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Energy Policy of the European Union and Importance of the Energy Resources of Azerbaijan: Neo-functionalist and Liberal Intergovernmentalist Approach.

Seymur Huseynli
PhD Candidate, the Department of EU Studies, Dokuz Eylul University,
Izmir,Turkey
E-mail of the corresponding author: sthuseynli@gmail.com

Abstract

As a second biggest energy consumer of the world European Union aims to get cheaper, more qualified and uninterrupted energy service to its consumers. Targets of the Energy policy of the European Union are to strengthen competition capacity, provide secure energy supple, protect environment, reduce share of coal, increase share of natural gas in total energy consumption, realization secure nuclear energy and encourage renewable energy.

To provide necessary energy from outside particularly from Russia is not safe enough, as it proved itself several times. As stability in the Middle East region is very fragile, the Caspian region gains priority for providing alternative energy resources and transportation routes.

This article aims to analyze importance of energy resources of Azerbaijan for security of energy supply to the European Union. Also, common energy policy of the EU was examined using comparison between Neo-functionalism and Liberal Intergovernmentalism.

Key words: European Union, Energy Policy, Azerbaijan, oil, natural gas, NABUCCO, integration theory.

Introduction

To be another power center the European Union should supply secure, uninterrupted, clean and cheaper energy, which its economy need and all of its energy sources must be diversified. There are several popular attempts to achieve these goals such as rational use of limited energy sources, application of saving measures, effective use of renewable energy sources and establishing single energy market for effective control across the union. Moreover, in case of any possible energy crises in the future, diversification of energy sources could be very help-full. For an uninterrupted energy supply from the Caspian basin, in this occasion, some new pipelines ought to be constructed.

Also, in this paper we will try to explain common energy policy of the EU by using of main integration theories. As comparison between Neofunctionalism and Liberal Intergovernmentalism always was

interesting in my opinion it is worth apply this to EU Energy Policy.

Historical development of the Energy Policy of the EU

After the Second World War European economic integration began with giving coal and steel sources of France and Germany and its rule to some supranational authority for preventing any possibility of war. Plus regulations about coal and nuclear energy in the establishing treaties created background for the future energy policy. At the beginning, especially events between 1945 – 1970 years were far from the developing an energy policy for the community. Member states intervened to energy markets and tried to create state ruled energy markets. When community established common energy policy was not predicted and there was not any direct regulation about energy in the Treaty of Rome. After 1973 oil crisis with April 1974 Council decision stated common will: improving security, under the most satisfactory economic conditions possible, by means of the following:

- development of nuclear power production
- the hydrocarbon and solid fuel resources in the Community
- diversified and reliable external supplies
- a research and technological development effort ensuring the required development of the various energy sources.(Council, 1974)

With these decisions a need of developing common energy policy was appeared.

Following that developments, September 1980 decision aimed to make member states self-sufficient, 1988 report about establishing internal energy market opened a room for more liberal policies in the energy sector of community. The European Commission in 1988 issued its first Green Paper on the implementation of the internal energy market in Europe. The major philosophy behind the internal energy market was that free and fair competition between energy companies across the European Community would lead to large efficiency gains, lower and more similar prices for consumers across the Community, increased competitiveness for energy-using industries, economic growth and increased welfare. (Fridtjof, 2004. p.1)

Especially after establishing Single Market, for solving problems in the energy sector it was decided to add this sector to Single Market too. Despite to all these developments the only reason why common energy policy was not established across community was that every single member state has its own way to supply their energy needs. Enlarging community accepted new states which had their own energy resources, their own energy sector structures and their own policy preference. These countries preferred to act lonely for the sake of national security when it comes to energy policy. These conditions caused delaying establishing common energy policy.

Despite of all these negativities and delaying day by day need for common energy policy arose and in 1995 White Paper with name of Energy Policy for European Union was published. In this paper were talked

about principals and aims of energy internal market of European Union, energy supply security, protecting environment and general competition power. (Commission, 1995)

Because of EU's good relations with Central and Eastern European countries and effective energy consumption there was not a big energy problem yet. But EU was aware of possible crisis in case of any problem in the energy supply which could not be solved without common energy policy. To realize this aim in 2000 as a basic text of common energy policy Commission prepared **Green Paper - Towards a European strategy for the security of energy supply**. This paper was about EU's increasing energy consumption and increasing dependence from foreign energy resources. Stated that energy production of the community is not sufficient for its consumption, especially foreign dependence increased day by day. (Commission, 2000)

Especially last events such as Russia – Ukraine natural gas crisis, Russia – Belarus oil crisis were big threat for European Union and these caused decisions which would make significant changes for the future. Some of these decisions are as following:

Share of petroleum in the total energy consumption of union could never belittle: biggest use of petroleum is in transport sector and the share of that sector 2/3 of all petroleum consumption. But negative impact of petroleum on environment and solving handicaps in front of production alternative energy sources will reduce dependence on petroleum. To reduce that dependence to minimum Union encourages railway transport.

Another policy is to direct people and companies with the help of tax. Especially, reducing using energy sector which causes environmental pollution by increasing consumption tax of these sectors. Besides that, encouraging research and production of new energy sources by reducing tax.

In the linkage with economic policies reducing production of aluminum, iron, steel, fertilizer which causes more energy use while production process. And alternative to that increasing production of computer software and service sector which does not need so much energy while production process. So in this way besides economize energy consumption, creating more value adding workplaces are planned. Combining little and departed energy markets appearing with the last enlargement would help increasing energy efficiency. Although these policies carrying out across European Union plus adding insecurity in the case of increasing dependence on foreign states especially from Russia, developing new policies about energy security are aimed.

To understand whole picture some statistical data would be help-full. For example, current energy system within the EU is heavily dependent on fossil fuels. The share of fossil fuels in total energy consumption declined only slightly between 1990 and 2005: from around 83 % to 79 %. Over 54 % of primary energy consumption in 2005 was imported, and this dependence on imported fossil fuel has been rising steadily from 51 % in 2000. Dependence is increasing rapidly for natural gas and coal. Natural gas imports accounted for some 59 % of the total gas-based primary energy consumption in 2005, while for hard-coal-based primary energy, imports accounted for 42 %. Oil imports accounted for as much as 87 % in

2005 — up from 84 % in 2000 — driven by substantial increases in demand from the transport sector, reflecting a lack of real alternatives in this sector and low EU oil reserves. (Environment, 2008. p.7)

Here we have to pay attention to the Russian factor as the largest single energy exporter to the EU is Russia having supplied 18.1 % of the EU-27 total primary energy consumption in 2005 (up from 13.3 % in 2000). Russia supplies 24 % of gas-based primary energy consumption, 28 % oil-based of the primary energy consumption and is the second largest supplier of coal after South Africa, with 10 % of coal-based primary energy consumption in 2005. (Environment, 2008. p.7)

Electricity consumption is also one of the fields which concerns EU as between 1990 and 2005, the final electricity consumption increased on average, by 1.7 % a year, whereas final energy consumption increased only by 0.6 % a year. Nevertheless there are some optimistic data for Union too. Renewable energy has the highest annual growth rate in total primary energy consumption, with an average of 3.4 % between 1990 and 2005. Second comes natural gas, with an annual average growth rate of 2.8 % over the same period. The annual growth rate of oil consumption slowed down, particularly in recent years due to its partial replacement in power generation by gas and coal. But environmental concerns and energy supply security sometimes are in inverse proportion. The switch to gas due to environmental constraints (including concerns over climate change) and a rapid increase in electricity demand brought about some environmental benefits as reduction of CO2 emissions, but increased dependency on gas imports. Natural gas consumption increased, between 1990 and 2005, by over 30 %. (Environment, 2008. p.7)

As statistical data show us, European Union has to provide clean and secure energy. Clean for environmental matters as we stated above. Secure for foreign policy, by reducing foreign dependence especially from Russia. To reduce foreign dependence improving renewable energy production is one of the ways out of the situation. EU bound targets set by Energy Policy for Europe and by modernization of Union's energy infrastructure these challenges were outlined and named "20 – 20 – 20". This policy states that by 2020 renewable sources have to contribute 20% to final energy consumption of European Union, greenhouse gas emissions have to be reduced by 20% and energy efficiency gains should deliver a 20% reduction in energy consumption. (Energy Directorate, 2011)

Lisbon Treaty which brought Energy Title was successful development in the energy sector: In the context of the establishment and functioning of the internal market and with regard for the need to preserve and improve the environment, Union policy on energy shall aim, in a spirit of solidarity between Member States, to:

- ensure the functioning of the energy market;
- ensure security of energy supply in the Union;
- promote energy efficiency and energy saving and the development of new and renewable forms of energy;
- promote the interconnection of energy networks. (Lisbon, 2008. p. 134-135.)

As previously mentioned, the European countries are anxious due to the possibility of Russia closing the valve. Some experts find these concerns needless and state that a possible cessation of gas flow does not mean

the end of the world. They believe that these concerns are needless since Russian gas constitutes only 25% of the total energy consumption in Europe. The percentage of natural gas as primary energy consumption in Europe is merely 25%. Thus, the gas received from Russia corresponds with only 7% of total energy consumption. Moreover, in this context, there are serious differences among member states. For example, the Russian gas represents 0% of the gas consumption in Spain and Portugal. On the other hand, this ratio is 100% in the Baltic countries and Slovakia. Thus, these percentages, inter alia, play crucial role on the lack of solidarity among member states.

Although the above assessments may be considered true, the European Union faces two challenges about the natural gas issue: On the one hand, there occurred a substantial increase in the European Union's gas supplies coming from Russia; on the other hand, the European economies have become more dependent on natural gas. To overcome these challenges, the EU should diversify energy resources and energy supply routes in addition to conducting research on renewable energy and energy efficiency. Probable solutions in this context focus on liquefied gas and a new gas pipeline originating from the Middle East and Caspian Sea. These two options constitute one of the priorities of the EU on the energy issue. (Tezcan, 2009)

Importance of Caspian basin particularly Azerbaijan for the energy supply security to EU

As we look 2004 data about EU's oil import we can see that 264.9 million ton out of 621 million ton oil imported from Russia and other Commonwealth of Independent Republics. This fact shows us how important is Caspian basin energy resources for European Union. Alongside oil import, importance of natural gas import from this region increasing day by day. (Adanali, 2006. p.2) Significant reduction of European energy reserves and its possibility of being used up soon is another reason for importance of Caspian basin oil and natural gas resources. Clearly Caspian basin is not a new Middle East for the volume of its resources but considering reduction reserves of North Sea it gains more importance because there is a possibility that it can complete this lack. So EU would get rid of problematic Middle East region and expensive North Sea reserves. Another problem of supply is maritime transportation of oil and natural gas is not preferred because of environmental pollution. This makes to highlight pipelines for energy import. Thus in 2001 Green Paper, EU stated that to improve Europe's energy supply, it is not sufficient to ensure the steady procurement of energy sources at reasonable prices and on a long-term basis. It is also necessary to have a supply network with security guarantees. The way in which energy is transported is of fundamental importance for the security of supply. For instance, the European Union imports 90 % of its oil by sea. Consequently, it is committed to strengthening the rules and regulations on ships (ban on single hull) and should restore its supply balance by shifting the emphasis towards oil pipelines. The construction of new oil and gas pipelines will make it possible to import oil and gas from the Caspian Sea basin and the southern Mediterranean, thereby improving security of supply by diversifying geographic sources of supply. (Commission, 2001, p73)

But EU still depends on Russia because the most of all pipelines start in or come through Russia. This dependence showed itself during Russia – Ukraine natural gas crisis and Russia – Belarus oil crisis, when member states Ukraine and Belarus suffered from problems but it was not their fault. This situation showed not only the importance of diversification of sources, but also the importance of diversified directions of

pipelines. Thus European Union paid more attention to Caspian basin energy resources for solving its possible problem of energy supply. In this linkage EU looked for new ways in the relations with former soviet republics and Russia. To establish close relations EU settled different aid programs for these countries. And so parallel to development of these countries, also energy supply security would be provided.

EU implements some projects aiming reducing energy dependence on Russia. The INOGATE Program is one of the most success-full of these projects. This is an international energy co-operation program among the European Union and the Partner Countries of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. They have agreed to work together toward achieving the following four major objectives:

- Converging energy markets on the basis of the principles of the EU internal energy market taking into account the particularities of the involved countries
- Enhancing energy security by addressing the issues of energy exports/imports, supply diversification, energy transit and energy demand
- Supporting sustainable energy development, including the development of energy efficiency, renewable energy and demand side management
- Attracting investment towards energy projects of common and regional interest. (INOGATE, 2012)

Another program towards Caucasus and Central Asian countries is International Transport Corridor Europe-Caucasus-Asia (TRACECA) which sometimes is called as “The Silk Road of the 21st century”. TRACECA is a complex multi-modal transport system in countries of the region, which aims to develop economic and trade relations and transportation links between countries and regions that is a significant contribution to the revival of one of the most famous historical routes of the Silk way. In September 1998, at a historic summit in Baku, Azerbaijan Republic, 12 TRACECA countries signed the "Basic Multilateral Agreement on International Transport for Development Corridor Europe-Caucasus-Asia (MLA) in order to take full advantage of its geopolitical and economic opportunities. MLA became a logical continuation of inter-regional program of the European Union's TRACECA and at the same time the only legal basis for its effective implementation. After the signing of this Agreement and the establishment of the Intergovernmental Commission (IGC) and its TRACECA Permanent Secretariat have new legal framework for the development and implementation of international transit traffic at a better level. (TRACECA, 2012)

The transport corridor TRACECA is the renaissance of the Great Silk Road, one of the ancient routes in the world. The corridor starts in the Eastern Europe (Bulgaria, Romania and Ukraine) and also crosses Turkey. There are route passing the Black Sea to the ports of Poti and in Georgia, further using transport network of the Southern Caucasus, and a land connection towards this region from Turkey. From Azerbaijan by means of the Caspian ferries (Baku – Turkmenbashi, Baku – Aktau) TRACECA route reaches the railway networks of Central Asian states of Turkmenistan and Kazakhstan. The transport networks of these states are connected to destinations in Uzbekistan, Kyrgyzstan, Tajikistan, and reach the borders of China and Afghanistan. (TRACECA, 2012)

Above mentioned programs are aimed to ensure stability in this region as this region is very fragile and that might cause interruption at production and transport of oil and natural gas through pipelines. Speaking about security of pipelines, we have to pay attention to unsolved problems in these countries which threat uninterrupted flow of oil and natural gas. In spite of ceasefire, remaining occupation of 20% of Azerbaijani territory by Armenia stays biggest threat to the stability of this region and consequently to the security if uninterrupted energy flow from this region. Adding Russian – Georgian conflict, especially six day war between these two, showed vitality of the stability for farther secure energy supply.

However, to reduce energy dependence on Russia, European Union has to gain energy resources of this region. As above mentioned Caspian region is not a new Middle East but is significant enough for being alternative source. Table 1 shows proven and possible oil and natural gas resources to understand importance of region.

Table1. Estimates of Oil and Gas Reserves and Resources. (Gelb, 2006. p.3)

Region	Country	Proven Reserves, BP, End of 2005		Possible Additional Oil/Gas EIA
		Oil(billions of bbls)	Natural Gas(trillion tcf)	
Caspian Sea Region	Azerbaijan	7.0	48	32/35
	Iran	0.1	n.a.	15/11
	Kazakhstan	39.6	106	92/88
	Russia	0.3	n.a	7/n.a.
	Turkmenistan	0.5	102	38/159
	TOTAL	47.5	257	184/293
Reference Areas	United States	29	193	47/271
	North Sea	14	162	n.a
	Saudi Arabia	264	244	n.a.
	World	1,201	6,348	n.a

n.a. – Not available from sources listed below

Only resources near the Caspian Sea are included..

Sources: BP. *BP Statistical Review of World Energy June 2006*; Penwell Publishing Company. *Oil & Gas Journal.* December 19, 2005; Energy Information Administration. *Caspian Sea Region: Survey of Key Oil and Gas Statistics and Forecasts,* July 2006; U.S. Geological Survey. "National Oil & Gas Assessment," at [http://www.energy.cr.usgs.gov/oilgas/noga/2004update.htm], viewed March 1, 2005

Yet Kazakhstan and Turkmenistan are strongly under Russian influence and because of economic and geographic conditions it is not so desirable to import from this region despite of EU attempts to gain these counties from Russia. Iran holds the world's second-largest gas reserves after Russia but Iran has not positive image in front of western countries no matter how huge is its resources. The only appropriate country in this region remains Azerbaijan. To export Azerbaijani oil to world markets there, already were two pipelines: Baku – Novorossiysk and Baku – Supsa. Despite the positive and negative properties of both pipelines, Azerbaijan adopted a wise decision on the necessity of the export of oil by both two pipelines. At the same time the oil potential of Azerbaijan forecasts the production of 45-50 million tons of oil in 2010. That also caused the necessity for the establishment of the main oil pipeline for the full export of oil. The perspective of the transportation of Kazakh and Turkmen oil through Azerbaijan also increased the necessity. Considering all that, Azerbaijan initiated works for the implementation of Baku-Tbilisi-Ceyhan pipeline project. (AZERBAIJAN.AZ, 2012)

To encourage this route there is argument that Caspian region energy sources are attractive to Turkey: they are close and offer Turkey an opportunity to offset part of its energy import bill through transit fees for shipments across its territory. Turkey's energy use is growing much faster than its economic output, making it a rapidly growing importer of both oil and gas; it already is a large importer of Russian gas. Also, Turkey has good relations with Caspian countries. (Gelb, 2006. p.4) These facts gave Turkey the reason to support BTC from the beginning.

The building of the BTC pipeline reconfigures the mental map with which political observers and decision-makers look at the world. Azerbaijan and Georgia will see their futures in more direct relation to Europe through the umbilical cord that BTC constitutes. For Turkey, with its significant trade relations to Russia including the Blue Stream gas pipeline, BTC is a cause to revisit its eastern vocation even when the Turkish government is less inclined to do so. This time, the Eastern vocation is not an alternative to its western vocation, but an enrichment of its European connection. For Iran, the completion of BTC gives greater weight to independent Azerbaijan as a true independent actor, effective in mounting and concluding truly significant projects. For Russia, BTC provides a further testimony to the fact that the states of the South Caucasus are independent and sovereign actors, where Russia has a natural right to influence, but not to dominate or dictate policy. For the United States and Europe, BTC provides further impetus for western involvement in the energy and security sectors of the wider Caspian basin. (Starr and Cornell, 2005. p. 19)
Several gas corridors are at reinforcement stage or have to be developed. The traditional routes to Europe are being strengthened. Furthermore, six new pipelines are currently under development, namely the pipeline from Norway to the UK (Langeled pipeline), from Russia to Germany across the Baltic Sea (Nord Stream), from Algeria to Spain (Medgaz) and to Italy (Galsi) across the Mediterranean Sea. Another

important route under study is the gas corridor from the Middle East and the Caspian region across Turkey, further prolonged by pipelines across Greece (Turkey-Greece-Italy interconnection) or across the Eastern Balkan to Austria (NABUCCO pipeline). This so called fourth corridor would allow Europe to diversify considerably its supply sources. (Commission, 2007, p. 23)
The NABUCCO project is a big pipeline (25-30 billion cm) which aims at directly connecting the Caspian and Middle East gas resources to the EU gas markets. While the potential benefits of this project are very significant in terms of diversification of supply and stimulation of competition, it remains difficult to complete so far because of the complexity of transit issues and difficulties in coordinating investments in production and transit infrastructure. (Commission, 2007, p. 25)

Here is a brief history of NABUCCO: February 2002 initial discussions take place between OMV Gas & Power GmbH (Austria) and BOTAŞ (Turkey). Discussions with MOL, Budapest/Hungary, TRANSGAZ, Medias/Romania, and BULGARGAZ, Sofia/Bulgaria followed. October 2002 Cooperation Agreement between Botas, Bulgargaz, MOL, Transgaz and OMV Gas & Power GmbH led to feasibility study for the construction of the new gas pipeline. December 2003 Grant Agreement between OMV Gas & Power GmbH, the other four partners as associated beneficiaries and the European Commission was signed. 2004 NABUCCO Gas Pipeline International GmbH was established. February 2008 RWE joined the NABUCCO Project as the sixth shareholder. 27 January 2009 NABUCCO achieved full political support from the EU and NABUCCO countries at the Budapest Summit. 13 July 2009 Intergovernmental Agreement (IGA) signed in Ankara by Austria, Hungary, Romania, Bulgaria and Turkey. The IGA harmonized the legal framework and grants stable and equal transport conditions for all partners and customers. 2010 National NABUCCO Companies established in the transit countries. March 2010 Ratification of the IGA by National Parliaments was realized. (NABUCCO, 2012)

NABUCCO is a 3,300-kilometre (2,050-mile) pipeline between Turkey and Austria. Costing an estimated 7.9 billion euros (10.4 billion dollars), its aim is transport up to 31 billion cubic metres of gas each year from the Caspian Sea to Western Europe, bypassing Russia and Ukraine. But it has been slow to get off the ground because of failure to reach agreement on key issues such as financing and where the gas would actually come from. Indeed, critics argue insist that the vast project will remain nothing but a pipe dream because its backers cannot guarantee that they will ever have sufficient gas supplies to make it profitable. (France24, 2009)

Nevertheless managers of project are optimistic about realization of this project. Thirty-one billion cm is the technical maximum capacity for the pipeline, but that is not the quantity wanted to break even. It is expected to start with 8-10 billion cm from Azerbaijan and perhaps some from Russia through the Blue Stream (Russia-Turkey) pipeline, which is not under full load. There are more and more intensive discussions with Azerbaijan and Turkmenistan. It is not excluded having Turkmen gas in NABUCCO from day one. In the long term It is expected Egypt to contribute 3 to 5 billion cm, plus further volumes from Iran and Iraq. (CEPA, 2008)

Russia did not ever openly protested NABUCCO Project. However never gave up creating alternative scenarios. In 2006, Gazprom proposed an alternative project, in competition with the NABUCCO pipeline that would involve constructing a second section of the Blue Stream pipeline beneath the Black Sea to Turkey, and extending this up through Bulgaria and Serbia to western Hungary. (NY Times, 2006) In 2007, the South Stream project through Bulgaria, Serbia, Hungary and Slovenia to Austria and Italy was proposed. It is seen as a rival to the NABUCCO pipeline. The South Stream project is seen as a rival to the planned NABUCCO pipeline, which is backed by the EU and the US. (BBC, 2008) A top EU official says the South Stream deal will not harm NABUCCO's prospects. Ukraine has proposed the White Stream pipeline, connecting Georgia to the Ukrainian gas transport network. (Neurope, 2008)

Azerbaijan is interested in NABUCCO as one of the routes to transport its natural gas to European markets. This project needs huge financial provision investment and for its implementation requires strong political will, big financial support and good organization of work. With these factors in place Azerbaijan is ready to do what is possible for implementation of this project. Regrettably, so far there has mostly been a lot of discussion, talks but not too much real work has done. Also there is no unified approach to this project within EU itself. (Aleskerov, 2009)

However, in the 13 January 2011, Commission and Azerbaijan have signed a Joint Declaration on gas delivery for Europe in Baku. Azerbaijan commits to supplying substantial volumes of gas over the long term to the European Union, while Europe provides access to its market for them. This Joint Declaration is an important step in the realization of the Southern Gas Corridor and the diversification of Europe's energy supplies. In the declaration, Azerbaijan and the Commission establish a common objective: Azerbaijan will provide sufficient gas to enable the creation of the Southern Corridor. Together, Europe and Azerbaijan will provide the infrastructure to supply gas to Europe.

The Southern corridor entails the construction of several pipelines, such as NABUCCO, ITGI, White Stream and TAP, aiming to bring gas from the Caspian Sea to Europe. NABUCCO aims to bring gas to the border of Europe with a brand new pipeline, whereas TAP and ITGI requires the strengthening of existing infrastructure in non-EU countries. (Commission, Press Release, 2011) As it is the first written commitment of Azerbaijan to supply gas to Europe serves to pave the way to the full implementation of NABUCCO.

As expected, the Nabucco consortium has decided to reconfigure its project for a new role: a European continuation of the Azerbaijani-Turkish, Trans-Anatolia Gas Pipeline (TANAP) project. As TANAP plans to replace Nabucco on Turkey's territory, Nabucco would link up with TANAP at the Turkish-Bulgarian border, continuing via Romania and Hungary to Vienna, for an expected 10 billion cubic meters (bcm) of Azerbaijani gas annually in the initial stage of both TANAP and Nabucco. With Azerbaijan offering to finance up to 80 percent of TANAP's construction costs, the continuation pipeline in the form of an abridged Nabucco into EU territory becomes financially credible and bankable. (Natural Gas Europe, 2012)

Ultimately, Azerbaijan will have its own say in selecting export destinations from Shah Deniz Phase Two, other Azerbaijani gas projects, and ultimately Turkmen gas. TANAP itself can link up with a continuation pipeline either toward Central Europe or toward Italy, depending on commercial advantages to Azerbaijan.

By re-investing its early oil revenues, Azerbaijan can guarantee financing for the TANAP pipeline across Turkey. From Statoil's or BP's standpoint, exporting Azerbaijani gas to Europe are corporate business propositions. To Azerbaijan, however, this represents more than a lucrative business opportunity to be maximized. Beyond this it represents a vital national interest and an investment into the country's future, a direct link to Europe, and Azerbaijan's emergence as an international gas exporter – comparable with its role as oil exporter – and for a longer duration. Thus, TANAP gives Azerbaijan a strong hand to play in the upcoming negotiations.

Today, when Baku-Tbilisi-Ceyhan (BTC) oil-pipeline and Baku-Tbilisi-Erzurum (BTE) gas – pipeline has turned into a reality they became the key elements of the oil and gas transportation systems in the region. This opened new possibilities for Azerbaijan. In addition to its role of a large energy producer the country may become an important transit hub for multimodal transportation of vast hydrocarbon resources of Central Asian countries to the world markets through the East-West Energy Corridor, including the to be constructed Baku-Tbilisi-Kars railway. (Aleskerov, 2009, p.29)

European integration theories and case of EU Energy Policy

Now let us try to explain common energy policy of the EU by using of main integration theories. As comparison between Neofunctionalism and Liberal Intergovernmentalism always was interesting let us apply this to EU Energy Policy.

Neo-functionalism

For Ernest Haas, European integration process came true through these principles:

1. Integrate modestly in areas of 'low politics' in the first instance, but ensure that these are key strategic economic sectors (coal and steel for example).
2. Create a high authority without a distracting baggage of national interests to oversee the integration process and give it the ability to act as a sponsor of further integration.
3. The integration of particular economic sector across nation will create functional pressure for the integration of related economic sectors. This momentum is likely to continue, especially with the guiding role played by the impresario high authority. The consequence is the gradual and progressive entangling of national economies.
4. Deeper integration will not only be sponsored by the high authority. Gradually, social interests, whose loyalty has been directed to national forms of authority, will begin to perceive a shift in the location of meaningful authority. They will transfer their loyalties and redirect their activities accordingly because they seek the most effective route for the fulfillment of their material interests. These become vested in the system as the new supranational European framework begins to deliver.

5. Deepening economic integration will create the need for further European institutionalization as more expansive integration will require greater regulatory complexity.
6. In other words, political integration is a more or less inevitable side-effect of economic integration.
7. It follows that this gradual economic integration accompanied by a degree of supranational institutionalization is an effective route to the creation of a long-term system of peace in Europe. (Rosamond, 2000, pp. 51-52.)

So, according to Ernest Haas, EU integration process first of all should begin from 'low politics', for example coal and steel and European Coal and Steel Community is that high authority who acted as a sponsor for further integration. On the whole the EU itself is a wonderful example for spill-over effect, cooperation in coal and steel sector was successful enough so created enthusiasm for further cooperation. Lately integration and connection between energy and environment policies also is a matter of spill-over effect. Here we should stress that integration in environment policy and interdependence between energy and environment policies were not a matter of discussion while European integration began. As Neo-functionalism argues, a need for further integration will bring to transferring more competences to supranational institutions. So, next level is institutionalization which can explain creation of Energy Commission. According to Neo-functionalism, deeper economic cooperation brings political integration. This principle is proven by Single European Act, Maastricht Treaty or Lisbon Treaty. But we cannot say the same about establishing common Energy Policy of the EU. In the energy sector we can observe its reverse connection where political conjuncture sometimes dictates further economic cooperation. As energy supply security is a key security field for the EU, especially foreign energy policy is more political than economic. As far as Russia uses its energy resources and its control over energy routes as a political instrument the EU has to consider this political factor while doing any changes to the structure of its energy sector. Another example is European Council decision that stresses not to buy oil and natural gas from Iran after June 2012. Here emerges a question: if not from Iran and Russia (if it is possible) then from whom? In fact, emergence of NABUCCO project is a political need. On the one hand capacity of NABUCCO is not enough to fulfill energy needs of the EU. On the other hand despite the fact that there is lack of sources to fulfill this pipeline there was and still is an effort to keep energy rich Iran out of this project. Furthermore, NABUCCO pipeline is very expensive project and that is another important example which shows political interests are sometimes important than economic interests. Nonetheless successful fulfillment of common energy policy for the EU will strengthen peace as it said in Neo-functionalism.

On the whole, Neo-functionalism is insufficient to explain common energy policy of the EU especially when there are lack of solidarity and bargaining among member states or initiatives derived from Commission. By the help of Liberal Intergovernmentalism this space can be completed.

Liberal Intergovernmentalism

Liberal Intergovernmentalism claims to explain the major steps towards European integration, that is, the intergovernmental conferences and treaty amendments that have changed the core policies and the institutional set-up of European Union.

Moravcsik asks,

- Whether national preferences have been driven by general geopolitical ideas and interests or by issue-specific economic interests,
- Whether substantive integration outcomes have been shaped by supranational entrepreneurship or intergovernmental bargaining,
- Whether EU institutions reflect federalist ideology, the need for technocratic management, or an interest in securing credible member state commitment.

First, Liberal Intergovernmentalism argues that the preferences of national governments in European integration are mainly issue-specific. Insofar as European integration has been predominantly economic, so have state preferences. While the general interest in European integration resulted from the pressure to cooperate for mutual benefit from economic gains in an expanding and globalizing international economy, concrete preferences emerged from a process of domestic conflict in which specific sectorial interests, adjustment costs and, sometimes, geopolitical concerns played an important role, and reflected primarily the commercial interests of powerful economic producers in market integration and secondarily the macro-economic preferences of ruling governmental coalitions – as in monetary integration. (Diez and Wiener, 2004, pp. 78-79)

Second, Liberal Intergovernmentalism describes the most relevant bargaining process in European integration as process of intergovernmental bargaining concerning the distribution of gains from substantive cooperation. More concretely, they have in the past consisted of hard bargaining, in which credible threats to veto proposals, to withhold financial side-payments, and to form alternative alliances excluding recalcitrant governments carried the day. The outcomes reflected the relative power of states – more precisely patterns of asymmetrical interdependence. Those who gained the most economically from integration compromised the most on the margin to realize it, whereas those who gained the least or for whom the costs of adaptation were highest imposed conditions. (Diez and Wiener, 2004, p.79)

Third, institutional choice is again driven by governments – and by their concern about each other's future compliance with the substantive deals reach. In other words, whereas EU governments do not need or want supranational institutions to define their preferences, to provide them with the information necessary to reach efficient substantive agreements, or to devise rules of distributions, they rely on them to solve second-order problems of control, sanctions, and incomplete contracting-mainly through credible pre commitments. By transferring sovereignty to international institutions, governments effectively remove issues from the influence of domestic politics, which might build up pressure for non-compliance if costs for powerful domestic actors are high. They also remove them from decentralized intergovernmental control, which may be too which to secure compliance, in particular in powerful member states violate the rules. The degree to which governments favor the polling of sovereignty (voting by other procedures than

unanimity) and the delegation of sovereignty to supranational institutions, depends on the value they place on the issues and substantive outcomes in question: the higher the gains of a cooperative agreement for a government, and the higher the risk of non-compliance by other governments, the higher its readiness to cede competences to the EU to prevent potential losers from revising the policy. (Diez and Wiener, 2004, p. 80)

First of all, the lack of solidarity among member states can be explained by Liberal Intergovernmentalism: the preferences of national governments are very important. Since every single member state has its own way to supply their energy needs and enlarging community accepted new states which had their own energy resources, their own energy sector structures and their own policy preference there was some chaos in decision making process. These countries preferred to act lonely for the sake of national security when it comes to energy policy. These conditions caused delaying of establishment of the common energy policy. As a result every single member state brings its own preferences to the table during decision making process. In the same way Commission or Energy Commission have their own choices too. For instances, European Commission made 200 million euro financial support to NABUCCO Pipeline Project. Regardless the fact that it is very small amount for this project, this fact along is a remarkable example for institutional choice.

Conclusion

To sum up theoretical approach, it appears that, despite Neo-functionalism is one of the most successful theories that explain European integration process but sometimes it is insufficient especially against Liberal Intergovernmentalism. Neofunctionalism successfully explain formation and structure of the common energy policy of the EU but when there are bargaining among member states, their preferences or Commissions initiatives on the table then Liberal Intergovernmentalism steps in. Bargaining process among member states prevents the EU to act as a single actor towards neighbors.

However, gaining oil and natural gas rich Azerbaijan, European Union provides resource for its energy supply security. Azerbaijan gains access to the market of world's second energy consumer. In other words this is an alternative energy market for Azerbaijan. Definitely diversification of energy markets and energy corridors create options for Azerbaijan and strengthen its hand. Plus Azerbaijan establishes strong relations with EU which with its soft power could help solving Azerbaijan – Armenia conflict over Nagorno Karabakh. And of course integration with Europe is the one of the positive results which could be help-full to implement reforms for a former the soviet republic.

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