Association Agreement (SAA) with Albania. The Thessaloniki Summit (June 2003) clearly reconfirmed that Albania's—and other Western Balkan countries'—future lay in the European Union. The negotiations over the SAA were concluded in February 2006. The SAA Agreement between Tirana and Brussels was signed in 2009.

In April of 2009, Albania submitted its official application for EU membership, expecting to obtain candidate status. Then, in December 2010, Albanian citizens began traveling visa-free in the Schengen Area after the decision of the European Commission. The visa regime liberalization is considered one of the more significant achievements in relations between Albania and the EU because Tirana managed to demonstrate that it possessed the ability and capacity to fulfill the criteria and standards required by Brussels, in a relatively short time. The liberalization of visas did not simply create greater opportunities for Albanians to connect with Europe, but it also allowed them better opportunities to connect with each other, given the fact that nearly one in three Albanians has emigrated to EU member states.

However, Albania waited for five years—until June 2014—to receive the status of an EU candidate country, an important step on the country's long journey toward Europe. The EU will grant Albania financial assistance worth 650 million euros ($727 million) during the 2014–2020 period through the new Instrument for Pre-accession Assistance (IPA II). Key areas include governance and public administration reform, the rule of law and fundamental rights, as well as support for economic growth and competitiveness.

The reasons for the Albanian delay have nothing in common with those factors that proved to be the main obstacles for other Balkan countries. Albania is the oldest state in the Western Balkans (if we consider that the states that emerged from the breakup of the former Yugoslavia since 1991 are all in a sense new); it has no bilateral problems with its neighbors and no serious, intractable disputes with them. Albania has no issues with its status as an independent country, nor has any frozen conflicts concerning its borders. The one factor that could have been the most serious problem for Albania, i.e. relations between different religious communities—Albania has four traditional religious communities: Sunni and Bektashi Muslims and Orthodox and Roman Catholic Christians—is, in fact, its greatest

asset as the Albanians of all religions coexist in tolerance and harmony with each other.

It would not be an exaggeration to say that Albania's delay relates first and foremost to what one could call "poisoned politics" and the extreme mistrust that exists between the various political actors. The main consequence of this serious lack of trust among the political players—in a context where conflict prevails over dialogue—is the diversion of attention and energies away from reforms, which tend to advance by leaps and bounds. The focus and expenditure of energies on endless political disputes have overshadowed important aspects of the reform process. Thus, while the population is open and supportive of reforms, the political elite is increasingly losing momentum in their implementation.

The EU gate-keeping role has been a permanent engine for reform and a catalyst for concrete changes. While in the first phase of transition the political debate was dominated by anti-Communist rhetoric, in its second phase the debate has focused on issues relating to EU integration. EU reports, evaluations and critiques, which mark the progress in the contractual relations between the EU and Albania, are at the center of the internal debate. It also must be stressed that the EU is the most important donor for Albania.

Under these conditions, given the broad consensus about the European project that exists among the Albanians, it was not too hard for the EU to adopt a policy of conditionality toward Albania. But under the circumstances, given the almost permanent political confrontation among the main political actors, the EU has often been forced to play a mediator's or even an arbiter's role. In this situation, as Albanian analysts have noted, legitimacy rests more with the international community than with the democratic processes and rules.

This has often resulted in domestic pressure being either weak or ignored, while only international pressure can achieve anything or is, at the very least, taken seriously. Paradoxically enough, this has made the political debate focus more on international reports on the situation and problems in Albania than on the reality itself. The Albanians deal with EU integration more as if they were preparing to open an exhibition for a European audience in Brussels than as a process of reforms that would lead to prosperity and the building of a functioning democracy for themselves in their country.

Seen from a geopolitical perspective, the positioning of Albania closer to Bosnia-Herzegovina and Kosovo, than to Serbia and Montenegro will lead to regional fractures that should not be overlooked. In this sense, the endless prolongation of the start of EU membership accession talks with Albania would not be productive.

On the other hand, the recent crisis in Ukraine undoubtedly marked the return of geopolitics to the Balkans. Albania (even before becoming an EU candidate country in June 2014) and Montenegro (a candidate country since 2010) did not hesitate in aligning themselves with Brussels' sanctions against Russia. At the same time, other countries in the region, such as Serbia and Macedonia, refused to do so, despite the fact that they had a candidate status—a status that supposedly should have led them to support the common position of the EU on the issue. The questions being asked in Tirana have been: what counts more in the integration equation, the permanently pro-European position of Albania or the poisoned, local, political disputes? And secondly: is the moderate regional policy of Albania—an unchanged constant during the last two decades, regardless of who has been in power—of any importance in the evaluation of the country or is it simply taken for granted? The truth is that Brussels' approach toward the region remains mainly *acquis communautaire* driven rather than geopolitically driven. In fact, it is high time that Europe sees the Balkans more through the lens the geopolitics.

Albania and NATO: No Dilemmas

The Albanians usually like talking about Euro-Atlantic integration, a terminology that establishes a correlation between EU accession and NATO membership. Furthermore, this terminology seems to offer a compromise between the Europeanization Project and their known pro-Americanism.

Albania was the first former Communist country that submitted a request to join NATO. In December 1992, President Berisha officially submitted the request. However, it took 17 years for the small Balkan country to take its seat in the Alliance. NATO membership in April 2009 confirmed the country's gradual turn from a security consumer to a security provider.

According to different surveys, the number of Albanians who support the North Atlantic Alliance is one of the highest in the world, including other Alliance members. Over 95 percent of the country's population resolutely supports NATO.

Support for NATO must be seen as related to several factors. Being in a Western club, Albanians see their membership in the Alliance as, in part, the realization of their aspiration to join (rejoin, some would say) the West. Experience so far has shown that NATO has served as an anteroom for EU integration of the former Communist countries. Up to now, no former Communist country has become an EU member without first passing through the anteroom of the North Atlantic Alliance.

On the other hand, support for NATO is also related to Albanians' well-known pro-Americanism. The United States has been the main advocate of Albania's NATO membership, which was actually announced by President George W. Bush during his visit to Tirana in June 2007.

Finally, NATO is popular in Albania because of its military intervention in Kosovo in 1999 and the role the Kosovo Force (KFOR) played after the conflict.

NATO is also seen as a barrier to Russia and its efforts to penetrate the region. Historically, Russia has tended not to side with Albanians, and modern times have not reversed this trend—on the contrary, it may even have strengthened it. Many believe that Albania's and Croatia's quick NATO membership occurred—among other things—in order to keep Russia out of the Balkans and the Adriatic.

Some analysts argue that NATO has scored significant gains by admitting the Adriatic countries of Albania and Croatia. As R. Graig Nation put it: "Albania's accession serves to anchor the Alliance more firmly in South Eastern Europe and transform the Adriatic into a virtual NATO lake. With the accession of Albania and Croatia (with Montenegro also actively pursuing accession), NATO members line the entire Mediterranean coastline from the Strait of Gibraltar to the Levant."[11]

Albania's accession to NATO has put it in a more favorable position in the region. However, it must be noted that NATO membership is not an opportunity to show one's muscles, but, on the contrary, one more reason to exercise responsibility and moderation. The scepticism of some analysts, according to whom "an Albania empowered by its status as a full NATO member could eventually become a more assertive party to the unresolved Albanian question in the Western Balkans," has not proven true for the five years since the country gained membership.[12] It is a fact that Tirana now has a seat at one of the tables where major decisions are made about a region where Albanians also live; but it would be hard to imagine that NATO would allow one of its members to take undesirable steps toward others, or allow itself to be involved in conflicts for that reason. In this sense, Albania's NATO membership should definitively allay the fears and concerns about a Greater Albania. Five years after joining NATO,

Albania has clearly demonstrated that it is a responsible member of the Alliance.

A Voice of Moderation in the Balkans

If the endless disagreements and bickering about everything and nothing between the political parties have led to what could be called an "Albanian fatigue," the country's constructive and moderate regional policy can undoubtedly be seen as an "Albanian asset."

Although it has gone through a difficult and problematic post-Communist transition, Albania has followed a balanced and non-confrontational regional policy, which has been valued and applauded in the West. In other words, Albania was not part of the problem in the Balkan conflicts of the 1990s, but rather part of the solution.

In peacetime Albania perhaps does not have the geopolitical importance the Albanians commonly attribute to their country, but it is certainly true that in times of crisis, it carries indisputable weight in the delicate political balances of the region.

Kosovo

Since the end of hostilities in Kosovo, Albania and Kosovo have intensified their political, economic and cultural relations. As political analyst for *The Economist* Tim Judah writes, "a dynamic Albanian sphere is now emerging."[13]

However, the political elites both in Tirana and Pristina have been careful not to take steps that could be misinterpreted and create problems for their neighbors and especially for their Western allies.

The Tirana ambiance may be considered free from the Balkans' aggressive nationalism, although there is a certain nationalist conformism. Unwavering and enthusiastic supporters of an

independent Kosovo, the Albanians in Albania are cold and skeptical on the question of national reunification. Weary after the prolonged and painful post-Communist transition, the Albanian public perceives a supposed process of national reunification as raising the possibility of a whole new host of problems, or at least some new unknowns, if not a new problematic transition. As US foreign policy expert Janusz Bugajski says, "the extension of territories and the incorporation of more than two million Albanians would entail a high level of political unpredictability."[14]

So, "Pan-Albanian dreaming is being channelled into a sort of post-modern re-imagining of a looser 'new Albanian space' in the Balkans, in which the Albanians can move freely and maintain cultural, economic, and family contacts while respecting the state borders that divide them politically."[15]

However, regardless of the different shades of thought, preferences, and influences, Albania's attitude toward Kosovo and vice-versa is determined to a great extent by what Washington or Brussels do. Tirana has enthusiastically supported the agreements between Belgrade and Pristina about the normalization of their relations.

Macedonia

Albania's relations with Macedonia are rather complex. Following the signing of the Ohrid Agreement that put an end to the armed conflict in Macedonia in 2001, Albania's official policy toward its eastern neighbor could be summed up as follows: the implementation of the Ohrid Agreement. Macedonia's interethnic balance remains a delicate one, and despite undeniable improvements, relations between its Macedonian and Albanian populations are still fragile. But there is a general consensus in Albania that preserving Macedonia's integrity and stability is good for the whole region, and especially for the Albanians.

For some years now, Montenegro has been the Balkan neighbor with which Albania has had the best relations. The two countries have established close cooperation in harmonizing their EU integration agendas and in exchanging information and expertise. Tirana is among the strongest supporters of Montenegro's speedy accession to NATO for a number of reasons concerning regional stability, but also because of fear of Russian penetration into the neighboring republic or a potential shift in the latter's policy toward Serbia in the event of a rotation of power.

Serbia

One of the more interesting and difficult chapters in the current Balkan landscape is certainly that of relations between Albania and Serbia. A number of actors and factors are involved and have exerted an impact on these relations, first and foremost Kosovo. A heavy burden of prejudices and enmities comes from the distant and not so distant past.

Yet, the recent political changes in both countries seem to have created a positive momentum for relations between Albania and Serbia. Prime Minister Rama traveled to Belgrade in November 2014, the first visit by an Albanian Prime Minister since the distant 1946. The visit did not go smoothly due to the tensions followed shortly after a soccer match between the two national teams. However, the two countries are intensifying their cooperation in various sectors.

Political rhetoric and mainstream public discourse in Tirana make frequent use of terminology related to the region's European integration while nationalist rhetoric and discourse are conducted in undertones.

The Albanian question is not the sole national question in the Balkans, nor is it isolated from the other national questions of the region. It is

intertwined with the national questions of other peoples, so its perspective must be seen in this context.

The European context and the European perspective—despite the rhetorical and symbolic ways, in which they are used at times—provide the sole working formula for not only resolving the Albanian question, but also the Serbian, Croatian and other issues. If this context were to be lost and if this perspective were to be delayed, the Balkans would be overtaken by a new phase of conflict.

The Albanians see the perspective of their national question not through border changes, but through their integration into Europe. Borders should be made irrelevant, not changed. Instead of Greater Albania, their favorite formula is Greater Europe.

A Triangle of Strategic Partners

The new government of Albania has assigned the status of strategic partners to three of its most important, Western-oriented neighbors: Italy, Greece and Turkey (Turkey is treated like a neighbor, although it does not share a border with Albania). Tirana has traditionally been careful to preserve a balance between Italy and Greece, on the one hand, and Greece and Turkey, on the other.

Greece

Relations with Greece are simultaneously relations with a Balkan neighbor, relations with an EU member state and relations with a NATO member. In this sense, there is a variety of factors—geographical, historical, economic and geopolitical—that exerts influence on these relations.

If one were to try to characterize bilateral relations between Tirana and Athens, one would describe them as a story of intrigue and love, like the title of Schiller's drama. Nevertheless, after a period of tension

in the early 1990s, relations between the two Balkan countries have constantly progressed.

The largest community of Albanian emigrants, an estimated 700,000 to 800,000 individuals, lives and works in Greece. Their remittances have been of vital importance for the survival of many Albanian families and the development of the country's economy. For its part, Albania has an important ethnic Greek minority that is also represented in the National Assembly and has a perceptible influence on Athens' official stance toward Tirana.

Regardless of recurrent tensions (such as when, in January 2010, the Constitutional Court of Albania annulled the Agreement on the demarcation of the maritime border between the two countries), relations between Albania and Greece are good. Athens has continually supported the European integration of Albania. Greece is also one of the most important trade and economic partners of Albania, with investments that focus especially on the banking and telecommunication sectors.

Italy

Italy is, without a doubt, the country with the greatest influence in Albania. Relations between the two countries have been continuous; and in contrast to relations with other Balkan neighbors, they are free from the burden of history.

Italy is the most important economic and trade partner of Albania. Approximately half a million Albanians work legally in Italy, and close to 20,000 Italians have businesses in Albania. The Italian language is spoken extensively, while Italian television channels are still amongst the most popular in the country. Every year, approximately five thousand Albanian students go to Italy for their studies.

Rome has been the main advocate of Albania's EU integration during the almost two and a half decades of its post-Communist transition. Italy is present in various sectors of Albania's economy from banking to mining, energy and manufacture.

Turkey

Relations between Albania and Turkey have been traditionally good. According to Turkish sources, more than one million Albanians live in Turkey. They are integrated into the political and economic circles, and they are also represented in the army. According to the Turkish Ministry of Economy, as of 2014, Turkish investments in Albania reach $710 million, invested mainly in construction.[16] Turkish businesses are present in the steel industry, telecommunication, and private education.

A very distinct and important element of bilateral relations with Turkey has been cooperation in the area of defense. Turkey, alongside the United States, is one of the main contributors to the reform and modernization of the Albanian Armed Forces.

The new agreement of Strategic Partnership that is expected to be signed in 2015 will include the broadening of cooperation in many areas, including energy, tourism, trade and education. According to experts from both countries, it will, in all likelihood, contain provisions for the establishment of free trade areas.

Energy: Challenges and Opportunities

The rapid growth of demand for energy, especially during the last several years, has shed light on the serious challenges Albania faces in this area, as well as on the possibilities it has to offer. As of the start of 2015, the government in Tirana is in the process of reviewing its National Energy Strategy.

Albania is a country with vast water resources, ranking second in Europe as far as reserves per capita are concerned. More than 95 percent of its energy comes from hydropower plants, and this makes Albania a part of the limited list of countries that produce and consume energy mainly from clean sources. At the same time, this means that the production of energy in the country is highly dependent on the caprices of the weather. Nevertheless, it must be noted that only one-third of the country's hydro potential is currently exploited.

The domestic production of energy does not meet the country's needs, and that is why Albania still imports large volumes of electricity from neighboring countries. During the last five years, the Albanian government has aimed to raise electricity production capacity, first through the construction of new hydropower plants in the country, and second through the diversification of energy production, for instance by building an important thermal power station in Vlora.

One of the most significant investments foreseen in this area is that of the hydro plants on the Devoll River by Norwegian Statkraft, Europe's largest producer of renewable energy. In total, the Devoll project consists of three hydropower plants in the Valley of Devoll, with an installed capacity of 243 MW. On average, the power plants will produce about 700 GWh annually, increasing Albania's electricity production by almost 17 percent.

On the other hand, the new 97-MW thermal power plant—a $112 million project—has the capability of switching from oil to natural gas, as soon as the gasification of the country allows it.[17]

Since 2007, the Albanian government has awarded more than 400 concession contracts to private companies to build small hydropower plants, of which only 70 have already been made operational.

In 2009, Albania privatized the energy distribution arm of its energy corporation, which came under the control of CEZ, a Czech state-owned conglomerate. But after long-lasting disagreements over outstanding mutual debts between the Albanian government and CEZ, the Berisha government revoked CEZ's license in 2013—an action that placed doubt on fair market procedures and state protection of investors' claims. This has negatively impacted Albania's economic outlook. After protracted talks, the Rama Government signed a 95 million euro ($106 million) settlement agreement with CEZ over the dispute.

The settlement with CEZ enabled the Albanian government to undertake the first steps to reform the country's energy sector. A dilapidated distribution grid and a large level of commercial and technical losses due to non-payment of electricity bills by consumers as well as poor collection rates have pushed the country's energy sector to the brink of collapse. The World Bank offered a $150 million soft loan on power sector reforms. Prime Minister Rama undertook a national campaign to curb the thefts of electricity, which already yielded initial results, despite encountering resistance. The Albanian government decided to install some 1.1 million intelligent meters using a prepaid metering system.

Albania has traditionally been a small producer of crude oil, which in recent years has been mostly exported to Spain and some other European countries. In 2013, Albania's crude oil output amounted to more than 1.2 million tons. On the other hand, the country imports significant quantities of oil for domestic consumption.

In 2005, Albania granted a 25-year concession to the Canada-based Bankers Petroleum for the Patos-Marinza oil field, the largest onshore field in Europe, holding approximately 5.2 billion barrels of original oil in place. Average production from the Patos-Marinza oil field during 2014 was more than 21,000 barrels of oil per day. Albanian oil exports in past years have increased by more than 30 times, emerging

as one of the key exported commodities of the country. Bankers Petroleum is the largest exploration and production (E&P) company in Albania, contributing almost 40 percent of the country's total Foreign Direct Investment (FDI). Bankers Petroleum has invested over $1.4 billion in its operations over the past ten years.[18]

Recently, global interest in Albanian oil has grown. In November 2013, Royal Dutch Shell and Petromanas Energy, Inc. announced the discovery of good quality oil and gas in test flows from its first well in Shpirag, in southern Albania, and will continue drilling to determine the capacity of the reservoir. In May 2014, the Albanian minister of energy and industry announced that Albania plans to auction off 13 oil exploration blocks, including one offshore, to oil majors and other foreign companies, after a significant discovery has attracted strong interest.[19]

Although it is still too early to give a final evaluation, the recent discoveries of oil in Albania are expected to earn the country a more favorable position in the region's energy map and contribute to its energy security.

One of the essential challenges for the Albanian government is the privatization or restructuring of the state-owned oil company, Albpetrol. An attempt to privatize the company in 2013 was ultimately unsuccessful, as the highest bidder, the Vetro Silk Road consortium, failed to provide a letter of guaranty in conformance with the required criteria. Participants in the tender also included the Chinese consortium Win Business Petroleum, Bankers Petroleum of Canada and, for the first time, Russian Gazprom. The Albanian government is in the process of determining whether to restructure Albpetrol, form a partnership with a foreign company, sell it off entirely or upgrade its technical ability to monitor the contracts and development of the oil sector.

Albania is a minor gas producer with no natural gas import capacity. According to the US Energy Information Administration, the proved reserves of Albania are 0.03 trillion cubic feet (0.849 bcm).[20] The Albanian pipeline network consists of a few kilometers that link extraction sites in the south of the country with domestic consumers—thermal power plants, fertilizer producers, steel plants—across the country.

The existing National Energy Strategy of Albania projects gas demand to reach an estimated 1.5 bcm to 1.8 bcm per year by 2020, taking into account the country's broader macroeconomic context and prospects.[21] According to energy experts in the region, this forecast seems unrealistic, if one takes into account the fact that the country does not have a distribution network and that the construction of such a network will take time.

Nevertheless, the connection of the country with regional and international gas transport and distribution networks and the building of a domestic distribution network is one of Albania's top priorities. This explains the country's very active lobbying in favor of the Trans-Adriatic Pipeline (TAP) and the intensification of its relations with Azerbaijan, especially during the last five years.

TAP: The Project of the Century

In an interview with the international press in October 2012, Albanian President Bujar Nishani said: "The Trans-Adriatic Pipeline is very important for Albania. Albania will offer the maximum of engagement. In Albania, TAP will find a safe place and a very good environment in order to implement this project."[22] In December 2012, Albania gave TAP the status of a National Strategic Interest Project. Albanian media have dubbed it the "project of the century."

Several months later, in April 2013, meeting on the sidelines of the World Economic Forum, in Baku, Prime Minister Sali Berisha told

Azerbaijani President Ilham Aliyev that TAP was a "feasible [project] with a wide and guaranteed market."[23]

In November 2012, Albania, Greece and Italy signed, in New York, a memorandum of political support for the TAP project. In May 2013, several weeks before the final selection between TAP and Nabucco-West was made, the foreign ministers of Albania, Bosnia-Herzegovina, Croatia and Montenegro signed, in Tirana, a Memorandum of Understanding for support and cooperation in the realization of both the Trans-Adriatic Pipeline and Ionian Adriatic Pipeline (IAP) projects. This memorandum was part of the lobbying effort by Tirana in favor of TAP. The pipeline marks the first time in its history that Albania used what is called energy diplomacy.

The selection of TAP vs. Nabucco-West by the Shah Deniz consortium is of great importance to Albania. Prime Minister Edi Rama reconfirmed the position of the previous government that TAP is a strategic project for his country. Rama, who traveled to Azerbaijan in December 2013 to sign the investment deal, described TAP as a major milestone for Albania.

The Albanian section of the TAP pipeline will start at Bilisht Qendër, in the Korça region, at the Albanian-Greek border. The landfall for the onshore part will be located in the coastal area north of Fier. The length of the TAP pipeline in Albania will be about 209 km onshore and 60 km offshore in the Albanian section of the Adriatic Sea.[24]

According to a report by Oxford Economics, Albania will have substantial potential benefits from the construction of TAP. During the four years of construction (2015–2018), inclusive of direct, indirect and induced effects, TAP will contribute a total of 374 million euros ($418 million) to the Albanian GDP, create on average of 9,850 jobs per year and generate 90 million euros ($100 million) for the Albanian treasury. During the construction phase, TAP will bring employment to the country in many sectors of the economy, such as

transport and communications, manufacturing and utilities, trade, financial and business services. It will also contribute to the development of infrastructure in the country by building a number of roads as part of its support infrastructure.

In addition, during its expected 50 years of operation, inclusive of direct, indirect and induced impacts, TAP is predicted to contribute a total of 780 million euros ($872 million) to the Albanian GDP, create 460 jobs per year, and generate 470 million euros ($525 million) in tax revenues.[25]

TAP's investment is expected to provide a range of wider, ancillary benefits to the country. The project team expects to invest some 60 million euros ($67 million) in Albania's roads and other infrastructure, helping to pave the way for further growth in the country.

According to Sam Moore, Chief Operating Officer of Consulting Services of Oxford Economics, TAP will not only generate considerable benefits directly, but "it will also deliver a substantial number of 'spill over' effects which will be just as, if not more, important."[26]

One of them is the clear prospect for the gasification of Albania. At the moment, the domestic use of natural gas in Albania is negligible. The Albanians make wide use of electrical energy for heating and cooking. The infrastructure needed for the distribution and use of natural gas is entirely nonexistent.

The government has initiated the drafting of a master plan for the gasification of the country. During his last visit to Baku, Prime Minister Rama said that TAP is "a chance to develop a national gas market." During the 3rd Caspian Forum, in Istanbul, in December 2013, the Albanian Minister of Energy and Industry, Damian Gjiknuri, confirmed that Albania has invited the State Oil Company

of Azerbaijan (SOCAR) to build the necessary infrastructure. In December 2014, the energy ministers signed, in Tirana, a Memorandum of Cooperation for the Development of the Gas Master Plan of Albania. The National Gas Company of Azerbaijan, SOCAR, which participated in the intergovernmental talks in Tirana, will carry out the master plan of cooperation and, after that, will implement the big project of gasification of Albania. In this way, following the agreement with Greece pertaining to DESFA's internal Greek pipelines, the gasification of Albania will not be just a new investment opportunity for SOCAR, but it will further consolidate its position in the Balkans.

The gasification of the country is undoubtedly an ambitious project for Albania. It will diversify its energy sources, and it will especially reduce the consumption of electric energy for heating. Furthermore, important economic sectors in the country, such as the steel and cement industries will reap substantial benefits from the use of gas. TAP will also make operational the Vlora thermal power plant, which, although completed and ready to use since 2009, has sat dormant because of its high operational costs connected to the price of fuel.

Albania is a small market but an important transit corridor and has the potential to be transformed into a regional energy hub. Alongside Croatia, it is also one of the most active lobbyists in favor of the Ionian Adriatic Pipeline (IAP), a 516-km (320 miles) projected route connecting Albania, Montenegro, Bosnia-Herzegovina and Croatia, that would begin in Fier (Albania) and end in Split (Croatia). This Balkan prospect for TAP seems to have won it favor over its rival Nabucco-West. As Ambassador Matthew Bryza said: "TAP has skillfully transformed itself from a project primarily destined to supply the saturated Italian market to one that will supply the Balkans through the Ionian Adriatic Pipeline (IAP) as well as the major markets in Western Europe."[27]

In Fier, IAP would connect to TAP, while in Split, it would connect to the networks of Central Europe. IAP is planned as a 28-inch natural gas pipeline. Estimated costs of the 170 kilometer (105 miles) Albanian section range between 90 and 230 million euros ($100.7 and $257.4 million).

The rationale behind the construction of IAP, which is still only a proposal, is explained by the forecasts that gas consumption in the former Yugoslav region and Albania is expected to double by 2020. According to a study by the Croatian state-owned pipeline operator Plinacro, this region will need about 11 billion cubic meters of gas per year.

According to Albanian experts, IAP will not only provide gas to the countries from the Southern Corridor, but it can also open the way for the creation of the Western Balkan Gas Ring.

The IAP project is only one of the regional infrastructure projects within the framework of the Ionian Adriatic Initiative that would turn into a reality the infrastructure interconnectivity of Southeastern Europe (SEE). This is in the strategic interest of all the SEE countries, since it helps develop their infrastructure. However, it is in the interest of Central Europe and the wider EU as well because this is also the shortest route from Eurasia to Central Europe. Italy and Greece, Ionian and Adriatic Sea riparian states, are among the most enthusiastic supporters of the IAP. Greece and Italy ranked this initiative among the top priorities of their respective EU presidencies for 2014.

The National Energy Strategy of Albania envisions the country as a terminal for liquefied natural gas on the Adriatic coast. Tirana is actively promoting the development of natural underground gas storage on its territory as local geology offers such natural reservoirs. According to experts, Albania has large storage capacities in the Dumre cave system—approximately 12 bcm—as well as in the

depleted gas field of Divjaka, which reportedly could be converted into a storage facility for up to 1 bcm. According to the Minister of Energy and Industry Damian Gjiknuri, Albania has the capacity to store not just the gas coming from TAP, but also the surplus from the EU and North Africa.

It is obvious, that even before its construction has begun, the TAP project has promoted integration in the Western Balkans and more largely in Southeastern Europe, by introducing the region as a whole to larger networks, in fact, to global networks of development.

On the other hand, by bringing closer together the Balkan countries that often have a bitter history of old and new conflicts behind them, TAP is contributing to the consolidation of stability in the region. In this way, the pipeline will change more than just the energy landscape of Southeastern Europe.

The fact is that this pipeline is more than just a metal tube. It is also an additional element that will contribute to the broadening of relations between Albania and Turkey, the stabilization of relations with Greece and the improvement of relations and cooperation with its other Balkan neighbors: Montenegro, Bosnia-Herzegovina and Croatia.

Although a relatively distant country, Azerbaijan can play not just an important economic role in the Balkans, but a geopolitical role, too. The fact that it has good relations with all countries in the region is an additional positive element because this means that Azerbaijan is seen as a neutral actor that does not take sides with respect to the fragile equilibrium of interstate relations in the Balkans. If Russia is a factor that divides countries in this region, Azerbaijan is a potential factor that unites them.

It is clear that for Baku the decision about TAP was a balancing act between the West and Russia, between the strategic interest in

opening the Southern Corridor that will bring Azerbnaijani gas to the European markets and the tactical selection of TAP as the one project that would irritate Moscow and Gazprom the least. But it is also clear that what is probably a tactical step by Baku is a strategic act for Tirana, Sofia or Belgrade.

Recent events in Ukraine and the attempts by Moscow to revive the idea of the construction of South Stream have been followed attentively and with some concern in Tirana. South Stream was not seen as just another pipeline that would pass through the Balkans, but above all as an attempt by Moscow to use its energy weapon in a region where it has historically played a divisive role.

Russia has traditionally seen itself as a Balkan power, although geographically it is far away from the region. In contrast to neighboring countries, where Russian businesses have managed to penetrate successfully, its role in Albania has been limited. Although the two countries signed a Friendship and Cooperation Treaty a decade ago, it would be farfetched to say that relations between the two countries are friendly and it would be hard to list any sectors in which they cooperate. Historical and current factors interact to complicate relations between Tirana and Moscow and make them difficult. The well-known pro-Americanism of the Albanians and the position of Moscow vis-à-vis Kosovo and the Albanian question, are among the main factors that determine this situation.

Albania was among the first countries that joined Western sanctions against Russia without any hesitation, and it is no secret that it would have preferred an even harder line. In this context, the announcement of President Vladimir Putin about Russia's withdrawal from the construction of the South Stream pipeline has created a new geopolitical environment in the Balkan region. According to local analysts, one of the main elements of Russian influence and control over the energy sector in the Southeastern European region has left the regional scene.[28]

After Russia's failure to construct South Stream, TAP remains the only gas pipeline that is going to be implemented at all stages. TAP's significance and importance grow for Azerbaijan, but also for Albania and the Balkans. In Tirana, South Stream was seen not only as a stream of natural gas for the Balkans, but most of all a stream of Russian influence, which was not welcomed. On the other hand, the annulment of South Stream and the construction of TAP put Tirana in a more favored geopolitical position compared to Belgrade, its main political and regional rival. If Serbia becomes the biggest looser from the annulment of South Stream, Albania becomes the biggest winner from the construction of TAP.

Tirana-Baku: A New Promising Partnership

Although relations between Albania and Azerbaijan are relatively new, they have witnessed a tangible intensification in recent years. Despite the differences that exist between the democratic models the two countries are implementing, Tirana and Baku have made rapid progress in the path of cooperation based on mutual interests.

TAP has undoubtedly been the catalyst of these relations. From 2011, there has been an intensification of high-level official visits. Prime Ministers Berisha and Rama have both visited Baku. The speakers of the respective parliaments have exchanged visits, while bilateral meetings by the foreign ministers of the two countries have become common. In particular, the year 2014 witnessed an intensification of bilateral cooperation.

Albania and Azerbaijan also cooperate within the United Nations, the Organization of Islamic Conference and the Organization of Black Sea Economic Cooperation.

During the last three years, the two countries have signed ten agreements, including an agreement for the mutual encouragement of

investments as well as agreements in the areas of energy, tourism and culture. Other bilateral agreements are in the process of being concluded.

Tirana has unilaterally removed visas for Azerbaijani citizens and is waiting for a liberalized regime for its citizens from the Azerbaijani side.

On the issue of the Karabakh region, Tirana historically had a neutral position and has always supported the solution of the conflict through dialogue between Armenia and Azerbaijan in the format of the Minsk Group by avoiding the use of force. However, in the fall of 2013, a significant change of nuance was noted in Tirana's position. In a statement, the Foreign Minister of Albania Ditmir Bushati urged Armenia "to withdraw its armed forces from the occupied territories of Azerbaijan."[29] This shift in the position of Tirana is undoubtedly a gesture toward Baku on this issue of the highest sensitivity for Azerbaijan.

According to the executive director of the Albanian Institute for International Studies, Albert Rakipi, relations between Albania and Azerbaijan "are set to take a new dimension because of the TAP project and Albania's determination to establish new relations with countries outside the EU and the NATO."[30] This is an expression of the "360-degree foreign policy" that Tirana has recently launched.

Despite being a small country, Albania offers several possibilities and areas of interest to Azerbaijan. Besides being a transit country and the exit gate for TAP before it reaches Italy, Albania, although a small market, offers the potential for a growing demand for Azerbaijani gas. It was agreed that SOCAR would undertake the project for gasification of Albania, a large-scale project and a giant investment given the fact that it will start from scratch.

Another Azerbaijani investment in the energy sector is the acquisition of a 70-percent share of the main oil-refining company ARMO by the Azerbaijani Heaney Assets Corporation.

Moreover, Albania offers investment possibilities, especially in the tourism sector. The country has a 450-km (280 miles) coastline and an urgent need for developing this sector.

During the visit in Baku of Ilir Meta, the speaker of the parliament, in October 2014, a Memorandum of Understanding between the Tirana Polytechnic University and Baku State University was signed, which is paving the way for cooperation in the sector of education.

According to Rovshan Ibrahimov, the chair of the Foreign Policy Analysis Department at the Center for Strategic Studies in Baku, Albania and the Balkans are part of a "second circle of interest for Azerbaijan." Although Azerbaijan's major geopolitical dynamics are related to the region of the South Caucasus plus Russia and Turkey, its need for diversification of oil and gas markets, especially toward European Union countries, brings the Balkans closer to Azerbaijan's focus.[31]

According to Baku's ambassador to Albania, Rahman Mustafajev, Albania is a new, but a very important partner for Azerbaijan not just because of the gas pipelines, but also because the Balkan region constitutes one of the main directions of interest for the foreign and investment policies of Azerbaijan.[32]

The Balkans is a relatively new region for Azerbaijan. Because of its history and long isolation, Albania is even newer. But TAP is the first station on the road to close cooperation in the future.

Conclusion

Albania looks set to gain the most among the Balkan states from the upcoming arrival of the Trans-Adriatic pipeline. The selection of TAP over Nabucco-West will bring a number benefits to the formally isolated country. The pipeline will not only supply natural gas to Albania, but it will also connect it, for the first time, to the international gas grid. By linking Albania to international and regional gas transportation and distribution networks, TAP will help diversify Albania's energy sources and significantly improve its energy security. As domestic electricity generation is entirely dependent on hydropower plants, TAP would be an opportunity to diversify generation, especially through gas-fired thermal power plants.

In addition, Albania will have the chance to develop its own internal gas network with the help of Azerbaijan's state oil company SOCAR, which has signed a contract with the Albanian government to assist in the country's gasification, considering the, heretofore, complete lack of gas infrastructure. SOCAR will also contribute to the development of the gas market in the country.[33]

Albania will benefit around one billion euros ($1.12 million) in investments from TAP's construction in the next three years, generating one of Albania's largest foreign direct investment projects.[34] An Oxford Economics study estimated that during the four years of construction (2015–2018), inclusive of direct, indirect and induced effects, TAP will contribute a total of 374 million euros to Albania's GDP and create a total of 37,400 jobs, an average of 9,850 jobs per year.[35]

Participating as a transit country in a major international gas corridor will raise Albania's geopolitical standing and importance. TAP will allow Albania to solidify its political credibility as a dependable contributor to the EU energy security strategy. Both the government

in Tirana and the Albanian public are hoping that this will improve Albania's chances to start negotiations on EU membership sooner.

TAP will also bring about a significant re-evaluation of Albania's geographical position. The prospect of building the Ionian Adriatic Pipeline in the future would turn Albania into an important energy hub for the region.

The route of the pipeline carrying Azerbaijani gas will undoubtedly change the geopolitical positioning of the countries in the Balkans. Since Albania always saw the South Stream project as an instrument of increasing Russian influence in the region, its cancellation and the pending construction of TAP put Tirana in a more favorable geopolitical position compared to Belgrade, its main political and regional rival. As Serbia is losing regional leverage from the termination of South Stream, Albania is gaining influence through the construction of TAP. Changing the balance between Serbia and Albania may indeed have a positive effect on resolving regional disputes, first, because Albania is determined to remain a moderate voice in the Balkans, and second, because Moscow has no influence in Tirana.

NOTES

[1] "TAP, key strategic project for country's energy and economic development," *Albanian Telegraph Agency, (ATA)*, February 4, 2014.

[2] Currency conversions based on exchange rates as of March 1, 2015. Historic exchange rates available at http://www.oanda.com/currency/converter/.

[3] Bertelsmann Stiftung, "BTI 2014—Albania Country Report," Gütersloh, *Bertelsmann Stiftung*, 2014, p. 15, http://www.bti-project.org/fileadmin/Inhalte/reports/2014/pdf/BTI%202014%20Albania.pdf.

[4] *Ibid.*

[5] *Ibid.*

[6] European Bank for Reconstruction and Development (EBRD), "Transition Report 2014: Innovation in Transition?" *Albania Country Assessment*, November 1, 2014, http://tr.ebrd.com/tr14/albania/.

[7] U.S. Central Intelligence Agency, "Albania," Washington, D.C., *The World Factbook*, April 21, 2015, https://www.cia.gov/library/publications/the-world-factbook/geos/al.html.

[8] Bertelsmann Stiftung, "BTI 2014—Albania Country Report," Gütersloh, *Bertelsmann Stiftung*, 2014, p. 18, http://www.bti-project.org/fileadmin/Inhalte/reports/2014/pdf/BTI%202014%20Albania.pdf.

[9] "World Bank lends Albania $100 mln for finance sector," *Reuters*, May 16, 2014, http://www.reuters.com/article/2014/05/16/albania-worldbank-idUSL6N0O21WB2014051.

[10] EBRD, Transition Report 2014, Albania Report, http://2014.tr-ebrd.com/albania/.

[11] R. Craig Nation, "NATO in the Western Balkans: A Force for Stability," Paper for the international conference "The Global Crisis and Regional Governance in the Balkans: Is There a Threat to Stability?" Faenza 2010, p. 5.

[12] R. Craig Nation, *op.cit.,* p. 5.

[13] Tim Judah, "Yugoslavia is Dead. Long Live the Yugosphere," *LSEE Papers on South Eastern Europe*, 2009, p. 31.

[14] Janusz Bugajski, "Pan-Albanian or Pan-European," in *Koha Ditore*, September 5, 2000.

[15] Juddy Bat, ed., "Is there any Albanian Question," Chaillot Paper, no. 107, January 2008, p. 6.

[16] Gazeta Tema, May 14, 2014, p. 11.

[17] "Launch of Albania's Vlore Thermal Power Plant Delayed to September," *Balkans Business News*, February 10, 2010, http://www.balkans.com/open-news.php?uniquenumber=47199.

[18] Rakip Belishaku, "An Albanian Success Story: Bankers Petroleum Ltd. and the Patos-Marinza oil field," *YoungPetro.com*, March 14, 2015, http://youngpetro.org/2015/03/14/an-albanian-success-story-bankers-petroleum-ltd-and-patos-marinza-oilfield/.

[19] Reuters, May 6, 2014.

[20] U.S. Department of Energy, "Countries: Overview Data for Albania," *U.S. Energy Information Administration (EIA)*, May 30, 2013, http://www.eia.gov/countries/country-data.cfm?fips=AL.

[21] Cited in Stavri Dhima, "Prospects for the Introduction of Natural Gas in Albania," Paper presented at the 'Greek–Albanian Cooperation in the Energy Sector' conference, Tirana, January 2009, www.iene.gr.

[22] "CoE Chair, Albanian President Nishani to EuroFora: Trans-Adriatic Pipeline Important for EU," *EuroFora*, October 4, 2012, http://www.eurofora.net/newsflashes/news/albanianpresidentonpipeline.html.

[23] "Albania Seeks Azeri Blessing for Gas Pipeline," *BIRN*, April 9, 2013.

[24] Trans-Adriatic Pipeline website, http://www.trans-adriatic-pipeline.com.

[25] Oxford Economics, "The Economic Impact of the Trans-Adriatic Pipeline on Albania: A Report for TAP AG," 2013, http://www.oxfordeconomics.com/Media/Default/economic-impact/economic-impact-home/Economic-Impact-trans-Adriatic-Pipeline.pdf.

[26] "TAP pipeline to have major impact on Albania's GDP, employment," *Tirana Times*, December 7, 2012, http://www.tiranatimes.com/?p=114564.

[27] Matthew Bryza & David Koranyi, "A Tale Of Two Pipelines: Why Tap Has Won The Day," *Natural Gas Europe*, July 2, 2013, http://www.naturalgaseurope.com/southern-corridor-strategic-importance-tap-nabucco.

[28] Shaban Murati, "The Abolishing of 'South Stream' Increases the Role of Albania," ("Mbyllja e 'South Stream'-it rrit rolin e Shqipërisë"), *Gazeta Shqiptare*, December 8, 2014, http://www.balkanweb.com/site/mbyllja-e-south-stream-it-rrit-rolin-e-shqiperise/.

[29] Sara Rajabova, "Albania Calls for Withdrawal of Armenian Troops from Azerbaijani Territories," *AzerNews*, Baku, October 25, 2013, http://www.azernews.az/azerbaijan/60987.html.

[30] "TAP project set to boost Albania-Azerbaijan relations," *Tirana Times*, April 14, 2014, http://www.tiranatimes.com/?p=116414

[31] *Ibid.*

[32] "Azerbajxhani konfirmon mbështetjen për projektin e gazsjellësit Trans Adriatic Pipeline," Radio Televizioni Shqiptar (RTSH), Tirana, http://rtsh.al/artikull.php?id=268.

[33] "SOCAR to gasify Albania," *News.az*, February 18, 2015.

[34] "Azerbaijan's SOCAR to assist in Albania's gasification," *Tirana Times*, March 13, 2015.

[35] Oxford Economics, "The Economic Impact of the Trans-Adriatic Pipeline on Albania: A Report for TAP AG," 2013.

Part Three

Interconnecting Southeastern Europe

Pipeline Junction: Bulgaria, Romania and Macedonia and the Southern Gas Corridor

Margarita Assenova

Introduction

The Eastern Balkans are becoming increasingly important for Europe's energy security, as Caspian oil and gas makes its way westward. Although the Southern Gas Corridor will not pass through Bulgaria and Romania—since the Nabucco-West pipeline lost to the Trans-Adriatic Pipeline (TAP)—these two countries will be essential in linking TAP to the Central European gas markets through a south-north connection, which is quickly shaping up under the name the "Vertical Gas Corridor." Initially planned to transport small gas volumes, this proposed energy corridor could expand in the future when Azerbaijan starts producing larger gas quantities and other suppliers join the Southern Corridor.

Bulgaria and Romania have routinely been at the center of critical international energy projects in Southeastern Europe. For years, their Black Sea ports have been used for crude oil deliveries from Eurasia, while the Trans-Balkan natural gas pipeline carries Russian gas via Ukraine and Moldova on to Greece and Turkey. Moscow has been trying to eliminate this pipeline since 2006, in order to circumvent Ukraine as a transit country for Russian gas deliveries to Europe. But the Kremlin's grand plan to construct the South Stream natural gas pipeline fell apart under legal pressure from Brussels and Russia's

worsening financial situation because of Western sanctions and falling oil prices. The proposed South Stream substitute, the "Turkish Stream," which is slated to come onshore in Turkey and bypass Bulgaria, will have even greater financial troubles as Russia has also lost its Western investors.[1]

Romania was never eager to take part in the South Stream project, viewing it as a Kremlin tool to deepen the region's dependence on Russian energy and submit the government in Kyiv under Moscow's control. Bulgaria, on the other hand, was playing a central role in the project, as the pipeline was supposed to come onshore on its territory. In stark contrast to Romania's position, Bulgaria gave the project a "status of national importance" and extensively lobbied Brussels to bend its rules for Gazprom.

Both Romania and Bulgaria were a vital part of the EU-supported Nabucco project, which was supposed to bring Caspian gas to Europe. This project was also abandoned in 2013, after the Shah Deniz consortium selected the Trans-Adriatic Pipeline for transporting Azerbaijani gas to Europe. Nabucco was one of the pillars of the Romanian and Bulgarian energy strategies. Romanian Prime Minister Victor Ponta declared: "For Bucharest, Nabucco remains the most important project in the energy sector… Europe needs an alternative to create competition and reduce the influence of the Russian Federation."[2] For Sofia, Nabucco was a chance to escape the tight grip of Russian energy companies, which have long exercised economic and political influence in the country, forcing Bulgaria to pay some of the highest prices for Russian gas in Europe.

While Bulgaria is almost fully dependent on Russian oil and gas supplies, Romania relies on its own hydrocarbon resources and even plans to become energy independent by 2020. As of April 2015, Romania stopped buying Russian gas for several months because its domestic gas production exceeded demand. However, Romania's gas consumption is expected to grow again after 2020.[3]

Macedonia's gas market is very small, but the country pays the highest prices for Russian gas. Skopje was also among the South Stream project supporters, hoping that the country would be supplied with natural gas through a spur from the Russian pipeline. Currently, all gas supplies to Macedonia are delivered through Bulgaria via the Trans-Balkan pipeline, making the country as dependent on Russian gas as its neighbor.

Since the cancellation of South Stream in December 2014, Moscow has been courting Greece, Macedonia and Serbia to recruit investors and build a new pipeline for Russian gas coming through Turkey, the "Turkish Stream." Playing on the national sensitivities of the Macedonian public, the official Russian media promotes the pipeline as a Trans-Macedonian pipeline, while for the Serbian public the line is called Balkan Stream.[4]

Bulgaria and Macedonia are undeniably the most vulnerable European states to Russian gas supply interruptions, not only for their dependence on a single gas supplier, but also for the limited back-up options they have in case of another gas crisis caused by Russian disruptions of gas supplies. Reverse-flow gas interconnectors with neighboring states have not been completed and gas storage facilities are insufficient. In fact, Macedonia has no gas storage facilities at all.[5]

As the Trans-Adriatic Pipeline will be running through neighboring Greece, future interconnectors with Bulgaria and Macedonia will dramatically impact their energy security. Bulgaria has already signed a contract with the Shah Deniz consortium for the delivery of one billion cubic meters of gas from TAP (via the prospective Greece-Bulgaria interconnector), which is almost half of its current Russian imports. In addition, Azerbaijan's State Oil Company (SOCAR) is interested in helping Bulgaria expand its only gas storage facility.

Bulgaria, Romania and Macedonia can play a critical role in supporting the Southern Gas Corridor and countering Moscow's objective to deepen the region's dependence on Russian energy and increase its influence in the Balkans. However, Macedonia's political instability and the potential revival of an armed insurgency, as the battle between police and gunmen in Kumanovo in early May 2015 indicated, may unravel and threaten the wider region, affecting large energy projects in the process. In fact, Macedonia is the key to security and stability in the Balkans. The potential implosion of the small landlocked country could affect major energy and transportation projects, including the Azerbaijan-led Southern Gas Corridor.

Energy Security and Dependence on Russian Supplies

Energy policy and foreign policy are intertwined in Southeastern Europe, which has scarce oil and gas reserves. The dependence on energy imports, particularly oil and gas, formulates the background for policy concerns related to the security of supplies. With the exception of Romania and Croatia, energy supply routes have kept most Balkan states tied to Russia, despite their varying degrees of integration with the European Union. Romania and Bulgaria joined the EU in 2007, while Macedonia became an EU candidate country in 2005. However, accession talks with Skopje were blocked by Greece in 2009, because of its name dispute with Macedonia.[6] This stalemate has led to the international and regional isolation of Macedonia, the reversal of its internal politics back toward nationalism, and growing frustration among the Macedonian Albanians.

The energy dependence on imports of the three countries is lower than the average rate of the EU, which was 53.2 percent in 2013. In the same year, Romania had an 18.6-percent dependence rate (down from 30 in 2004), Bulgaria—37.8 percent (down from 48.1 in 2004), and Macedonia–47.9 percent (not changed much over the years).[7] Romania has one of the lowest energy dependence rates in Europe, but also relies on more diversified imports—while gas imports come

exclusively from Russia, crude oil is also supplied from Kazakhstan, Azerbaijan and Iraq.[8] In contrast, Bulgaria imports three critical energy supplies from Russia: crude oil, natural gas and nuclear fuel. Macedonia is also fully reliant on Russian oil and gas. Four of the five nuclear reactors in the Balkans are located in Bulgaria and Romania, contributing to the diversification of their energy mix.

Bulgaria and Romania in Different Camps

Bulgaria's energy policy has been historically entwined with the foreign policy priorities of the government in office, which have been different for right-wing and left-wing administrations. Socialist governments have been more likely to accommodate Moscow's interests and award strategic energy projects to Russian companies because of their prior political connections and common opaque business interests. Center-right governments, on the other hand, tend to work toward reducing dependence on Russian oil and gas and diversification of energy supplies.

Romania's leftist parties are not as connected to Russia, because of historical and political reasons—the Soviet Union could not dominate Romania in the same way it controlled the rest of the Communist Bloc. At the heart of Bucharest's historical resentment toward Moscow, until today, is the Soviet capture of Moldova after World War II. Romania has been particularly mistrustful of Russia after the 1992 war over the Transnistrian region of Moldova and the subsequent frozen conflict. This may explain the fact that, all Romanian governments have been committed to helping Moldova strengthen its sovereignty and become less dependent on Russian energy. Furthermore, both leftist and center-right governments in Bucharest tend to put Romania's national interests first in energy policy matters rather than gratifying Moscow's ambitions. In that respect, the current Social Liberal Union–led coalition government in Bucharest has little in common with any Socialist government or coalition in Sofia at any time.

The Bulgarian Socialists were extremely proud of the so-called energy Grand Slam—the 2008 triple energy deal with Moscow that put three strategic energy projects in Moscow's hands—but the right-wing opposition saw it as a betrayal of Bulgaria's national interests. In January 2008, Bulgarian President Georgi Parvanov, elected on the Socialist Party ticket, signed with Russian President Vladimir Putin agreements on building the Burgas–Alexandroupolis oil pipeline, the second Bulgarian nuclear power plant (Belene NPP), and the South Stream gas pipeline. "We achieved a Grand Slam," Parvanov said, whereas President Putin announced that 3.8 billion euros have already been allocated in the Russian Federation's budget for the prospective NPP Belene.[9]

One year later, however, the center-right government of Boyko Borisov pledged to review all pending Russian energy contracts signed by the previous Socialist government. In 2012, the Burgas-Alexandroupolis oil pipeline project and the Belene NPP projects were canceled. The South Stream natural gas pipeline project at the time was sidelined by Sofia's resolute support for the Nabucco gas project. In fact, the environmental assessment study for Nabucco was prepared way ahead of that for South Stream.[10]

Romania and Bulgaria are the only new EU members that, upon accession, were subjected to an extensive monitoring procedure through a specially designed Cooperation and Verification Mechanism (CVM) of the European Commission. At the time of accession, the EU had reservations regarding the unfinished reforms in several key areas. Initially installed for five years, CVM was indefinitely extended in 2013. The EU's main concerns are related to insufficient judicial system reforms, organized crime and corruption.

While Bucharest is making strides in fighting corruption with mounting convictions of officials, including a former prime minister, Sofia is lagging behind. Since 2008, the European Commission had

suspended funding for Bulgaria on several occasions for misappropriation of funds and corruption practices. Corruption has severely affected the energy sector in Bulgaria, as a great number of procurement contracts with significant monetary value are being awarded for energy projects.

Some of the shady dealings with Russian companies surrounded the South Stream pipeline project and the construction of the second nuclear power plant at Belene on the Danube River, both subsequently canceled. In June 2014, the European Commission started an infringement procedure against Bulgaria for setting up the South Stream–Bulgaria joint venture in violation of EU competition laws. The Commission said that the government was not allowed to award such a large public procurement to a specially established joint entity between Russian Gazprom and Bulgarian Energy Holding, without an open tender for other bidders. South Stream–Bulgaria subsequently awarded a contract for the construction of the Bulgarian part of South Stream to a consortium led by the Russian Stroytransgas Holding. A major shareholder with 63-percent ownership in Stroytransgaz is the Volga Group, owned by Gennady Timchenko, who was placed on the US sanctions list on March 20, 2014. Timchenko is a close ally of Russian President Vladimir Putin and Russia's sixth richest man, according to Forbes Magazine. His Volga Group and another ten related entities, including Stroytransgaz Holding, were also sanctioned by the US Treasury Department on April 28, 2014.[11]

Russian oil and gas companies or their Bulgarian subsidiaries have heavily penetrated the Bulgarian energy sector. The largest business in the country is Lukoil Neftohim Burgas, a subsidiary of the Russian oil company Lukoil, which acquired 58 percent of Bulgaria's main refining company through a privatization deal in 1999. The second largest business is Lukoil-Bulgaria EOOD, which owns over 200 service stations (i.e. a market share of about 26 percent of the retail market).[12]

The two companies practically close a Russian-controlled circle of supply, production and trade, as the refinery on the Black Sea coast processes Russian oil, delivered by tankers through the Black Sea, while the petroleum products are then distributed and exported by Lukoil-Bulgaria. This position allows the Russian company to bid successfully for public procurement contracts on a national and local level.

Another Russian company, Overgas, Inc., a subsidiary of Gazprom, was playing a lucrative intermediary role in all Russian gas supply contracts with Bulgaria for almost two decades. Overgas, Inc. and Wintershall Erdgas Handelshaus Zug AG (WIEE), also a Gazprom subsidiary, were finally pushed out as intermediaries from the long-term contract between Gazprom and the state-owned Bulgargaz, signed on November 15, 2012. The Bulgarian government managed to remove the two middleman companies in exchange for signing an agreement on South Stream.[13] Interestingly, Alexander Medvedev was serving as Gazprom's Deputy CEO, Director-General of Gazprom Export and Chairman of the Board of Overgas, Inc., all at the same time, practically signing contracts with himself.[14]

In 2010, Overgas, Inc. announced that it would enter the liberalized gas market of Bulgaria and deliver supplies directly to consumers, instead of buying from Bulgargaz. However, the state-owned gas transport entity Bulgartransgaz refused to grant it access to the supply pipeline coming from Romania. As a result, Overgas, Inc. filed a complaint with the European Commission, which led to an infringement procedure against the Bulgarian Energy Holding and its subsidiaries Bulgargaz and Bulgartransgaz for violating the Third Energy Package.[15] Evidently, Gazprom and its subsidiaries like Overgas, Inc. only respect EU's energy market regulations when they can benefit from them.

In July 2011, tensions between Sofia and Moscow increased over tax evasion by Lukoil Bulgaria EOOD. Lukoil's license suspension came

after the Bulgarian Customs Agency conducted a probe into its refinery, which confirmed gross excise duty violations. The legal saga between Lukoil and the Bulgarian state continued for two years until the Bulgarian Supreme Administrative Court ordered the Russian oil company to install measuring devices on its tax warehouse connected to the main pipeline between the Burgas refinery and the capital, Sofia. However, the Socialist-led coalition that came after Borisov lost power in 2013, promptly dismissed the Customs Agency Director Vanyo Tanov.[16]

Lukoil has had similar problems in Romania, where Russian energy companies are rarely favored in privatization transactions. In October 2014, Romanian prosecutors started investigating Lukoil Petrotel for tax evasion and money laundering, seizing the firm's assets. The investigators estimated that the Romanian state lost about 230 million euros due to the company's illegal activities. As Lukoil threatened to permanently close the refinery, Romanian President Basescu asked his government to be ready to take over Lukoil's Petrotel refinery in Ploiesti, should the Russians shut it down. "We will have to behave like the Russians do. If they say 'we close the refinery because we want to' they should think about completely leaving the Romanian market […] Lukoil must decide: if they want to stay, they must respect Romanian laws, but if they want the Moscow laws, they should go there," Basescu added.[17]

Russian energy companies have much greater difficulties penetrating Romania than Bulgaria. The latest attempts to establish presence and influence in Romania have been made mostly through proxies, such as the Serbian oil company, Naftna Industrija Srbije (NIS), in which Gazprom Neft has a majority stake. NIS has been buying numerous petrol stations in Romania. Evidently, Russian energy companies are trying to close the circle of supply, production and trade in Romania, just like in Bulgaria.[18]

Macedonia's relations with Russia are expanding, as the country is becoming a critical element of the latest version of South Stream, the so-called Turkish Stream (or Balkan Stream). In 2014, the estimated value of Russian investments in Macedonia was $400 million, but it has been growing. Lukoil is the largest investor with $32 million in initial investment and ownership of many petrol stations throughout the country. The Russian Sintez Group has invested $100 million in the gas-fired thermal power station TE-TO. Another Russian company, Power Machines, has invested $56 million in the reconstruction and modernization of the thermal power station Bitola.[19]

In February 2015, the Russian company Stroytransgaz launched the construction of a national gas pipeline from Klecovce to Stip. This investment is expected to motivate other Russian companies to invest in Macedonia and to enhance the countries' cooperation, according to Zoran Stavrevski, Deputy Finance Minister of Macedonia.[20] The same company was contracted to build the Macedonian spur to the South Stream pipeline. The Russian Stroytransgaz, however, and its owner Gennady Timchenko were placed on the US sanctions list in 2014. However, Macedonia, like its neighbor Serbia, has refused to join the EU and US sanctions against Russia for the annexation of Crimea. By disregarding EU policies despite their EU candidate status, Belgrade and Skopje have become Moscow's preferred partners in the Balkans.

Energy and Macedonia's Troubled Peace

Despite its small size and tiny energy market, Macedonia is a very important country in the Balkans. Peace and stability in Macedonia are indicative of the wider region's chances to develop prosperous economies and strong energy sectors. Although the country avoided an armed conflict during the Yugoslav wars in 1990s, a brief Albanian insurgency in 2001 raised fears of ethnic hostilities between the

country's Macedonian and Albanian populations and even triggered worries that Macedonia's territory could be split.

The fighting between police and insurgents in the northern town of Kumanovo on May 9–10, 2015, brought back those fears. It claimed the lives of 8 policemen and 14 "terrorists" and left over 37 wounded officers. The police said that about 30 men had surrendered and the group was dismantled. According to the Macedonian authorities, the armed insurgents came from Kosovo, some wearing the insignia of the now disbanded Kosovo Liberation Army (KLA).[21] The events unfolded against the background of anti-government protests in Skopje, after a wiretapping scandal implicated the center-right government of Nikola Gruevski.

Macedonia's path to EU and NATO membership has been stalled by the country's name dispute with Greece. During the 2008 NATO summit in Bucharest, Greece blocked NATO's decision to offer Macedonia a Membership Action Plan (MAP). Although Macedonia was granted EU candidate status on December 16, 2005, Brussels has not initiated accession talks because of objections from Athens. The standoff over the name Macedonia, which Greece perceives as a potential territorial claim on its province with the same name, has only led to sharpening the nationalist politics of Gruevski's government. At the same time, lack of progress in Euro-Atlantic integration has resulted in frustration among Macedonian Albanians, who want to join the EU and NATO and do business with Europe. This is why, in the wake of the clashes in Kumanovo, Macedonia's President Gjorgje Ivanov appealed for calm and called on the EU and NATO to find a solution to unblock the country's Euro-Atlantic path because "this situation is risky for the country and the region."[22]

Meanwhile, Russia, which depends on Macedonia for the potential Turkish Stream pipeline project (also promoted as a Trans-Macedonian pipeline or Balkan Stream), has blamed Albania and Kosovo for an earlier incident in which gunmen attacked a remote

Macedonian border police post near Kosovo. The Russian foreign ministry commented: "The incident on the Macedonian border is proof of the lingering sharp ethnic problems and conflict potential in that part of the Balkans. The situation is made worse by a major lack of law abidance and security in Kosovo, which obviously stems from the unresolved Kosovo problem in general." The statement further alleged: "Calls for a Greater Albania that are heard more and more often in the region cannot be overlooked either."[23]

The comment infuriated the Albanian and Kosovo authorities. The Albanian foreign ministry stressed that such allegations against two sovereign states are unacceptable and have the potential for destabilizing the region. "Albania is a NATO member and a candidate to join the EU and any blackmailing statement from Russia will be seen from this perspective," it added.[24]

While Albania and Kosovo condemned the violence in Kumanovo and Serbia sent troops to secure the Macedonia-Serbia border near Kumanovo, Russia has shown unusual support for the embattled government in Skopje by blaming the anti-government protests on Western influence and NGOs favoring "colored revolutions."[25] Gruevski has a special relationship with the Kremlin: in 2012, he traveled to Moscow to personally lobby Russian President Vladimir Putin for the inclusion of Macedonia in South Stream. The initial route did not include Macedonia at all, but after Gruevski's visit, Gazprom decided to build a spur from South Stream to Skopje. The Russian government mouthpiece, Sputnik International, was quick to conclude that both the anti-government protests and the sudden reemergence of Albanian terrorism in Macedonia are part of the United States' strategy to sabotage the Balkan Stream pipeline, as the plans for its construction are rapidly gaining traction.[26]

Russian Foreign Minister Sergei Lavrov openly said that Moscow "can't help thinking" the terrorist attack in Macedonia had something to do with the country's objection to anti-Russian sanctions and

participation in the Turkish Stream gas pipeline project. "Objectively speaking, the events in Macedonia are unfolding against the background of the government's refusal to join the policy of sanctions against Russia and the vigorous support Skopje gave to the Turkish Stream gas pipeline project, to which many people oppose, both in Brussels and across the ocean," he said during his visit to Serbia on May 15, 2015.[27]

Although Gazprom announced on May 7, 2015, that gas deliveries through the Turkish Stream pipeline would start in December 2016, it is not clear yet which route the pipeline will take from Greece to the EU.[28] Macedonia and Serbia are the logical choices, if Gazprom wants to reach the Serbian hub at Banatski Dvor, planned within the South Stream project, and then continue to Hungary and Austria. After Bulgaria stopped South Stream construction for non-compliance with EU laws in June 2014, Russia is now courting non-EU states Macedonia and Serbia, troubled EU member Greece in desperate need of revenues, and Hungary, which is dependent on Russia for energy.

Apart from the Russian-promoted Balkan Stream, Macedonia has found itself at the crossroads of the US-supported AMBO oil pipeline, which is also still at the planning stage. The Albania-Macedonia-Bulgaria (AMBO) oil pipeline is intended to transport Caspian crude oil from Azerbaijan and Kazakhstan, shipped through the Black Sea away from the crowded Bosporus Strait. The pipeline would start at the Burgas port of Bulgaria, cross Macedonia and reach the Albanian port of Vlorë on the Adriatic coast. This US-supported energy route from Eurasia would not be directly controlled either by Russia or Turkey. Although the announced expansion of the Chevron-led Caspian Pipeline Consortium (CPC) pipeline in 2010 gave AMBO a boost, the project is still awaiting dedicated oil volumes and financing.[29]

Energy Sector Overview

Romania's primary energy supply is well diversified, with a high share of natural gas (30.9 percent), placing it second in Southeastern Europe after Croatia (33.3 percent). Romania has the largest gas market in Central and Eastern Europe and was the first country to use natural gas for industrial purposes. Bulgaria's share of natural gas in the primary energy supply is significantly lower—13.9 percent; and Macedonia's is even smaller—4.2 percent. With a population of over 20 million, Romania consumes almost five times more gas than Bulgaria, which has a population of 7.3 million: in 2013, Romania consumed 12.5 bcm of natural gas, while Bulgaria's demand was 2.6 bcm.[30] Macedonia uses only 130 million cubic meters of natural gas per year, all imported from Russia, but was hoping to increase consumption to 2.5 bcm a year by 2030, with its inclusion in the South Stream pipeline.[31]

Table 1. Total primary energy supply (Source: IEA Energy Statistics, 2013)[32]

	Romania	**Bulgaria**	**Macedonia**
Oil %	23.9	20.3	34
Gas %	30.9	12.9	4.2
Coal %	21.7	36.3	51.2
Biofuels and waste %	11.3	5.9	6.9
Hydro %	3	1.5	3.3
Geothermal, solar, wind %	0.7	1.5	0.4
Nuclear %	8.6	21.7	0

Both Bulgaria and Romania have their own nuclear power plants with two installed reactors each. Bulgaria had to close down four Soviet-era

nuclear reactors before joying the EU as they were considered not safe. Sofia's plans to build a second nuclear power plant with Russian reactors were scrapped for insufficient financial feasibility of the project and shrinking opportunities for electricity exports to neighboring countries. In the last two decades, most Balkan states have either built additional energy capacities, or switched to other sources of energy, such as natural gas, or at least improved their energy efficiency. Romania's current energy strategy envisions installing two more reactors at the Chernavoda nuclear power plant, thus doubling that facility's share in the national electricity output. This will allow Romania to become a substantial regional electricity exporter by 2020.[33]

Nevertheless, Bulgaria and Romania could not have been more different in their approach to nuclear energy: while Bulgaria relies on Russian nuclear reactors and fuel, Romania uses Canadian technology and produces its own fuel. The two Romanian reactors at Chernavoda NPP are Candu 6 pressurized heavy water reactors supplied by Atomic Energy of Canada Ltd (AECL) and built by a Canadian-Italian consortium of AECL and Ansaldo. The Chinese CGN will invest in the next two reactors of the same type, built by the Canadian Candu Energy Inc, an SNC-Lavalin company that acquired the commercial reactor division of AECL in 2011.[34]

Romania is self-sufficient for its fuel needs as it produces uranium and masters the fuel fabrication process, because the uranium used in this type of reactors does not need to be enriched, according to the European Commission's energy security report. The Bulgarian nuclear reactors are not only Soviet-built, they also depend on Russia for fuel, maintenance and waste disposal. "For Russian designed reactors, the process is 'bundled' and managed by one Russian company, TVEL, currently with insufficient competition, diversification of supplier or back up," the European Commission points out.[35] Bulgaria has signed an agreement with Westinghouse to

build a new 1,000-Megawatt (MW) reactor at Kozloduy NPP, but is struggling to secure financing for the project.[36]

Bulgaria has the highest energy intensity in the EU, of 610 kilograms of oil equivalent (kgoe) per 1,000 euros in 2013, although the number has been reduced by 50 percent in the last decade. Romania is in better shape, with an energy intensity of 335. Macedonia's energy intensity was 459, compared to the EU-28 average energy intensity of 141.6 kgoe per 1,000 euros. Energy intensity measures how much energy is needed to produce 1,000 euros of GDP; the bigger the consumption and the smaller the GDP, the higher the energy intensity.[37]

Romania

Romania has achieved the highest level of energy security among the countries in Southeastern Europe, mostly because of its hydrocarbon reserves, nuclear power production, and a well-diversified energy sector. According to Romania's former minister for energy, Razvan Nicolescu, the country can be fully energy self-sufficient by the end of 2019: "If we reach this target we will become only the second country in Europe, after Denmark, to become independent. We can rely on significant discoveries of gas in the Black Sea. In the nuclear field we are the only country in Europe with a complete nuclear fuel cycle, and this is our approach: encouraging the production of our resources and, at the same time, promoting the need to have a coordinated energy approach in Europe."[38]

Romania is the largest producer of oil and gas in Central Europe, holding 5 percent of Europe's proven oil reserves and 1.2 percent of the proven gas reserves, even before the Black Sea natural gas discovery in 2012. However, these resources are gradually being depleted. According to BP's Statistical Review of World Energy in 2014, Romania's proven reserves in 2013 amounted to 100 billion cubic meters (bcm) of natural gas (or one quarter the 1993 level) and 81 million tons (mt) of oil (or 60 percent of the 1993 level). Romania

produces annually 11 bcm of natural gas and consumes 12.5 bcm (2013). The yearly crude oil production is 4.3 mt against a consumption of 9.4 mt. [39] As Romanian energy expert Radu Dudău concludes, "The aggregated depletion rate of hydrocarbon reserves is 10 percent per year, meaning that without supplementary sources, Romania's import dependence will grow from currently less than 20 percent to 50 percent in about 10 years."[40]

In February 2012, Austrian OMV Petrom and American ExxonMobil discovered a deposit of natural gas in the Romanian Black Sea shelf that is estimated to contain between 42 and 84 bcm. The commercial exploitation of the gas reserves should begin no earlier than 2018, according to OMV Petrom's estimates. Another discovery of 20 bcm natural gas deposit at the Pelican South 1 offshore block was announced in February 2015. [41]

For decades, the country was importing up to a quarter of its natural gas from Russia. In a 2014 report on European energy security, the European Commission considered Romania, Bulgaria, Macedonia and Greece as the European countries most vulnerable to Russian gas supply interruptions.[42] When Russia cut its gas supplies to Ukraine in 2009, Romania lost 39 percent of its own supply, since Romania was depending on Russian imports for up to 40 percent of its gas consumption during winter at the time.[43] However, gas imports dropped by 61 percent in 2014, according to the National Statistics Office (INS) in Bucharest, which also indicated national demand has fallen yet again.[44] Gas imports have dropped by 85 percent from 2003 to 2014—from 7.4 bcm to 1.1 bcm. Annual domestic consumption has also dipped sharply since the early 2000s when Romania's economy was growing rapidly—from roughly 18.3 bcm in 2003 to under 11 bcm in 2014, according to BP and INS estimates.[45]

In March 2015, Bucharest announced that Romania was moving away from Russian gas and, for several months, will not be buying gas from Gazprom as domestic production was exceeding demand by 10

percent.[46] The country, however, will need additional gas in the winter season because local production will not be enough to meet the demand during the cold months. Moreover, loss of imported gas volumes may result in a drop in pipeline pressure in the Romanian gas transmission system and affect the delivery of domestic gas supplies to the market. Designed in the 1960s and built in the 1970s, the gas transportation system of Romania is centralized and has operational problems that often result in pipeline pressure that is lower than in neighboring countries.[47]

Romania will need more gas in the future as its economy is recovering from the economic crisis. At some point, gas demand may reach and even exceed the levels of the early 2000s when Romania consumed 40 percent more gas than in 2014.[48]

Romania has undertaken two critical gas infrastructure projects in the last few years: building an interconnector with Moldova, the Iasi-Ungheni pipeline, and expanding the underground gas storage capacity to guarantee greater security during the winter period. The Romanian state natural gas production company, Romgaz, invested 27 million euros ($30.22 million)[49] in the expansion of the gas storage facility at Urziceni in southern Romania. This project increased the Urziceni storage capacity from 250 to 350 million cubic meters and the winter extraction capacity, which is anticipated to be 2.4 million cubic meters.[50]

The Iasi-Ungheni pipeline, 44 km long (27 miles) with an annual transport capacity of 1.5 bcm, connects the Romanian and Moldovan gas distribution networks. The project's cost was approximately 20 million euros ($22.38 million), seven million euros of which was provided by the European Commission. The pipeline was inaugurated on August 27, 2014, only a year after construction started. In March 2015, Romania began transporting small volumes of natural gas to Moldova, marking the "first time that gas is going from West to East," as Moldova's Foreign Minister Natalia Gherman said.[51]

The second stage of the project, the connection between Ungheni and Chisinau, will require funding of more than 70 million euros ($78.34 million). The first part costs 26 million euros ($29.09 million), with 19 million ($21.26 million) provided by Romania and the rest secured from the EU.[52]

Bucharest was hoping that the US energy company Chevron would discover significant shale gas deposits in the Barlad region and along the southern seaside. According to an estimate by the US Energy Information Agency, Romania could have shale gas reserves of 1,444 bcm, or the fifth-largest unproved wet shale gas estimated reserves in Europe (trailing Russia, Poland, France and Ukraine).[53] A study of the National Romanian Council of the World Energy Council (CNR-CME), presented on November 15, 2013, found that some regions of the Eastern Carpathian might be rich in non-conventional resources, located in the clay rock formations at a depth of 2,500 to 3,000 meters.[54]

Political turmoil and public protests in Barlad in the spring of 2012 led to a temporary moratorium on shale gas exploration until studies were completed on the environmental impact of hydraulic fracturing ("fracking"). Victor Ponta, who had just assumed office as interim Prime Minister at the time, admitted that the legitimate interests of the environment and business development were absorbed into the political campaign for the December 2012 elections. The moratorium was eventually revoked in 2013 and Chevron proceeded with exploration, although sporadic public protests still erupted.

But after completing an exploration study in 2014, Chevron announced on February 20, 2015 its decision to abandon further exploration in Romania, as it did in Poland a month earlier and Ukraine the previous year. After analyzing the information from the exploration well in Silistea and the results of geophysical investigations, Chevron said that leaving Romania was a business

decision and "this project in Romania does not currently compete favorably with other investment opportunities in our global portfolio."[55] Although the study was completed in September–October 2014, the results were not announced before the highly contested presidential election in November 2014. During the election campaign, Romania's Prime Minister Victor Ponta, who subsequently lost the presidential election, made a controversial statement during a TV appearance: "It looks like we don't have shale gas, we fought very hard for something that we do not have."[56]

With Nabucco and shale gas prospects effectively off the table, Romania is focusing on developing its own energy resources to achieve energy security through diversification. The emphasis of its strategy is on natural gas production from the Black Sea, nuclear energy and renewable energy sources. Romania's rapidly developing renewable energy sector has already met the country's target of a 24-percent share of renewable energy in gross final energy consumption by 2020. The EU-28 target is 20 percent by 2020.

Bulgaria

Bulgaria was the most affected country during the 2009 gas crisis in Europe, caused by Russian suspension of gas supplies via Ukraine, because its entire gas supply comes from Russia and the only route is via Ukraine. Bulgaria is still the most vulnerable EU member to Russian gas cuts, as it has neither alternative sources to replace missing gas volumes, nor operating interconnectors with neighbors (as of mid-2015), and to top it all, its gas storage capacities are inadequate. Although Europe is better prepared to deal with a new gas crisis caused by a Russian gas supply interruption, Bulgaria is the only EU country that would be incapable of substituting imports during a short supply interruption, according to a 2015 study by the University of Cologne's Institute of Energy Economics. Outside of the EU, Macedonia would be the country affected the most, since its gas supply comes by the Trans-Balkan pipeline through Bulgaria.[57]

Bulgaria's primary energy supply is relatively balanced between oil, coal and nuclear, but the country relies on Russia for three critical energy sources: crude oil, natural gas and nuclear fuel. Gas represent only about 13 percent of the primary energy supply (Table 1), but it is mostly used for residential heating—around half of the total heat consumed is generated from gas, with the other half coming mostly from coal.[58] Consequently, the gas supply interruption in winter 2009 caused not only economic losses; it was also a humanitarian disaster, which resulted in loss of human life.

Bulgaria's import dependence was on a downward trend for several years: from 46.5 percent in 2000 to 40.6 percent in 2010. In 2013, import dependency was 37 percent. However, this was due in large part to the 2009–2010 economic recession, when industrial gas consumption was severely reduced, bringing domestic gas demand down by a third. As the economy is slowly recovering, gas demand is expected to grow again, and with it, import dependence.[59]

Since 2019, Bulgaria's own natural gas production has increased six-fold, reaching 400 million cubic meters of gas per year. Production is conducted by "Melrose Resources" JSC and "Oil and Gas Exploration and Production" JSC in the northern part of the country.[60] Bulgaria's proven gas reserves are estimated at 5.66 bcm.[61] The Black Sea shelf of Bulgaria is expected to hold natural gas reserves comparable to those discovered in Romania. In 2012, the government awarded an exploration license to a consortium of the French Total, Austria's OMV and Spain's Repsol, which are already drilling exploration wells in the Khan Asparouh 1-21 block. In April 2015, the energy ministry announced new tenders to award five-year exploration licenses for the Teres 1-22 and Silistar 1-14 offshore blocks on the Bulgarian Black Sea shelf.[62]

Electricity generation is heavily unbalanced in the direction of coal (48 percent) and nuclear (33 percent). Hydropower plants generate 8.4

percent of the electricity and gas—5 percent. Bulgaria is a net electricity exporter and it is not vulnerable to external import supply disruptions. The country reports 9-percent electric power transmission and distribution losses, due to an outdated transmission network, which pushes electricity prices up. However, distributors claim that nearly 25 percent of the electricity is lost during its distribution to consumers, mostly because of theft and unpaid bills.[63] Utility prices are a political matter in Bulgaria as they make up a significant portion of monthly household expenses, especially in the winter. Although electricity and heating prices are the lowest in the EU, the average income of Bulgarians is also the lowest—BGN 865 a month ($493) in December 2014, making market-based energy prices unbearable for the citizens.[64] In fact, the first government of Boyko Borisov (Citizens for European Development of Bulgaria—GERB) was brought down by public protests against high electricity bills in February 2013.

The energy sector of Bulgaria has been politicized and mismanaged for decades, with losses accumulating in the past several years due to subsidized energy prices and expensive mega projects. The state-owned National Electricity Company (NEK) reported a loss of BGN 600 million in 2014 ($342.11 million), four times higher than in 2013. The company's long-term liabilities exceeded BGN 1 billion ($570.19 million). The Bulgarian Energy Holding (BEH) also stated liabilities for over BGN 1 billion, but otherwise reported a net profit in 2014.[65] As of the end of October 2014, NEK registered a loss of BGN 850 million ($484.66 million), mostly due to a higher price of buying electricity from producers and a lower mandated price of selling to consumers. A government regulator determines consumer prices of electricity.[66]

The second government of Boyko Borisov, a fragile center-right coalition that took office in November 2014, set out to fix this anomaly by launching far-reaching reforms in the energy sector in April 2015. The first steps included reforming the politicized energy regulator,

eliminating high preferential prices granted to some energy producers, and abolishing incentives for new renewable energy projects. In April 2015, the parliament elected for the first time the members of the reformed energy regulator, now called the Energy and Water Regulatory Commission (EWRC), following changes to the Energy Act in March 2015 to make it an independent body. Previously, the EWRC's members were appointed and controlled by the government, which often interfered in its work, particularly after problems in the energy sector exacerbated from 2012 onward. The new nine-member EWRC panel includes representatives from almost all parliamentary-represented political parties. Most of the members are renowned energy experts, raising public trust in the new commission.[67]

Also in April, the long-term contracts with two coal-fired power plants owned by US-based AES and Contour Global were renegotiated, reducing electricity prices by 14 percent for AES Maritza Iztok 1 and 17 percent for Contour Global Maritza Iztok 3 thermal power plan.[68] Energy law amendments, approved by parliament on February 26, 2015, abolished feed-in tariffs (FIT) for new renewable energy projects. Feed-in tariffs were introduced to accelerate investment in renewable energy technologies by providing investors with guaranteed grid access, long-term contracts, and cost-based purchase prices. Bulgaria has achieved its 2020 renewable energy targets as of March 2015, according to Eurostat. The 2020 energy strategy objective for the EU's 28 members is a share of 20 percent renewable energy use in gross final energy consumption.[69]

The public and politicians alike have blamed increases in energy and heating prices on preferential conditions granted to renewable energy producers and investors in Bulgaria's dilapidated thermal power plants. Subsequently, the power distributors Austrian EVN, Czech CEZ and Energo-Pro have also taken the blame and were even threatened with nationalization by the previous Socialist-led coalition.[70]

The Economist Intelligence Unit concluded: "The new ruling coalition's approach represents a sharp break with the policies of successive governments, which focused excessively on expanding generating capacity while limiting the scope for market forces."[71] However, Borisov's second government has only continued what his first government started in 2009–2013. He had managed to pull Bulgaria out of two Russian-led mega projects in 2012—the Burgas–Alexandroupolis oil pipeline and the Belene NPP—which was a monumental task. Some observers find it conspicuous that Borisov lost power just weeks after a referendum on the construction of the Belene NPP took place in January 2013, which essentially allowed the parliament to confirm the cabinet's decision to scrap the project.

On December 7, 2011, Bulgaria withdrew from the Burgas-Alexandroupolis oil pipeline project, a joint undertaking of Russia, Bulgaria and Greece. The project was designed to deliver Russian crude oil via tankers to the Bulgarian Black Sea port of Burgas, where it would have been transported via a pipeline to the Greek port of Alexandroupolis on the Aegean Sea, bypassing the Bosphorus Strait. Sofia's verdict on the project came two years after the Bulgarian center-right cabinet began to review three major Russian-led energy projects approved by the previous Socialist cabinet: the Burgas-Alexandroupolis oil pipeline, the South Stream gas pipeline project, and the Belene nuclear power plant. Upon taking office in July 2009, Prime Minister Boyko Borisov stated that the country would abandon the projects if they did not promote Bulgaria's national interests.

Relations with Russia deteriorated after Borisov's government came to power. The previous Socialist cabinet (2005–2009) was so close to Moscow that, on the eve of Bulgaria's accession to the European Union, the Russian representative to the EU Vladimir Chizhov openly declared: "Bulgaria will be Russia's Trojan horse in the EU."[72] In fact, Russia was granted 51 percent ownership in the Burgas-Alexandroupolis pipeline, giving it control over critical EU energy infrastructure.

The initial plan, which included equal ownership of Bulgaria, Russia and Greece, guaranteed oil supplies and guaranteed project financing, was disregarded by Russia, which requested 51 percent in exchange for secured oil deliveries. Later, Russia refused to tie the financing of the pipeline to the future revenues from its exploitation; hence, the project needed state subsidies that would not have been repaid. Bulgaria's Council of Ministers concluded that the project could not be implemented under the parameters set out in the inter-governmental agreement with Russia and Greece from 2007. Furthermore, it was assessed as risky for the environment and endangering the tourist industry of the Black Sea town of Burgas.[73]

The Belene NPP project started in the 1980s during the Communist era and underwent several suspensions and revivals over the past twenty years, until the center-right government of Boyko Borisov finally abandoned it in March 2012, identifying it as economically "unfeasible." The project has been a contentious issue between Sofia and Moscow, as well as among political parties in Bulgaria. A referendum in January 2013, initiated by the Socialist Party, failed to produce a valid result as the turnout was only 20 percent. Subsequently, the parliament confirmed the government's decision to scrap the project.[74]

At the time the Belene NPP was canceled in 2012, the Russian Atomstroyexport had already built one of the two nuclear reactors with a capacity of 1,000 MW. Six months later, the company stated it had constructed the second reactor as well, claiming the Bulgarian government failed to inform officially the Russian side of the contract's cancellation. Subsequently, Rosatom filed a lawsuit against Bulgaria at the International Arbitration Court in Paris, requesting one billion euros ($1.12 billion) in damages. The case is still pending in the International Court of Arbitration in Paris.[75]

Bulgaria's shale gas prospects had died before the exploration works began. In January 2012, following public protests in several cities, the Bulgarian parliament imposed an indefinite moratorium on shale gas exploration and extraction. Bulgarian analysts claimed that the protests were organized and financed by Russian interest groups to prevent Bulgaria's potential energy independence and protect Russian energy projects in the country, such as the South Stream natural gas pipeline and the planned Russian-built Belene Nuclear Power Plant (NPP), both subsequently abandoned. Intelligence confirming the connections between environmental protestors and Moscow was not publicly available, but Bulgaria was undoubtedly a key country for Russia's energy position in Southeastern Europe, particularly before the demise of South Stream. A potential shale gas revolution in Central and Eastern Europe would reduce gas prices, take away a significant portion of Gazprom's European market and weaken Russia's influence in Europe.

After the Nabucco natural gas pipeline project had been canceled in June 2013, Bulgaria became an ardent supporter of the South Stream project. At the time, the country was headed by a Socialist-led coalition. Although in August 2013 the European Commission made clear its objections to Bulgaria's agreement with Russia, Sofia rushed to sign the final protocols with Gazprom and even held a formal "first welding ceremony" at the village of Razovo.[76] Bulgaria was facing either an infringement procedure by the European Commission if it continued with the project, or a lawsuit for breach of contract by Russia if it suspended it, much like Rosatom's lawsuit against Bulgaria for canceling the Belene NPP.

However, in June 2014, three months after Russia's annexation of Crimea, Bulgaria was finally forced to suspend all activities related to the disputed South Stream project until an agreement is reached with Brussels. The prime minister at the time, Plamen Oresharski, announced the decision on June 8, 2014, in Sofia, after meeting with United States Senators John McCain, Chris Murphy and Ron

Johnson, who were visiting Bulgaria as part of a European tour to consolidate Transatlantic relations in the wake of Russia's attack on Ukraine. But the real reason was the infringement procedure against Bulgaria by the European Commission, garnered with the suspension of nearly two billion euros ($2.24 billion) of EU funds for several major programs—although the postponed payments were not related to the pipeline project, but were triggered by Sofia's mismanagement of EU funds.[77]

Moreover, Stroytransgaz Holding of Gennady Timchenko won a contract for the Bulgarian portion of the pipeline. US Ambassador Marcie Ries warned that Bulgarian companies working with Russian entities named in the US sanctions list could also be sanctioned.[78] "This is not the right moment to work with Russia in the usual way… Companies or physical entities that provide material support to Stroytransgaz can also be subjected to US sanctions, which are part of the wider efforts of the international community to hold Russia responsible for violating the territorial integrity and sovereignty of Ukraine," Ambassador Ries told Dnevnik Daily in an exclusive interview published on June 6, 2014.[79]

As EU and US pressure on the Bulgarian government regarding South Stream increased, the junior coalition partner, the predominantly ethnic Turkish party Movement for Rights and Freedoms (MRF), demanded early parliamentary elections to be held by the end of the year, thus effectively announcing a pending collapse of the government.[80] The Turkish party had expressed explicit disagreement with the Socialists over South Stream. Its parliamentary members refused to support a controversial amendment to the Energy Act that would have exempted a part of South Stream from the EU's Third Energy Package—namely the undersea section of the pipeline in Bulgarian territorial waters and two kilometers onshore.[81]

The Turkish party has been an outspoken critic against any attempts to change Bulgaria's European orientation as well as against those

Socialist and nationalist circles that have supported Russia in its actions regarding Ukraine and South Stream. The Bulgarian Turks suffered forced assimilation in Bulgaria in the 1980s, which was only rectified after the Communist regime fell and Bulgaria moved in a pro-European direction. Turkish party chairman Lyutvi Mestan asserted: "As the leader of the most consistently Euro-Atlantic party in Bulgaria, I state that Bulgaria should not do anything despite Brussels, but should pursue its national interests in big energy projects in a constant dialogue with Brussels. Bulgaria cannot have it any other way, and we hold a very categorical position on that."[82] As Bulgarian political analyst Antoniy Galabov said, "The MRF in such situations usually takes the Euro-Atlantic position, and one can presume that it would defend Bulgaria's national interests."[83]

Russia's Kommersant commented that Bulgaria's decision to suspend South Stream would mean that Moscow could not bypass Ukraine in supplying a large portion of its natural gas to Europe. Therefore, the predictability of supplies will continue to depend on relations between Moscow and Kyiv.[84]

New elections were held on October 5, 2014, bringing a coalition led by GERB and Boyko Borisov. The cancellation of South Stream in December 2014 came as a shock for the Balkan capitals involved in the pipeline. Despite its suspension of the project, Sofia was still hoping that Moscow would eventually align with EU regulations and ultimately proceed with the construction. Bulgaria was expecting to open 2,500 jobs for the construction and earn 400 million euros ($447.65 million) a year—around 1.5 percent of GDP—from South Stream's transit fees. However, the state coffers would not have seen a penny for a long time as this amount was going to be paying a Gazprom loan to Bulgaria for the construction of the pipeline. Moreover, loan payments would have continued for much longer than the initially estimated 15 years, because Gazprom would not have been able to secure 63 bcm of natural gas for South Stream, not for a

long time at least, until production from the Eastern Siberian gas deposits could reach the markets.

Despite the inherent problems of South Stream and its piling financial troubles in 2014, Russian President Putin was quick to blame Bulgaria for the cancellation of the project. His announcement that Russia would replace South Stream with another pipeline, coming onshore in Turkey, was viewed as punishment for Bulgaria for complying with EU competition rules. Former President Georgi Parvanov went as far as to claim that losing South Stream was a sign of the "collapse" of Bulgaria's foreign policy. "From an energy center, Bulgaria has turned into a place of energy insecurity and lack of perspective," he was quoted as saying. [85]

But then again the project was doomed from the moment Russia invaded Crimea and illegally annexed it to the Russian Federation. By doing so, Moscow demonstrated that it is incapable of obeying international law, whether related to sovereignty and territorial integrity of its neighbors, or concerns business and energy regulations of the EU.

More importantly, Russia was no longer capable of financing the project. The effect of the EU and US sanctions against Russia for the war in Ukraine, combined with the falling oil prices, essentially demolished the chances of Gazprom to provide funds and secure international loans for the project. The US sanctions of July 16, 2014 included two Russian energy companies, Rosneft and Novatek, and two financial institutions—Russia's third-largest lender, Gazprombank, and the state-owned development bank, Vnesheconombank (VEP). Among other measures, the sanctions restricted access to US capital markets for Gazprombank and VEB, practically closing the medium- and long-term dollar-lending window to these banks.[86] The move came just as Bulgaria and Serbia expected to receive loans from Russia to finance the construction of their sections of the pipeline. With the sanctions targeting Gazprom's

financial arm, the project was no longer bankable by any measure—obtaining long-term financing became impossible for Gazprom or its Balkan partners, who needed to secure up to 70 percent of the necessary capital from external lending sources.[87]

Bulgaria's energy security has been of concern to both the US and EU. US Secretary of State John Kerry promised Bulgaria support to diversify its energy supplies during his visit to Sofia on January 15, 2015. The previous day, the British foreign secretary, Philip Hammond, held talks in Sofia with Bulgarian leaders. The visits were widely seen as Western support for Bulgaria in the wake of the cancelation of South Stream and Moscow's accusations of Sofia for the failure of the project. Washington initiated working groups with Sofia on Bulgaria's overall security, energy diversification and the reform of the judiciary to combat corruption more effectively.[88]

Secretary Kerry stressed that corruption opens the doors for undue influence by Moscow. "The United States is prepared to help Bulgaria, which has made difficult decisions in order to try to protect its energy future," Secretary Kerry said. "We are committed to try to help attract investment and provide assistance."

The US supports the building of the Greece-Bulgaria interconnector to diversify gas supplies to Bulgaria from the Trans-Adriatic Pipeline. According to a US official, preliminary talks have also begun with officials in Sofia and Athens about a new pipeline connecting Bulgaria with the liquefied natural gas terminal Revithousa in Greece.[89]

The Southern Gas Corridor: Opportunities for Bulgaria, Romania and Macedonia

A study by the University of Cologne concluded that while still relying on Russian gas for 29 percent of its gas consumption, the EU today is less vulnerable to gas disruption through Russia's main import route

(Ukraine) than ever before. Dependence on this corridor has decreased in the last decade. As the authors claim: "Between 2005 and 2014, transit through Ukraine to Europe has gone from levels of 121 bcm to levels of 57 bcm. The share of Russian gas transiting Ukraine to Europe has also decreased from levels of 80 percent in 2005 to levels of 50 percent in 2013 and 30 percent in 2014."[90]

The study found that compared to 2009, Europe's dependence on the Ukrainian route is not only lower, but also regionally narrower and limited to small gas markets. In that narrow regional circle, however, have remained four Balkan countries—Bulgaria, Macedonia, Serbia and Bosnia-Herzegovina. Among EU members, only Bulgaria will not be able to substitute lost gas volumes.[91]

An earlier European Commission analysis also found that cutting off transit through Ukraine over the summer months of 2014 would result in a disruption in Bulgaria and Macedonia and failure to fill up storage to 90 percent by September 30 in preparation for winter demand. The storage levels in Bulgaria would be empty, the study estimated.[92] The findings will probably be true for the next two winters as well because Bulgaria's interconnectors with Greece and Turkey will not be ready before 2018.

As a stress test in 38 European countries—including EU member states and neighboring countries—concluded, in case of gas supply interruptions and absence of cooperation between these countries, "serious supply shortfalls of 60 to 100 percent could affect Bulgaria, Serbia, Macedonia and Bosnia-Herzegovina (in both Ukraine transit and full Russian supply disruption scenarios)."[93]

This is where the Southern Gas Corridor has the greatest opportunity to make a difference in the Balkan region's energy diversification and, at the same time, help the EU improve energy security in Southeastern Europe. On the geopolitical level, the corridor will play a vital role in strengthening the sovereignty of Southeastern European countries by

limiting Russian energy dominance and political leverage in the region.

The EU is becoming increasingly worried about Russian activities in Bulgaria, Macedonia, Serbia and Bosnia-Herzegovina. The German government, for example, is concerned about Russian President Putin's efforts to boost his influence in the Balkans. As Spiegel reported, "Berlin is now discussing ways in which it might be able to slow down Russia's expansionary drive—particularly in the Balkans, a region in which some states are not entirely stable." According to Elmar Brock, a member of Angela Merkel's conservative Christian Democrats (CDU) and the chairman of the European Parliament's Foreign Policy Committee, "It is part of a broad strategic approach by Russia to 'infiltrate' the countries politically but mostly economically."[94]

The Russian aggression in Ukraine since the start of 2014, has managed to accomplish two things in the natural gas sector: kill the South Stream pipeline project and steer the Balkans' attention to the Caspian region. Even before South Stream's demise, Greece and Bulgaria had been shaping closer ties with Azerbaijan (and with each other) as the Southern Gas Corridor's construction was advancing.

With the end of Nabucco and the termination of South Stream, the Bulgarian government prioritized the construction of reverse-flow interconnector gas links with its neighbors to end Gazprom's monopoly as a single supplier of gas to Bulgaria. The interconnector with Greece is especially important, since it would allow Bulgaria to receive gas from Azerbaijan through the Trans-Adriatic Pipeline. As more connections are being built to interlink Bulgaria with Greece, Serbia, Macedonia and Romania, Azerbaijan could become the Balkans' main natural gas supplier in the near future.

In September 2014, Bulgarian President Rosen Plevneliev signed in Baku an agreement with Azerbaijan securing gas deliveries to Bulgaria

via the Greece-Bulgaria gas grid interconnection as of 2017. Bulgaria's economy and energy ministry said that a letter of intent had been signed with Azerbaijan to explore the possibility of earlier gas deliveries to Bulgaria. The country is initially expected to receive 1 bcm of gas from Azerbaijan, but the volume will surge as soon as Azerbaijan starts pumping more gas from the Shah Deniz Phase II and other gas fields in the Caspian Sea. "The Southern Gas Corridor will be the end of a dependence of many years. This project will also be important from the standpoint of competitiveness and offer a fair price," Plevneliev said.[95]

The Memorandum of Understanding between Azerbaijan's state oil company SOCAR and Bulgartransgaz also includes joint exploration activities for the expansion of Bulgaria's only gas storage facility at Chiren—a surprising move that angered Gazprom, as the lack of sufficient storage capacity made Bulgaria, together with Macedonia, fully dependent on uninterrupted Russian gas supplies. Both agreements were signed during Bulgarian President Rosen Plevneliev's visit to Baku for the groundbreaking ceremony for the Trans-Anatolian Gas Pipeline (TANAP).[96]

In his speech in Baku, President Plevneliev stated: "The Bulgarian projects for inter-system gas links with Greece and Turkey should be considered as an inseparable part of the Southern Gas Corridor, allowing for considerable gas supplies to Bulgaria and neighboring countries such as Romania, Serbia and other countries in Europe."[97]

According to Bulgarian Energy Minister Temenuzhka Petkova, Bulgaria could not achieve independence of energy supplies without the gas grid interconnectors with Greece and Romania. The gas interconnector with Romania is at the most advanced stage of implementation and will be completed by the end of 2015. It will start with a capacity of 0.5 bcm/year and reach a maximum of 1.5 bcm/year. However, until a compressor station is built on the Romanian side, the line will only carry gas in one direction—from Bulgaria to

Romania—because of operational problems with low pressure in the Romanian gas network. The construction of a compressor station had been included in the investment program of Romania's Transgaz, and it would be built by end-2017.[98]

In May 2015, Bulgaria opened a bid for a feasibility study for the Interconnector Turkey-Bulgaria (ITB), after receiving EU funding. The pipeline connecting the gas grids of Turkey and Bulgaria will have a capacity of 3 bcm per year, expandable to 5 bcm with a compression station. This 200-km (125 miles) pipeline is expected to be completed in 2018 and will cost 100 million euros. The ITB is one of the opportunities for Bulgaria to obtain Azerbaijani gas from the Trans-Anatolian Natural Gas Pipeline (TANAP) or raw material via LNG terminals in Turkey.[99]

Gas grid interconnectors are an essential part of the EU's energy security strategy. They play a vital role in emergencies and for the supply of small gas markets such as those in the Balkans. However, they are not designed to transport large volumes of gas and, therefore, cannot substitute major trans-national pipelines. The Greece-Bulgaria interconnector will have a maximum capacity of 5 bcm per year. While it will allow for the supply of Bulgaria and even the transmission of small gas volumes to Romania, this interconnector and the interconnector between Bulgaria and Romania will not be sufficient to transport larger gas quantities to Central Europe.

In December 2014, Bulgaria, Greece and Romania agreed to start a joint working group on the Vertical Gas Corridor (VGC), which will connect the gas networks of the three EU member states through bi-directional interconnectors and link them to the Southern Gas Corridor. In addition, the corridor will be connected to the Greek Revithousa LNG facility. The corridor will convey a maximum of 5 bcm per year with the purpose of enhancing energy security and mitigating supply risks in case of gas crises in the region. Officials in Sofia say the corridor may become operational in 2018, with

construction works scheduled to start in 2016. The interconnectors Greece-Bulgaria and Bulgaria-Romania are part of the Vertical Gas Corridor. As the gas connections with neighboring countries have been designated as projects of community interest and planned in the EU Energy Strategy, the initiators of the Vertical Corridor are hoping for EU's financial support. In fact, the European Commission has already funded the Greece-Bulgaria interconnector.[100]

The Vertical Gas Corridor is probably one of the most pragmatic projects to secure gas supply diversification for Romania, Bulgaria, and potentially Macedonia (since it is supplied with gas via Bulgaria). Other ideas, however, look quite detached from reality. The Bulgarian government proposed to turn the country into a gas hub that would distribute natural gas volumes collected from multiple sources: Bulgaria's own potential Black Sea deposits that are still in the exploratory phase, natural gas from Azerbaijan and the Middle East, and Russian gas from "Turkish Stream." Under Prime Minister Borisov's plan, Russia would build the underwater stretch of the pipeline to Turkey and sell the gas from a gigantic hub in Bulgaria, near the town of Varna. The plan subsequently changed to involve a hub at the Bulgarian-Turkish border instead.[101] Sofia also wanted the EU to fund the prospective 2.2-billion-euro ($2.46 billion) storage and distribution facility construction from the EU energy investment plan. In the meantime, Russia was negotiating with Greece, Macedonia and Serbia for the new route of the pipeline.

When it became clear that this idea had no future, Borisov proposed the revival of the Nabucco pipeline during the visit of Azerbaijan's President Ilham Aliyev to Sofia on March 4, 2015. President Aliyev diplomatically responded that, "…Bulgaria (as a Nabucco country) became a part of the Southern Gas Corridor via Interconnector Greece-Bulgaria and, therefore, we need to consider TAP as part of the Southern Gas Corridor. The reserves of Shah Deniz, Absheron and Umid gas fields are huge enough to merge TAP with Nabucco."[102]

Romania also wants to play an essential role in the region's major natural gas pipeline projects by connecting the Southern Gas Corridor to the North-South Corridor, planned to link the Baltic and Adriatic seas—the prospective LNG terminals of Omisalj (Croatia) and Świnoujście (Poland). The Polish LNG facility is under construction, while the Croatian is still at the planning stage.

In addition, Romania's Transgaz has proposed the Bulgaria-Romania-Hungary-Austria (BRUA) corridor. This will not only connect Romania through the Vertical Corridor to the Southern Gas Corridor and the LNG terminals of Greece, but would also ensure flows of gas to and from the West, in a broad and inclusive plan to interconnect the energy grids of Central and Southeastern Europe.

Some Romanian energy experts also see Bucharest playing a major role in transiting Russian gas delivered via Turkey and Bulgaria to Central and Eastern Europe. Its transmission will have to use both pipelines and interconnectors between the gas grids of the transiting countries, possibly the reverse flow of the Trans-Balkan pipeline, if Russia discards it in the future. However, helping Russian goals to eliminate Ukraine as a gas transit country is not in Romania's overall security interest, because it will put its neighbor Ukraine in a weaker position as Russian aggression in Donbas continues. In fact, the Russia-Ukraine war has brought Romania and Ukraine closer, leaving mistrust and old disputes behind and uniting them against Moscow, now seen as a common enemy.[103]

Conclusion

In less than two years, the Eastern Balkans have lost two competing international gas projects—Nabucco and South Stream. While the first was supposed to diversify energy imports and offer security of supply, the second one would have deepened the region's energy dependence on a single supplier, Russia. In a surprising way, the absence of these two mega projects unlocked the creative potential of

experts and officials in Bucharest and Sofia to focus on alternatives—energy security solutions based on smaller projects, smart investments, better connectivity, and strong regional cooperation. At the center of all these plans is the Southern Gas Corridor.

Bulgaria will be the first country, outside of the Southern Gas Corridor transit route, to benefit from Azerbaijani gas entering Southeastern Europe. Although the gas volumes will not be large in the first few years, 1 bcm/year of Azerbaijani gas will be a major break from Gazprom's monopoly in Bulgaria. In many ways, the demise of South Stream seems to have freed Sofia from Moscow's energy grip and allowed it to look for inventive and balanced solutions to its energy security needs.

Disappointed by Nabucco's termination, Romania focused on developing its own energy resources and building linkages with neighboring countries. The Vertical Gas Corridor conceived by Romania, Bulgaria and Greece is another demonstration of the positive impact the Southern Gas Corridor will have not only on energy security, but also on regional cooperation.

Sofia and Bucharest, however, must be careful to ensure that the Vertical Corridor brings actual diversification of gas sources, and not simply serve as another vehicle for Russian gas to skirt Ukraine and reach the Balkans, this time via Turkey. The strategic purpose of "Turkish Stream" is not fundamentally different from that of South Stream: to isolate Ukraine, undermine the strategic importance of the Azerbaijan-led Southern Gas Corridor, and create division among EU members. Furthermore, through "Turkish Stream," Moscow is also aiming to undermine Azerbaijan's strategic partnership with Turkey, torpedo Baku's budding relations with Southeastern European capitals, and stall its expanding partnership with the EU.

Macedonia's prospects of becoming a host to international oil and gas pipelines might be trumped by its security and political problems.

Neither the prospective Albania-Macedonia-Bulgaria oil pipeline (AMBO), nor the Gazprom-led "Turkish Stream" would be possible without peace and stability in Macedonia. The EU prefers to see Macedonia diversify its gas supplies through the Trans-Adriatic Pipeline, instead of becoming a transit country for "Turkish Stream." But Skopje fears that Athens would block a potential interconnector from TAP with Macedonia, given the ongoing name dispute between the two capitals.

Furthermore, Skopje believes that "Turkish Stream" will lift Macedonia out of isolation and put it back on the international map. There are also hopes that, by involving both Greece and Macedonia in the project, Moscow could facilitate a resolution to the long-standing name dispute. Macedonia, however, might be risking more than its politicians realize. Firstly, Moscow has no interest in resolving disputes in the Balkans, but in taking advantage of them—as its reaction to the May 2015 events in Kumanovo demonstrated yet again. Secondly, if "Turkish Stream" is not built on Macedonian territory—for many reasons, not least lack of investors and funding—Skopje will miss the opportunity to diversify its gas supplies from TAP. Thirdly, Macedonia will further distance itself from the EU and NATO, which it has been striving to join since the Yugoslav wars ended in 1995.

Fears of a renewed insurgency, however, may have brought the embattled Macedonian government closer to the EU position. "Turkish Stream" did not make it among the top priority energy projects for Macedonia. Instead, on May 28, 2015, Skopje announced it was going to join the Azerbaijan-led Trans-Adriatic Pipeline (TAP).[104] Moreover, the Macedonian government said it would consider joining "Turkish Stream" only if Brussels and Moscow reach an agreement, discussion on which would not be on the horizon for as long as Russia continues its aggression in Ukraine.

Despite the complicated geopolitical environment in the region and Russia's ever-changing methods of competition with the Southern Gas Corridor, Azerbaijan is coming to the Balkans triumphantly. The Azerbaijan-led Southern Gas Corridor is welcomed in the region as a critical factor in shifting energy dependence and improving energy security. Evidently, regional cooperation has already intensified as a result of the upcoming arrival of Caspian gas in Southeastern Europe. This positive impact, along with the close partnership of Baku with Sofia and Bucharest, will consequently boost Azerbaijan's relations with the EU and NATO.

NOTES

[1] Gazprom's South Stream partners, the Italian ENI, German Wintershall and French EDF, have received back their investment in the canceled project and seem uninterested in the new proposal of Russian President Vladimir Putin to build the so-called Turkish Stream instead.

[2] "Romania Moves Toward Independence from Russian Gas," *Agenzia Nova*, republished by *ABO*, June 30, 2013, http://www.abo.net/oilportal/topic/view.do?contentId=2113966.

[3] "Economica: Romania plans to abandon Russian gas imports in April 2015," *Focus News Agency*, March 21, 2015; "Romania no longer relies on Russian gas for first time in decades," Ukraine Today TV, March 20, 2015, http://uatoday.tv/business/romania-no-longer-relies-on-russian-gas-for-first-time-in-decades-416782.html.

[4] Sergey Strokan and Andrew Korybko, "South Stream: Life after Death?" *Sputnik International*, March 20, 2015, http://sptnkne.ws/aru.

[5] Jack Sharples and Andy Judge, "Russian Gas Supplies to Europe: the Likelihood, and Potential Impact, of an Interruption in Gas Transit via Ukraine," The European Geopolitical Forum, March 24, 2014, http://gpf-europe.com/forum/?page=post&blog=energy&id=157.

[6] Greece objects to using the name Macedonia and wants it changed. The main stated reason is that a province in northern Greece already has the same name. Athens argues that Skopje might use the name of the country for potential territorial claims on Greek territories. The term Former Yugoslav Republic of Macedonia was proposed in January 1993 by France, Spain and the United Kingdom—the three European Union members of the United Nations Security Council—to enable Macedonia to join the United Nations.

[7] Energy dependence shows the extent to which an economy relies upon imports in order to meet its energy needs. The indicator is calculated as net imports divided by the sum of gross inland energy consumption plus bunkers. Eurostat: Energy Dependency 2013, http://ec.europa.eu/eurostat/en/web/products-datasets/-/TSDCC310.

[8] Romania imports only 15 percent of its oil demand—65 percent imported from Kazakhstan, 30 percent from Russia and small quantities from Azerbaijan and Iraq (2012). Source: Eurostat; European Commission, 2014.

[9] "We achieved a Grand Slam, Parvanov announced," in Bulgarian, *News*.bg, January 18, 2008, http://news.ibox.bg/news/id_443771292.

[10] "Nabucco pipeline secures Bulgarian environmental permit," *The Sofia Globe*, May 8, 2013, http://sofiaglobe.com/2013/05/08/nabucco-pipeline-secures-bulgarian-environmental-permit/.

[11] Margarita Assenova, "Bulgaria Suspends South Stream as the Ruling Coalition Falls Apart," *Eurasia Daily Monitor*, June 9, 2014, Washington, DC: The Jamestown Foundation, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=42475&no_cache=1.

[12] "Bulgaria energy report," *Enerdata*, May 2014, https://estore.enerdata.net/energy-market/bulgaria-energy-report-and-data.html.

[13] "Газова Прегръдка" (Gas Embrace), November 16, 2012, *Capital Weekly*, http://www.capital.bg/politika_i_ikonomika/bulgaria/2012/11/16/1949092_gazova_pregrudka/.

[14] Roman Kupchinsky, "Bulgaria's 'Overgas,' a Russian Spy in Canada, and Gazprom," February 13, 2009, *Eurasia Daily Monitor,* Washington, DC: The Jamestown Foundation, http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=34511.

[15] "Брюксел обвини БЕХ в злоупотреба с господстващо положение на газовия пазар" (Brussels accused BEH of abusing its dominant position in the gas market), March 25, 2015, *Capital Weekly*, http://www.capital.bg/politika_i_ikonomika/bulgaria/2015/03/23/2498171_brjuksel_obvini_beh_v_zloupotreba_s_gospodstvashto/; "Overgas Snubs State-Owned Bulgargaz in Contract Negotiations," *Novinite.com*, May 27, 2010, http://www.novinite.com/view_news.php?id=116613.

[16] "Bulgarian PM Backs Lukoil License Suspension, Says Ministers Should Secure Fuel," *Sofia News Agency*, July 29, 2011, http://www.novinite.com/articles/130684/Bulgarian+PM+Backs+Lukoil+License+Suspension%2C+Says+Ministers+Should+Secure+Fuel; "Lukoil Bulgaria Suffers Setback in Court," *Novinite.com*, August 23, 2013, http://www.novinite.com/articles/153083/Lukoil+Bulgaria+Suffers+Setback+in+Court.

[17] "Romanian President: Government should be prepared to take over Lukoil refinery if Russians decide to shut it down," *Romania Insider*, October 9, 2014, http://www.romania-insider.com/romanian-president-government-should-be-prepared-to-take-over-lukoil-refinery-if-russians-decide-to-shut-it-down/133220/.

[18] Author's interviews with Romanian government officials and energy experts in Bucharest, November 2014.

[19] "Руските инвестиции земаат залет" (Russian Investments Kick Up a Gear), *Business*, August 30, 2013, https://archive.is/WaoAV.

[20] "Macedonian Finance Minister: Russia Remains One of Most Significant Economic and Political Partners," *Independent.mk*, March 25, 2015, http://www.independent.mk/articles/15742/Macedonian+Finance+Minister+Russia+Remains+One+of+Most+Significant+Economic+and+Political+Partners.

[21] Sinisa Jakov Marusic, "Macedonia Declares Mourning For Police Killed in Gunbattles," *Balkan Insight*, May 10, 2015, http://www.balkaninsight.com/en/article/macedonia-mourns-for-killed-policemen-while-shootout-continues.

[22] *Balkan Insight*, May 10, 2015.

[23] Comment by the Ministry of Foreign Affairs of the Russian Federation, April 22, 2015, http://www.mid.ru/BDOMP/Brp_4.nsf/arh/C8984356BD1307E443257E30004D3FC7?OpenDocument.

[24] Gjergj Erebara, "Russian Statement on Macedonia Infuriates Albania," *Balkan Insight*, April 28, 2015, http://www.balkaninsight.com/en/article/albania-slams-russian-statements-about-macedonian-incident.

[25] "Russia Concerned over Kumano Incident," *Macedonian Information Agency*, May 9, 2015, http://www.mia.mk/en/Inside/RenderSingleNews/200/132633665.

[26] Andrew Korybko, "Terrorism conveniently strikes Macedonia just as Russian 'Balkan Stream' project gains traction," *Sputnik International*, April 22, 2015, http://www.sott.net/article/295639-Terrorism-conveniently-strikes-Macedonia-just-as-Russian-Balkan-Stream-project-gains-traction.

[27] "Macedonia terrorist raid may be linked to country's support of Russia – Lavrov," *Russia Today*, May 16, 2015, http://rt.com/news/259245-machedonia-shooting-russia-support/.

[28] "Gas to Start Flowing Through Turkish Stream in Dec 2016 – Gazprom," *Novinite.com*, May 7, 2015, http://www.novinite.com/articles/168380/Gas+to+Start+Flowing+Through+Turkish+Stream+in+Dec+2016+-+Gazprom.

[29] "Trans-Balkan AMBO oil pipeline still viable project," *London: Platts*, November 11, 2011.

[30] BP's Statistical Review of World Energy (2014), p. 6.

[31] Sinisa Jakov Marusic, "South Stream Deal Boosts Macedonia's Gas Prospects," Balkan *Balkan Insight*, July 28, 2013, http://www.balkaninsight.com/en/article/russian-south-stream-boosts-macedonian-gasification-plans.

[32] International Energy Agency, IEA Energy Statistics, OECD/IEA 2013, available online at: http://www.iea.org/stats/WebGraphs/ROMANIA4.pdf; http://www.iea.org/stats/WebGraphs/BULGARIA4.pdf; http://www.iea.org/stats/WebGraphs/MACEDONIA4.pdf.

[33] "CGN to invest in new Cernavoda units," *World Nuclear News*, October 20, 2014; http://www.world-nuclear-news.org/NN-CGN-to-invest-in-new-Cernavoda-units-2010144.html.

[34] *World Nuclear News*, October 20, 2014; "In-depth study of European Energy Security," European Commission, Brussels, July 2, 2014, SWD (2014) 330 final/3, http://ec.europa.eu/energy/sites/ener/files/documents/20140528_energy_security_study_0.pdf.

[35] "In-depth study of European Energy Security," European Commission, Brussels, July 2, 2014, SWD(2014) 330 final/3, http://ec.europa.eu/energy/sites/ener/files/documents/20140528_energy_security_study_0.pdf.

[36] Clive Leviev-Sawyer, "Westinghouse, Bulgaria to continue talks on nuclear deal," *The Sofia Globe*, April 3, 2015, http://www.balkaneu.com/westinghouse-bulgaria-continue-talks-nuclear-deal/.

[37] Eurostat: Energy Intensity 2013: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec360&plugin=1.

[38] Lello Stelletti, "Romania toward energy autonomy: Interview with the Romanian Minister of Energy Razvan Nicolescu," *Agenzia Nova*, October 01, 2014, available at http://www.abo.net/oilportal/interview/view.do?contentId=2307957.

[39] BP's Statistical Review of World Energy (2014), pp. 6, 20.

[40] Radu Dudău, "Romania's Energy Strategy Options," *EPG Analysis*, Bucharest: Energy Policy Group, April 2014.

[41] "Romania toward energy autonomy,"Interview with the Romanian Minister of Energy Razvan Nicolescu with Lello Stelletti, *Agenzia Nova*, October 01, 2014, available at http://www.abo.net/oilportal/interview/view.do?contentId=2307957; Joshua Posaner, "Romania cuts dependence on gas and Russia," Interfax Global Energy, March 2, 2015, http://interfaxenergy.com/gasdaily/article/15402/romania-cuts-dependence-on-gas-and-russia.

[42] "In-depth study of European Energy Security," European Commission, Brussels, July 2, 2014, SWD(2014) 330 final/3, http://ec.europa.eu/energy/sites/ener/files/documents/20140528_energy_security_study_0.pdf.

[43] Shaun Turto, "Romania faces gas import uncertainty if Russia shuts off exports through Ukraine," *Romania Insider*, March 14, 2014, http://www.romania-insider.com/romania-faces-gas-import-uncertainty-if-russia-shuts-off-exports-through-ukraine/117341/.

[44] Dennis Lynch, "Romania Natural Gas: Country Cuts Imports Of Russian Fuel By 61%," International Business Times, May 2, 2015, http://www.ibtimes.com/romania-natural-gas-country-cuts-imports-russian-fuel-61-1833310; Joshua Posaner, "Romania cuts dependence on gas and Russia," Interfax Global Energy, March 2, 2015, http://interfaxenergy.com/gasdaily/article/15402/romania-cuts-dependence-on-gas-and-russia.

[45] BP's Statistical Review of World Energy (2013).

[46] "Romania no longer relies on Russian gas for first time in decades," *Ukraine Today Television*, March 21, 2015, http://uatoday.tv/business/romania-no-longer-relies-on-russian-gas-for-first-time-in-decades-416782.html.

[47] "Europe's vulnerability on Russian gas," *Wider Europe*, March 17, 2015, Brussels: European Council on Foreign Relations, http://www.ecfr.eu/article/commentary_europes_vulnerability_on_russian_gas.

[48] BP's Statistical Review of World Energy (2014).

[49] Currency conversions based on exchange rates as of March 1, 2015. Historic exchange rates available at http://www.oanda.com/currency/converter/.

[50] Stelletti, Interview with Romania's Energy Minister.

[51] "Romania begins shipping gas to Moldova," *The Associated Press*, March 4, 2015.

[52] Stelletti, Interview with Romania's Energy Minister.

[53] "Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States," U.S. Energy Information Administration, June 2013, http://www.eia.gov/analysis/studies/worldshalegas/pdf/fullreport.pdf.

[54] Stelletti, Interview with Romania's Energy Minister.

[55] "Chevron pulls out of shale gas exploration in Romania," *The Associated Press*, February 23, 2015, http://finance.yahoo.com/news/chevron-pulls-shale-gas-exploration-165419815.html.

[56] "European Shales: The Toll Grows..." *Natural Gas Europe*, February 20, 2015, http://www.naturalgaseurope.com/chevron-withdraws-from-romanian-shale-22269.

[57] Miguel Martinez, Martin Paletar and Harald Hecking, "The 2014 Ukrainian crisis: Europe's increased security position," Cologne: University of Cologne's Institute of Energy Economics (EWI), March 19, 2015, http://www.ewi.uni-koeln.de/fileadmin/user_upload/Publikationen/Studien/Politik_und_Gesellschaft/2015/Ukrainian_crisis_Europes_increased_security_position_final.pdf.

[58] International Energy Agency, Electricity and Heat Bulgaria 2012, http://www.iea.org/statistics/statisticssearch/report/?country=Bulgaria&product=electricityandheat&year=2012.

[59] In-depth Study of the European Commission; Eurostat: Energy Dependence, 2013.

[60] Bulgarian Government's Preventative Action Plan on Security of Gas Supply, http://www.mi.government.bg/files/useruploads/files/epsp/preventive_action_plan_bg_en.pdf.
[61] International Energy Data and Analysis: Bulgaria, U.S. Energy Information Administration, May 2013, http://www.eia.gov/beta/international/country.cfm?iso=BGR.

[62] Clive Leviev-Sawyer, "Bulgaria opens new tenders for Black Sea offshore oil and gas exploration," *Independent Balkan News Agency*, April 21, 2015, http://www.balkaneu.com/bulgaria-opens-tenders-black-sea-offshore-oil-gas-exploration/.

[63] International Energy Agency, Electricity and Heat Bulgaria 2012, http://www.iea.org/statistics/statisticssearch/report/?country=Bulgaria&product=electricityandheat&year=2012; "Protesting about power prices," The Economist, February 15, 2015, http://www.economist.com/blogs/easternapproaches/2013/02/bulgarias-electricity-prices.

[64] Europe's Energy Portal, https://www.energy.eu/#Domestic-Elec; Trade Economics, http://www.tradingeconomics.com/bulgaria/wages.

[65] "Financial Performance of 152 Bulgarian State-Owned Companies Deteriorated by BGN 739 M in 2014," *Novinite.com*, May 9, 2015, http://www.novinite.com/articles/168421/Financial+Performance+of+152+Bulgarian+State-Owned+Companies+Deteriorated+by+BGN+739+M+in+2014.

[66] Bulgarian Energy Company, November 11, 2014, http://www.nek.bg/.

[67] "Bulgaria: new members of energy regulator," April 6, 2014, *Law-Now Online*, http://law-now.com/ealerts/2015/04/bulgaria-new-members-of-energy-regulator?sc_lang=en.

[68] NEK website, April 8, 2014 http://www.nek.bg/index.php/bg/za-nas/novini/305-1-3.

[69] "Bulgaria, Estonia and Sweden have achieved their 2020 renewable energy targets, according to Eurostat," *Novinite.com*, March 10, 2015, http://www.novinite.com/articles/158807/Bulgaria+Has+Achieved+its+2020+Renewable+Energy+Target.

[70] "Power Distributors in Bulgaria Threatened with Nationalization," *Novinite.com*, March 17, 2014, http://www.novinite.com/articles/159006/Power+Distributors+in+Bulgaria+Threatened+with+Nationalization.

[71] "Government launches energy sector overhaul," *Economist Intelligence Unit*, April 17, 2015.

[72] "Посланикът на Русия в Европейския съюз Владимир Чижов: Вие сте нашият троянски кон в ЕС в добрия смисъл," (Russian Ambassador to the EU: You are our Trojan Horse in the EU), *Capital Weekly*, in Bulgarian, November 10, 2006, http://www.capital.bg/politika_i_ikonomika/bulgaria/2006/11/10/293214_vladimir_chijov_vie_ste_nashiiat_troianski_kon_v_es_v/.

[73] "Bulgaria Scraps Burgas-Alexandroupolis Pipeline Project for Good," *Novinite.com*, March 12, 2013, http://www.novinite.com/articles/148625/Bulgaria+Scraps+Burgas-Alexandroupolis+Pipeline+Project+for+Good.

[74] Margarita Assenova, "The Perpetual U-Turns in Bulgaria's Nuclear Energy Policy," *Eurasia Daily Monitor,* Volume: 10 Issue: 21, February 5, 2013, Washington, DC: The Jamestown Foundation, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=40419&no_cache=1.

[75] "Един милиард аргументи," (One Billion Arguments), *Capital Weekly*, September 14, 2012, http://www.capital.bg/politika_i_ikonomika/bulgaria/2012/09/14/1906401_edin_miliard_argumenti/.

[76] *BTA, Sega,* October 31; *Standart News*, November 24, 2014.

[77] *Capital Online, bTV*, June 3, 2014.

[78] *Sofia News Agency*, May 27, 2014.

[79] "САЩ са дълбоко загрижени, че Стройтрансгаз ще строи Южен поток в България," (US deeply concerned that Stroytransgaz will be building South Stream in Bulgaria), Dnevnik Daily, June 6, 2014, http://www.dnevnik.bg/bulgaria/2014/06/06/2316858_sasht_sa_dulboko_zagrijeni_che_stroitransgaz_shte/?ref=rss.

[80] *BTA, BNT, bTV*, June 5, 2014.

[81] *Bulgarian National Radio*, June 8, 2014.

[82] MRF website, Press conference on June 5, 2014, http://www.dps.bg/news/events/3515/preskonferentsiya-na-dps--05-yuni-2014-g---video-.aspx.

[83] *Focus Information Agency*, June 8, 2014.

[84] "США перекрыли "Южный поток" (TheUS stopped South Stream), *Kommersant*, June 9, 2014, http://www.kommersant.ru/doc/2489447.

[85] "Първанов иска да се свика спешно КСНС за „Южен поток" и за Русия," (Parvanov wants an emergency session of the Security Council on South Stream and Russia), Darik Radio, April 8, 2015, http://dariknews.bg/view_article.php?article_id=1417653.

[86] US Department of Treasury, July 16, 2014.

[87] Margarita Assenova, "South Stream Not Bankable After Fresh US Sanctions," *Eurasia Daily Monitor* Volume: 11 Issue: 130, July 17, 2014, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=42634&no_cache=1.

[88] "САЩ подкрепят енергийната ни независимост и съдебната реформа" (The US supports our energy independence and judicial reform), *Mediapool.bg*, January 15, 2015, http://www.mediapool.bg/sasht-podkrepyat-energiynata-ni-nezavisimost-i-sadebnata-reforma-news229325.html.

[89] Michael R. Gordon, "U.S. to Help Bulgaria Depend Less on Russians," *New York Times*, January 15, 2015, http://www.nytimes.com/2015/01/16/world/europe/us-vows-to-help-bulgaria-reduce-energy-dependency-on-russia.html?_r=0.

[90] Miguel Martinez, Martin Paletar and Harald Hecking, "The 2014 Ukrainian crisis: Europe's increased security position," Cologne: University of Cologne's Institute of Energy Economics (EWI), March 19, 2015, http://www.ewi.unikoeln.de/fileadmin/user_upload/Publikationen/Studien/Politik_und_Gesellschaft/2015/Ukrainian_crisis_Europes_increased_security_position_final.pdf.

[91] *Ibid.*

[92] In-depth study of European Energy Security, European Commission, Brussels, July 2, 2014 SWD(2014) 330 final/3.

[93] "Stress tests: cooperation key for coping with potential gas disruption," October 16, 2014, http://ec.europa.eu/energy/en/news/stress-tests-cooperation-key-coping-potential-gas-disruption.

[94] "Putin's Reach: Merkel Concerned about Russian Influence in the Balkans," *Der Spiegel International Online*, November 17, 2014, http://www.spiegel.de/international/europe/germany-worried-about-russian-influence-in-the-balkans-a-1003427.html#spLeserKommentare.

[95] "Bulgarian President: Azerbaijan demonstrates itself as a reliable partner," APA, September 20, 2014, http://en.apa.az/news/216632.

[96] "Bulgaria signs gas deals with Azerbaijan," *BNE*, September 22, 2014, http://www.bne.eu/content/story/bulgaria-signs-gas-deals-azerbaijan.

[97] President of Bulgaria official website, September 20, 2014, http://www.president.bg/news2153/prezidentat-uchastva-v-ofitsialnata-tseremoniya-po-otkrivane-na-stroitelstvoto-na-yuzhniya-gazov-koridor.html&lang=en.

[98] "Bulgaria Has Received No Notice of Termination for South Stream Yet – Minister," *Novinite.com*, April 25, 2015,

http://www.novinite.com/articles/168130/Bulgaria+Has+Received+No+Notice+of+Termination+for+South+Stream+Yet+-+Minister.

[99] "Bulgartransgaz to Open Bids for Interconnector Turkey –Bulgaria on May 8," *Sofia News Agency*, may 4, 2015, http://www.novinite.com/articles/168306/Bulgartransgaz+to+Open+Bids+for+Interconnector+Turkey+%E2%80%93Bulgaria+on+May+8.

[100] Official Website of the Bulgarian Government, March 20, 2015, http://www.government.bg/cgi-bin/e-cms/vis/vis.pl?s=001&p=0137&n=352&g=.

[101] Anca Elena Mihalache, "Bulgaria – the EU's next gasless gas hub," *Energy Post*, February 2, 2015, http://www.energypost.eu/bulgaria-eus-next-gasless-gas-hub/.

[102] Press conference transcript, Website of the President of Azerbaijan, March 4, 2015, http://ru.president.az/articles/14466.

[103] Author's interviews in Bucharest, November 2014.

[104] "Macedonia has Azerbaijani Gas in its Sight," *Trend News Agency*, May 28, 2015, https://www.oilandgaseurasia.com/en/news/macedonia-has-azerbaijani-gas-its-sight.

Serbia and Bosnia-Herzegovina: Prospective Markets for Caspian Gas

Dušan Janjić

Introduction

At the end of the 20th century, a geopolitical earthquake shook Europe and the former Communist states. In the unfolding regional wars, issues of ethnicity and self-determination became driving forces in territorial disputes. A number of hitherto "inviolable" borders, including those of two federal states—Yugoslavia and the Soviet Union—were contested by competing ethnic groups, which once lived in the same state.

In more recent decades, instability in the Middle East and the wars in Afghanistan and Iraq have raised the question of energy security to the top of the agenda of many governments and international bodies.[1] Even NATO has been pressured by member states to address the energy security of Europe. European countries are large energy consumers, but some of their most critical sources of energy supplies are located great distances away—in northern Russia, Azerbaijan, Iran, Central Asia and Africa. Moreover, in the last decade, Europe's energy map has been quickly and frequently redrawn with the aim of reducing the continent's dependence on Russian oil and gas.

To date, gas purchased by European customers from Russia is supplied mainly through the Nord Stream gas pipeline to Germany, via Belarus to Poland, and through the Trans-Balkan pipeline via Ukraine. Supplies sent through Ukraine have suffered critical disruptions several times in the past purportedly due to gas price disputes between Russia and Ukraine. Two new pipeline projects were thus put forward to reduce further problems with natural gas supplies from Russia—Moscow supported the construction of the South Stream pipeline, and the European Union backed the Nabucco pipeline, which promised to deliver gas supplies from the Caspian basin. But by the end of 2014, both projects had been dropped. South Stream was replaced by Moscow's new idea of the Turkish Stream pipeline, while Nabucco was canceled back in 2013 after the Shah Deniz Consortium selected the Trans-Adriatic Pipeline to transit Caspian gas to Europe.

Russian government backing for the South Stream project and EU and NATO's support for Nabucco testify to the critical impact that politics has on the energy sector. In 2014–2015, confrontation between the West and Russia sharpened on account of the Russian annexation of Crimea and the conflict in eastern Ukraine. This cold atmosphere made the construction of the South Stream pipeline politically unfeasible.[2] In addition, the South Stream project faced serious legal problems with the EU for failing to comply with its regulations, particularly with the Third Energy Package.

Russia's decision to scrap the South Stream project affected Serbia by leaving it with no clear alternative. However, the Trans-Adriatic Pipeline (TAP) project is still viewed as an unfinished plan in Serbia. This is partly due to the fact that Azerbaijan's ties to Serbia are relatively new compared to those with Russia, which has had a strong presence historically and until the present day. Russia is also viewed as an important economic player in the EU because it provides 25 percent of European gas supplies and one-third of its oil imports.

After the cancelation of South Stream, Serbia and Bosnia-Herzegovina will need to more thoroughly analyse the possibilities for diversifying their natural gas supply routes. TAP is still an option, as well as the possibility that Russian gas may be supplied to the Balkans via Turkey through the prospective Turkish Stream. Another possibility is supplying liquefied natural gas (LNG) from the United States via a planned terminal on the Croatian island of Krk, or from Saudi Arabia and Kuwait via ports in Albania and Montenegro. Undoubtedly, the heretofore excessive enthusiasm for the supply of gas via South Stream, as well as the potential gasification of Serbia, will now be replaced by a much more cautious approach and a temporary slowdown of any gas projects. Instead, one can expect a revival of investments in power generation from river flows and fossil fuels as well as an intensification of activities to increase energy efficiency in both Serbia and Bosnia-Herzegovina.

Strong energy sector links between the EU and Russia are an integral part of their political, economic and security relations, which are becoming increasingly more complex and difficult.[3] With Russia's escalating aggression, the post-Communism "wild peace" in Europe threatens to turn into a "new Cold War" era. The West is extremely worried about Russia's readiness to use energy as a weapon in foreign policy.[4] It is obvious that the May 21, 2014, natural gas export deal between China and Russia is a matter of grave concern for both the EU and the US as it shows that Putin's Russia is keen on finding alternative energy markets for its gas as a result of the European sanctions levied on Moscow over the crisis in Ukraine.[5]

Indeed, Putin is trying to remove the negative legacy from the period of planned economy of the Soviet Union and, as much as possible, permanently reinforce Russia's position on the European energy map as an indispensable actor.[6] Having placed the largest oil and gas production and trade companies under state control, Russia managed to gain a dominating position in European energy markets, aiming to

seriously establish itself in Europe's economic space—all this, even though Russia has often had a love-hate relationship with the EU.[7]

Ukraine has become the testing ground for a Kremlin that seeks to eliminate the very idea of a revolution—not only in Russia but also in the former Soviet bloc[8]—and to force the EU and US to accept its right to do so. President Vladimir Putin declared, on March 18, 2014, that Russia was within its rights to reclaim Crimea. In his speech to the Russian parliament, he compared the move to the independence declaration of Kosovo in 2008 and the reunification of Germany in 1990—but, in reality, this is the first time that one European country has seized territory from another since the end of World War II.[9] The Kremlin offers a new trade-off: in return for continued economic benefits for the West, Russia wants Western consent to its interpretation of the rules of the game.[10] The Russian annexation of Crimea and destabilization of Ukraine now looks set to precipitate a wide-ranging change of opinions and policies in the EU, which will affect the Western Balkans as well.

Finding themselves at a particular crossroads between the Caucasus and Europe, and bordering the Middle East and North Africa, the Western Balkans are, by virtue of their geo-strategic position, a crucial element in Europe's energy security dilemma. Peace and stability in this region, which was torn apart by ethnic conflict at the end of the 20th century, is critical for European security.

At present, the Western Balkans and the EU face numerous challenges and risks concerning the task of ensuring energy security. At the same time, the energy sector represents a great development opportunity for the region—which can pay off if these challenges are successfully resolved.

For now, however, the Western Balkans are composed of weak states, with poor records of economic growth, high unemployment rates and corruption, and with populations that have little trust in the emerging

democratic institutions. Additionally, the EU has invested significantly into its protectorates in the Balkans: billions of euros, thousands of soldiers and police officers, and an army of civilians who deal with management, development and control.[11]

Moreover, unfinished state building, which hangs over several countries, prevents further development of cooperation in the field of energy security. Despite these political challenges, both Serbia and Bosnia-Herzegovina see their future as part of the Southeastern European energy grid that will provide reliable, cost-effective and cleaner energy for economic development and eventual European integration.[12]

Notwithstanding the fact that many perceive the status of Kosovo as a *fait accompli*, one has to acknowledge that for as long as there is a dispute amongst the global and regional actors over this issue, there cannot be considerable progress in the energy affairs of Kosovo and, consequently, its immediate surroundings.[13] Even under a scenario of the successful privatization of Kosovo's energy assets, high investment risks are considerably slowing down all options for restructuring, development and optimization of the energy sector. This has consequences for the internal stability of both Serbia and Kosovo.[14]

Russia's return to the Western Balkans, this time through energy deals, could be seen as a part of the Kremlin's agenda to re-establish Russia's economic and political influence over the whole region.[15] Russia has used the debt of several former Yugoslav states to gain access to the energy sector of the region and increase its stake in it.[16]

The following analysis will deal with both the overall security and energy security challenges in Serbia and Bosnia-Herzegovina in the context of the crisis in Ukraine, the cancellation of the South Stream project, as well as the pending construction of the Trans-Adriatic Pipeline in the Balkans.

The Legacy of Yugoslavia's Disintegration

At the end of the 1980s, Serbia missed the chance to democratize because of the policy of Serbia's leadership headed by Slobodan Milošević. The dominant ideas of this policy were the homogenization and ethnic mobilization of the people. At the same time, Milošević's "anti-bureaucratic revolution" promised state unity and a good life. But, in realty, the major interest of his leadership was to escape privatization, market economy and democratization. Milošević's dictatorship proved to be based on the centralization of power, use of secret police for blackmailing opponents, complete control of the closed and criminalized economy, and control of basic monetary flows. By the year 2000, Serbian society had become criminalized from the very top of the government on down. Likewise, civil society was also suffocated and the media were transformed into a propaganda tool.[17]

After the fall of Milošević in October 2000, Serbia set off on the road of reforms and democratization and stopped playing the role of a major destabilizing factor in the Western Balkans. This, however, has not made it stable. On the contrary, major political and social conflicts have come back home to Serbia.

Reforms in Serbia have started with a decade-long delay, after four wars, ten years of international isolation and economic sanctions, a bankrupt economy, destroyed institutions, and a largely criminalized and corrupt society. According to EU report published by the European Union, "as a consequence of the separation of former republics, imposed UN sanctions, extremely high inflation and the destruction of infrastructure caused by the NATO air strikes in 1999, the economy of the Federal Republic of Yugoslavia was severely damaged. Estimates show that, due to the great fall of economic activities, Serbia lost about 150 billion euro ($168 billion) in potential GDP."[18]

The Serbian government is incapable of carrying out the reforms because the influence of the political and financial oligarchy that emerged during Milosević's regime is still strong. It provided the main channels of political influence through financing political parties and installing their people in critical government positions. Under the excuse of keeping the national economy going, this political and financial oligarchy has been laundering money through the privatization of key enterprises. The main investors in Serbia have been offshore companies with the above-mentioned financial oligarchy behind them. Such a business environment is not the right place for investment and economic recovery, while a gray economy, corruption, financial chaos and state interference in the economy are broadly present.

In the first decade of the 21st century, the government of Serbia managed to somewhat lift the country from the economic bottom, thanks to generous financial assistance from the international community and significant borrowing. The government stopped further economic decline and created the conditions for economic recovery, stabilized the internal market through increased supply of goods, and boosted salaries, pensions and social benefits for the most vulnerable categories. It also restrained wild price growth and reduced inflation to a single-digit number, stabilized the value of the dinar and achieved a satisfying level of economic stability in the country. However, Serbia did not reach the desired and needed level of economic growth. Serbia has been constantly facing the phenomenon of low economic development and high unemployment rates, with almost one million people looking for jobs. The standard of living in Serbia is 5–6 times lower than that in developed EU countries. In addition, there is no capital that would allow job creation and acceleration of economic development, since accumulation of local capital has practically never happened, while the inflow of foreign direct investment has been significantly below the expected level.

The most serious problem is that the market and the state have not been able to move and implement any of the large investment projects in sectors vital to economic and social interests, such as agriculture, energy and transport infrastructure. In their exaggerated administrative interventions in the prices of goods and services, the state has prevented the market from showing its full and true capability to value everyone's work and business. This particularly pertains to the food and energy sectors.[19]

Despite a long history of statehood, Serbia is still at the very beginning of the process of building a modern state and nation and continues to be faced with an exacerbated identity crisis. The public's loss of confidence in state institutions and the judicial system, accompanied by persistent drastic violations of the Constitution and the laws, are only some of the indicators of the country's constitutional and institutional crises.[20] Serbia is a strongly centralized state with limited local self-government. On the other hand, Serbia is *de facto* a multi-ethnic and multicultural community. This is why the institutional system needs to be based on the principle of decentralization.

Dispute Over Kosovo's Status

Resolving the problem with the contested status of Kosovo is the key to peace and stability in the region. The presence of the international peacekeeping mission—the UN Mission to Kosovo, UNMIK—*de facto* separated Kosovo from Serbia. The decision adopted by the United Nations Security Council (UNSC) on October 24, 2005, to initiate the "Kosovo status process" marked the beginning of a new phase in the Balkans. But the UN Special Envoy Martti Ahtisaari's *Comprehensive Proposal for the Kosovo Status Settlement* in 2007 was not the end of this phase of the process. A "mini-war of resolutions" between the US and EU on the one hand and Russia on the other quickly escalated.

The proclamation of Kosovo's independence on February 17, 2008, was perceived by the Albanian population as closing the chapter of the pan-Albanian national question, particularly against the background of Yugoslavia's dissolution.[21] However, newly independent Kosovo—unrecognized by two-thirds of the world's states, including five EU members—barely functions after ten years of UN rule. It has high unemployment rates, little foreign investment and needs enormous foreign assistance.[22]

In line with the UN General Assembly Resolution 64/298 of October 2010, the EU began facilitating a process of dialogue between Serbia and Kosovo. The process, from its first round held on March 8–9, 2011, to the thirteenth round on July 8, 2013, could be described as a technical dialogue accompanying high-level meetings.[23] In reality, this dialogue represents a large step made by the two sides.[24]

The first agreement achieved between the two sides was on the free movement of goods, which was one of the outstanding issues that obstructed economic development. In December 2012, Serbia and Kosovo reached a landmark agreement on border control and agreed on how to collect customs duties and VAT. They decided to establish a special fund to collect and disburse these revenues in northern Kosovo. The northern Kosovo Serbs opposed the agreement.[25] Despite the sporadic public disputes and apparent mutual distrust, the Serbs in northern Kosovo have not completely rejected cooperation with Belgrade on normalizing Serbia's relations with Kosovo.

Parallel to the technical dialogue, a high-level political dialogue between Kosovo and Serbia (represented by the prime ministers and the presidents) was underway with the purpose of resolving the disputes related to northern Kosovo. The agreement, signed on April 19, 2013, established the framework for resolving the status of northern Kosovo. According to the agreement, Serbia, which does not recognize Kosovo's independence, has a continued role in protecting the interests of the Serbs in northern Kosovo.[26]

A common European future will be the only means for Serbia and Kosovo to again be united, and it is necessary for the European Union to intensify the accession process for the states in the region.[27] For its part, the EU has rewarded Serbia's cooperation in the dialogue with Kosovo by inviting it, in 2014, to start negotiations on EU membership. However, many people in Serbia are still under a delusion: they believe that the Russian annexation of Crimea has created new geopolitical opportunities for northern Kosovo to stay within Serbia and that it is possible to play the card of unification between Serbia and Republika Srpska, one of the two entities comprising Bosnia-Herzegovina.

In reality, however, Crimea can open the way for Pristina to be admitted into the United Nations, as Russia could attempt to trade its potential approval of Kosovo's UN membership for the "legalization" of the annexation of Crimea.[28] The problem is that the Serbian government has no strategy for Kosovo, which would acknowledge the change of reality that occurred with the initiation of the normalization process and its connection with Chapter 35 of the negotiation between Serbia and the EU.

Prospects for the speedy economic development and energy security of Serbia and Kosovo, which are important strategic priorities, are further affected by their unresolved territorial dispute. It complicates Kosovo's energy frailty, inability to produce sufficient electricity, as well as subsequent electricity blackouts. Its mineral reserves have long been a subject of dispute with Serbia. According to a joint survey conducted in 2005 by the Kosovo Directorate for Mines and Minerals and the World Bank, Kosovo's mineral resources are estimated at 13.5 billion euros ($15.1 billion),[29] thus potentially making it a relevant regional energy resource.[30] In that respect, such a figure represents an additional reason for Serbia not to back down from its claims on Kosovo, particularly considering the estimates that energy reserves in central Serbia are running out. Nevertheless, Kosovo has a significant

problem of developing its energy potentials due to the poor condition of the existing infrastructure, the need for significant investments to develop its energy resources, and the uncertain legal status of almost all deposits.[31]

Serbia argues that the state budget and state-owned companies have been investing enormous resources for decades during the 20th century for the preparation and exploitation of coal and other mineral ores and water resources in Kosovo and that the Republic of Serbia took it upon itself to settle the claims of the former Yugoslav republics (first of all Slovenia and Croatia). Along with that, it is a matter of fact that Serbia's development interests with regard to energy have been considerably damaged by UNMIK's politics and especially by the EU management of the reconstruction and economic development pillar. They have managed these resources since 1999, without respect for Serbia's rights and interests, and have organized their privatization without settling the property rights and claims stemming from them.

With Kosovo proclaiming independence, and with EU and US support to Pristina, Serbia has been excluded from using these resources. Simultaneously, Brussels is holding the entire burden of Kosovo's development on the EU's shoulders, while it could reduce it by accepting Serbia as an EU member; and Serbia could, in turn, recognize the independence of Kosovo. However, in order to encourage such a change of opinion in Belgrade concerning the status of Kosovo, the EU could facilitate a series of joint Serbian-Kosovar development projects of two electric power companies focused on the production and distribution of energy from coal and hydro potential, especially in northern Kosovo. Another option, though the less favorable, would be for Brussels to compensate Belgrade in the form of financial and technological support for the construction of a nuclear power plant in northeast Serbia.

Serbia's Energy Sector

During the 1990s, much of the energy infrastructure of both Serbia and Bosnia-Herzegovina was damaged or neglected. In spite of rapidly growing demand for electricity, there has been no construction of any new power plants in the past 25 years. Power production is insufficient to cover economic activities, even though they have operated at a low level for a few years. This is especially visible during summer droughts or when large power plants, such as Djerdap I and Djerdap II in Serbia and Romania, and "Obilić" in Kosovo, do not operate at full capacity. The current production capacities are largely obsolete. These plants utilize old equipment and will be incapable of sustaining even the current level of economic activity without a thorough improvement and modernization of current production capacities in the power sector.

The above mentioned political, social and energy risks reflect the natural gas business as well. On the other hand, the natural gas market in Serbia has significant development potential. In the initial phase it is characterized by efforts to secure regular supplies, build new transport lines to improve distribution, and construct local distribution networks to increase the number of gas consumers in the residential sector. Serbia needs more investment in the transport infrastructure and privatization of its existing facilities. [32]

Transport infrastructure is relatively well developed in the area north of the Sava River (Vojvodina), whereas the pipeline network in central Serbia is rather modest: Belgrade can satisfy only 25 to 39 percent of its needs, same with cities like Smederevo, Jagodina, Paracin, Kragujevac and Niš. Developing the network and bringing it to end consumers has yet to be dealt with, and that will require considerable investment that Serbia cannot afford.[33]

Natural gas has been transported by Corridor MG-09, from Hungary (Corridor Horgoš–Novi Sad–Beograd–Pojate). Supply Corridor MG-

09 Pojate-Niš was completed in 2012, and Corridor MG-10 Niš-Dimitrovgrad (Bulgarian border) is under construction. MG-10's projected capacity amounts to 1.8 billion cubic meters (bcm) per annum, whereas its technical capacity (compressor included) amounts to 4 bcm per annum. The government is working on several interconnection projects with Bulgaria, Romania, Croatia, Macedonia and Bosnia-Herzegovina, as well as on building new gas storage facilities.[34]

Serbia's natural gas consumption was dropped from 2.26 bcm in 1990 to 1.75 bcm in 2009. According to the government energy development program, anticipated consumption in 2010 was supposed to be 7.5 bcm.[35] Predictions were that Serbia would belong to the middle-sized markets once the planned pipelines are completed (25 percent smaller than Hungary, for example). However, domestic consumption only reached 2.9 bcm in 2012. The consumption structure in Serbia is 60 percent industrial and 40 percent household. Serbia currently covers 20 percent of its gas consumption from domestic production and imports 80 percent of its consumption.[36]

Russia is Serbia's main gas supplier, and smaller quantities come from Ukraine and Germany. Serbian natural gas imports from Russia are handled by the Gazprom subsidiary JugoRosGas AD. Russian gas is transported through Hungary, which makes it extremely expensive. The price is burdened by high transport costs of $15–20 per 1,000 cubic meters through the 300-km-long pipeline, set in the first 20-year cooperation contract between then-Yugoslavia and Hungary in 1977. This contract was renewed for another 20 years in 1997. Moreover, the contract with Hungary provides that the price covers the pipeline capacity instead of the quantity of natural gas transported. There are attempts to review the contract, but chances are small, partly due to informal links between business and political circles in Serbia and Hungary. Once the MG-10 Corridor is completed, natural gas supplies from Bulgaria will be feasible and the price is expected to drop by $7 per 1,000 cubic meters.[37]

Serbia Under Russia's Energy Umbrella

An initial agreement between Russia's Gazprom and Serbia's state-owned gas company Srbijagas on the South Stream gas pipeline project was signed on December 20, 2006, even before the announcement of the planned project. Two years later, the questions of whether Serbia should proceed with the Russian-led South Stream and how to bring it in line with Serbia's interest of joining the EU were opened to public debate. Almost all political parties, with the exception of G17 Plus and the League of the Social Democrats of Vojvodina, endorsed Serbia's participation in South Stream. Among those who spearheaded it were the most influential parties in the country—the Democratic Party of Serbia, the Democratic Party, the Serbian Progressive Party and the Socialist Party of Serbia. The political support for the project demonstrated how susceptible Serbia is to Moscow's influence and raised concerns in the EU about the region's stability and energy security.

On January 25, 2008, Russia and Serbia signed an energy pact, adding Serbia to Russia's projected gas pipeline to Southern Europe and allowing Russian gas monopoly Gazprom to buy a controlling share in Serbia's national oil and gas monopoly Naftna Industrija Srbije (NIS), giving Gazprom the right to construct the South Stream pipeline on Serbian territory. The agreements secured Gazprom a 51-percent stake in NIS for an undisclosed price. NIS dominates Serbia's market with a monopoly on oil refining and a network of almost 500 petrol stations across the country. Estimates of its market value vary between 1.0 billion euros and 2.0 billion euros.[38] The "South Stream" route through Serbia was never fully determined. The only known fact is that the 411-km-long (257 miles) line was supposed to enter at Zaječar, run through Belgrade up to Bački Breg, where it would have entered Hungary. A node was envisioned at Čenta, Vojvodina, with one line bifurcating toward Republika Srpska. Construction of

compressor stations was planned near Bačko Dobro Polje and Paraćin.[39]

According to official interpretations by Serbian President Boris Tadić and Prime Minister Vojislav Koštunica, Russia and Serbia's close political relations were converted into economic results. At the signing, Russian President Vladimir Putin reiterated Moscow's strong backing of Belgrade's campaign against Kosovo's independence, which the European Union broadly supports.[40]

The energy pact with Russia was a multibillion-dollar deal that was supposed to make Serbia a key hub for Russian energy supplies and strengthen Russia's dominance of the European energy market. President Tadić said that the deal would bolster Serbia's standing by making it a key transit country for energy supplies to Europe, stating that South Stream "will strengthen Serbia's strategic positions in Southeastern Europe, since it will serve as a transit point for gas supplies to the EU's southern flank."[41]

In 2009, Srbijagas and Gazprom signed a strategic partnership agreement to complete the construction of an underground gas storage facility in Banatski Dvor. The agreement is for a term of 25 years. It guarantees Srbijagas a 49-percent stake in the joint-stock company with an option to purchase more shares, while Gazprom is limited to a maximum of 51 percent of the shares. The Banatski Dvor gas storage facility has had the capacity to distribute up to five million cubic meters of "blue fuel" per day since 2010.

The construction of the South Stream gas pipeline in Serbia officially started in Šajakaši Village on November 24, 2013, and the opening ceremony was held at the Palace of Serbia, where Serbian President Tomislav Nikolić and the then–Prime Minister Ivica Dačić presented their speeches—two politicians, who, along with former Serbian President and Prime Minister Vojislav Koštunica, were perceived by the public as the most zealous proponents for cooperation with

Russia. By extending its political umbrella over Serbia, Russia has been trying to capture Serbia's entire energy sector with one stroke.

EU and US officials raised concerns about Bulgaria moving ahead with the South Stream project at a time when the Ukraine crisis has heightened tensions between Moscow and the EU over Russian gas.[42] After the EU and the US put pressure on Sofia to follow the joint Euro-Atlantic policy concerning sanctions against Russia, on June 8, 2014, Sofia ordered all activities on South Stream stopped until the European Commission gives a green light to the project, which Brussels deems to be in contradiction to EU regulations. The European Commission also appealed to Belgrade to cease all activities on the construction of South Stream, although Serbia is not yet a full EU member. As a member of the European Energy Community, however, Serbia is required, starting January 1, 2015, to begin implementing provisions of the so-called Third Energy Package.[43]

In this context, terminating the South Stream project was not just a sign of European solidarity with Kyiv against Moscow's strategic intention to exclude Ukraine from the distribution of gas to Europe, it is also part of a wider geopolitical strategy of the European Union to reduce its dependence on Russian gas.

Considering the Ukraine crisis and EU and US insistence that Serbia continue to follow EU policy, Russia's reluctance to give up the attitude that South Stream depends solely on them, and the danger that Moscow may start pressuring the Serbian government economically and financially, the question was looming about Serbia's options in case South Stream is canceled.[44] Serbian Deputy Prime Minister Zorana Mihajlović gave one possible answer to this difficult dilemma: "We have to immediately start thinking how to secure another gas supply line for ourselves. We have to work on the Niš-Dimitrovgrad line." Mihajlović was referring to the Serbia-Bulgaria interconnector, which is under construction.[45] While in office as energy minister at the end of 2013, Zorana Mihajlović stated that the

construction of that gas pipeline would enable Serbia to connect with the Trans-Adriatic gas pipeline (TAP), which will supply Europe with gas from Azerbaijan. The Serbian Minister of Mining and Energy Aleksandar Antic expressed a similar position in April 2015. Stressing that the interconnector Serbia-Bulgaria is his government's priority, he said: "We must no longer be enamored of any energy project or rely on just one supply source. That will be the Serbian government policy."[46]

However, neither the public nor experts in Serbia have had any serious discussions about the possibilities for distribution of Azerbaijani gas. This can be explained by the fact that, for the time being, no projects that deal with gas delivery from Azerbaijan plan to go through Serbia. Nevertheless, political, economic and cultural relations between Serbia and Azerbaijan have been growing in recent years. For instance, Azerbaijan opened an embassy in Serbia for the first time in 2012.

Serbia's agreement with Russia on the South Stream gas pipeline provoked great unease in the EU. The concerns were that Serbia, as a non-EU country, represents a liability for such a critical energy project[47] as well as that Serbia was not a suitable partner for this project for several reasons. The considerable amount of political instability, the disputed status of Kosovo, and a number of other internal problems, such as existing tensions in the Preševo Valley, made Serbia a potentially undesirable participant in this sensitive project for the majority of international actors.

From a regional perspective, there was great concern that Russia's significant economic influence would have created a considerable imbalance through South Stream that could have elevated Serbia to "the position of a leading country in the region, helped reduce the trade deficit with Russia, and enhanced Serbia's economic development."[48] Besides the oil and gas agreement with Russia's Gazprom, the Serbian national power utility EPS and Russian

electricity firm Inter Rao EES signed a cooperation protocol envisaging approximately two billion euros of investment in the construction of new hydroelectric and thermoelectric plants in Serbia and strategic partnership in business activities abroad. If Serbia is indeed able to secure all required finances and conditions to finish Corridor 10,[49] optimize its energy sector,[50] fully develop the Danube river corridor VII,[51] privatize the mining and smelting basin of Bor,[52] successfully launch the agreement with Fiat and implement many other strategic development projects, its economic success could elevate the country to a leading position in the region.

Serbia has dozens of sector strategies, including the mid-term Energy Development Strategy of the Republic of Serbia by 2015, which was adopted by the National Assembly in May 2005, and its Implementation for the period from 2007 to 2012.[53] However, Serbia has no codified long-term vision for development. As a country transitioning from socialism to capitalism, and which opted for joining the EU, Serbia first of all needs a *New Deal*. That is, Serbia needs a long-term development plan, or rather, an agreement about the construction of several major, predefined capital projects, which will be an engine of its total economic and social development in the current and following decade of the 21st century—something that will turn around the entire domestic economy.[54]

Bosnia-Herzegovina: One State, Two Parallel Energy Tracks

Bosnia-Herzegovina was internationally recognized as a sovereign state on April 6–7, 1992, and it was once a poster child for successful post-war reconstruction. In the last few years, Bosnia-Herzegovina has been on the verge of collapse several times due to its extremely complex and cumbersome state structure and the resulting ineffective model of governance.

The 1995 Dayton Accords ended a war, but created a fractured polity ripe for exploitation by ethnic conflict mongers.[55] According to the

Dayton Agreement, the country was divided into two semi-independent entities: the Federation of Bosnia-Herzegovina (Federation BiH) and Republika Srpska (RS). The Federation BiH's population is predominantly Bosnian Muslims and Bosnian Croats. Its territory has been subsequently divided into ten cantons, some of which are Bosnian and some Croatian. Republika Srpska is still inhabited almost entirely by Bosnian Serbs and occupies a territory north and east of the Federation. The Dayton Agreement established several central authorities above these two entities and they managed to survive thanks to significant pressure by the international community, among them the High Representative.

With regard to the future of BiH, there are several possible scenarios.[56] They span a spectrum from greater centralization, through looser confederation, to full separation of the two distinct entities, the Federation BiH and Republika Srpska. Republika Srpska's President Milorad Dodik often threatens separation to gain advantage with Sarajevo, popularity at home and Russian support. Many citizens still view Bosnia-Herzegovina as an externally imposed artifact.[57]

Institutions at the state level are striving to integrate the Federation BiH and Republika Srpska into a single market, but have met with little success to date.[58] The labyrinth of institutions, complex bureaucratic procedures and slow intra- and inter-agency communication make Bosnia-Herzegovina's public administration a huge burden on society, and the case is no different in the country's energy sector.[59] Bosnia-Herzegovina's energy sector is not within the purview of the state but of its two entities. Except for coordination purposes, which are within the purview of Bosnia-Herzegovina's Ministry of Foreign Trade and Economic Relations, the two entities control their respective energy sector. The International Energy Agency (IEA) notes that Bosnia-Herzegovina is "slower in developing its long-term energy policies and strategies for energy security and efficiency and in creating the appropriate institutions to implement sustainable reforms of energy markets."[60]

Bosnia-Herzegovina is the only country in Europe that does not have in place:

- an Energy Development and Energy Efficiency Strategy, as work on a new strategy under the EU's grant has been suspended for its poor organization and project coordination;
- a Law on Energy and Energy Efficiency (anticipated by the drafted and ratified Energy Charter and other documents);[61]
- a State Regulatory Commissions for Energy (except for electrical energy, DERK);
- a Directorate/Institute/Agency/Center for Energy and/or energy efficiency;
- national energy statistics (needed for publication in international documents); or
- a national energy balance (energy needs and consumption of energy, projections and the like).

This is a challenge that will be hard to address as it is rooted deeply in Bosnia-Herzegovina's state architecture and political leadership. In the past few years, ethnic nationalist rhetoric from leaders of the country's three constituent ethnic groups—Muslims, Croats and Serbs—has intensified, bringing reforms to a standstill. The economy has stalled, with an unemployment rate over 27 percent and nearly 25 percent of the population living in poverty. In World Bank rankings for business development, Bosnia-Herzegovina's scores remain among the lowest worldwide. Bosnia-Herzegovina is a non-functioning state living under a constant threat—that its autonomous entity Republika Srpska would hold a referendum on independence and break away.[62]

For the time being, the international community is the main impetus for the development of joint institutions and markets in Bosnia-Herzegovina. The financial support and strong presence of NATO and EU forces are of particular importance as they undoubtedly

contribute to the overall security and stability of the country.[63] As political analysts Patrice McMahon and Jon Western wrote:

> Soon after the war's end, the country was flooded with attention and over $14 billion in international aid, making it a laboratory for what was arguably the most extensive and innovative democratization experiment in history. By the end of 1996, 17 different foreign governments, 18 UN agencies, 27 intergovernmental organizations, and about 200 nongovernmental organizations (NGOs)—not to mention tens of thousands of troops from across the globe—were involved in reconstruction efforts. On a per capita basis, the reconstruction of Bosnia—with less than four million citizens—made the post–World War II rebuilding of Germany and Japan look modest.[64]

Bosnia-Herzegovina is considerably behind all Western Balkan and Southeastern European countries across all energy segments. It requires assistance in developing its energy security policy in the short term or risk facing restrictions on electricity, which would further damage growth and industrial development.[65]

Autochthonous energy sources are abundant in the country. Anthracite reserves are estimated at 484 million tons, lignite—at 2,369 million tons.[66] The country's water potential—6,000 MW—is used only up to 35 percent of its capacity. Bosnia-Herzegovina's wind energy is significant as well. Sources from raw materials for energy production (biomass) are abundant. They include about 1.5 million cubic meters of forest biomass and wood processing industry by-products (woody waste, sawdust, wood chips, by-products of technical wood, etc.). The possibilities for exploitation of geo-thermal and solar energy are widely accessible, but not sufficiently explored and used. Preliminary surveys of oil and natural gas point to the existence of promising fields: scattered all over Bosnia-Herzegovina, the reserves are estimated at up to 50 million tons of oil.[67]

Energy—both coal and electricity—could have a similar impact on the integration of Bosnia-Herzegovina and Southeastern Europe, similar to the one coal had in the first stages of European integration in the 1950s. Bosnia-Herzegovina's central geographic location means that the country is very well placed to supply its northwestern neighbors Croatia and Slovenia, as well as those to the southeast—Montenegro, Serbia, Albania, Greece, Macedonia and Kosovo. By building new production capacity, the country would be in a natural position to contribute to the economic progress of the region.[68]

Energy consumption stands at 20 percent of Bosnia-Herzegovina's GDP. Total energy consumption is as follows: coal is used up to 45.3 percent, liquid fuels up to 21 percent and wooden mass up to 20.5 percent. Other forms of energy such as hydro energy, natural gas and imported electrical energy, account for 13.1 percent of the total consumption.[69] In other words, natural gas consumption is at a very low level. To put it in perspective, Bosnia-Herzegovina used 490 million cubic meters in 1991 (in 1990, maximum consumption was 610 million cubic meters), while in 2012, it was only 240 million cubic meters.[70] Although Bosnia-Herzegovina has no natural gas sources of its own, considering the importance and the role of this energy source as a nature-friendly source, its place in the energy mix will become increasingly important. The total supply of natural gas is based exclusively on import. This is still only from one source and only through one line—natural gas is imported exclusively from Russia.

With regard to Republika Srpska, the projected consumption of natural gas is 2 billion cubic meters per year by 2024. Out of this, industry consumption would be about 0.5 bcm and households would use about 0.5 bcm. Two new gas-fired power plants are planned to be built and they would consume a total of 1 bcm per year. The benefits would be new jobs, public works during the construction period of two to three years, industry with a less costly energy source and a stable supply, as well as a more inexpensive source of heating for the

overall population. Given that households in Republika Srpska are heated with electricity, which is for the time being the cheapest in Europe, and that the electricity market will have to be liberalized by 2016, electricity prices are expected to rise several times higher, which could be catastrophic for the population. The second most important energy source is lignite coal followed by heating oil, which poses high environmental risks often ignored by the authorities. Indeed, as of 2015, out of all cities only Bjeljina has been using gas. Finally, transport may rely more on compressed natural gas as many vehicles are now equipped to run on natural gas. The Federation of Bosnia-Herzegovina anticipates consumption of about 2.5–3 bcm of gas per year in the intermediate term, including the construction of two gas-fired power plants—Zenica and Tuzla.

The European Commission used long-term projections of energy needs in Europe to craft documents and guidelines in developing the EU's energy strategy based on security of the energy supply. Their careful analysis shows that Europe has been gearing up for some time to connect its well-developed transport infrastructure with the natural gas sources from the Caspian, Middle East and North African regions, which are extremely rich in natural gas reserves (proven reserves sufficient for over a 1,000 years), with the aim of diversifying its natural gas resources. The same applies to Bosnia-Herzegovina, which is not yet linked to any of the gas corridors. It is important for Bosnia-Herzegovina to connect to as many directions as possible. Since the efforts of Republika Srpska to join South Stream via Serbia was terminated, the only remaining possibility for Bosnia-Herzegovina is defined in the Feasibility Study of the Ionian-Adriatic Gas Pipeline (a gas pipeline through Albania, Montenegro, Bosnia-Herzegovina and Croatia) that would represent a branch of TAP. Indeed, the TAP project is recognized as a strategic plan and program for the development of the Federation's energy sector.[71]

So far, the Federation BiH and Republika Srpska have different projections. Their energy policies had moved along two different

tracks, without guarantees that they would meet any time soon. Thus, the Federation BiH prefers the TAP and IAP projects,[72] while Republika Srpska had bet on the South Stream project. However, since December 2014, when Russia decided to scrap the proposed South Stream gas pipeline and instead build a gas hub via the Black Sea to Turkey, the change in circumstances has been strongly pushing both the Federation and Republika Srpska toward the TAP/IAP pipelines. [73]

The government in Sarajevo, representing both the Federation BiH and Republika Srpska, favors joining the Croatian gas pipeline at Slavonski Brod. The line would be Slavonski Brod–Bosanski Brod–Doboj–Zenica. The rationale behind this strategy is that it would mean dependence on Croatia instead on Serbia. The leader of Republika Srpska Milorad Dodik, opposed this idea in 2014. However, the October 2014 parliamentary and presidential elections in Bosnia-Herzegovina and Republika Srpska may have sufficiently changed the political calculations on the ground. In particular, the election results strengthened the coalition around the Serbian Democratic Party (SDS), which formed a state-level government with Mladen Ivanić, the President of the Party of Democratic Progress (PDP) and Chairman of the Presidency of Bosnia-Herzegovina. Additionally, after the elections, the coalition around Dodik's Alliance of Independent Social Democrats (SNSD) remained in power in Republika Srpska with the narrowest majority. It is, therefore, reasonable to expect that the reluctance to join the Croatian gas pipeline will grow. This would actually mean connecting Bosnia-Herzegovina to the gas route running from Russia through Ukraine and Hungary.

Conclusion

The natural gas markets of Serbia and Bosnia-Herzegovina are quite small, and one strategy to ensure future economic growth is to develop them into mid-sized natural gas markets. Yet, for now, the gas

transportation infrastructure of both countries is insufficient. Serbia is drafting a new Law on Natural Gas Pipelines and is intensively working on connecting its gas network with the neighboring countries Macedonia, Bulgaria and Croatia.

However, a natural gas supply development strategy remains absent in both countries, while their energy sectors are affected by political posturing, backed up by certain energy lobbyists and corrupt politicians. In addition, the gas markets in Serbia and Bosnia-Herzegovina are subject to strong influence by several monopolists and their satellites in the government and public companies in the energy sector. Within Bosnia-Herzegovina, unclear, sometimes conflicting interests of the Federation BiH and Republika Srpska are causing inconsistencies in the country's relations with NATO and the EU on the one hand, and Russia, on the other.

In such circumstances, each country individually should address its energy security through a domestic policy framework and contingency planning. This effort should not only focus on the security of energy supply, but also on business organization and corporate strategy for their respective energy sectors in the region, with due consideration for both a long-term and short-term impact. Therefore, developing such a domestic policy framework demands a broader perspective seen against the wider canvas of the entire region.

Much work needs to be done by national governments, including adopting energy security strategies, streamlining administrative procedures, fighting corruption, and ensuring the protection of private property and investor rights. One of the most difficult tasks will be lifting the private (primarily commercial) monopoly on national energy resources and transmission capacities. Bilateral, sub-regional (Western Balkans) and regional (EU) cooperation are all preconditions for the development of an effective electric power system and interconnected gas network in every Southeastern

European country as well as the improvement of national and regional energy security.

NOTES

[1] Eric Herring and Glen Rangwala, "Iraq, Imperialism and Global Governance," Third World Quarterly; Jun 2005, Vol. 26 Issue 4/5, 2005, pp. 667–683; Keith Fisher, "A meeting of blood and oil: the Balkan factor in Western energy security," Journal of Southern Europe & the Balkans; May, Vol. 4 Issue 1, 2002, pp. 75–89.

[2] Thomas Graham, "Punishing an aggressive Russia is a fool's errand," *The Financial Times*, April 27, 2014.

[3] Marshall Goldman, "Petrostate. Putin, Power and the New Russia," New York: Oxford University Press, 2010.

[4] Konstantin Kosačev, "Is there a common future in the energy, In: Pipelines, politics and power. The future of EU energy relations EU – Russia," Belgrade: Centre for European Reform, 2009, pp. 46–52; Dmitri Trenin, "Geopolitics of energy in the relations between Russia and the EU," in "Pipelines, politics and power. The future of EU energy relations EU–Russia," Belgrade: Centre for European Reform, 2009, pp. 15–17.

[5] "Russia's Putin signs 30 year gas deal with China," London, *The Financial Times,* May 21, 2014.

[6] Nicolazzi Massimo, "The Power of Oil" in "Russia in the Game," *Limes plus*, Hesperia, Belgrade, No 1 (2005): 83–85.

[7] See: John Cassidy, "Is Vladimir Putin a rational actor," *Financial Times*, April 28, 2014; Daniel Altman, "You Can't Beat Putin, Because He's Already Won," *International Herald* Tribune, April 8, 2014; Thomas L. Friedman, "From Putin, a Blessing in Disguise," *Financial Times*, March 18, 2014; David Ignatius, "The cost of Putin's adventurism in Ukraine," *Financial Times*, March 18, 2014; Edward Lucas, "Interview: Russia Watcher Lucas Says 'Tide Has Turned A Bit'

For Ukraine," *RFE/RL*, May 26, 2014; "Russia and Ukraine Battle over Gas Deliveries," *EurasiaNet*, March 1, 2006, http://www.eurasianet.org.

[8] Kathrin Hille, "Putin Says Russia Stands Firm but will not Return to Isolationism," *Reuters,* Moscow, April 17, 2014; William Pfaff, "Blame the Interventionists," http://www.williampfaff.com, May 14, 2014; Elizabeth Pond, "Putin's Soul Mate," *Reuters*, May 5, 2014.

[9] Will Englund, "Kremlin Says Crimea Is Now Officially Part of Russia After Treaty Signing, Putin Speech," *The Washington Post*, March 18, 2014.

[10] Lilia Shevtsova, "Vladimir Putin's New World Order with the West," *Window on Eurasia*, May 8, 2014.

[11] Arnold Suppan, "Balkan: Crna Rupa ili Bure Baruta," (The Balkans: A Black Hole or a Powder Keg), *Die Presse*, Viena, January 7, 2006.

[12] "Energy Community at Work," Pristina–Belgrade: KIPRID, European Movement in Serbia, Freedom House, May 2008.

[13] "Kosovo: Land of opportunity for European mining and energy," London: *Mining Journal*, Special, 2005, pp. 1–20; http://www.beak.de); "Energy Projects in Kosovo," Pristina: Kosovar Institute for Policy Research and Development, Forum for Civic Initiatives, Gap Institute, September, 20, 2011; Dušan Janjić, "The Western Balkans Network for Electro Energy Production &Transmission: Energy Security Challenge," Berlin: *Aspen Institute*, 2013.

[14] The considerable amount of political instability, the Kosovo status issue and a number of other internal potentially problematic issues made Serbia a possibly undesirable participant in this sensitive project for the majority of international actors. The sensitive area in southern Serbia, referred to by the Albanians as "Presevo Valley," is inhabited by a large number of ethnic Albanians. This area is of great security importance not only because of the armed conflict between Serbian security forces and the Albanian insurgents in 2000 and 2001, but also due to its proximity to the Macedonian border, administrative line of division with Kosovo and the proximity of the Corridor 10 international highway.

[15] "U.S. Worried about Russia's Balkan Energy Grab," *Reuters*, January 25, 2008, http://www.reuters.com/article/2008/01/25/us-russia-serbia-usa-

idUSL2575357320080125; Robert R. Amsterdam, "Russia's Energy Weapon," *International Herald Tribune*, September 30, 2008.

[16] M.A. Smith, "Russian Energy Interests in the Balkans," London: Advanced Research and Assessment Group, Defence Academy of the United Kingdom, March 2008.

[17] Zagorka Golubović, "Srbija danas kao zatvoreno i osiromašeno društvo – i gde je izlaz" (Serbia Today as a Closed and Impoverished Society – Where is the Way Out Then?), *Sociološki pregled (Sociological Survey),* Belgrade, vol. XXXIV, no. 3–4, 2000; Dušan Janjić, "Serbia between the Past and the Future," Belgrade: Institute of Social Sciences and Forum for Ethnic Relations, 1997.

[18] Ljiljana Pejin-Stokić and Vladimir Grečić, Social Impact of Emigration and Rural-Urban Migration in Central and Eastern Europe VT/2010/001, Final Country Report Serbia, European Commission, July 2012; Economics Institute (EI) and FREN, Post-Crisis Model of Development and Growth 2020, Belgrade, August 2010.
[19] Dušan Janjić, ed., "New Deal Serbia: A Policy Paper," Belgrade: *Political party 'Active Serbia,'* 2014.

[20] Principi ustavne deklaracije (Principles of the Constitutional Declaration), Belgrade: Forum for Ethnic Relations, 2000, p. 6.

[21] "Kosovo's Status and its Regional Implications. A Policy Paper," Forum for Ethnic Relations and the Istituto per l'Europa Centro-Orientale e Balcanica, October 18, 2008, pp. 1–8.

[22] Morton Abramowitz and Daniel Serwer, "Balkan Troubles. The West Ended the War in the Region, Now it's Time to Secure the Peace," *Wall Street Journal Europe*, January 6, 2009.

[23] UN General Assembly, A/RES/64/298, 13 October 2010, www.umikonline.org; "A 'Peace Treaty' for Sustainable Peace: A new beginning for Kosovo and Serbia," *Policy Study, No. 1/ 2012*, Pristina: Kosovo Institute of Peace, December 2012, pp. 3, 5, 6.

[24] "A 'Peace Treaty' for Sustainable Peace: A New Beginning for Kosovo and Serbia," *Policy Study, No. 1/ 2012*. Pristina: Kosovo Institute of Peace, December

2012, pp. 6, 8, 10; "(Is There) A Way Forward for Serbia and Kosovo," Belgrade: New Policy Centre, March 2013, p. 32.

[25] "Serbia and Kosovo: The Path to Normalisation," Pristina, Belgrade, Brussels: International Crisis Group, *New Report*, February 19, 2013.

[26] This is the agreement on power-sharing, under which the municipal bodies in the Serb-majority areas, and in Northern Kosovo will retain autonomy in matters such as health care, education, culture. In return, the police and courts will apply the Kosovo central government's laws (Phillips David L, "How to Heal Balkan Wounds for Good," *OP- ED Contributor*, May 9 (2013).

[27] "Perspecitive of Northern Kosovo in the Process of Normalization between Belgrade and Prishitna," Policy Paper, *Forum,* No. 1/ 2013 (Belgrade: Forum for Ethnic Relations, April (2013): 9,10.

[28] Dušan Janjić, "Ruska Aneksija Krima Otvara Prištini Vrata UN" (Russian Annexation of Crimea Opens the Door for Prishtina to the UN), Belgrade: *Tanjug News Agency*, April 2, 2014.

[29] Currency conversions based on exchange rates as of March 1, 2015. Historic exchange rates available at http://www.oanda.com/currency/converter/.

[30] "Kosovo: Land of opportunity for European mining and energy," London: *Mining Journal*, Special, 2005, pp. 1–20; http://www.beak.de.

[31] "Energy Projects in Kosovo," Pristina: Kosovar Institute for Policy Research and Development, Forum for Civic Initiatives, Gap Institute, September, 20, 2011; Dušan Janjić, "The Western Balkans Network for Electro Energy Production &Transmission: Energy Security Challenge," Berlin: *Aspen Institute*, 2013.

[32] The Energy Sector Development Strategy Implementation Programme of the Republic of Serbia until 2015 for the period of 2007 to 2012, Belgrade, *Official Gazette of the RoS*, No. 44/ 05 (2007): 66–70; "Energy Sector Development Strategy of the Republic of Serbia by 2015," http://www.aer.eu/fileadmin/user_upload/MainIssues/Energy/peer_review_on_energy_Vojvodina/Serbian_energy_strategy_-fianl__EN.pdf.

[33] Report on the Security of Energy Supply in the Republic of Serbia

in the period from 2011 to 2013, Republic of Serbia Ministry of Energy, Development and Environmental Protection, Belgrade, October 2013, https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/2460177/SoS_statement_Serbia_2011-2013_final_eng.pdf.

[34] *Ibid.*

[35] Energy Sector Development Strategy Implementation Programme of the Republic of Serbia; Energy Sector Development Strategy of the Republic of Serbia by 2015.

[36] Ministry of Energy, Development and Environmental Protection, February 2014, https://www.energy-community.org/pls/portal/docs/2912051.pdf.

[37] "Serbia demands transit fee cut on gas imports from Hungary," *ICIS*, December 1, 2011, http://www.icis.com/resources/news/2011/12/01/9513276/serbia-demands-transit-fee-cut-on-gas-imports-from-hungary/.

[38] "Energetski sporazum na granici ključanja: Sergej Šojgu dolazi kod Tadića" (The Energy Agreement at Boiling Point: Sergey Shoygu Meets Tadić), Belgrade, Ekonomist, No. 429, August 11, 2008; "Serbia could be left out of South Stream," RBC Daily, August 12, 2008, http://www.focus-fen.net.

[39] Nadia Rodova, (2012-11-15). "Russia, Bulgaria sign final investment decision on South Stream gas pipeline," *Platts*, November 15, 2012, http://www.platts.com/latest-news/natural-gas/moscow/russia-bulgaria-sign-final-investment-decision-8916177.

[40] Oleg Shchedrov, "Serbia signs strategic energy deal with Russia," *Reuters*, January 25, 2008.

[41] *Ibid.*

[42] Peter Spiegel, "Bulgaria deals Russia setback over gas pipeline project," *Financial Times,* June 9, 2014.

[43] "South Stream could stop Serbia joining EU, energy chief says," *EUobserver*, October 8, 2014, https://euobserver.com/foreign/125968.

[44] Perhaps the clearest warning signal of the future "Russian embrace" came from Leonid Reshetnikov, Director of the Russian Institute of Strategic Research and high-ranking official of the Russian Foreign Intelligence Service, who said it would be a tragedy for Russia if Serbia eventually joined NATO. "Politika," Belgrade, June 8, 2014.

[45] "Serbia Did Not Cause Freezing of South Stream Project," *TANJUG, InSerbia*, December 3, 2014, http://inserbia.info/today/2014/12/serbia-did-not-cause-freezing-of-south-stream-project/.

[46] "Gas Interconnection with Bulgaria is Serbia's Priority," *Natural Gas Europe*, April 6, 2015, http://www.naturalgaseurope.com/gas-interconnection-with-bulgaria-is-serbias-priority-22984.

[47] "Serbia could be left out of South Stream," *RBC Daily*, August 12, 2008), http://www.focus-fen.net.

[48] "Skepticism of South Stream pipeline," *BETA*, Belgrade, September 12, 2008.

[49] Ana Krajnc, "Interview with Sheigeo Katzu, deputy president of World Bank for Europe and Central Asia: Corridor X Highway is Coming from Washington," Belgrade: Ekonomist, No. 436, 2008, pp. 18–20.

[50] Dragan Blagojević, "Koridor VII: Dunav tiho teče" ("Corridor VII: Quiet Flows the Danube"), Belgrade: *Ekonomis*t, No.440, 2008, p. 62; D. Spalović, "Rusi spremili dve milijarde evra za elektrane" (Russians Save Two Billion Euros for Power Plants), *Politika*, Belgrade, April 15, 2008.

[52] "Mining Basin of Bor on the Eve on New Tender," Belgrade: *International Radio Serbia*, October 7, 2008.

[53] The strategy has specified the basic priorities of energy development as follows: technological modernization of energy sources/facilities, rational use of high-quality fuels (energy sources), use of renewable sources of energy and new energy technologies, and construction of new energy sources/facilities. See "The Energy Sector Development Strategy Implementation Programme of the Republic of Serbia until 2015 for the period of 2007 to 2012," *Official Gazette of the RoS No. 44/05*, Belgrade, 2007.

[54] *New Deal Serbia* needs to be harmonized with those elements of the developing *New Deal EU*, the agreement on the European Union's future economic development and its quicker recovery from the current economic crisis, low economic growth rate and high unemployment rate. See Dušan Janjić, ed., "New Deal Serbia: A Policy Paper," Belgrade: *Political party 'Active Serbia,'* 2014.

[55] Patrice C. McMahon and Jon Western, "The death of Dayton: How to Stop Bosnia from Falling Apart," *Foreign Affairs,* September/October, 2009, http://www.foreignaffairs.com/articles/65352/patrice-c-mcmahon-and-jon-western/the-death-of-dayton.

[56]Matthew Parish, "Republika Srpska: Nakon Osamostaljenja," in *Republika Srpska: After Independence*, 2013, http://www.matthewparish.com.

[57] Arnold Suppan, "Balkan – Crna Rupa ili Bure Baruta," Vienna: *Die Presse*, January 7, 2006.

[58] "A Bosnian Fortress," Berlin & Sarajevo: *European Stability Initiative*, December 1, 2007.

[59] International Energy Agency Bosnia and Herzegovina Country page: http://www.iea.org/ Textbase/ country/ country_blurb/bosnia.asp.

[60] *Ibid.*

[61] The Ministry of Foreign Trade and Economic Relations is currently in the process of establishing a state commission that will be tasked to draft the Natural Gas Act for the entire Bosnia-Herzegovina.

[62] Morton Abramowitz and Daniel Serwer, "Balkan Troubles: The West Ended the War in the Region, Now It's Time to Secure the Peace," *Wall Street Journal Europe*, January 6, 2009, http://www.wsj.com/articles/SB123119981293655561.

[63] "A Bosnian Fortress," Berlin & Sarajevo: *European Stability Initiative*, December 1, 2007.

[64] Patrice C. McMahon and Jon Western, "The death of Dayton: How to Stop Bosnia from Falling Apart," *Foreign Affairs,* September/October, 2009,

http://www.foreignaffairs.com/articles/65352/patrice-c-mcmahon-and-jon-western/the-death-of-dayton.

[65] "Western Balkans: A Policy Paper," Brussels: *European Stability Initiative*, 2004.

[66] World Energy Resources: Coal, *World Energy Council*, 2013, http://www.worldenergy.org/wp-content/uploads/2013/10/WER_2013_1_Coal.pdf.

[67] "The Energy Status of BiH," *Energies.ba*, February 24, 2012, http://www.energis.ba.

[68] "A Bosnian Fortress," Berlin & Sarajevo*: European Stability Initiative*, December 1, 2007.

[69] Strategic Plan and Program for Energy Sector Development in FBiH; Sarajevo (Bosnia and Herzegovina; Federation of Bosnia and Herzegovina; The Government of the Federation of Bosnia and Herzegovina; Federal Ministry of Energy, Mining and Industry, September / October (2008): 7–12.

[70] The largest consumer in the residential sector is the distribution system of the City of Sarajevo. Some of the largest industrial consumers are Mittal Steel Zenica and Birac Alumina Factory in Zvornik, while other industrial facilities are in Ilijaš, Visoki, Kakanj and Zvornik (Source: *BH-Gas*)

[71] FMERI, Expert Group Sarajevo, September 2008.

[72] In search of alternative sources of natural gas supply, several years ago, Bosnia-Herzegovina joined the Ionian Adriatic Gas Pipeline (IAP) project, which would enable countries in the region to connect to the Southern Gas Corridor supplying Europe with gas from Azerbaijan or Caspian Sea through the Trans-Adriatic Pipeline (TAP).

The Ministry of Foreign Affairs has been directly included in the negotiations about that pipeline and the line minister Zlatko Lagumdžija has, on behalf of Bosnia-Herzegovina, signed the Memorandum of Understanding on the support and cooperation in the implementation of the TAP and IAP projects in Tirana. He also signed the Joint Ministerial Statement supporting the TAP line in Dubrovnik. Lagumdžija is known as the biggest supporter of the TAP and IAP gas pipelines in Bosnia-Herzegovina. *Business Magazine*, May 13, 2014, Sarajevo, accessible at: http://www.seebiz.net/.

[73] Darya Korsunskaya, "Putin drops South Stream gas pipeline to EU, courts Turkey," Ankara, *Reuters*, December 1, 2014.

The Southern Gas Corridor's Adriatic Prospects: Slovenia, Croatia and Montenegro

Fabio Indeo

Introduction

The selection of the Trans-Adriatic Pipeline (TAP) over Nabucco-West has revitalized the geopolitical relevance of the Balkan region as a transit energy corridor. Although TAP will be delivering Azerbaijani gas in the westward direction (from Greece through Albania to Italy), its connection with the proposed Ionian Adriatic Pipeline could better achieve the purpose of the strategic EU-backed Southern Gas Corridor in diversifying energy routes and supply.

Conceived as a northward-oriented corridor, the Ionian Adriatic Pipeline (IAP) would involve Croatia and Montenegro in a relevant infrastructure aimed to enhance EU energy security. At the same time, IAP will be a strategic pipeline for the Adriatic countries, promoting the gasification of Montenegro and reinforcing Croatia's ambition to play the role of a regional energy hub, especially as a member of the EU.

However, the "Adriatic energy route" also represents a strategic option for Russia. Moscow sought to implement its own gas pipeline project—the South Stream natural gas pipeline, later replaced with the

so-called Turkish Stream—in order to preserve its energy influence in the region. In fact, Slovenia is highly dependent on Russian gas imports while the plan to extend South Stream to Croatia aimed to attract Zagreb in Moscow's sphere of energy influence. Russia is also interested in acquiring Croatian energy assets.

This chapter will analyze the role of Croatia, Slovenia and Montenegro in the development of the Adriatic energy scenario, highlighting the benefits and gains linked to the implementation of various pipelines. Among them, Croatia would become a strategic energy partner equally for the EU and Azerbaijan as the gas supplier for both TAP and IAP projects. The Adriatic country will benefit from its geographical position, the potential implementation of several infrastructure projects (IAP, LNG facilities, the JANAF crude oil pipeline system) and the availability of domestic energy sources.

The Adriatic Countries and the European Energy Community

Since the European Union enlargement in 2004, the Western Balkans and the EU have become closer neighbors, drawing up a scenario of potential cooperation in different fields. Considering the violent dissolution of the former Yugoslavia in the 1990s, regional stability and security have become crucial in EU policy toward the Balkans, as necessary preconditions for economic development. The EU has involved the countries in the region in several frameworks of political, economic and security cooperation, also focusing initiatives and policies on the energy transport and infrastructure field.[1]

The EU integration of the three Adriatic countries—Slovenia, Croatia and Montenegro—is an ongoing process, characterized by different stages. Slovenia celebrated ten years of its EU membership, while Croatia became the 28th EU member state on July 1, 2013. Montenegro is an EU candidate country since December 17, 2010. The accession negotiations with Montenegro started on June 29, 2012.[2]

Energy cooperation between the EU and the three Adriatic countries is facilitated by their geographic proximity and the region's potential role as a transit corridor for gas and oil supplies coming from producer countries other than Russia. Furthermore, the EU and the three Adriatic countries have undertaken energy policies and strategies focused on achieving the same long-term targets: increasing renewable energy sources and reducing greenhouse gas emissions by 20–30 percent before 2020.

On October 25, 2005, the EU and six Balkan countries launched the European Energy Community (EEC), which represents the main framework of cooperation in the energy sphere. The Energy Community is the achievement of the so-called Athens process, which started in 2002 with a Memorandum of Understanding between the EU and several Balkan countries. The parties agreed to develop a regional electricity market in Southeastern Europe and facilitate its integration into the EU internal electricity market. The EU and the adhering parties are engaged in creating a legal and economic framework in relation to the European Energy Network, also aiming to enhance the security of supply within this common space. In 2012, Albania, Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Kosovo (represented by UNMIK) obtained the status of contracting parties to the Energy Community together with Moldova and Ukraine, which respectively joined the EEC in 2010 and 2011.

The Energy Community strategy stated: "Regional coordination and solidarity are the backbone of the Energy Community Treaty. This is based on the acknowledgment that regional coordination is the only feasible solution for gaining synergy effects for the small and only partially connected emerging energy markets of the region. In the given geographic set up, the Treaty's goals of attracting investment, enhancing security of supply, improving the environmental situation and creating market liquidity—all for the benefit of customers—can only be reached when taking regionally coordinated action."[3]

The creation of regional electricity and gas markets and their integration into the internal energy market of the EU are the main goal of the EEC. The energy cooperation necessarily includes developing a broad political partnership and strong economic relations between the EU and the contracting parties. The creation of a single market for electricity and natural gas between the EU and Southeastern Europe is an ambitious target. Its completion requires a comprehensive technical upgrade as well as legislative and regulatory reform of the energy sector. In fact, the countries in the region were in need of substantial investment in reforming the energy sector and adjusting it to EU standards.[4]

Given their geographic position and the specificity of their national energy sector, the Adriatic countries will strongly benefit from the promotion of the Gas Ring Concept, which is one of the key priorities of the EEC. The initiative aims to increase natural gas use in the region, allowing the countries to diversify their energy mix and satisfy their environmental obligations in the context of the Energy Community framework. The inclusion of the Adriatic region in this planned gas ring will contribute to promoting security and diversification of supply in an integrated regional energy market, which will in turn support the EU's energy security. A similar development could represent an interesting perspective for Montenegro, because the "closure" of the gas ring will enable the gasification of this country and its connection with both the regional and EU energy grid.[5]

This gas ring should be realized through the connection of existing or planned pipelines, LNG terminals and storage facilities, creating a network of new regional and Pan-European gas pipelines. The European Commission has selected 35 Projects of Energy Community Interest (PECI) to implement EEC strategy: including 14 on electricity production, nine on electricity connections, ten natural gas projects and two oil-related developments.

Some of the most important of these projects directly involve Croatia and, to a lesser extent, Slovenia and Montenegro, clearly highlighting the role of this Adriatic country as a key energy partner within the EEC framework. In fact, projects involving Croatia—such as the Ionian Adriatic Pipeline, the LNG terminal in Krk, connecting pipelines to the national and regional markets, and the upgrade of the existing JANAF oil pipeline—have been selected as Projects of Energy Community Interest because they are considered to be a priority for their regional impact, contribution to security of supply and achievement of the targets for renewable energy.[6]

Domestic Energy Potential: An Overview

The energy landscape and distribution of energy reserves located in these three Adriatic countries show that the Adriatic region has many features in common with other Southeastern European countries. In the Balkans, energy markets appear small and fragmented, heavily dependent on fossil fuels. Moreover, the existing energy infrastructure is old because it was built in the 1960s and 1970s with an outdated technology. In fact, one of the primary and urgent challenges to the region will be the modernization of this infrastructure in order to upgrade and extend the capacity and the different energy options aimed at diversifying the energy mix.

Nevertheless, the energy sectors of Montenegro, Croatia and Slovenia are different from each other, each characterized by a specific contribution of energy sources (gas, oil, nuclear, renewable) in their own national energy mixes: mainly the use of nuclear and hydroelectric energy sources highlight the possibility to diversify options for the respective national energy policies.

Montenegro has no oil and gas reserves, but it can cover its energy needs by exploiting its coal reserves and the country's vast potential of hydroelectric energy: hydroelectric power plants produce enough electricity to meet its domestic consumption.

Croatia holds gas reserves, allowing it to cover 60 percent of its needs via domestic production, but Zagreb is entirely dependent on coal imports. Slovenia has no gas reserves, but it could play another option—nuclear energy: in 2011 the Krško nuclear power plant produced 5.9 billion kilowatt hours (kWh) of electricity with a share in the domestic electricity supply of 43 percent.[7]

Croatia emerges as the most developed gas market in the region, together with Serbia. However, Montenegro, Albania and Kosovo have no access to gas. Renewable energy sources, including large hydropower plants, biofuels, wind and solar, already play a significant role in the final energy supply in Montenegro (52 percent) and Croatia (39 percent): hydropower is the most commonly used type of renewable energy, which has further growth potential across the entire region.[8]

Table 1. Total primary energy supply (2012, source IEA)[9]

	Croatia	**Slovenia**	**Montenegro**
Oil %	44.4	34.8	28.1
Gas %	33.2	10	0
Coal %	8.7	19.7	39.8
Biofuels and waste %	7.6	9.6	18.9
Hydro %	5.5	4.7	13.3
Geothermal, solar, wind %	0.6	0.8	0
Nuclear %	0	20.4	0

Croatia

Among the Balkan countries, Croatia has the highest gas share in its energy mix (33 percent) and the second highest oil share (44 percent) after Albania (57 percent). Montenegro covers one-third of its

primary energy supply by renewable sources. Slovenia has the second highest nuclear share (22 percent) in the energy mix after Bulgaria.

Unlike Slovenia and Montenegro, Croatia holds 24 billion cubic meters (bcm) of proven natural gas reserves, located in 17 onshore and nine offshore fields.[10] The largest deposits, providing around 70 percent of the natural gas supplies, are located near the town of Molve in the north of the country. In the period 2001–2011, the production volume increased by 22 percent, covering the growth of the gas consumption in the domestic market (9 percent).[11]

In terms of gas security, the Croatian system is different compared to other Eastern European countries for many reasons: gas is a major component of the national energy mix, but not the predominant one, covering 33 percent of the total energy supply. In fact, Croatia consumes nearly 3 bcm of gas annually, two times less than Slovakia, five times less than Poland and eighteen times less than Ukraine.[12]

Moreover, Croatia benefits from domestic natural gas production, which ranges between 1.9 and 2.5 bcm annually, allowing it to cover 65–70 percent of the total internal demand.[13] Imports cover the remaining one-third, but Croatia has been able to cut its dependence on Russian gas imports. Until December 2010, Croatia imported Russian gas through Ukraine, Slovakia and Austria, using the Rogatec-Zagreb interconnection with Slovenia, put in service in 1978. Following the construction of the Hungarian-Croatian interconnector, Zagreb has successfully diversified its gas supply, ending its 30-year dependence on exclusive natural gas supply via Slovenia. This interconnector linked Donji Miholjac (on the Hungarian border) to Slobodnica (close to the border with Bosnia-Herzegovina) and has a capacity of 6.5 bcm of gas, although only about 1.5 percent of its total capacity is used. The total cost of the project was 400 million euros ($448 million)[14]; the Croatian state-owned energy company Plinacro contributed 75 million ($84 million).[15]

In addition to this new infrastructure, Croatia has begun to import gas from other suppliers: the Croatian national oil and gas company INA-Industrija Nafte, d.d (INA) has a three-year contract with the Italian company ENI S.p.A. to secure 750 million cubic meters of natural gas through both the old and new interconnections.[16]

Croatia has limited oil reserves, while oil covers 46.4 percent of the total primary energy supply. As of 2013, four-fifths of the oil consumption was provided through imports.[17] Similar to the gas sector, Croatia can diversify the routes of its oil imports, thanks to its geographic position. Oil imports are delivered by pipeline—through the connection between the JANAF crude oil pipeline to the Russian Druzhba pipeline—and by sea through oil tankers, which reach the port of Omišalj, located in the north part of the Island of Krk. This energy transport route has a regional strategic relevance, also linking Slovenia, Serbia and Bosnia-Herzegovina.[18] The JANAF pipeline system is a part of the Adria crude oil pipeline, conceived to link Omišalj port to Hungary in order to lessen Central Europe's dependence on Russian oil.

Croatia is engaged in developing its domestic energy reserves by promoting exploration activities and trying to involve international actors. In April 2014, Croatia launched an international tender for oil and gas exploration blocks in the Adriatic Sea: according to some ambitious estimates, Croatia's potential oil reserves should amount to 747 million tons.[19] On January 2, 2015, the Croatian Government granted ten licenses for exploration and exploitation of hydrocarbons in the Adriatic. Marathon Oil and Austrian OMV won the tender for seven exploration blocks. Italian companies ENI and Medoilgas will conduct exploration and exploitation in one block, and Croatian INA received a license for two blocks.[20]

Montenegro

After Yugoslavia's dissolution in the 1990s, Montenegro shared statistical data about its energy sector with Serbia until its national independence in May 2006. Montenegro does not have any oil and gas reserves, but holds coal deposits located in two regions—Pljevlja area (184.5 million tons) and the Berane basin (158 million tons, of which merely 18.5 million tons are exploitable reserves)—which allows it to meet internal demand.[21]

At present, Montenegro is fully dependent on imported oil products (27.3 percent of the total primary energy supply), mostly imported from Greece through the Adriatic port of Bar. Montenegro imports no crude oil and has no oil refining facilities in the country.

Montenegro currently has no gas market or related infrastructure; however, a potential gasification of the country in the future could be an attractive option to pursue, in order to diversify the energy mix by reducing the share of coal and oil.[22]

Biofuels and hydro energy meet over 30 percent of the total primary energy demand of the country. Concerning the power supply, 33.7 percent came from coal-fired plants in 2010 and the rest mainly from hydropower plants. The three largest production sites (two hydropower plants and a thermal plant) provide 86 percent of Montenegro's power production. The biggest hydroelectric power plant in Montenegro, with a capacity of 342 megawatts (MW), is Mratinje, built in 1975, in the canyon of the Piva River. The second largest is Perucica, a 307-MW hydroelectric power plant. The Pljevlja power station, constructed in 1982, is the only coal-fired thermal plant. With a capacity of 210 MW, it provides one-third of the power supplies in the country. Power imports, which had reached 54.7 percent in 2007, had been reduced to zero by 2010.[23]

Slovenia

Slovenia has no oil and gas reserves, and its coal reserves are not large enough to meet domestic consumption: consequently, Slovenia must import hydrocarbons. However, Slovenia's import dependence is low—it was equal to 49 percent of the domestic energy needs in 2010—and the national energy mix is among the most diversified in the EU. Ljubljana has been able to achieve this balance by using nuclear power, unlike most of the Balkan countries. Three nuclear power plants exist in Southeastern Europe: in Bulgaria, Romania and Slovenia.

The first source of energy used in Slovenia is oil, all of which is imported, mostly from Cyprus, followed by Italy.[24] Slovenia is entirely reliant on gas deliveries from abroad. In 2012, the majority of natural gas was imported from Russia (42 percent), Austria (35 percent) and Algeria (16 percent), while the remaining quantities were imported from Italy and other countries. However, the Slovenian gas market is among the smallest in Europe, with an annual consumption of around 865 million cubic meters.[25]

The potential development of tight gas reserves—located in eastern Slovenia (Petišovci project), with reserves of around 12–14 bcm—could contribute both to satisfy domestic needs as well as to fuel regional energy projects.[26] The country holds large coal reserves (1,174 million tons), but coal's share in the primary energy consumption pushes the government to import solid fuels from Vietnam, the Czech Republic, Italy and Russia.[27]

Slovenia benefits from a favorable energy mix—based on hydro energy (40 percent), nuclear (36.6 percent), thermal (20 percent) and solar (1.8 percent)—which strongly downplays the contribution of oil, gas and coal in the production of electricity.[28]

The nuclear energy generated by the Krško nuclear power plant represents an important source of diversification of the national energy sector, covering 20.4 percent of the total primary energy supply and representing over one-third of the energy mix. Hydropower in Slovenia also plays an important role in meeting the objective of a 25-percent share of renewable energy in final gross energy consumption by 2020: the hydroelectric facilities are deployed on the Drava, Sava and Soča rivers.[29]

The Ionian Adriatic Energy Corridor: Can Croatia Become a Regional Energy Hub?

Participation in regional and pan-European energy infrastructure projects has become a strategic priority in both foreign and energy policies of the Balkan countries. Although the domestic demand for natural gas is limited, compared to other European markets, the inclusion of Croatia, Slovenia and Montenegro in the Southern Gas Corridor has a strategic relevance for the Western Balkans as a whole. It will allow the region to achieve several strategic goals and enhance its role in the international arena.

Given their geographic position, the Adriatic countries could become a transit corridor connecting Caspian (and potentially Mediterranean) energy supply to the European energy markets, strengthening political relations and energy cooperation with the EU.

The decision of the Shah Deniz consortium to select the Trans-Adriatic Pipeline (TAP) project over the Nabucco-West project as the main export route for Azerbaijani gas to Europe has revitalized the idea of developing an energy corridor in the Western Balkans.[30] In fact, TAP will transport Azerbaijani gas to the Western European markets crossing the Balkans from east to west, thus privileging a *Balkan route* instead of supplying Central and Eastern European countries (Romania, Bulgaria, Hungary and Slovakia). The problem

with Central and Eastern Europe's over-dependence on Russian gas imports, therefore, will remain.

The potential involvement of the Adriatic countries in the Southern Gas Corridor could support their efforts to achieve energy security, lessen dependence on Russian imports (mainly for Slovenia) and diversify their energy mix by using natural gas. This could be the case in Montenegro, which would benefit from an additional option in its internal energy mix, reducing the shares of environment polluting sources like coal and oil.

In the economic sphere, the role of the Western Balkans as a transit corridor or an energy bridge between European markets and Caspian sources should also ensure them considerable financial revenues from energy transit fees. Furthermore, the Adriatic countries will be better connected to the regional and European gas grid, allowing them to overcome the fragmentation of the markets and contributing to creating an integrated European energy system.

In order to pave the way for this strategic energy cooperation, it will be necessary to expand the existing infrastructure, improve domestic and regional interconnections and build new facilities (storage facilities and pipelines). For that purpose, attracting international investments and financial support will be essential, which is attainable in a regional scenario of political stability and security.[31]

The European Energy Community is helping the Balkan-Adriatic region to achieve and implement these targets by supporting a number of Projects of Energy Community Interest, which can better interlink the fragmented Balkan market. Among them, the Ionian Adriatic Pipeline project is one of the most important, potentially involving all three Adriatic countries. IAP could achieve all internal, regional and international goals: securing energy diversification and economic development of the Western Balkans and enhancing the integration in the European Union framework.

IAP should link TAP in Albania to the gas network of Croatia via Montenegro: in this way, Azerbaijani gas from the Shah Deniz Phase II will be delivered from Albania to Italy (westward direction) and potentially to the Balkans and Central Europe (northward direction).

The IAP section from Feri in Albania to Split in Croatia will be 516 km long (320 miles) and have an annual capacity of 5 bcm of gas. This quantity would be allocated in the following way: for Albania 1 billion cubic meters per year (bcm/y), for Montenegro 0.5 bcm/y, for Bosnia-Herzegovina 1 bcm/y, and for Croatia and neighboring countries 2.5 bcm/y.[32]

The project will supply natural gas to the participating countries and transport the surplus to other markets in Europe, highlighting the role of the Balkans as a strategic transit region for energy corridors to the EU. Furthermore, IAP will provide for a two-way gas flow, which will enable Balkan and EU markets to receive natural gas supplies from other sources, notably from an LNG terminal to be built on the northern Adriatic island of Krk and other potential Adriatic sources that are being explored.[33] Gas should start flowing through IAP in 2020. According to the EEC strategy, IAP will create the preconditions for closing the Adriatic gas ring and connecting it to the Italian gas system, as well as to the systems of Slovenia and Hungary. The significance of the IAP project was recognized by the Western Balkan Investment Framework (WBIF), which decided to grant the IAP 3.5 million euros ($3.9 million) for the execution of a feasibility study and environmental impact assessment (EIA).[34]

The governments of Croatia, Montenegro and Albania began to explore this opportunity in 2007, when they signed a ministerial declaration on the IAP project in the framework of the Energy Community. In this declaration, the ministries of economy of the three countries recognized the strategic benefits linked to the implementation of the project such as:

- The introduction of an ecologically acceptable energy source for the region. IAP will allow meeting environmental concerns, because the natural gas option is conceived as an ecologically acceptable resource and could replace coal, wood and fuel oil. This is even more important if we take into consideration that all countries through which the gas pipeline is transiting are oriented to tourism;[35]

- The gasification of Albania and creating the preconditions for the gasification of Montenegro and southern Croatia as well as a major part of Bosnia-Herzegovina;

- IAP will enable the diversification of supply, providing access to Croatian, Albanian and planned Montenegrin storage capacities;

- The implementation of the IAP will provide significant transit fee income to Albania, Montenegro and Croatia.[36]

The development of a profitable synergy between the Ionian Adriatic Pipeline and the Trans-Adriatic Pipeline represents a priority, considering that these two projects are profoundly interlinked in the framework of the Southern Gas Corridor. The implementation of both projects will bring political and economic benefits to the region by promoting regional integration beyond the construction of gas infrastructure and gas market development. TAP and IAP projects must inevitably work together: a TAP-IAP joint working group gathers regularly to align the schedules of both pipeline projects and technical issues of interconnections.[37] The TAP consortium has already signed Memorandums of Understanding and Cooperation (MOUC) with the developers of the IAP project, including Plinacro (Croatia), BH-Gas (Bosnia-Herzegovina), Geoplin Plinovodi (Slovenia) as well as with the governments of Montenegro and Albania, in 2011.[38] In May 2013, in Tirana, the leaders of Albania,

Bosnia-Herzegovina, Montenegro and Croatia signed an agreement that covers the construction of the two new pipelines, TAP and IAP.[39]

In June 2013, a joint ministerial meeting of the states involved in TAP and IAP reaffirmed commitment to the two projects. The ministers of foreign affairs of Montenegro, Albania, Bosnia-Herzegovina, Croatia, Greece and Italy agreed to give full support to both projects, which will contribute to enhancing regional prosperity and energy security, also considering that these projects are in accordance with the interest of the European Energy Community and the European Union objectives of diversification of transport routes, providers and gas sources.[40] During this meeting, Montenegro's Vice Prime Minister and Minister of Foreign Affairs and European Integration Igor Lukšić confirmed the full support of his country to both IAP and TAP projects for their role in developing the region's energy system. In addition, the potential gasification of Montenegro could contribute to the diversification of energy sources. In order to promote the natural gas option, the government of Montenegro would like to undertake exploration process in the Adriatic Sea. Vice Prime Minister Lukšić also stressed that Montenegro's backing of the IAP project should be interpreted as a strong support for EU's policies of diversification of transport routes and energy sources, paving the way for the development of a regional gas market in Southeastern Europe and its gradual integration in the EU energy market.[41]

The EU has also endorsed the Ionian Adriatic Pipeline. During a meeting in Brussels with Montenegro's Economy Minister Vladimir Kavarić in June 2014, EU Energy Commissioner Günther Oettinger highlighted the relevant role of TAP and IAP pipeline projects and pledged full support for Montenegro in implementing the IAP project.[42]

The realization of IAP represents a top priority for the Croatian government among all regional pipeline projects involving the country: IAP will boost the European Union's diversification efforts,

enhance the role of Zagreb in the EU and help Croatia in its goal to become a regional energy hub.[43]

Concerning the national energy development, IAP should ensure reliable gas supply for the domestic demand, offering Croatian consumers lower gas prices. The expected additional volumes of gas, in combination with LNG projects and the development of endogenous reserves, will allow Zagreb to achieve energy security, which is potentially threatened by a shortage of natural gas after 2014, when the import agreement concluded between INA and ENI expires.[44] According to Croatian economy minister Ivan Vrdoljak, the construction of TAP and IAP projects should be synchronized, starting no later than in 2016.[45] Furthermore, the implementation of both IAP and TAP projects—fuelled with Azerbaijani gas—should partially downplay the role of Russian gas imports to the EU markets, in accordance with the interest of the Energy Community and European Union objectives of diversification of transport routes, providers and gas sources.

However, the IAP project is only one of the pillars of the medium-term energy strategy, backed by the Croatian government, together with the planned LNG terminal on Krk island and a potential increase in domestic gas production coming from offshore Adriatic fields. The realization of these energy infrastructure projects and their connection to both the domestic and regional gas grid would allow Croatia to become a strategic energy hub in the trans-regional market, linking the Baltic, Adriatic and Mediterranean seas and offering a viable new route of gas import to the EU.

In fact, the strategy of the Croatian government aims to link the IAP project to TAP pipeline in a gas corridor connecting EU Central and Southeastern European markets, fuelled by gas coming from different sources (Azerbaijan, Qatar, US shale gas and potentially Croatia) and different routes (pipeline and LNG).

This proposed *Balkan energy route* will be an essential branch of the envisaged North-South Gas Corridor—running from the Świnoujście LNG terminal in Poland to the Adria LNG terminal on the Croatian island of Krk and thus linking the Baltic and Adriatic seas. Such a corridor could allow the EU to ensure energy supply to countries strongly dependent on Russian imports (Poland, the Czech Republic, Slovakia and Hungary, as well as possibly Austria and Croatia).[46] The Croatian-Hungarian interconnector, completed in 2011, was the first element of this planned North-South gas corridor.

The Croatian government has already undertaken the construction of the "missing" links between TAP and IAP: the pipeline from Bosiljevo to Split is under construction, while the pipelines from Split to Ploče and from Ploče to Dobrec (at the border with Montenegro) are in the planning and design stage.[47]

Given its strategic geographic position and its direct access to the Adriatic Sea, Croatia can successfully develop LNG facilities and infrastructure, attracting LNG gas supply and delivering them to markets in Central and Southeastern Europe. Adria LNG is another strategic stronghold in the Croatian energy strategy: the planned LNG terminal on Krk Island will enhance Croatia's energy security and provide additional volumes of gas for re-export.[48] Its expected capacity—starting from an initial capacity of 10 bcm per year, which could be increased to 15 bcm—should allow Croatia to meet its internal demand and also become a gas re-exporter. At present, only Qatar can be identified as a potential supplier, considering that in 2011, the leading LNG exporter in the world agreed to deliver 5 bcm of gas per year to Croatia for more than 25 years.[49] According to the regional investment plan of the European Network of Transmission System Operators for Gas for the period 2012–2021, the LNG terminal might be operational in 2017.[50]

The analysis of the Adria LNG consortium's composition is significant for several reasons: the inclusion of two powerful EU

energy companies—the French Total, with extended experience in the LNG sector, and the German E.ON Ruhrgas, which hold 27.36 percent and 39.17 percent of the shares, respectively—stresses the relevance of the project from a European perspective and attests to its economic feasibility. The Austrian OMV (32.47 percent) allows the possibility to connect LNG Adria to the Baumgarten Central European gas hub, while the involvement of the Slovenian energy company Geoplin (1 percent) shows the possibility to use gas deliveries to satisfy regional energy needs, facilitating the transit of energy supply through Slovenia to Baumgarten. Despite the strategic relevance of the future Croatian energy policy, this consortium does not include Plinacro, the state-owned pipeline operator and main energy company in Croatia, politically weakening the project's implementation.

Despite the strong support of the Croatian government, the Adria LNG project has faced several difficulties and delays, pushing the consortium to postpone the final decision on the start of implementation. In this frozen situation, Plinacro proposed in 2010 the usage of a floating storage and regasification unit (FSRU) for LNG—with a reduced capacity of 6.8 bcm per year—as an alternative project or an interim solution until the main Adria LNG project is completed.[51] In the same year, Plinacro and HEP founded LNG Croatia Ltd., a joint company aimed to take over 11 percent share in Adria LNG international consortium, but the negotiations were suspended soon.[52] The Croatian government has expressed its frustration with the project delays.

Considering the need to create an LNG terminal in the northern Adriatic to better achieve its energy strategy, the Croatian government has supported Plinacro's plans to utilize an LNG regasification vessel by 2016, a new LNG terminal with an initial capacity of 5 bcm per year, with an expected investment of 400 million–600 million euros ($448 million–$671 million).[53] The plan is considered by the European Commission and the Energy Community Secretariat as a

priority project of regional significance. Moreover, the Western Balkans Investment Framework has granted one million euros ($1.12 million) for technical assistance and a feasibility study.[54]

Croatia plans to connect the prospective LNG terminal in Omišalj with several domestic and regional interconnections, contributing to the integration of EU and regional gas markets:

- The Main Transit Gas Pipeline (Zlobin-Bosiljevo-Sisak-Kozarac-Slobodnica) will have a capacity of 10 bcm per year: this project has a strategic relevance for the region as it is aimed to connect the Adria LNG terminal/RV with the Hungary-Croatia Interconnector, as well as to allow gas transport toward Slovenia.

- The LNG Evacuation Gas Pipelines Omišalj-Zlobin-Rupa (Slovenia), with a capacity of 15 bcm, will connect the LNG terminal in Omišalj to Rupa in Slovenia and will be linked to the Slovenian gas transmission system.

- International Gas Pipeline (offshore) Omišalj–Casal Borsetti (Italy), planned capacity 15 bcm.

- Regional interconnection Bosiljevo-Karlovac-Luko-Zabok-Rogatec (Slovenia), a pipeline with a capacity of 5 bcm linking Croatia and Slovenia.[55]

In order to become a reliable regional energy hub, Croatia should also expand gas storage facilities: in fact, available underground gas storage facilities have a capacity of 0.5 bcm, a volume that is not sufficient considering expected growing internal and regional gas consumption. The project to build a new gas storage in Benincaci (2 bcm of capacity) will increase total storage capacity. Combined with the existing facilities at Okali and Grubisno Polje, it can also serve gas markets in

neighboring countries and lessen the impact of sudden interruptions of gas supply in the markets.[56]

Croatia's endeavors in the energy sector and its ambition to play a role of an energy hub for the EU have spread concerns across the Adriatic Sea. According to Giampaolo Russo, TAP country manager for Italy, Croatia would like to take over Italy as the final destination of the TAP project, changing the planned original route.[57]

Although the TAP project received the approval of the Italian government in September 2014 after a favorable Environmental Impact Assessment—a necessary precondition to start construction of the infrastructure—strong opposition from the local population and environmental groups against the planned TAP terminal at San Foca could heavily delay the project's implementation.[58] In fact, on April 17, 2014, the TAP consortium presented to the Italian Ministry of Environment an updated version of the Environmental and Social Impact Assessment of the Italian section of the TAP project. In this document, San Foca is still identified as the best solution in environmental, technical and socio-economic terms, compared to other alternative routes and solutions. However, in January 2014, Apulia Region where San Foca is located, issued a negative (non-binding) opinion on the EIA procedure, confirming its decision expressed two years earlier and based on environmental concerns. The regional authorities are pushing the consortium to find an alternative route.[59]

South Stream and Russia's Agenda in the Adriatic Energy Scenario

The potential opening of an Adriatic energy corridor conceived as a combination of TAP and IAP projects will represent a development that Russia is determined to hinder. The proposal to involve Adriatic and Balkan countries in the South Stream project was the geopolitical tool, which Moscow promoted to preserve its energy influence on the EU markets.[60]

Originally the South Stream pipeline was designed to transport natural gas from Russia under the Black Sea to Bulgaria, Serbia, Hungary and Slovenia, with two additional branches to Croatia and Bosnia's Serb-dominated Republika Srpska. The project was supposed to consist of four pipelines with a capacity of 63 bcm of natural gas per year, planned to be completely operational by 2020.[61] However, on December 1, 2014, President Putin announced the cancelation of South Stream, declaring that a new version of South Stream will be realized through Turkish territory, bypassing the original Bulgarian route.[62]

With the implementation of the South Stream project or any version of it, Russia could deliver gas to Central and Southeastern European markets through two corridors (Nord Stream and South Stream), which bypass Ukraine (and Belarus), allowing Gazprom to preserve its role as a major energy supplier of the EU. Moreover, the "defeat" of the Nabucco-West project with the choice to develop the Southern Gas Corridor through the Trans-Adriatic pipeline has further strengthened Russia's geopolitical strategy: essentially, after the indefinite postponement of the rival Nabucco-West project, Moscow will be able to maintain its energy influence on Central and Southeastern European markets (Bulgaria, Romania, Hungary), which are strongly dependent on Russian gas imports.[63]

Undoubtedly, the decision to privilege the TAP project has strengthened the role of the Balkan region as a transit corridor. By involving the Adriatic countries in the South Stream project, Russia was trying to increase its strategic relevance in the region, extend its influence in Slovenia and control Croatian ambition to play a role of a gas hub.

Montenegro also expressed willingness to join South Stream in February 2012, hoping that its involvement in both IAP and South Stream projects could promote the gasification of the country, thus

helping Podgorica diversify its energy mix and also reducing oil and coal consumption. Although Gazprom declared that the two parties had begun work on a feasibility study on building a connection to Montenegro, no progress was registered before the cancelation of South Stream.[64]

Negotiations between Croatia and Russia on South Stream began in 2009–2010; and during this first phase, they went forward fast. In March 2010, Russia and Croatia signed an intergovernmental agreement to design, build and operate a pipeline section of the South Stream project on Croatian territory, while one year later they also commissioned a national feasibility study. According to Gazprom's plans, this pipeline section was going to be a branch-off terminating in Croatia and not a transit pipeline, which could have brought transit fees to the Croatian government.[65]

The participation of Croatia in the South Stream project would have allowed Zagreb to further improve its energy strategy by obtaining additional gas volumes to cover domestic needs, while exporting part of its internal production and gas supply potentially coming from IAP and LNG facilities. Russia would like to attract Croatia in its sphere of energy influence in order to hinder EU plans to develop an additional energy corridor crossing the Balkans or the envisaged North-South corridor between Poland and Croatia aimed to supply EU markets with non-Russian gas.

Furthermore, Croatia—like Serbia—is one of the leading regional energy markets, with an expected rising gas demand, an integrated domestic grid and promising offshore energy reserves to exploit. Russia's courting of Croatia is evidently recognition of the country's emerging role as an energy hub in Southeastern Europe, but its purpose is to preserve Russian interests in the region.

In fact, South Stream's Croatian branch was envisaged with a capacity of 2.7 bcm of gas per year—more than twice Croatia's annual gas

imports. Such gas volumes would have overfilled both domestic and regional gas markets. Consequently, the realization of LNG facilities in Krk would have lost its economic and strategic dimension, failing to attract financial investments.[66]

Moreover, several Russian energy companies would like to expand energy cooperation with Croatia, offering investments to develop domestic pipelines to connect the planned LNG facilities in Krk Island and explore oil fields on the Adriatic Sea coast. Among them, Russia's Rosneft has shown interest in the acquisition of Croatia's Industrija Nafte (INA) and Slovenia's Petrol, which would support Russian expansion in the region.

The decision of the Hungarian company MOL to sell its 47.26-percent stake in the INA consortium represents an attractive target for Russian energy companies, considering the experience of the Croatian energy company in offshore and onshore operations and production, respectively, in the Adriatic Sea and the Pannonian basin.[67]

Russian oil companies are interested in using the JANAF pipeline system, which connects the maritime oil import terminal Omisalj with refineries in Serbia, Bosnia-Herzegovina and Central Europe via Croatia's territory. However, Russia's strategy is focused on the so-called "Druzhba-Adria reversal" concept, or directing Russian oil from the Druzhba pipeline in Central Europe, southward into Croatia's JANAF pipeline system for export by tankers from Adriatic ports and for supplying the refineries, which Russia has acquired in Serbia and Bosnia-Herzegovina. Following this move, Russia could stop an alternative oil supply route for Central European markets, strongly dependent on Russian oil delivered through the Druzhba pipeline.[68]

However, Russia failed to achieve its primary goal to obtain Croatia's full adhesion to the South Stream project before joining the EU, in order to avoid the effects of the EU's Third Energy Package, anti-

monopoly legislation that requires the separation of gas supply from gas transportation.[69]

A Gazprom delegation visited Croatia in January 2013 (six months before Croatia became an EU member), seeking to resume Russian natural gas supplies to this Adriatic country and offering participation in geological exploration and production projects in Croatia. Moreover, Gazprom and Plinacro signed a contract to implement the South Stream project in Croatia between 2013 and 2016, also planning the creation of a joint venture company for building a gas branch to Croatia.[70]

Slovenia was the second Western Balkan country (after Serbia) to support South Stream: as an EU member (since 2004), the government in Ljubljana signed an intergovernmental agreement with Russia in 2009. In March 2011, Gazprom and the Slovenian gas distributor Geoplin Plinovodi d.o.o agreed to form the South Stream Slovenia LLC joint company (50 percent stakes for each) to handle the implementation of the South Stream pipeline in Slovenia.[71]

Slovenia strongly depends on Russian gas imports and its participation in South Stream intended to ensure additional gas volumes, lucrative transit fees and financial investments to improve and boost the national energy sector. However, it also means enhancing dependence on Russian imports, which has already made Slovenia dangerously exposed to supply interruptions linked to Russia-Ukraine tensions. Nevertheless, Russian-Slovenian energy cooperation made concrete progress and, in November 2012, these two countries confirmed investment in the Slovenian section of South Stream.

In April, 2013, the prime minister of Slovenia, Alenka Bratusek, confirmed that Russia's gas pipeline remained a priority for her country, hoping that the project would promote economic development and attract foreign investments to develop the national

economy. Slovenia's investment in the project was planned to reach nearly 1.1 billion euros ($1.23 billion).[72]

According to Marjan Eberlinc, General Manager of Plinovodi d.o.o., South Stream enjoyed much support in Slovenia from numerous development perspectives. He stressed at a conference in Ljubljana in October 2013 that Slovenia had developed an integrated national grid and infrastructure in order to support the South Stream corridor. Furthermore, Eberlinc also envisaged that if at the initial phase South Stream could use Plinovodi's existing capacity, Slovenia would be ready to build a new parallel pipeline in order to deliver increased gas flows: the initial capacity of the Slovenian section of South Stream was going to be 8 bcm of gas annually, later reaching 25 bcm per year.[73]

However, the April 2014 agreement between the Austrian oil and gas company OMV and Gazprom to build the Austrian section of the South Stream gas pipeline affected Slovenian ambitions. Following this agreement, the route of the pipeline was changed one more time, potentially downplaying or excluding Slovenia and possibly scrapping plans to reach Italy. In fact, through this agreement, the Central European Gas Hub of Baumgarten would receive 32 bcm of gas, which could be subsequently delivered to Central Europe or to the Italian hub of Tarvisio (which was the previously planned final destination of the pipeline).[74]

Despite the speculations, Russia did not inform the Slovenian government of any changes affecting commitments made in the intergovernmental agreement: on the contrary, Ljubljana received reassurances by representatives of the joint venture South Stream Slovenia LLC. The Minister of Infrastructure and Spatial Planning Samo Omerzel remained convinced that the South Stream project was strategically significant for the EU and Slovenia.

The choice to privilege Baumgarten rather than Tarvisio as South Stream's European terminal could be also interpreted as a move to

punish the Italian government for supporting the Trans-Adriatic pipeline. Nevertheless, the Italian government continued to express support for South Stream: the Italian Minister of Economic Development Federica Guidi declared that South Stream remained a strategic project, also considering that at the time Italy's major national energy company ENI held a 20-percent stake in the South Stream consortium.[75] Furthermore, it is necessary to observe that all gas supplies received by Tarvisio terminal transit from Baumgarten.

However, the application of the EU's Third Energy Package represented the main hindrance for Russian energy plans in Southeastern Europe. Russia signed separate agreements with the ten countries hosting the pipeline, but the European Commission pronounced that all agreements signed by Russia with six European countries (Croatia, Slovenia, Bulgaria, Hungary, Greece, Austria) were in violation of EU laws.[76]

On June 3, 2014, the European Commission demanded that Bulgaria suspend work on Gazprom's South Stream gas pipeline pending a decision on whether contracts conform to EU law.[77] One month later, a Gazprom delegation visited Serbia and Croatia in order to further define their participation in the South Stream project, also attempting to boost the potential implementation of this corridor. Gazprom's CEO Alexei Miller met with Ivo Josipovic, the president of the Republic of Croatia, and Zoran Milanovic, Croatia's prime minister, to discuss the restoration of Russian gas supply through the realization of a South Stream's gas branch to Croatia.[78]

The EU position toward South Stream contributes to explaining the Russian decision in December 2014 to cancel the original route of the project, which crossed Bulgaria: Moscow and Gazprom would now like to develop the so-called "Turkish Stream"—confirming the same planned capacity of 63 bcm of gas—to reach EU markets.[79] This decision will affect the partner countries in the South Stream project and potentially exclude the Adriatic countries from it.

Azerbaijan and the Adriatic Countries: First Steps for Potential Cooperation

From Azerbaijan's perspective, the Balkan and Adriatic regions represent potential additional markets for energy exports, also allowing Baku to diversify export routes and consolidate its influence on the EU energy sector.

As a supplier country, Azerbaijan has supported the Ionian Adriatic Pipeline project, perceived as a branch of the Southern Gas Corridor. Although the Adriatic countries have small energy markets, Azerbaijan has shown interest essentially for two reasons: following the implementation of the new Azerbaijani export route (TAP), these markets could be easily connected to the pipeline, limiting the impact of transportation costs and maximizing energy profits. Azerbaijan's government wants to avoid a geopolitical competition with Russia for energy exports to the EU, preferring to deliver small volumes of gas to a wider group of buyers, further diversifying export markets.[80]

Moreover, IAP should be an extension of the TAP project and the strategy to develop both pipelines could progressively enhance Azerbaijan's presence in the Balkan region. Indeed, in the Azerbaijani energy policy, Albania is considered not only a transit point for the TAP corridor before reaching Italy, but also a potential hub for gas distribution in the region through the future connection of the TAP and IAP lines.[81]

In the TAP framework, the Azerbaijani government and the state energy company SOCAR have expressed a profound interest in involving Adriatic and Balkan countries in deep energy cooperation by undertaking concrete initiatives in the framework of TAP. In 2011, the TAP consortium signed Memorandums of Understanding and Cooperation with developers of the IAP project, including Plinacro (Croatia), BH-Gas (Bosnia-Herzegovina), Geoplin Plinovodi

(Slovenia), as well as with the governments of Montenegro and Albania.

In December 2013, Azerbaijan signed a Memorandum of Understanding on future gas supplies to Albania, Croatia and Montenegro, paving the way for enhanced energy cooperation.[82] Azerbaijan has developed stronger energy cooperation with Croatia, mainly for its strategic geographic position as an energy gateway to the EU markets. Like Albania in the TAP project, Croatia could play the same role of a hub in the Ionian Adriatic corridor to reach EU markets through its integrated and developed domestic gas grid and expected regional interconnections.

Furthermore, Azerbaijani interest in Croatia is also linked to the evolution of the TAP project: in case of significant delays by Italy in the construction of the TAP terminal in San Foca (which should link the offshore pipeline between Albania and Italy), TAP could be reoriented northward from Albania to Croatia (crossing Montenegro) through the development of IAP in order to deliver Azerbaijani gas to the EU markets.

The two leading energy companies of Croatia and Azerbaijan—the state-owned gas company Plinacro and SOCAR—are strongly engaged in a bilateral energy cooperation, because they both promote and support the realization of the TAP and IAP projects, which are crucial for the full implementation of their energy strategy.

In March 2013, SOCAR and Plinacro signed a Memorandum of Understanding and Cooperation in order to implement joint activities to develop the natural gas market in Southeastern Europe.[83] In addition to energy reasons, the Adriatic countries have been attracting Azerbaijani interest because this region will become a promising market to diversify national investment in other industries.

Montenegro is considered one of the most promising markets for Azerbaijani investment, although the export-import operations between the two countries are at a low level. Azerbaijani businesses, in particular, are planning to invest in the construction of a new resort in Montenegro. The new complex will be on the shores of the Bay of Kotor.

In accordance with the December 2013 Memorandum of Understanding on the future supply of Azerbaijani gas to Albania, Croatia and Montenegro, there are plans to build a gas pipeline corridor from the Trans-Adriatic pipeline that will allow the delivery of gas from Azerbaijan to Montenegro.[84] The gasification of Montenegro and the creation of domestic infrastructure and regional interconnections would be an attractive business for Azerbaijani firms and energy companies.

Unlike Montenegro, Croatia is an EU member and its market is attractive for Azerbaijani investment because of its geopolitical position along with access to the Adriatic Sea: energy, tourism and transport are the main areas in which Croatia and Azerbaijan are interested in establishing or promoting cooperation.[85]

Concerning Slovenia, Azerbaijani companies expressed interest in economic cooperation with the country, mainly in investing in the Slovenian tourist industry. Moreover, Slovenia could share its experience in the construction of hydropower plants and help Azerbaijan diversify its energy sector by lessening dependence on gas and oil and developing renewable energy sources.[86]

Conclusion

The development of the Adriatic energy corridor will spread benefits to all involved regional and international actors. The Adriatic countries will enhance energy and political cooperation with the EU, contributing to pan-European energy security. Cooperation with

Russia may offer them additional volumes of gas in order to modify their domestic energy mix and reduce the usage of polluting oil and coal. Moreover, the creation of internal and regional interconnections and a growing use of renewable energy sources to produce "clean electricity" for both domestic needs and export should lead to the "closure" of the gas and electricity ring, achieving one of the primary shared targets of the European Energy Community.

However, the realization of this intriguing geopolitical perspective is strongly influenced by a combination of factors and colliding interests of the EU and Russia. While the EU is determined to integrate the electricity and gas markets of Southeastern Europe with the interconnected European markets, Russia is trying to derail those plans and preserve its influence in the region. However, the Russian decision to cancel the South Stream project and reorient the transit of natural gas exports from Bulgaria to Turkey may affect the potential involvement of the Adriatic countries in the project or even completely exclude them.

A possible delay of the Italian counterpart to implement the Trans-Adriatic Pipeline could dramatically change the Adriatic energy scenario, pushing the TAP consortium to reorient the pipeline in a northward direction by linking TAP with the Ionian Adriatic Pipeline and enhancing Croatia's role as a regional and an EU energy hub. Nevertheless, it is not an easy road to pave in a short time: the realization of all domestic and regional interconnections and storage facilities will require considerable financial investments, which the EU, banks, as well as foreign and international donors may not be able to commit. In addition, the European Energy Community cannot play this role, because it does not have the financial resources for carrying on energy projects in the region. However, the designation of the Trans-Adriatic Pipeline as a Project of Common Interest by the European Commission, Parliament and Council is a testament to its importance and an assurance that the pipeline will remain an EU priority.

NOTES

[1] European Commission, *Regional cooperation in the Western Balkans. A policy priority for the European Union*, Luxembourg: EUR-OP, 2006, pp. 1–4, and 7.

[2] European Union, Countries, http://europa.eu/about-eu/countries/index_en.htm.

[3] Energy Community, Energy Community Strategy, available online at: http://www.energy-community.org/portal/page/portal/ENC_HOME/AREAS_OF_WORK/Investments/Energy_Community_Strategy.

[4] Venelin Tsachevsky, *Energy management in South East Europe: Achievements and Prospects*, Electronic Publications of Pan-European Institute, University of Turku, Finland, No.2 , 2013, p. 95, http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-ja-tietopaketit/Documents/2013/Tsachevsky%202-2013.pdf.

[5] Energy Community, Gas Ring Concept, http://www.energy-community.org/portal/page/portal/ENC_HOME/AREAS_OF_WORK/GAS/Regional_Market/Gas_Ring_Concept.

[6] Energy Community, Projects of Energy Community Interest, https://www.energy-community.org/portal/page/portal/ENC_HOME/AREAS_OF_WORK/Instruments/Investments/PECIs.

[7] Tsachevsky, 2013, pp. 23–36.

[8] International Energy Agency, Montenegro, Electricity generation by fuel, http://www.iea.org/stats/WebGraphs/MONTENEGRO2.pdf; International Energy Agency, Croatia, Electricity generation by fuel, http://www.iea.org/stats/WebGraphs/CROATIA2.pdf.

[9] International Energy Agency, IEA Energy Statistics, OECD/IEA 2013, http://www.iea.org/stats/WebGraphs/MONTENEGRO4.pdf; http://www.iea.org/stats/WebGraphs/CROATIA4.pdf; http://www.iea.org/stats/WebGraphs/SLOVENIA4.pdf.

[10] Energy Information Administration, Croatia, EIA Overview data for Croatia, May 30, 2013, http://www.eia.gov/countries/country-data.cfm?fips=hr.

[11] International Energy Agency, Croatia. Balances for 2001–2011, IEA Energy Statistics, OECD/IEA 2013, http://www.iea.org/statistics/statisticssearch/report/?country=CROATIA&product=Balances&year=2001.

[12] British Petroleum, BP Statistical Review of World Energy 2013, June 2013, p. 23.

[13] Ana-Maria Boromisa, Dariusz Kałan, "Croatia: On the Southern Flank," in Jarosław Ćwiek-Karpowicz, Dariusz Kałan (eds.) *North-South Gas Corridor: Geopolitical Breakthrough in Central Europe*, The Polish Institute of International Affairs, Warsaw, December 2013, p. 36; Energy Community, Croatia. Gas Facts and Figures, http://www.energy-community.org/portal/page/portal/ENC_HOME/MEMBERS/PARTICIPANTS/CROATIA.

[14] Currency conversions based on exchange rates as of March 1, 2015. Historic exchange rates available at http://www.oanda.com/currency/converter/.

[15] Anastasios Giamouridis, Spiros Paleovannis, "Security of Gas Supply in South Eastern Europe. Potential Contribution of Planned Pipelines, LNG and Storage," NG 52, Oxford Institute for Energy Studies, July 2011, p. 76; Boromisa, Kałan, 2013, p. 38.

[16] "Croatia's INA to Import Gas from Italian Group ENI," *Balkan Insight*, December 17, 2010, http://www.balkaninsight.com/en/article/croatia-s-ina-to-import-gas-from-italian-group-eni.

[17] Energy Information Administration, Croatia, EIA Overview data for Croatia, May 30, 2013, http://www.eia.gov/countries/country-data.cfm?fips=hr.

[18] The Janaf System, official website, http://www.janaf.hr/oil-pipeline/the-janaf-system/.

[19] Natural Gas Europe, "Croatia Launches International Tender in Adriatic Sea," NGE, April 2, 2014, http://www.naturalgaseurope.com/croatia-international-tender-in-adriatic-sea; Haris Stefanatos, "Croatia's oil reserves estimated at 747 million tons," *Independent Balkan News Agency*, March 7, 2014, http://www.balkaneu.com/croatias-oil-reserves-estimated-747-million-tons/#sthash.8gmTGAfF.dpuf.

[20] "Five companies awarded for 10 exploration blocks in the Adriatic," Croatian Hydrocarbon Agency Press Release, January 2, 2015, http://www.azu.hr/en-us/Home/ctl/Details/mid/708/ItemID/41.

[21] Ministry for Economic Development, Energy Sector of Montenegro, http://www.mek.gov.me/ResourceManager/FileDownload.aspx?rid=50640&rType=2&file=1235057632.pdf.

[22] Stefan Ralchev, "Energy in the Western Balkans: A Strategic Overview," Institute for Regional and International Studies, Sofia, Bulgaria, August 2012, p. 6.

[23] European Commission, "Screening Report Montenegro. Chapter 15 Energy," 2013, pp. 4–6, http://ec.europa.eu/enlargement/pdf/montenegro/screening_reports/screening_report_montenegro_ch_15.pdf; V. Tsachevsky, 2013, pp. 66–67.

[24] European Commission, "European Economy. Member States' Energy Dependence: An Indicator-Based Assessment," European Commission Directorate-General for Economic and Financial Affairs, Occasional Papers No. 145, April 2013, pp. 235–237.

[25] Geoplin, Natural Gas in Slovenia, http://www.geoplin.si/en/natural-gas/slovenian-market.

[26] Alan Petzet, "Slovenia: Ascent to hook up tight gas-condensate well," *Oil & Gas Journal*, February 11, 2011, http://www.ogj.com/articles/2011/11/slovenia-ascent-to-hook-up-tight-gas-condensate-well.html.

[27] European Commission, "European Economy. Member States' Energy Dependence: An Indicator-Based Assessment," European Commission Directorate-General for Economic and Financial Affairs, Occasional Papers No. 145, April 2013, p. 236.

[28] Statistical Office of the Republic of Slovenia, Net electricity production, Slovenia, April 2014, http://www.stat.si/eng/novica_prikazi.aspx?id=6260.

[29] Statistical Office of the Republic of Slovenia, World Water Day 2014, March 20, 2014, http://www.stat.si/eng/novica_prikazi.aspx?id=6128.

[30] David Koranyi, Ian Brzezinski, Matthew Bryza, "After Nabucco—Croatia to the Rescue of Central Europe's Energy Security?" *Energy Post*, September 4, 2013, http://www.energypost.eu/after-nabucco-croatia-to-the-rescue-of-central-europes-energy-security/.

[31] Tsachevsky, 2013, p. 106.

[32] Information on signed Intergovernmental Declaration for Ionian Adriatic gas pipeline and MoU on implementation of this project between Swiss Company EGL and Plinacro Ltd, Plinacro Official Website, http://www.plinacro.hr/default.aspx?id=103.

[33] "Next steps in Adriatic-Ionian Gas Pipeline project agreed," *Dalje.com*, September 26, 2013, http://dalje.com/en-croatia/next-steps-in-adriatic-ionian-gas-pipeline-project-agreed/484997.

[34] Western Balkans Investment Framework, Ionian Adriatic Pipeline, WBIF, http://www.wbif-ipf.eu/index.php?page_id=377&id=74.

[35] Information on signed Intergovernmental Declaration for Ionian Adriatic gas pipeline and MoU on implementation of this project between Swiss Company EGL and Plinacro Ltd, Plinacro Official Website, http://www.plinacro.hr/default.aspx?id=103.

[36] Energy Community, Ministerial Declaration of the Ionian Adriatic Gas Pipeline Project, September 25, 2007, http://www.energy-community.org/pls/portal/docs/40178.PDF.

[37] "Trans Adriatic Pipeline: South Eastern Europe is key to building a Pan-European gas market," EurActive, October 27, 2011, http://pr.euractiv.com/pr/trans-adriatic-pipeline-south-eastern-europe-key-building-pan-european-gas-market-91626; Aygun Badalova, "TAP continues

working with Ionian Adriatic Pipeline developers," *Trend News Agency*, November 6, 2013, http://en.trend.az/capital/energy/2208629.html.

[38] *Ibid.*

[39] "Goodwill on TAP, IAP, Signed in Tirana," *Natural Gas Europe*, May 28, 2013, http://www.naturalgaseurope.com/goodwill-tap-iap-albania-greece-pipelines.

[40] Republic of Croatia, Ministry of Foreign and European Affairs, Joint Statement of the Ministers of Foreign Affairs of Albania, Bosnia and Herzegovina, Croatia, Greece, Italy and Montenegro, June 12, 2013, http://www.mvep.hr/files/file/2013/130613-jointstatement.pdf.

[41] "Dubrovnik: Strong commitment and full support for Trans-Adriatic and Ionian Adriatic Pipeline with a purpose of strengthening regional energy stability," Montenegro Ministry of Interior, June 13, 2013, http://www.mup.gov.me/en/search/129256/Dubrovnik-Strong-commitment-and-full-support-for-Trans-Adriatic-and-Ionian Adriatic-Pipeline-with-a-purpose-of-strengthening-reg.html.

[42] Government of Montenegro, European Energy Commissioner: EU pledges full support to Montenegro for implementing Ionian Adriatic Pipeline project, June 26, 2014, http://www.gov.me/en/News/140000/European-Energy-Commissioner-EU-pledges-full-support-to-Montenegro-for-implementing-Ionian-Adriatic-Pipeline-project.html.

[43] Kostis Geropulos, "Croatia: 'Ionian Adriatic Pipeline is top priority,' " *New Europe*, September 27, 2013, http://www.neurope.eu/article/croatia-ionian-adriatic-pipeline-top-priority%E2%80%99.

[44] Stevo Kolundižić, "The future of Croatia's natural gas supply from the perspective of import infrastructure," Nafta, Vol. 63, No. (5–6), 2012, p. 185.

[45] "Croatia would like IAP construction to kick off in 2016 at latest - econ min," *SEE News*, December 17, 2013, http://powermarket.seenews.com/news/croatia-would-like-iap-construction-to-kick-off-in-2016-at-latest-econ-min-395565.

[46] Jarosław Ćwiek-Karpowicz, Dariusz Kałan (eds.) *North–South Gas Corridor: Geopolitical Breakthrough in Central Europe*, The Polish Institute of International Affairs, Warsaw, December 2013, p. 11.

[47] European Network of Transmission System Operators for Gas, Gas Regional Investment Plan Southern Corridor 2012–2021 Annex B: Infrastructure Projects, ENTSOG, pp. 9–11, http://www.entsog.eu/public/uploads/files/publications/GRIPs/2012/GRIP_SC_AnnexB.pdf.

[48] ADRIA LNG Official Wesbsite, http://www.adria-lng.hr/index_en.php?f=&m=2&s=0.

[49] Qatar to supply liquefied gas, PV International, December 3, 2012, http://www.privredni.hr/pvint/PVI0220.pdf.

[50] European Network of Transmission System Operators for Gas, Gas Regional Investment Plan: Southern Corridor 2012–2021, Annex B: Infrastructure Projects, ENTSOG, p. 58, http://www.entsog.eu/public/uploads/files/publications/GRIPs/2012/GRIP_SC_AnnexB.pdf.

[51] Anastasios Giamouridis, Spiros Paleovannis, "Security of Gas Supply in South Eastern Europe. Potential Contribution of Planned Pipelines, LNG and Storage," NG 52, Oxford Institute for Energy Studies, July 2011, pp. 91–92.

[52] Plinacro Official Website, http://www.plinacro.hr/default.aspx?id=494.

[53] "Croatia confirms plans for new LNG terminal in 2016," Reuters, July 3, 2012, http://www.reuters.com/article/2012/07/03/croatia-lng-project-idUSL6E8I36O620120703; "Croatia Mulling LNG Alternative," *Natural Gas Europe*, May 21, 2012, http://www.naturalgaseurope.com/croatia-mulling-lng-alternative-6476.

[54] Western Balkans Investment Framework, LNG Regasification Vessel, http://www.wbif-ipf.eu/index.php?page_id=377&id=71.

[55] European Network of Transmission System Operators for Gas, Gas Regional Investment Plan Southern Corridor 2012–2021, Annex B: Infrastructure Projects, ENTSOG, pp. 10–14, http://www.entsog.eu/public/uploads/files/publications/GRIPs/2012/GRIP_SC_AnnexB.pdf.

[56] *Ibid*; Boromisa, Kałan, p. 39

[57] Barbara Corrao, "Allarme italiano: 'La Croazia ci sta scippando il Tap' " (*Italian warning: "Croatia is swindling us on TAP project")*, *FIRST Online*, May 5, 2014, http://www.firstonline.info/a/2014/05/06/lallarme-di-tap-italia-la-croazia-ci-sta-scippando/ece0d80d-3d17-4d4d-8541-bfe25d41b9f3.

[58] Emiliano Fittipaldi, Chiara Spagnolo, "Arrivano I NO TAP" (*NO TAP is coming*), *Espresso*, December 15, 2013, p.42; "TAP Receives Approval of Environmental Impact Assessment from Italy," *Natural Gas Europe*, September 12, 2014, http://www.naturalgaseurope.com/trans-adriatic-pipeline-italy-eia.

[59] Davide Tabarelli, "Environmental Effects of the TAP Pipeline," *Natural Gas Europe*, June 13, 2014, http://www.naturalgaseurope.com/environmental-effects-of-the-tap-pipeline.

[60] Margarita Assenova, "South Stream as Kremlin's Geopolitical Tool, Eurasia Daily Monitor," *Eurasia Daily Monitor*, Washington, DC: The Jamestown Foundation, Vol: 9 Issue: 199, October 31, 2012, http://www.jamestown.org/regions/europe/single/?tx_ttnews[pointer]=2&tx_ttnews[tt_news]=40039&tx_ttnews[backPid]=671&cHash=dadbf9fa78926e5dd685b405621ec7c4#.U5LSlShtYwI.

[61] South Stream Official Website, http://www.south-stream.info/en/.

[62] Murat Tinas, "Putin Surprises All as South Stream Fades Away," *Natural Gas Europe*, December 2, 2014, http://www.naturalgaseurope.com/south-stream-pipeline-fades-away.

[63] Fabio Indeo, "The Decline of the Nabucco Project: a Geopolitical Defeat for the EU," *EGS Global Energy Monitor*, Vol. 1, No.7, pp. 1–3.

[64] "Montenegro to Join South Stream Project," South Stream Official Website, February 3, 2012, http://www.south-stream.info/en/press/news/news-

item/montenegro-to-join-south-stream/.

[65] South Stream Official Website, Croatia, http://www.south-stream.info/en/partners/croatia/.

[66] Vladimir Socor, "Igor Sechin Door-Crashing in Croatia," *Eurasia Daily Monitor*, Washington, DC: The Jamestown Foundation, Vol: 10 Issue: 116, June 19, 2013, http://www.jamestown.org/regions/europe/single/?tx_ttnews[pointer]=1&tx_ttnews[tt_news]=41039&tx_ttnews[backPid]=671&cHash=4e6fb002c055b0236255dd85dc128b5c#.U5TLYihtYwI.

[67] Joseph Orovic, "Russia's Rosneft said looking to buy INA and Petrol in the Balkans," *Business New Europe*, February 26, 2014, http://www.bne.eu/content/russias-rosneft-said-looking-buy-ina-and-petrol-balkans; "Zarubezhneft mulls $1.27 bln projects in Croatia," *Reuters*, January 17, 2012, http://de.reuters.com/article/idUKL6E8CH4CD20120117.

[68] Vladimir Socor, "Croatian Government Considers Expansion of Russian Energy Companies (Part Two)," *Eurasia Daily Monitor*, Washington, DC: The Jamestown Foundation, Vol: 10, Issue: 33, February 21, 2013, http://www.jamestown.org/regions/europe/single/?tx_ttnews[pointer]=2&tx_ttnews[tt_news]=40486&tx_ttnews[backPid]=671&cHash=48066d751e300e337065615ad3f8dc35#.U5TVFChtYwI.

[69] European Commission, Third package for Electricity & Gas markets, http://ec.europa.eu/energy/gas_electricity/legislation/third_legislative_package_en.htm.

[70] "Joint company for South Stream gas branch construction to Croatia to be set up in second half of 2013," Gazprom Press release, January 17, 2013, http://www.gazprom.com/press/news/2013/january/article154317/; "Gazprom: Joint Venture for South Stream to Croatia," *Balkan Open Report*, January 20, 2013, http://www.balkanopen.com/article.php?id=1092.

[71] "Gazprom, Slovenia Enter JV for South Stream," *Natural Gas Europe*, May 31, 2012, http://www.naturalgaseurope.com/gazprom-slovenia-jv-south-stream.

[72] "Slovenia Firmly Supports South Stream Project," *The Slovenia Times*, April 27, 2013, http://www.sloveniatimes.com/slovenia-firmly-supports-south-stream-project.

[73] "South Stream in Slovenia: An Update on Progress," Presentation by Marjan Eberlinc, General Manager of Plinovodi d.o.o, in "South Stream: the Evolution of a Pipeline" conference in Ljubljana, Slovenia, October 24, 2013), *Natural Gas Europe,* Gas Dialogues, http://www.naturalgaseurope.com/pdfs/gas-dialogues/South%20Stream%20Project%20-%20An%20update%20on%20progress%20Ljubljana%2024_10_2013_dist.pdf.

[74] Kostis Geropulos, "Putin's Move: South Stream to Austria," *New Europe*, May 1, 2014, http://www.neurope.eu/article/putin%E2%80%99s-move-south-stream-austria.

[75] "Gazprom ends plan to build South Stream pipeline to Italy," *Reuters*, April 30, 2014, http://www.reuters.com/article/2014/04/30/gazprom-southstream-italy-idUSL6N0NM6ZY20140430; "Gas: Guidi, per Italia sempre strategico South Stream" (*Natural Gas: Guidi, South Stream is always strategic for Italy)*, *Europarlamento24*, May 26, 2014, http://www.europarlamento24.eu/gas-guidi-per-italia-sempre-strategico-south-stream/0,1254,106_ART_7034,00.html.

[76] European Commission, "Antitrust: Commission opens proceedings against Gazprom," European Commission, Press Release, IP/12/937, September 4, 2012, http://europa.eu/rapid/press-release_IP-12-937_en.htm.

[77] Barbara Lewis, "EU asks Bulgaria to stop work on Gazprom's South Stream pipeline," *Reuters*, June 3, 2014, http://uk.reuters.com/article/2014/06/03/uk-eu-southstream-bulgaria-idUKKBN0EE0SU20140603.

[78] "Gazprom Discusses South Stream Project with Croatia," *Natural Gas Europe*, July 10, 2014, http://www.naturalgaseurope.com/gazprom-south-stream-project-croatia.

[79] Jonathan Stern, Simon Pirani, Katja Yafimava, "Does the cancellation of South Stream signal a fundamental reorientation of Russian gas export policy?" Oxford Institute for Energy Studies, January 2015, pp. 6–7, http://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/01/Does-cancellation-of-South-Stream-signal-a-fundamental-reorientation-of-Russian-gas-export-policy-GPC-5.pdf.

[80] Vladimir Socor, "Azerbaijan's TANAP Project: Foundation of the Southern Corridor & New Developments," in "Azerbaijan and the Southern Gas Corridor to Europe. Implications for U.S. and European Energy Security," Conference Report, Washington, DC: The Jamestown Foundation, September 13, 2013, p. 15, http://www.jamestown.org/uploads/media/Conference_Report_-_Azerbaijan_and_the_Southern_Gas_Corridor_-_FINAL_web_version.pdf.

[81] "Azerbaijan expresses its interest for the gasification of Albania," *Independent Balkan News Agency*, September 26, 2013, http://www.balkaneu.com/azerbaijan-expresses-interest-gasification-albania/.

[82] Seymur Aliyev, "Azerbaijan signs MoU on gas supplies to Albania, Croatia and Montenegro," *Trend News Agency*, December 17, 2013, http://en.trend.az/capital/energy/2222427.html.

[83] Natasa Radic, "Ionian Adriatic pipeline project under way," *Independent Balkan News Agency*, July 9, 2013, http://www.balkaneu.com/ionian-adriatic-pipeline-project/.

[84] Emin Aliyev, "Podgorica to host Azerbaijani-Montenegrin Business Forum," *Trend News Agency*, February 20, 2014, http://en.trend.az/capital/business/2244111.html.

[85] "Croatia turns to Azerbaijan for energy, tourism investments," *New Europe*, November 11, 2012, http://www.neurope.eu/article/croatia-turns-azerbaijan-energy-tourism-investments.

[86] Republic of Slovenia, Ministry of Economic Development and Technology, "Minister Stepišnik visits the Republic of Azerbaijan," August 29, 2013, http://www.mgrt.gov.si/nc/en/media_room/news/article//9399/.

About the Authors

Margarita Assenova is Director of Programs for the Balkans, the Caucasus and Central Asia at The Jamestown Foundation. She is a regular contributor to the Jamestown publication *Eurasia Daily Monitor* on political and energy security developments in the Balkans and Central Asia. Assenova is a recipient of the *John Knight Professional Journalism Fellowship* at Stanford University for her reporting on nationalism in the Balkans. Her articles appeared in US and European newspapers, magazines, and online publications, including *RFE/RL Newsline* and *Balkan Report*, *The Washington Times*, *The World and I*, *Transitions Online*, *Balkan Times*, *Capital Weekly* and *Reason Magazine (Bulgaria), Internationale Polititik (Germany), World Finance Review Magazine (UK), and Future Prospects (UAE)*. She authored book chapters and journal articles on security, energy, and democracy published by CSIS Press, Brassey's, Freedom House, Bertelsmann Foundation Publishers and the University of New Haven.

Stephen Blank is a Senior Fellow at the American Foreign Policy Council in Washington, DC. Dr. Blank served as Professor of National Security Affairs at the Strategic Studies Institute of the US Army War College in Pennsylvania from 1989–2013. In 1998–2001 he was Douglas MacArthur Professor of Research at the War College. He has published or edited 15 books focusing on Russian foreign, energy, and military policies and on international security in Eurasia. His most recent book is *Russo-Chinese Energy Relations: Politics in Command*, London: Global Markets Briefing, 2006. He has also published *Natural Allies?: Regional Security in Asia and Prospects for Indo-American Strategic Cooperation*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2005. He is currently writing a book *Light From the East: Russia's Quest for Great Power Status in Asia* to be published in 2015 by Ashgate Publishers. Dr. Blank's M.A.

and Ph.D. are in Russian History from the University of Chicago. His B.A is in History from the University of Pennsylvania.

Janusz Bugajski is a Senior Fellow at the Center for European Policy Analysis (CEPA) in Washington, DC, and host of "Bugajski Hour" television show broadcast from Albania. Bugajski has authored 19 books on Europe, Russia, and trans-Atlantic relations and is a columnist for several media outlets in Central Europe and the Balkans. His bi-monthly blog appears in the CEPA web journal "Europe's Edge." His recent books include *Conflict Zones: North Caucasus and Western Balkans Compared* (2014), *Return of the Balkans: Challenges to European Integration and U.S. Disengagement* (2013), *Georgian Lessons: Conflicting Russian and Western Interests in the Wider Europe* (2010), *Dismantling the West: Russia's Atlantic Agenda* (2009), *America's New European Allies,* (2009), *Expanding Eurasia: Russia's European Ambitions* (2008), *The Eastern Dimension of America's New European Allies* (2007), *Atlantic Bridges: America's New European Allies (with Ilona Teleki)* (2007), *America's New Allies: Central-Eastern Europe and the Transatlantic Link* (2006), and *Cold Peace: Russia's New Imperialism* (2004). He is currently writing a book with Margarita Assenova entitled *Eurasian Disunion: Russia's Vulnerable Flanks.*

Matthew Czekaj is a Program Associate for Europe and Eurasia at The Jamestown Foundation and also serves as the Managing Editor of Jamestown's flaship publication on the post-Soviet space, the *Eurasia Daily Monitor*. Prior to joining Jamestown, Mr. Czekaj was a Research Associate at the Atlantic Council, where he worked on issues of European Enlargement. Before that, he was a Research Assistant at the Center for European Policy Analysis (CEPA) Energy Security Program. Mr. Czekaj specializes in political and security issues of Central and Eastern Europe. He holds a Master's degree in Russian and East European Studies from Georgetown University's School of Foreign Service, and a Bachelor's degree in International Relations

with a concentration in European Studies from Johns Hopkins University. He is fluent in Polish, and speaks some French.

Fabio Indeo is External Research Fellow at the University of Camerino (Italy) and Visiting Research Associate at the Center for Energy Governance and Security (EGS) at the Hanyang University, Seoul, South Korea. He is the author of several publications on energy issues, among which: *Azerbaijan's role in the Euroasiatic energy chessboard: geopolitical and strategic perspective*, in G.Nodia, C.Stefes (eds.), "Security, Democracy and Development in the Southern Caucasus and the Black Sea Region," Peter Lang Editions, 2015; *Shale gas revolution: the impact on Russian energy strategy*, EGS Working Paper, No. 12, September 2013. He earned his Ph.D. in Geopolitics from the University of Trieste (Italy).

Dušan Janjić is Principal Research Fellow at the Centre for Sociological Research of Institute of Social Sciences, University of Belgrade. He is also the Chairman of the Board of the Forum for Ethnic Relations and President of the Serbian political party "Active Serbia." He holds a Ph.D. (1987) on the relations between state and nation and definitions of nation from the Faculty of Law at the University of Belgrade. Janjić specializes in sociology of (ethno) nationalism, ethnicity, ethnic conflicts and resolution, energy security and ethnic conflict, political movements, and ideologies. His books include *Kosovo: Independence, Status, Perspectives: Adjusting Regional Policies of Ethnicity and Borders* (2011) with Yilber Hysa, *Ethnic Conflict Management: The Case of Yugoslavia* (1997), *Ethnicity in Postcommunism* (1996) with Stefano Bianchini, *Serbia: Between the Past and the Future* (1995).

Remzi Lani is a political analyst based in Tirana. He has served as the Executive Director of the Albanian Media Institute since its establishment in 1995. Lani is a member of the board of the World Association of Newspapers and the Advisory Board of the Balkan Trust

for Democracy. Earlier in his career, he was chief editor of the Albanian newspaper *Zeri i Rinise*, and a correspondent for the Spanish newspaper *El Mundo*. He has authored numerous articles on Balkan affairs for local and foreign papers and magazines such as *El Mundo* (Madrid), *The Guardian* (London), *Quimera* (Barcelona), *The International Spectator* (Rome), *Futuribili* (Trieste), *Fokus* (Skopje), *Vreme* (Belgrade), *Osllobogjenie* (Sarajevo), *Monitor* (Podgorica), *War and Peace Report* (London), *Transition* (Prague), and *Transitions* (Brussels). Lani has collaborated on various Balkan projects with the Aspen Institute–Berlin, Istituto Affari Internationali–Rome, CESPI–Rome, the Center for Strategic and International Studies (CSIS)–Washington, Carter Center–Atlanta, Hellenic Foundation–Athens, CIDOB–Barcelona, and the Bertelsmann Foundation.

Anthony Livanios is an oil and gas negotiator in structuring and implementing oil and gas upstream and midstream projects. He is the CEO of U.S. Energy Stream Inc., an international advisory firm, based in Washington, DC, and Frankfurt, Germany, whose mission is to craft, develop, and implement growth strategies for the oil and gas industry. He has over twenty years of experience in consulting, oil majors, oil independents and national oil companies on pipeline negotiations, LNG projects, geopolitical risk assessments, and market intelligence. He has implemented oil and gas consulting projects in the Caspian and Eurasia, the United States and European Union, Eastern Mediterranean and the Persian Gulf. He has studied economics (B.A.) at American University, Washington, DC, and international political economy (M.A.) at Columbia University, New York, NY.

Gulmira Rzayeva is a senior research fellow at the Center for Strategic Studies (SAM) and Research Associate at the Oxford Institute for Energy Studies. She specializes in energy security and energy policy in Azerbaijan and the Black Sea/Caspian region and the Turkish domestic natural gas market. Rzayeva was a visiting research fellow at

the Moscow Carnegie Center and the Finish Aleksanteri Institute of the Helsinki University. She has lectured on energy security at the University of Helsinki, University of Jouensuu and University of Tampere. Rzayeva is the author of *Natural Gas in the Turkish Natural Gas Market: Policies and Challenges* (2014) and *The Outlook for Azerbaijani Gas Supplies to Europe* (2015), published by the Oxford Institute of Energy Studies. She has also co-authored the reports *Strategic Imperative: Azerbaijani Gas Strategy and the EU's Southern Corridor* (2012) and *Energy Efficiency in Azerbaijan: Policy Guidelines for Energy Efficiency in Public Buildings* (2014) published by the *SAM Review Journal.*

Zaur Shiriyev is an Academy Robert Bosch fellow at the Russia and Eurasia Program at Chatham House in London, UK. He is also senior research fellow at ADA University in Baku, where he has worked since May 2014. Prior to joining ADA he worked as leading research fellow at the Center for Strategic Studies (2009–14), the Turkish Asian Center for Strategic Studies, Istanbul and the International Strategic Research Organization, Ankara. He is currently a contributing analyst to the Jamestown Foundation's *Eurasia Daily Monitor* and has previous editorial and journalistic experience in Azerbaijan and Turkey. Shiriyev has published numerous articles and commentaries and co-edited *The Geopolitical Scene of the Caucasus: A Decade of Perspectives* (Istanbul, 2013).

Vladimir Socor is a Senior Fellow of the Washington-based Jamestown Foundation and contributor to its flagship publication, *Eurasia Daily Monitor* (1995 to present), where he writes analytical articles on a daily basis. An internationally recognized expert on former Soviet-ruled countries in Eastern Europe, the South Caucasus, and Central Asia, he covers Russian and Western policies there, focusing on energy policies, regional security issues, secessionist conflicts, and NATO policies and programs. Socor is a frequent speaker at US and European policy conferences and think-tank

institutions. He is a regular guest lecturer at the NATO Defense College and at Harvard University's National Security Program's Black Sea Program (Kennedy School of Government). He is also a frequent contributor to edited volumes. Mr. Socor was previously an analyst with the *Radio Free Europe/Radio Liberty* Research Institute (1983–1994). He is a Romanian-born citizen of the United States, based in Munich, Germany.

AZERBAIJAN AND THE NEW ENERGY GEOPOLITICS OF SOUTHEASTERN EUROPE

This book comes at a critical time when concerns about energy security are growing in the midst of military, economic and energy conflicts in East and Southeastern Europe. As the construction of the Southern Gas Corridor from Azerbaijan to Europe is advancing, natural gas from the Caspian region will challenge the gas monopoly of any single supplier in Southeastern Europe, thus changing the geopolitical landscape in the region.

■ ■ ■

Structured as an edited volume of ten essays, this book enhances our understanding of Southeastern Europe's energy security and the potential impact of the Southern Gas Corridor. Since channeling Caspian gas to Europe is an essential part of Azerbaijan's national strategy, the book also analyzes Baku's foreign policy and investment pursuits in Southeastern Europe.

■ ■ ■

The book focuses attention on Azerbaijan's aspiring role as an energy supplier and contributor to energy security in Southeastern Europe, its evolving relations with countries in the region—from Greece to Croatia—and consequently Baku's expanding relations with the European Union and the United States.

The JAMESTOWN FOUNDATION

$24.95
ISBN 978-0-9855045-2-6
52495>
9 780985 504526