Recent years have witnessed a grave deterioration in energy relations between Russia and the European Union (EU). The gas issue is an important one tied up in Russia's ongoing attempts at recalibrating Eurasian pipeline strategy and EU's own endeavors to open up new supply routes. The Caspian Sea region has hence become the focal point of heated discussions in the face of heavy energy disagreements between Russia and the EU. While Azerbaijan and Turkmenistan are considered potentially vital partners for European energy consumers, Russia engages in greater assertive policies protecting its national interest in the region. The continuing EU-Russian rivalry over alternative gas supply projects not only widens the gap between Brussels and Moscow but also affects energy strategies of the Caspian countries trying to avoid becoming a battle ground between the two key actors.

The ongoing conflict in Ukraine and the growing concerns about the reliability of Russian gas supplies to the European market have escalated tensions between Russia and the EU to their highest level over the last several years. The contemporary nature of EU-Russian energy relations is the result of an intricate combination of geopolitical and economic factors tied to high profit and national security. At the core of the current energy disputes is an intense competition for resource rents between energy producers, consumers and transit countries. Geopolitical complexities, market access, economic modernization and national sovereignty are among other major issues that have given rise to excessive politicization of EU-Russian relationships. Following the introduction of Western sanctions against Russia, energy relations have become ever so much securitized that all possible channels are now closed up to restore broken trust between both sides.

Although Brussels and Moscow have formally supported the de-politicization of the energy matters, both have divergent views on how the whole sector should be organized. The EU seeks to integrate Russia into European market system, whereas Moscow rejects European value-based policy and opposes the existing international energy trade regime. Lifting sanctions against Russia has therefore turned out to be a challenging task for European policy makers. However, different approaches and contradictory interests have put Russia and the EU at risk of confrontation which tends to have a negative impact on the energy security of both actors.

Current Realities of the EU-Russia Energy Standoff

Being engaged in energy market liberalization, the EU is actually facing a widening gap between declining domestic resources and continuously growing energy demand. Although the EU tends to promote free energy trade beyond its borders, European energy politics is even now dominated by national interests hindering the creation of an articulated common and strategically-oriented EU stance on energy market organization. So far, diverse interests inside the EU have prevented Member States from formulating a cohesive and integrated energy policy. Russia, in turn, has taken a different approach to energy market globalization, refusing to play a role of mere energy exporter. Russia's energy policy is mostly influenced by the key strategic objectives relating to geopolitics, global economic trends, social and political changes. The Kremlin strongly demonstrates its geopolitical vigor and frequently uses rigid methods to safeguard Russian strategic interests. Still, the potential for continued rivalry remains great because key investment projects and priority pipeline routes have severely altered the present power positions.

Since the beginning of the Ukraine crisis, the Kremlin leadership has significantly revised Russia's gas pipeline strategy. While Russia has been dominating European energy markets for many years, Russian energy strategy has affected many European and non-European countries in terms of demand, supply and transit. New alternative gas and oil routes are nonetheless vital for Moscow. In this respect, Russia's move in the direction of Asia, where energy cooperation with China has been intensified in recent years, is posing new challenges for European consumers. In order to rebuild Russia's world power status, President Vladimir Putin is concentrating on using the country's vast natural resources. The Kremlin's new grand vision in the global energy market is to enhance Russian self-confidence through a greater range of options in Eurasia.

The EU, in turn, is making every effort to lower its dependence on Russia by diversifying its sources of natural gas supply. Even though several alternatives to supplant Russian gas in Europe are currently under consideration, there is little evidence that the EU can significantly reduce its Russian energy imports in the foreseeable future. The very fact that Russia holds the largest energy supplies globally and already has significant infrastructure in place clearly explains why some of Europe's biggest energy companies remain reluctant to shift radically from the status quo. It is no surprise that they have huge financial interests in maintaining the steady flow of gas from Russia. Even so, the EU is struggling to develop new alternative energy projects. Supplying natural gas to European market from the Caspian Sea region has long been a major goal of the EU in an attempt to alleviate at least some Russian dependence.

Major Pieces of the Caspian Puzzle

EU Member States have recognized the geopolitical importance of the Caspian basin, thus viewing Azerbaijan and Turkmenistan as a strategic corridor linking southern Europe with the Caucasus and Central Asia. While acknowledging the rich potential of the Caspian hydrocarbon resources, the EU has likewise realized that new investment projects could help secure and stabilize world energy supplies in the future. True, Azerbaijan and Turkmenistan have become crucial actors in the Caspian region and both countries occupy special place in the EU's strategy of gas supply diversification. Brussels has intensified relationships with Baku and Ashgabat to access the Caspian Sea's energy deposits and decrease Europe's reliance on Russian energy imports. In so doing, the EU has launched direct talks on transnational projects that will provide the flow of substantial energy supplies from the Caspian basin to the European market.

Trans-Anatolian pipeline (TANAP) and Trans-Adriatic pipeline (TAP) will eventually open the long-awaited Southern Gas Corridor, considered part of the 'New Silk Road' of energy transport links between the Caspian basin and the EU. Once this vital connection becomes fully operational in early next decade, it will enable the EU to import natural gas from Azerbaijan, Turkmenistan and possibly Iran. Besides, Brussels has started actively lobbying for the Trans-Caspian gas pipeline project recently resubmitted to the EU's energy agenda. Trans-Caspian pipeline could be a part of the TANAP project which is being constructed by Azerbaijan and Turkey. Most notably, the Trans-Caspian pipeline would deepen the east-west axis of energy relations between Azerbaijan, Georgia, Turkmenistan, Turkey and EU Member States.

Nonetheless, energy remains the key challenge for Azerbaijan and Turkmenistan in their domestic and foreign policies, not only towards the EU but to others as well, Russia especially. A healthy flow of Caspian gas supplies to Europe is predicated on stability in these two countries, at least into the mid-term. Decision making processes in both Baku and Ashgabat often tie into regional geopolitical and geo-economic equations. In reality, TANAP, TAP and Trans-Caspian pipeline routes are not zero-risk projects. Some potential issues include material supply, construction risks, the legal status of the Caspian Sea and environmental concerns raised by Moscow and Tehran.

Delivering natural gas by increasing interdependency between suppliers and consumers makes the situation politically mostly vulnerable. The export of hydrocarbon resources from the Caspian Sea to Europe is therefore challenged by certain factors such as the geopolitical interests of powerful neighbors, competing pipeline projects, changes within supply routes and technical problems. For example, the main obstacle to TAP is not the postponement of the project inauguration by one year to 2021 but new conditions being put on table by the Greek government. Right from the outset, Greek Prime Minister Alexis Tsipras began playing gas pipeline politics. On February 3, 2015 Greece stated that it would support the construction of the TAP pipeline across its territory but thought the benefits Athens might receive would be insufficient and could be discussed for revision. Following the announcement of the Turkish Stream, Greece found itself in a crucial geographic position to impact EU's energy security. Since then, both pipelines (TAP and Turkish Stream) have been in a race to be the first to cross Turkey into Greece and establish itself with first-mover advantages. In fact, Tsipras is trying to play his trump card over EU energy security. He wants to use Greece's geographic location to get higher transit fees from TAP, even if renegotiating agreements would cause ill feeling towards his government.

At the same time, Trans-Caspian gas pipeline project can only become feasible if Azerbaijan and Turkmenistan are willing to risk displeasing Moscow. This would all depend on both countries' ability to resist pressure from every direction, especially Russia and Iran, which constantly bring up the unresolved status of the Caspian Sea arguing that pipeline construction may damage the Caspian Sea's environment. By perusing multidimensional energy policies, Baku and Ashgabat have taken cautious yet balanced-interest based approach aimed at avoiding any direct confrontation with Moscow in terms of materializing Southern Gas Corridor. Given the political concerns, neither Azerbaijani President Ilham Aliyev nor Turkmen President Gurbanguly Berdimuhamedov can push harder than the EU does for the Trans-Caspian-TAP-TANAP pipeline route. Baku and Ashgabat are ready to start the project but they do not see enough EU political support and have doubts about EU's willingness to stand up to Moscow to help advance these international initiatives. Consequently, the effect of Russia's hard-pressure is directly dependent on the EU's united resistance front.

Paradoxically, the EU has endeavored to establish an energy union aimed at concluding more transparent gas deals with a view to diminishing Russia's influence. Notwithstanding strenuous efforts to advance the creation of a common energy market, the EU has so far not provided a holistic solution to multitude of conflicting national interests of the Member States. Moreover, the lack of much-needed flexible integration in the European energy market has given Russia some greater room for maneuver in Eurasian pipeline politics. Moscow has employed wise tactics

suggesting stakes to European companies in various investment projects. Russia also continues using its political clout to discourage some of the Caspian littoral states from supporting the EU plans for diversifying gas supplies.

On the other hand, due to the lack of proper infrastructure, Azerbaijan and Turkmenistan cannot fully satisfy EU's demand and do not represent credible alternatives to Russian gas in the short term. In the long run, even though new routes avoiding Russia are underway, the anticipated export capacities are still insufficient for the two Caspian littoral countries to be powerful game changers in the European energy security. However, Southern Gas Corridor can certainly inject competition into all EU markets and blunt Russia's 'energy weapon.'

All the same, Russia may still seek to make use of its cost advantage to keep potential competitors out of the European market. Moscow could sell its gas at lower prices while new challengers such as piped gas from Turkmenistan need to be more than that price to be profitable. Neither Azerbaijan nor Turkmenistan has similar advantages, and as such, TANAP, TAP and Trans-Caspian pipeline projects simply cannot replace Russia's share in the EU natural gas market. In light of the current global financial situation along with low oil and gas prices, it is hard to see the transformation of the Caspian Sea region into a key gas transit hub for the EU in the near future.

EU's Energy Security Caught between Russia's New Stratagem and Old Problems

Russia's multidimensional natural gas chessboard is easy to understand as Moscow has many economic and geopolitical interests in the wider Black Sea-Caspian basin. While energy-hungry South East European countries are trying to promote TANAP and TAP in the hope of speeding up their integration into the European energy system, Russia continues to send mixed signals about different transport gas lines. Despite a heavy dose of Western sanctions, Moscow put forward the intention to build a pipeline to Turkey with potential control of a gas hub at the Turkish-Greek border for sales to Europe.

Russia and Turkey have been critical strategic partners for many years. Since Vladimir Putin and Recep Tayyip Erdogan came to power fifteen years ago, both countries have developed closer cooperation not only in the energy sector but also in the fields of trade, tourism, construction, defense procurement and capital investment. Russia's most recent initiative known as 'Turkish Stream' has the potential to block all alternative gas sources via Turkey to the EU. If Moscow and Ankara arrive at terms for implementing the project, Turkish Stream can have serious implications for some of the EU Member States with regard to future diversification of European energy supplies. In case the project comes on stream in due time, Russia's state-owned energy giant Gazprom could easily price out the high-cost Caspian gas on Turkish and European markets.

Turkish Stream is a well thought-out and calibrated strategy of President Putin, reflecting the Kremlin's new geopolitical energy calculus at the high-stakes Eurasian game.

Meanwhile, President Putin's policy on European energy supply looks very confident. Moscow now directly challenges the future buyers of Azerbaijani gas, especially those consumers

covered by the Turkish Stream project. In the absence of a more coordinated European approach to energy security, Russia's new gas concept aims to build Turkish Stream first and then just wait for the construction of the infrastructure in Europe. In all probability, such a move will enable Moscow to call timeout and worry the EU into resolving controversial issues that may arise on the part of the European consumers.

Yet interestingly, some of the Caspian littoral states are capable of finessing the energy export issue. For example, over recent years, the ruling authorities in Baku have succeeded in maintaining a balanced diplomatic stance amid competing geopolitical interests in the wider Black Sea-Caspian basin, as Azerbaijan delivers energy supplies not only to Turkey and the EU, but also to Russia and Iran. Azerbaijan does not consider Turkish Stream a rival project to Southern Gas Corridor. In fact, capacity of Turkish Stream can be useful to Azerbaijan which will be able to use the transportation potential of the Russian-Turkish pipeline extension on Europe's territory for supplying additional volumes of natural gas in the future.

Likewise, Iran, which owns the world's second largest natural gas reserves after Russia, will certainly examine several export routes to Europe if international sanctions on the country are fully lifted. Tehran might also exploit the Turkish Stream pipeline for one of the possible routes where Iran's future gas can be accessed by European consumers. In parallel, the recent deal over Tehran's nuclear program has opened new opportunities for expanding economic ties between Iran and other Caspian neighbors. More particularly, Iran is searching for ways to cooperate closely with Azerbaijan on energy exports. Once sanctions are lifted, Iran will be able to use Baku-Tbilisi-Ceyhan pipeline to export its oil and can also join in TANAP to transport its gas to Europe in the future.

Even so, there are several reasons why Iran has very little chance to deliver its gas to Europe in the mid-term. Due to the worsening security situation in Turkey where energy infrastructure, including the Iranian-Turkish gas pipeline, has repeatedly been attacked by terrorist organizations, the transportation of Iran's future gas to European market would be a bad choice for Tehran. Although Iran has abundant sources of gas and oil, considerable investment and new technology will be required for processing the country's huge energy reserves. Last but not least, owing to long distances and higher transit costs, Europe is currently not the key priority for Iran, which mainly concentrates on exporting natural gas to its neighboring countries.

Evidently, uncertainties around Turkish Stream and Southern Gas Corridor may eventually decide the destiny of these pipeline routes. It remains to be seen, however, whether both projects will repeat the fate of South Stream and Nabucco. But one thing is already clear: much of what happens today in Eurasian pipeline politics depends on the EU's future energy demand and Russia's strategic moves.

Conclusions and Recommendations

In the twenty-first century, EU's energy security will long remain a leading factor in global attention and Eurasian pipeline politics possibly will take the form of a new highly competitive great game. While the Ukraine crisis has once again trumpeted European vulnerability brought by overdependence on Russian gas, it has become clear that both the scope and nature of the

EU-Russia energy relations is dramatically changing. As yet, incentives to diversify energy supplies are limited and there are no feasible alternatives to energy imports from Russia, since cheap Russian gas suits the European market very well.

Though being a thorny trading partner, Russia is practically viewed as a good, if not the best, energy supplier for Europe, especially taking into account the costly alternatives currently under consideration. Internal EU division and competing voices among Member States also help Moscow maintain the status quo and undermine EU bargaining power. In all this, there is complete understanding why Russia dominates the European gas market and will probably continue to do so in the years to come. Decreasing EU energy reliance on Russia will therefore be a long-drawn-out process fraught with constant obstacles; achieving full diversification of gas imports appears simply unrealistic.

Still, there are bigger stakes in EU-Russia energy relations. Both are historical partners who complement each other. Seeking a dialogue with Russia is not merely a matter of market reality, but also of geopolitics. In order to better secure EU-Russia relations, Brussels will need to come to terms with the fact that Moscow pursues interests different from its own. Finding a sustainable compromise will not be a simple task but it is essential not only to Russia and the EU but also to the Caspian littoral states and many other countries in Eurasia in order to reduce business risks and to increase the stability of world energy markets.

Specifically, the EU must be realistic about its energy interests and capabilities in the Caspian basin. The EU has thus far declined to be a relevant security actor in this region, since Brussels is not able to engage in hard security approaches and to compete with Moscow and Beijing in geopolitical terms on energy matters. And yet, the EU needs to formulate an integrated energy policy on the basis of a new comprehensive strategic vision. New EU initiatives need bilateral and trilateral tracks. The EU should support the integration of partner countries in a common energy network governed by EU rules. Furthermore, creating a kind of new format of multilateral dialogue between the EU and the five Caspian littoral states (Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan) would probably make it possible to remove current differences on important strategic issues in relation to future gas exports onto the European market. The establishment of an EU-Caspian multilateral structure, in which Russia’s participation is vital, could be a starting point for decreasing competition over energy resources in the wider Black Sea-Caspian basin.

In order to advance in this direction, Germany, one of the leading EU Member States, could play a particular role in expanding the network of experts and researchers from Russia, other Caspian countries and Western Europe to provide a forum for debate on Russia-EU-Caspian energy relations. For a successful partnership, divergent views need to be evaluated objectively and responsiveness for other interests is necessary to find a solution to the existing problems. For this reason, EU policy makers should also listen more to the actual business partners from European, Russian and Eurasian companies.

Most importantly, a new big idea should include an integrated package of policies that Russia and the EU, along with significant contribution of other regional countries, could negotiate to build Europe’s durable energy security architecture. The EU, Russia and all other stakeholders

should agree on a new international institutional framework that would integrate interests of both energy suppliers and importers, with a view to establishing a level playing field. This can indeed be the best way forward because it means promoting mutually beneficial cooperation, common rules and a secure investment environment for all actors in the European energy arena.

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