



EU–Russia Antagonism in South-Eastern Europe: The Energy Factor

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I THE ENERGY PARAMETER OF THE OVERALL EU–RUSSIA ECONOMIC RELATIONSHIP

Following the collapse of the Soviet economic system and especially after the successful overcoming of the 1998 financial crisis, EU–Russia economic relations expanded rapidly, with energy remaining the driver of the overall Russia–EU economic relationship. Energy revenues enable Russia to buy from and invest in the EU, resulting in complex patterns of interdependence, financial ties, and cross-border physical interconnections

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(mainly pipelines). On balance, however, the increased level of economic interdependence between the EU and Russia has failed to produce the Common Economic Space that was discussed in 2001. An EU–Russia energy partnership never materialized in the terms sketched out in the early 2000s, largely because Moscow was unwilling to play by rules set in Brussels, while the EU lacked the means to compel Moscow to play by these rules (Tiersky and Oudenaren 2010: 82).

As a matter of fact, Russian and EU perceptions of energy security clash. This applies mainly to gas. Coal and oil are traded on a global basis with the result that the price-setting mechanisms are highly liquid and transparent while security of supply is ensured by the multiplicity of potential sources of imports. Beyond that and though opinions are split on the extent to which gas should be part of the EU’s decarbonization strategy, natural gas constitutes a basic aspect of *the European Commission’s ‘Clean Energy for all Europeans’ strategy*. Natural gas is considered to be a bridge fuel, which can accompany the transition to renewable energy because gas plants can be easily fired up and down, unlike other types of plants and emits 50 percent less carbon dioxide than coal when burned (European Commission, 30 November 2016).

That’s way and despite many serious political conflicts between EU and Moscow resulting in sanctions against Russian economy, the Russian gas sector was essentially exempted. The sanctions have targeted Russian oil but not gas although many EU member states and partnership states claimed that they were subject to bullying tactics by Gazprom, ranging from discriminatory pricing to threats of supply shutoffs, in retaliation for a refusal to allow Gazprom purchases of national distribution assets. Sanctioning Russian gas flows to Europe would have dealt a massive blow to Gazprom, but it would have also hit some other EU members hard (Hedlund 2017).

Therefore, the EU–Russia energy-relationship/competition is tantamount of the EU’s incompetence to act as a unitary international actor. Whereas Russia’s Putin has increasingly and masterfully been utilising energy diplomacy’s soft power, EU has so far been unable to address its fierce bureaucratic structure and its notorious lack of ownership. As a result in many cases EU-countries have followed a different, even opposing course, towards Moscow that the EU-commission has. Therefore, EU–Russia relations on various levels, such as energy, defense, and global

politics, went through many transformative phases, ranging from cooperation to overt hostility underlining the need of adopting an energy supply diversification strategy.

Following the Russia–Ukraine gas disputes in 2006¹ and 2009, and given that the main bulk of EU gas and oil imports derived from few suppliers (mainly the Russian Federation, Algeria, and Norway), the necessity of diversifying the routes and sources of gas supplies to the European Union moved to the top of the EU’s list of priorities in its external relations. As a matter of fact in 2006 the European Union with the Decision No 1364/2006/EC officially established the Natural Gas route 3 (NG.3.), i.e. the natural gas pipeline network that should connect the EU to the Caspian Sea and Middle East countries.² The war in Donbas from 2014 onwards just reinforced this tendency (Stüwe 2017).

In 2016 Europe’s overall annual consumption was satisfied by Russia (over a third of its natural gas supply) and secondly by Norway and other countries like Algeria. Gas production in Norway³ is, however, gradually declining as its fields mature (Coote 2016). In 2015, EU net gas import needs were 194 bcm. In the lowest of demand projections, import needs could be slightly lower (by some 10 bcm) in 2020, but would then be some 20 bcm higher than 2015 levels by 2025. As such, EU gas imports will continue to play a significant role in the future EU gas market and refuel the discussion concerning the diversification of gas supplies (Pisca 2016: 7 and 25–27).

The heavy dependence on so few suppliers urged the European Commission to make the concept of energy supply diversification a cornerstone of its energy policy, with the aim of enabling the EU to “speak with one voice” on the need for sufficient diversity of exporters already in 2008 when the so-called Second Strategic Energy Review was first adopted. Current notable moves are the EU’s passage of the Third Energy Package (the legislative foundation for fighting monopolies and promoting

¹The 2006 energy dispute caused a temporary 30 per cent decline in gas flows to European Union states.

²European Union: Decision No 1364/2006/EC of the European Parliament and of the Council of 6 September 2006 laying down guidelines for trans-European energy networks and repealing Decision 96/391/EC and Decision No 1229/2003/EC, September 2003.

³Norway is regarded as an indigenous (EU) producer, as its gas pipeline exports are seen as ‘must flow’ volumes.

competition on the European energy market)⁴ and the launch of the EU's European Energy Union currently being shaped.

Indeed, on 25 February 2015, the EU adopted the so-called *Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy*, the most significant development in plans for an EU-wide Energy Union to date. With the Energy Union, EU countries intend to facilitate cross-border coordination and integration in energy security, trade, regulation, and efficiency, as well as in low-carbon development and research and innovation. It is actually a new model for the European market whereby the EU could unify its gas transportation networks and formulate a single and transparent system of tariffs on imported gas, to be applied at the point of entry into the transportation network and calculated independently of supplier and trader agreements (European Commission 2015a, b).

The new EU energy strategy had serious geopolitical and security implications, ushering in a new, antagonistic approach to dealing with Russia's monopoly practices in European gas markets. Paradoxically, although the annexation of the Crimean peninsula by Russia in 2014 along with an already existing Russia–Ukraine gas price dispute reinforced fears of disruptions to EU gas supplies, EU dependence on Russian supplies increased and broke all records in autumn 2016, raising worries in Eastern European countries, which notably are unfavourably disposed towards Russia, about the increasing Russian clout within the European Union (EU-Parliament 2016).

Normally, energy diversification, a prime concern of developed energy markets, does not make up a factor of friction. Multiplying one's supply sources reduces the impact of a disruption in supply from one source by providing alternatives, thereby serving the interests of both consumers and producers (Yergin 2006). In this case, however, the efforts for diversification that Brussels has undertaken in recent years have not emerged out of the enormous European demand for the relatively cleaner power of natural gas. They have been politically motivated by the long-pursued aim

⁴According to the EU-official announcement the Third Energy Package covers five main areas: unbundling energy suppliers from network operators, strengthening the independence of regulators, establishment of the Agency for the Cooperation of Energy Regulators (ACER), cross-border cooperation between transmission system operators and the creation of European Networks for Transmission System Operators, increased transparency in retail markets to benefit consumers.

of putting an end to Moscow's tactic of using its natural gas exports to exercise economic and political influence (Sartori 2013: 2).

Indeed, energy strategy is seen by many analysts as an important element of Russia's economic strategy, but also—and not least—as a tool of foreign policy, of security strategy and, by extension, of the so-called Russia's Grand Strategy. The Russian government and its state-controlled energy company Gazprom act as one, united, and coherent actor, with the Kremlin as the decision-making centre.⁵ It is not only the system of 'guided democracy' in Russia that fosters potential manipulations, but also the gas sector structure, namely Gazprom's export monopoly, that allows for rapid, coherent, and thought-out activities. Consequently, the Russian gas strategy can be characterized as highly consistent, as the decision makers have the capacity to identify long-term and overall aims and interests, as well as means to achieve them (Nowak 2016: 23–26).

The inception of the 3rd Energy Package by the EU Commission, however, heavily challenged Russia's gas interests. Consider, for example, issues like the *Gazprom antitrust case* and the reluctance of the EU towards the South Stream and Turkish Stream projects. More precisely, with reference to Gazprom, the omnipresent Russian energy company, in 2011 the EU decided to conduct two investigations against Gazprom, concerning alleged breaches of Article 101 of the Treaty on the Functioning of the European Union (TFEU) and in 2012 concerning possible breaches of Article 102 of the TFEU. In turn, in April 2014 Russia commenced proceedings against the EU before the World Trade Organisation, arguing that EU certification, especially article 11 of the Third Gas Directive provisions adopted in the framework of the Third Energy Package, violates the organisation's regulations. The respective article, known as the 'Gazprom clause', is believed to have been adopted for 'fear that ownership unbundling—the separation of integrated energy companies' production assets from their transmission assets—would lead to the indiscriminate acquisition of EU energy grids by third countries and, more specifically, by Russia. Eventually the European Commission, filed charges against the company in April 2015, accusing it of breaking regional antitrust rules (European Commission 2015a, b).

⁵ Interview with Alexander Sotnichenko, Former Russian Diplomat in Israel and currently Associate Professor at the Saint Petersburg State University, School of International Relations (Jerusalem July 2013) and Yuri Kvashnin (Head of Section of the EU Studies of the Institute of World Economy and International Relations of the Russian Academy of Sciences).

After fitful negotiations spanning nearly two years, in March 2017 Gazprom reached an amicable solution in the EU antitrust case by committing itself to address the Commission's charges. It seems that the high level of mutual dependence between the two sides helped pave the way for a settlement that could prove to be very temporary (Stanic 2016: 37–46; Kanter, Kramer and Reed 2017).

The same outcome is very likely in another disputed deal pertaining EU–Russia energy relations. Despite serious security concerns of some member states about the controversial energy Nord Stream 2 pipeline project (the pipeline's route running from Russia's Leningrad Oblast under the Baltic Sea to Greifswald in Germany), the materialisation of the deal looks meanwhile likely. In previous years and under pressure from about a dozen governments led by Poland, the EU had been attempting to block the project which would provide a second gas link from Russia to Germany and allow Russia to divert its gas shipments to Europe away from Ukraine, thereby doubling the Baltic Sea export capacity of Gazprom to EU markets (Peker 2017). In addition, the EU Commission had stated that the project was not consistent with the objectives of the Energy Union, because it did not give access to new sources of gas, and strengthened the position of Russia as the largest supplier in the European market. In the given situation in the European market, the Commission was also unable to see any demand for the construction of new gas pipelines of the size of Nord Stream 2 (Łoskot-Strachota, Kardaś, Szymański 2017).

On the contrary, Germany has been vividly supporting the project providing for two additional pipelines with a capacity of 55 bcm. If they one day will be built, Russia could pump up to 70 percent of its total European gas exports through just one route, though its exports could rise further increasing Europe's dependency on Russian gas. In this context, Germany's energy and foreign policies regarding Russia seem contradictory, as Berlin has become the most important defender of the West's sanctions against Russia (Umbach 2017).

In September 2017, the legal service of the Council of the European Union proposed on the issue a special legal framework for the Nord Stream 2 gas pipeline and hence turned down the numerous concerns regarding the possible compliance of the new infrastructure's operation with the rules of European law (including, in particular, the so-called Third Energy Package). Contrary to the European Commission's initial assessments, the opinion by the EU Council's legal service meets the expectations of those parties, which are most interested in implementing

the project; in particular, it is consistent with the position of Germany and Russia. Permission to proceed would mean that a number of restrictions arising from the so-called Third Energy Package, such as the principle of third-party access, the principle of unbundling (separating the ownership of the infrastructure from the transmission and distribution of gas), certification requirements and setting transmission tariffs, would not apply automatically to the Nord Stream 2 gas pipeline. This would allow Gazprom and Western European companies to set the conditions for operating the planned pipeline in a free and unrestricted manner. In its opinion the EU Council's legal service has defined the security of gas supplies in a way that conflicts with the predominant interpretation and the hierarchy of priorities set out in the EU's strategic documents (Kardaš and Bajczuk 2017).

Regardless of the outcome of the negotiated project, the Nord Stream 2 case has already strategic implications for the EU's energy policy indicating EU's disability to speak with one voice toward Moscow and became tantamount of the EU's incompetence to act as a unitary international actor. Whereas Putin's Russia has increasingly and masterfully been utilising energy diplomacy's soft power,⁶ EU has so far been unable to address its fierce bureaucratic structure and its notorious lack of ownership. As a result, in many cases EU-countries have followed a different, even opposing course, towards Moscow that the EU-commission has.

2 THE SOUTH-EASTERN EUROPEAN FIELD OF THE EU-MOSCOW ENERGY-ECONOMIC COMPETITION

Regarding South-Eastern Europe and following the disintegration of the Soviet Union, relations between Russia and the EU have mainly been marked by geo-political and geo-economic rivalries and competition. Russia's influence in South-Eastern Europe is real and easily observed

⁶The Russian domestic energy industry is organized in two legal regimes. Unlike the oil-companies that should be private, gas companies (Gazprom) should be state-run companies for two reasons: first, in order to control gas prices on which so many people depend (Gazprom controls about 90% of the Russian market), and second, Gazprom's activities are fully intertwined with Russia's foreign policy. Interview with Alexander Sotnichenko, Former Russian diplomat in Israel and currently Associate Professor at the Saint Petersburg State University, School of International Relations, personal communication, Jerusalem, July 2013 and Yuri Kvashnin, Head of Section of the EU Studies of the Institute of World Economy and International Relations of the Russian Academy of Sciences, Moscow 4 September 2015.

affecting the region in a multitude of ways. The Russian oil and gas companies still play an enormous role in the local energy markets, despite the obstacles they face and the beefed-up EU-legislation aimed at encouraging competition and diversifying supplies (Bechev 2017: 238).

The region constitutes a particularly antagonistic terrain in the EU–Russia energy and economic relations because of its special position in the Euro-Asiatic energy map. Especially Greece, Cyprus and Turkey have a twofold function in the European and Asian energy architecture: they are in a very delicate position as energy consumers dependent on Russian energy exports and of supreme importance as energy hubs or potential energy producers. Their real or assumed geo-political and geo-economic potential as energy hub and energy producing countries elevates them to a valuable alternative source for energy imports for the energy-deprived EU, still heavily dependent on Russian gas. Their heavy energy dependence on Russian energy supplies, gas supplies in particular, in combination with their fragile and volatile politico-economic state and sensitive geo-strategic, geo-economic location, renders them very susceptible to foreign political and economic manipulation. Notably, natural gas supply, unlike oil, is particularly vulnerable to political influences because of the direct and long-term nature of natural gas supply relations. Decisions on natural gas projects are especially likely to be affected by political considerations, because they can be quite risky.

Against this background, ensuring security of supply of natural gas to states located in the periphery of the EU looks quite challenging. In European energy security architecture, geography matters. States located at the centre of Europe have access to more supply options and lower prices than those located on Europe's periphery. In addition, for states on Europe's geographic periphery, which are primarily small markets, it is unlikely that even if excellent market rules are established and observed, those states on the periphery will represent attractive investment destinations for additional suppliers due to commercial considerations. Thus, many markets may remain singularly supplied by Russia (Shaffer 2015: 184).

In this context the so-called Southern Gas Corridor, i.e. the supply routes running from the Caspian basin (so far Azerbaijan but potentially other countries in the future), have been an apple of discord between the EU and Russia and are therefore haunted by difficulties and political rivalries.

3 THE IMPACT OF THE SOUTHERN GAS CORRIDOR ON THE EU–RUSSIA RELATIONS

In the late 1990s the EU had already identified the Caspian and Central Asian regions as key targets for its energy diversification initiatives. With the Interstate Oil and Gas Transport to Europe (INOGATE) program first, launched in 1997, as well as the 2004 Baku Initiative, the EU attempted to establish stable energy ties with the region's countries, thereby promoting the security of the EU's energy supply by increasing the number of energy sources and building new transport infrastructures. The INOGATE Programme's mandate was supposed to support the development of energy co-operation between the European Union, the littoral states of the Black and Caspian Seas and their neighbouring countries. The co-operation framework covered the areas of oil and gas, electricity, renewable energy and energy efficiency (Sartori 2012: 5–7).

The Southern Gas Corridor's main route is the 10 billion cubic metre (bcm) capacity Trans Adriatic Pipeline (TAP), the project's end piece, joining up with the Trans Anatolian Pipeline (TANAP) at the Turkish border, then crossing Greece and Albania to reach Italy.⁷ The pipeline scheme has the capacity to transport gas also from other Caspian countries—though the latter have made the choice so far to sell their gas to the Russians or to the Chinese or to both of them—as well as from Iran, Iraq and even from the Mediterranean via Turkey to Europe. The last but at the same time most unlikely option⁸ would coincide with Turkey's geo-economic ambitions, whereas Greece and Cyprus aspire to use alternative gas pipeline schemes to bring it to the Europe maybe with the prospect to use Liquefaction Natural Gas terminals in Greece (by Athens and in northern Greece).

The realisation of the Southern Gas Corridor, however, has revealed the incompatibility of the strategic interests between the European Commission and the single EU-member states and the lack of ownership haunting EU-energy policy. The European Commission and the pro-Atlanticist member-states of the EU who are either not dependent on Russian natural gas (UK) or over-dependent on Russian gas imports

⁷TANAP and TAP are different legal entities. TANAP ends in the territory of Turkey and TAP begins in the territory of Greece and ends in Italy. According a mutual agreement commercially the connecting point of TANAP-TAP is in the middle of Evros river.

⁸Interview with Bakhtiyar Aslanbayli, Vice President of the BP Azerbaijan (Baku, August 2017).

(Poland, Baltics, Bulgaria, Central Europeans) followed an energy policy in the Caspian Sea region that aspired to consolidate the geopolitical independence of the former Soviet states by securing them both export markets for their hydrocarbon resources and transit routes bypassing Russia. This has been the case since the early 1990s and the completion of the Baku-Tbilisi-Ceyhan oil pipeline (BTC) and later on with Nabucco project. The original Nabucco plan was also predestined to drive a hole in Russia's ability to dominate the post-soviet economies of its hydrocarbon-rich "comrade" colonies. It also would not only "open up" Turkmenistan to Western influence, but also allow Ukraine to limit its dependence on Russian gas imports thereby facilitating a more pro-western orientation of Kiev's foreign and defense policy. At the same time Russia's ambassador to NATO indirectly threatened Ukraine with the possibility of Crimea's separation (Rzayeva & Tsakiris 2012: 7–8). Notably, in January 2007 the Ukrainian President Viktor Yushchenko stated during his visit to Romania and Turkey officially Ukraine's intentions to join the Nabucco project.⁹

European Commission's particular support to the realisation of Nabucco, a 3893 km pipeline running from Turkey to the European gas hub of Baumgarten in Austria, via Bulgaria, Romania, and Hungary was meant to thwart Russia's soft power in the region. Nabucco could indeed address the energy security supply problem of the EU, if, as initially planned, were connected to a possible trans-Caspian pipeline providing access to the huge Turkmen gas resources. Additionally to the Azeri energy resources Nabucco needed to secure 10 billion to 15 billion cm gas from Turkmenistan and Iraq in order to fill the promised pipeline's capacity (31 billion cubic metre a year) (Petroleum Economist 2011). To the extend to such an option really did exist, it would have been a real challenge against Moscow that has been trying for many years to prevent the construction of the trans-Caspian pipeline exercising its political leverage in Turkmenistan.¹⁰

Therefore, given its limited capacity (10 bcm a year) the TAP project was clearly the underdog in the competition to deliver Shah Deniz II gas to Europe and lacked political support from the EU-institutions. The

⁹Web-Portal of Ukrainian Government, "Ukraine to participate in tenders for construction of Nabucco gas pipeline, as alternative to Russian gas suppliers", 18 January 2007: http://www.kmu.gov.ua/control/publish/article?art_id=63077434.

¹⁰Interview with Canus Abushov, Russia-Expert and Professor at the ADA University (Baku, August 2017).

Commission's choice, however, did not take into account some key factors, such as the diverging, and sometimes conflicting, interests of individual South-European EU member states as well as the commercial constraints on Nabucco. The Commission's preference also did not meet the criteria Shah Deniz II consortium had set out for the selection process, *commerciality*, *project deliverability*, etc. Eventually and according to the main shareholders of the consortium¹¹ various legal and commercial aspects such as the cost of shipping Azeri gas, the expected prices and demand forecasts in the respective markets, as well as potential access to Western Balkans' transmission systems and not political criteria determined Shah Deniz II consortium's preference for TAP.

Especially the exemption from *Third Party Access* legislation granted by the EU to TAP appears to have been more attractive than the scheme agreed for Nabucco. Through TAP, in fact, the Shah Deniz II consortium is offered an initial (first phase) export capacity of 10 bcm for a period of 25 years, while in the second phase the new volumes (a further 10 bcm) is to be allocated through an open auction process. On the contrary Nabucco-shareholders was confirmed a total of 5 bcm in the first phase and another 6.5 bcm in the second phase. Last but not least, the commercial interests of SOCAR—the Azerbaijani state-run energy company—in the Greek gas market seem to have played also an important role. During the evaluation phase, SOCAR reached an agreement with the Hellenic Republic Assets Development Fund for the acquisition of a 66% stake in the Greek natural gas grid operator DESFA company. For SOCAR, controlling DESFA meant entering the European gas transmission and distribution sector for the first time.

While some labeled the result as a victory of Europe, the truth of the matter is that the main beneficiaries are of course Azerbaijan and SOCAR as well as Italy, Greece and Albania. The three countries after initial hesitations made significant diplomatic efforts resulting in the signature of the Memorandum of Understanding and the Trilateral Intergovernmental Agreement used as vehicle for promoting their preferences for the new pipeline architecture in the region. Through Nabucco EU interests as bloc would be certainly better served. As contradictory as it may sound, Russia has also an indirect benefit from the Shah Deniz II consortium's decision, because the TAP route provides much less competition for the Russian

¹¹ Interview with Bakhtiyar Aslanbayli, Vice President of the BP Azerbaijan and Vitaliy Baylarbayov, Deputy Vice-president of SOCAR (Baku, August 2017).

economic and probably also political interests in Europe. Nabucco, on the contrary, was expected to supply the same countries as those reached by the Gazprom-led South Stream pipeline and challenge more seriously Russia's long-term interests around the Caspian Sea.¹² Given the fact that in Shah Deniz Consortium also comprises a Russian company LUKOIL¹³ (10% share), it is not surprising at all that the decision for the investment in the TAP made by unanimous consensus between the shareholders.¹⁴

Notwithstanding, though the project has minor value for the EU energy security (the volume of the pipeline in its first phase of development corresponds to about 3% and in its second phase to approximately 8% of the whole EU-markets gas consumption) its political repercussions might change the energy and geopolitical map of the region radically and for good. Once TANAP and TAP pipelines are completed, Gazprom will lose its prevalent position as energy supplier in southern Europe and may have to resort to price dumping to stay competitive.

The Southern Gas Corridor, however, though it has progressed adequately so far and is to be finalized by Azerbaijan in 2020, the full materialisation of the project, i.e. to transform it into a really alternative gas route to Europe, is also subject to some unpredictable variables.

First, the security aspect of the project should not be underestimated, possible PKK actions are Islamic terrorist attacks cannot be ruled out for the near future. Ankara has taken over the full responsibility of the security of the TANAP pipeline but this was agreed at a different time, before the coup d'état of July 2016 resulting in extensive purging in the military and police and more importantly before the Kurdish referendum of September 2017 adding one more factor of uncertainty.

¹² Gazprom has devised a strategy aimed at hindering Caspian and Central Asian gas export to Europe by routes other than through Russia. Gazprom has its own network of pipelines in Central Asian countries (the Central Asia Centre gas pipeline system), which allows it from time to time to import Central Asian gas and then re-export it further to Europe. Although the strategy itself is not as profitable as Gazprom producing the gas itself in Russia, due to its near-monopolistic position in a large part of the European gas market, Gazprom can make up for this loss by charging its European consumers higher prices than they would pay if they had direct access to Central Asian gas supplies (Cohen 2014: 9).

¹³ PJSC LUKOIL has been operating in the Azerbaijani oil-and-gas industry since 1994, when the Company joined its first international development project for the Azeri-Chirag-Gyuneshli oil field, one of the largest in the Azerbaijani sector of the Caspian Sea. LUKOIL was the first among Russian major business enterprises to start operations in Azerbaijan.

¹⁴ (Sartori 2012, 2013); Interview with Bakhtiyar Aslanbayli Vice President of the BP Azerbaijan (Baku, August 2017) Interview with Bakhtiyar Aslanbayli, Vice President of the BP Azerbaijan and anonymous source of the Azeri Foreign Ministry (Baku, August 2017).

Some analysts (Kanter 2015) believe that also the Greek route¹⁵ might turn out to be a source of problems, because Athens and the TAP-company have allegedly not yet been able to come to terms on the financial portion of the deal, because the DESFA-deal that has been an incentive for SOCAR, has been canceled. According the Shah Deniz consortium, however,¹⁶ the agreement signed has covered all the aspects of the deal and no outstanding issues exist between Greece and TAP. Moreover, except some minor problems with some communities (land issues) the consortium expresses a general optimism about the progress of the project so far and indicates a supporting attitude of the Greek government.

In Italy, however, the project faces serious reactions from the Civil Society and some political figures in the government that rose in power in 2018. Various ecologist organisations have raised serious concerns about environmental damages the pipeline is supposed to cause (replanting of the olive trees during the construction in a distance of about 8 kilometers). Though the consortium attributes those problems to disagreements between the central and the regional governments, diplomatic sources of the Azeri Foreign Ministry suspect Russian interference behind some radical leftist groups that raised the major objections so far.¹⁷

Secondly, the only identified gas source for the pipeline so far is Azerbaijan. It is highly uncertain whether other countries such as Turkmenistan, Kazakhstan, Iran and Iraq will be joining the scheme. Kazakh gas, though voluminous, is very difficult to be pumped into the pipeline scheme, because there is not infra structure enabling its transport to the Caspian shore. Turkmenistan has enormous gas resources and needs desperately cash, as it sells its gas only to China and to Iran at the moment.¹⁸ The main snag and real challenge simultaneously with this option is the transport of Turkmen gas until Baku, i.e. to build the so-called Trans-

¹⁵ In 2007, Greece became the first EU-country to receive directly through a pipeline Azerbaijani gas. The Turkey–Greece pipeline is a 296 kilometres long pipeline connecting Turkish and Greek gas grids. The pipeline begins in Karacabey in Turkey and runs to Komotini in Greece. The length of Turkish section is 210 kilometres, of which 17 kilometres are under the Sea of Marmara. The length of Greek section is 86 kilometres. The diameter of pipeline is 36 inches (910 mm) and the capacity is 7 billion cubic meters (250 billion cubic feet) of natural gas per year.

¹⁶ Interview with Vitaliy Baylarbayov, Deputy Vice-president of SOCAR (Baku, August 2017).

¹⁷ Interview with Bakhtiyar Aslanbayli, Vice President of the BP Azerbaijan and an anonymous diplomat of the Azeri Foreign Ministry (Baku, August 2017).

¹⁸ China, however, pays only a part of the gas it receives and it considers the rest as credit for the pipeline it is constructing in Turkmenistan. Iran also does not provide any cash but only some chemical products in return.

Caspian pipeline, since there is infra structure to bring it until that point from the Eastern Turkmenistan where the energy field are located. But, as already mentioned, this scenario is subject of diametrically opposed geopolitical and geo-economic interests. The energy resources of Northern Iraq can under given political circumstances quite easily be an additional source of gas, when a small gas pipeline will be constructed to join to the TANAP-TAP system. It is theoretically feasible to include gas from Iran into the project as well, if the sanctions were one day terminated but Iran needs to increase its production because its existing current gas volume barely covers domestic demand. What Iran sells abroad is actually what it buys from Turkmenistan. East Mediterranean gas could also be pumped into the TANAP-TAP system but only through pipelines crossing the Cyprus' Economic Exclusive Zone into Turkey. Nevertheless, this project presupposes a sub-sea pipeline that is very expensive and a resolution of the Cyprus conflict, which is rather unlikely in the foreseeable future and that's way it is prioritised by the consortium as the last option.¹⁹

Moscow's attitude is difficult to appraise at the moment. In recent years, Gazprom has been developing a masterfully strategy, seeking to defend its market share in the region using economic and political tools at a whim. In the case of TANAP-TAP, what Gazprom appears to do is to use EU-regulations in order to avoid EU-regulations. More precisely, the Russian company has already made public that it was considering to access the TAP by pumping gas through the link under one auction system giving equal access to any would-be supplier. It is the so-called *Open Season Auctions* prescribed in the TANAP-TAP agreement for the second phase of its operation. In this way, the Russians will probably bypass the obstacles of the EU legislation (Third Party access) designed to prevent them in particular from acquiring a monopolistic position in the European energy market! All of the companies participating in the TAP with the exemption of the SOCAR, which but controls only 20% of the pipeline, greeted this option as there are doubts on Azerbaijan's ability to pump more gas into the pipeline. Also the states involved in the project are well disposed to the undertaking. This however could yield various geopolitical complications.²⁰

The consortium downplays it as media speculation, as there is no agreement of mutual understanding or letter of intention indicating this devel-

¹⁹ Interview with Bakhtiyar Aslanbayli Vice President of the BP Azerbaijan and Vitaliy Baylarbayov, Deputy Vice-president of SOCAR (Baku August 2017).

²⁰ Interview with international diplomat involved in the development accredited to Greece, (Athens, May 2017) and diplomatic source of the Greek Foreign Ministry (Athens, July 2017).

opment. Both BP and SOCAR people point out, that the second phase of the project is still not clear neither for the quantity nor about the timing. So there is no rush to determine such details. Secondly, they heavily disagree that Azerbaijan do not possess enough gas. Beyond Shah Deniz II field, which is about to be exploited, there is also Absheron,²¹ Shah Deniz III, ACG, Umid Babec and Shafag-Asiman fields as potential resources, i.e. five projects that could be developed further in the coming years.²²

Furthermore, since 2015, the Kremlin has been pursuing some other pipeline schemes. The first was the promotion of the *Interconnector Turkey-Greece-Italy Poseidon* (ITGI) for its own use. Poseidon, the marine part of the Southern Gas Corridor project from Turkey to Italy through Greece (Ionian Sea) had once been backed by the EU to transport Azerbaijani gas to Italy as an alternative to Russian imports but was eventually replaced by the TAP pipeline. A more serious geo-strategic gambit has been Russia's attempt to resurrect the Russian-sponsored South Stream project (the construction of a natural-gas pipeline under the Black Sea, consisting of one link serving the Turkish market and another one possibly to southern Europe via Greece) under a new name, Turkish Stream. This could be a project of geostrategic magnitude, which would not only by-pass Ukraine, "a difficult transit partner" for Russia, but also ensure Russia's energy and economic expansion in South-Eastern Europe for good (Łoskot-Strachota 2016: 174–175).

In spring 2015, Moscow appears to have managed to persuade the newly elected left-wing government in Athens to negotiate a possible multibillion-dollar pipeline deal. To that end, Russians offered the possibility of 47 billion cubic meters of Russian gas, which could arrive through Turkish Stream to the Greek border. This amount is obviously much more profitable than the 10 billion cubic meters of Azeri gas to be pumped through the TAP pipeline, whose construction would of course not be stopped but its profitability heavily undermined. What began as a rumour circulated by various Greek media reports was in July 2017 confirmed by the former energy minister Panayotis Lafazanis, who negotiated the deal with Kremlin. According Lafazanis, the Tsipras administration

²¹The development of the Absheron field, however, is currently expected to extract 1.5 billion cubic meters of gas a year, which will fully flow to the domestic market of Azerbaijan (Camal 2017).

²²Interview with Bakhtiyar Aslanbayli Vice President of the BP Azerbaijan (Baku, August 2017).

indeed appeared to be positive to this option, expecting Russian financial assistance in return that in turn would be used in order to circumvent the conditions laid down by EU institutions for a new bail-out package for Greece and to finance Greece if it left the euro (Kathimerini 2017b).

The idea behind the request seems to have five to 10 billion US dollars advance on the construction of the Greek branch of the Turkish Stream gas pipeline. The deal that came across the provisions of the Third Energy Package, did not work out, as it first of all would jeopardise Greece's relations with the United States. The latter seem to have pushed the leftist government in Athens to resist Russia's energy overtures (Kanter 2015). It would also pose Moscow's relations with the EU in a manner that even the Kremlin could not afford. Apparently, as Moscow is led by pragmatic *realpolitik* motives, it prefers not to give money to anybody, unless it can get something tangible in return, which Athens was unable to do. There is also another very plausible interpretation for the Kremlin's behaviour in line with Moscow's penetration history in the region. Russia acted this way just to gain political benefits from the Greek crisis, by trying to exploit rifts and fissures in European unity. Such kind of overtures, together with various cordial statements Putin has made in his frequent visits to Greece in recent years, are apparently meant to be sowing division and discord among the EU states in order to undermine the sanctions regime against Russia. In this respect, Moscow might have let the Europeans look weak and bad so as to have a Russia friendly country within the EU to use as a lobbying and communication channel (Stergiou 2017: 114–115).

As some experts have noted, the Southern European states had many times to face the bitter reality that cashing in on Russia's friendship does not always work. Russia's hard-nosed pragmatism and absence of ideological scruples differentiates it from both the Soviet Union and the Tsarist Empire. Its soft power strategy never goes far beyond a low-cost approach that neither puts Russia's resources under strain nor generates much risk. When Moscow is indeed prepared to spend vast amounts of money for projects such as South Stream, it does so from the premise, that it will take the lion's share of the expected benefits (Bechev 2017: 21–22).

Indeed, recent surveys show that Russia's nationalist foreign policy, with its emphasis on its own sovereignty, meets with sympathy within much of the Greek population, as many Greeks sense some kind of Christian Orthodox solidarity with Russians and many regard Russia as a state that upholds its sovereignty and defies the EU diktat. Vladimir Putin, in particular, enjoys great popularity among the Greeks, essentially more than Angela Merkel or Donald Trump (Kathimerini 2017a).

This perception has been reinforced by the social repercussions of the Greek debt crisis and the EU's severe austerity measures at home. This rosy view, which is mostly centred on the idea of dignity, overlooks Russia's aggression against Ukraine and the annexation of Crimea. At the same time, the EU is suffering a massive loss of respect. Meanwhile, Greece belongs to the countries where anti-Europeanism rose so abruptly (DiaNeosis 2016). Recent comparative polls in many countries also indicate that even more Greeks see their biggest security threat coming from Turkey and they cannot rely on NATO to protect them, so they look to Russia (Bloomberg 2017).

Since 2016, Turkey also turned out to be another unpredictable variable for the EU and the US energy diplomacy.²³ Capitalizing on the recent improvement in Russia–Turkey relations, in October 2016 Gazprom undertook a new attempt to resurrect the project, clinching with Turkish Botas Petroleum a preliminary deal on the project, that could be up and running by the end of 2019. Talks on this project had in fact been suspended in December 2015 due to the Russian–Turkish political crisis, although Gazprom did not back down from plans to build a gas pipeline. The revived project provides for the construction of two lines of the pipeline (each with a capacity of 15.75 bcm), one of which is to be used for the supply of gas to the Turkish market, and the other for the transit of Russian gas via Turkey to European customers. The current plan is less ambitious in relation to the original assumptions, foreseeing a smaller capacity. Thus, on one side there exist the unfavourable provisions of the Third Energy Package and possible EU countries' reluctance to consume the Russian gas, due to the serious deterioration in EU–Turkey relations. Greece gets about three-quarters of its gas from Russia, but for Gazprom, it is a relatively small customer. Even Turkey, despite being the second-largest market for Russian gas in the region after Germany, would not be a big enough buyer on its own for all the gas Gazprom would eventually plan to send through a Black Sea pipeline.

On the other side, however, and given the recent strained EU–Turkey relationship, Ankara might feel free from any commitment towards Brussels. At least the line designed to bring gas to the Turkish market, should be taken for granted. Turkish Stream, which could use the gas

²³ Former US President Obama's final foreign trip to Greece in November 2016 apparently served to demonstrate, somewhat belatedly, American engagement in Greece in the face of Russian meddling in the region. Jason Horowitz and Liz Aldermanaug, "Chastised by E.U., a Resentful Greece Embraces China's Cash and Interests", *New York Times* 26 August, 2017. Retrieved 27 August 2017 from <https://www.nytimes.com/2017/08/26/world/europe/greece-china-piraeus-alexis-tsipras.html>.

infrastructure and pipes that were originally used for the construction of the South Stream gas pipeline, would create another direct channel for gas imports from Russia, after Blue Stream, via a new pipeline under the Black Sea (Chudziak et al. 2016).

Turkey's importance as a future European natural gas hub, or even a transit country, might be highly dependent on Russia's ability to exert market power. Turkey's role may be stronger if European gas demand is higher than expected and Russia exerts greater market power. From a European perspective, these conditions would not be preferable as they would lead to higher gas prices and a corresponding worsening in general welfare levels (Schulte and Istemi 2017: 15). In geopolitical analytical terms, Moscow's ambition to remain a key energy producer and Ankara's ambition to ascend to a key energy transit hub seem very likely to have precipitated in summer 2016 the rapid improvement in Russia–Turkey relations, which had been damaged because of a series of incidents in recent years. It is no accident that Erdogan's first foreign trip since the abortive July 15 putsch in Turkey was to Russia, just as Turkey's relations with traditional allies like the United States and Europe showed increasing strain once again.

Athens has also not rejected the idea to participate in the project. In June 2017, the Russian Gazprom, Greek DEPA, and Italian Edison companies inked a Cooperation Agreement on southern route for Russian gas supplies to Europe. The document envisages joint efforts aimed at implementing both the Turkish Stream and the Poseidon project in the area from the Turkish-Greek border to Italy in full compliance with applicable legislation (Gazprom 2017).

Gazprom, the main provider for DEPA until 2026 also managed to break DEPA's monopoly in the Greek market and to export additional gas to Greece through the Prometheus Gas company, a joint company parity (50–50) owned by Kopelouzos Group and GazpromExport (100 percent subsidiary of Gazprom). Using to its advantage the EU-antitrust legislation compelling Greece to reduce state-run DEPA company's share in the Greek market in 2014, began importing directly gas into Greece laying the foundations for remaining after 2016 main gas supplier in the country and further undermining EU-diversification policy.

Furthermore, the Greek Conglomerate Kopelouzos Group and GazpromExport have shaped a joint venture, the Greek private limited company Gastrade. The latter has been licensed to develop a floating storage and regasification unit (FSRU) off the coast of Alexandroupolis, aimed at importing liquefied natural gas from various sources to North-Eastern

Greece and to the so-called Vertical Corridor, the energy scheme to be constructed for bi-directional natural gas transport, interconnecting the networks of Bulgaria, Greece, Romania and Hungary.²⁴

As Gazprom has the advantage of being a low-cost producer, and it can reduce its prices below that of the available competitors, could try, in compliance with the Third Party Access directive of the EU's Third Energy Package, to flood cheap Russian gas to the countries in South-Eastern Europe, seriously affecting the profitability of the Southern Gas Corridor (Rzayeva 2017). Gastrade is also one of six companies—including Greek DEPA, the State Oil Company of Azerbaijan Republic (SOCAR), as well as Edison and Noble—that have already booked capacity in the Greece-Bulgaria Interconnector (IGB) pipeline to transport the imported LNG from the Alexandroupolis FSRU north to the Bulgarian market.

The FSRU in Alexandroupolis is included on the European Union's list of Projects of Common Interest and therefore was supported by the Obama administration.²⁵ Once again, Gazprom is using the loopholes or the possibilities included in the EU-legislation to oppose a significant energy strategy pursued by the EU.

4 CONCLUSION

All things considered, one can conclude that the EU-Russia energy antagonism in South-Eastern Europe that has been raging for years, is very likely to continue because of the highly variable relations among countries and the many and still unresolved tensions, as well as the heterogeneous needs and interests of the regional actors involved. Russia is a traditional energy supplier in the region with a prevalent, yet nearly monopolistic position in the local market. Therefore, it has been trying to render projects undermining Russian dominance uncompetitive. It seems that in some cases Moscow's energy policy is determined by political considerations as well. The competition becomes even stronger when the availability of gas is growing and new suppliers come into emergence. Therefore, Gazprom is trying to keep away potential alternative suppliers.

²⁴The Vertical Corridor concept is not a single pipeline project but a gas system consisted of national grids, underground gas storage facilities, interconnectors (Greece-Bulgaria Interconnector), LNG terminals that will connect existing national gas grids and other gas infrastructure in order to secure easy gas transiting from South to North.

²⁵Vitaliy Baylarbayov, Deputy Vice-president of SOCAR (Baku August 2017).

Russia, however, through Gazprom appears to be in an advantageous position, because it is fully supported by the Russian government, whereas its rival, the EU, is a huge bureaucratic institution plagued by the so-called lack of ownership handicap, i.e. the contradictory and opposing interests among its members.

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