

**T.C.
SAKARYA UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES**

**A COMPARISON OF EU FOREIGN POLICY AND
TURKISH FOREIGN POLICY TOWARDS THE
SOUTH CAUCASUS: THE CASE OF ENERGY**

M.A THESIS

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Department of International Relations

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JULY - 2008

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This dissertation has been accepted by the below jury with unanimity on the date of 28.07.2008

The Head of Jury

- Admission
- Rejection
- Amendment

Jury

- Admission
- Rejection
- Amendment

Jury

- Admission
- Rejection
- Amendment

ANNOUNCEMENT

In writing this thesis;I was decisively in accord with academic ethics.I was generally benefited from the writings,speeches and secondary sources as academic journals and books within academic ethics.As a conclusion I would like to state that this thesis could not be found in any libraries as a thesis or a project.

Hande KOLUNSAĞ

28.07.2008

PREFACE

Energy has become one of the most pressing issues of past times as well our times. As the world demand for energy grows, it can be realized that the conflicts and wars has been broke out in consequence of energy demand. As it seemed, energy resources are not infinite and the intentions of most countries are to take advantage from an alternative region for energy resources as the Central Asia and the Caucasus. By the reason of the rising energy consumers and importers in the East, a revival of Mackinderian geopolitics on a global scale may be witnessed. This wider region is emerging important energy actors in the global geopolitics of energy and thus this thesis will firstly to make a comparison between EU Foreign Policy and Turkish Foreign Policy towards the South Caucasus in the case of “Energy”. In the absence of an internationally agreed framework for relationships among producer, consumer and transit countries; serious efforts are being made toward enhancing interaction and cooperation between Turkey and EU in the region. Secondly, it will evaluate the impact of geopolitical importance of the region and energy corridor in the South Caucasus on EU and Turkish Foreign Policies. The wealthy energy resources have a direct influence on Turkish Foreign Policy and EU Foreign Policy. Thirdly, it will touch upon EU’s instruments in South Caucasus as TACIS, ENP, PCA and their impacts on the states of South Caucasus. By paying special attention to the common projects of EU and Turkey in the South Caucasus, BTK, BTC and NABUCCO will be examined. It will illustrate the general framework of EU and Turkish Foreign Policy with similarities and differences in the South Caucasus region.

ACKNOWLEDGEMENTS

First of all I would like to thank for my advisor, Associate Prof. Burhanettin Duran, for his continuous support and help during the process of writing this dissertation. Secondly, I would like to thank Rovshan Ibrahimov, the head of the department of I.R at Qafqaz University in Baku. His scheduled method was an advantage for me in formulating the process of writing. His comments were also useful in writing these chapters. With his helps and ideas; the general framework of the dissertation was constituted .I would like to thank Assistant Professor Tuncay Kardaş and Assistant Professor İrfan Haşlak for their opinions and comments for the constitution of the framework of this thesis. I would like to thank Assistant Murat Yeşiltaş, for the title of this dissertation and for his encouragement to work on this topic .I would like to thank Associate Professor Emin Gürses for his endless support and encourage and Assistant Yıldırım Turan for his advices and ideas during this process. In addition I would like to thank Kostas Zaimis, Project Coordinator at BSEC Headquarter, for his documents and archives. Koç University Library provided invaluable materials for me on the policies of the European Union and thanks to library staff for their kindly concern. I would like to thank to Associate Prof. Kemal İnat for sharing his ideas with me and I also would like to thank my dear trustworthy friend as his name for his support, his endless help and his struggle during this process. I would like to thank my dearest friend for her endless support, help and her creative mind, Merve Tama. Last but not least, I'd like to thank my dear mother, my dear father and my dear sister for their patience, understanding and help during the process of writing of my dissertation.

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ABBREVIATIONS

CIS	: Commonwealth of Independent States
USSR	: Union of Soviet Socialist Republics
EU	: European Union
ADR	: Azerbaijan Democratic Republic
USA	: United States of America
A.D.	: Anno Domini
TSFSR	: Transcaucasian Socialist Federative Soviet Republic
SOCAR	: State Oil Company of Azerbaijan
AIOC	: Azerbaijan International Operating Company
BP	: British Petroleum
TPAO	: Turkish Petroleum Cooperation
ACG	: Azeri -Chirag- Gunashli
HIV	: Human Immunodeficiency Virus
GDP	: Gross Domestic Product
IDP	: Internally Displaced Persons
HDI	: Human Development Index
UNDP	: United Nations Development Programme
GNI	: Gross National Income
FSU	: Former Soviet Union
UN	: United Nations
OSCE	: Organization for Security and Co-operation in Europe
BTC	: Baku-Tbilisi-Ceyhan
BTE	: Baku-Tbilisi-Erzurum
BOT	: Build-Own-Transfer

BOOT	: Built-Own-Operate-Transfer
BSEC	: Black Sea Economic Cooperation
ENP	: European Neighborhood Policy
NATO	: North Atlantic Treaty Organization
EC	: European Commission
CFSP	: Common Foreign and Security Policy
EPC	: European Political Cooperation
ESDP	: European Security and Defense Policy
TACIS	: Technical Aid to the Commonwealth of Independent States
TRACECA	: The Transport Corridor Europe-Caucasus-Asia
INOGATE	: Interstate Oil and Gas Transport to Europe
NIS	: New Independent States
CSCE	: Commission on Security and Cooperation in Europe
TEN	: Trans-European Network
UNMIK	: United Nations Interim Administration Mission in Kosovo
ECT	: Energy Community Treaty
NGO	: Non-governmental Organization
EMRA	: The Energy Market Regulatory Authority
OPEC	: Organization of Petroleum Exporting Countries
BTK	: Baku-Tblisi-Kars
SCP	: The South Caucasus Pipeline
WMD	: Weapon of Mass Destruction
ERBD	: Eastern River Basin District
Q.V	: Quod Vide

Title of the Thesis: A Comparison of EU Foreign Policy and Turkish Foreign Policy Towards the South Caucasus: The Case of Energy	
Author: Hande KOLUNSAĞ	Supervisor: Assoc. Prof. Burhanettin DURAN
Date: 28 July 2008	Nu. of pages: V(pre text) + 106 (main body) + 52 (appendixes)
Department: International Relations Subfield: International Relations	
<p>The purpose of this study was to investigate of the similarities and differences between the EU Foreign Policy and Turkish foreign policy towards the South Caucasus in the case of energy. It was f a comparison of EU foreign Policy and Turkish Foreign Policy.</p> <p>Energy has become one of the most pressing issues of past times as well our times. As the world demand for energy grows, it can be realized that the conflicts and wars has been broke out in consequence of energy demand. It was focused on the roles of EU and Turkey in the region, stances of South Caucasian states after the Cold War and their approaches to EU. it was focused on the one hand on issues related with the EU enlargement, EU policies as ENP, TACIS, PCA in the region especially in three states, Azerbaijan, Armenia and Georgia; formation of a common foreign policy in general and a common policy towards the South Caucasus in particular. On the other hand, EU energy policy was examined. It was focused on energy policy of Turkey in the region as priorities of Turkey in the region, the common energy projects between EU and Turkey, Turkey's crucial role in the energy hub. The aim and the impact the projects on the southern Caucasus states and Turkey was examined. It was showed to what extent the events in the post-Cold War era and Turkey's candidature to the Union have brought the foreign policies of Turkey and the European Union closer and how Turkish candidacy for and possible membership in the European Union have increased.</p> <p>In conclusion, it was investigated the place of Turkey in the South Caucasus policy of the EU during the persistance of problems between Armenia and Turkey. It was discussed that how the geopolitical situation of the region and wealth energy resources has lead the EU policy . Turkey's stance in the region against states in the South Caucasus and energy, security, transport issues have been mentioned. It has presented an evaluation of the similarities and differences between Turkish Foreign Policy and EU Foreign Policy within the three main issue that it can be expressed as triangle; Energy, Transport and Security</p>	
Keywords: SouthCaucasus, Pipelines, BTC, BTK, NABUCCO, ENP, PCA, Energy, TACIS Nagorno-Karabakh,,South Ossetia	

Tezin Başlığı: Avrupa Birliği Dış Politikası ile Türk Dış Politikasının Güney Kafkasya Üzerinden Enerji Bağlamında Karşılaştırılması

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Kabul Tarihi: 28 Temmuz 2008 **Sayfa Sayısı:** V(ön kısım)+106 (tez)+52(ekler)

Anabilim Dalı: Uluslararası İlişkiler **Bilim Dalı:** Uluslararası İlişkiler

Bu araştırma; Avrupa Birliği Dış Politikası ile Türk Dış Politikasının Güney Kafkasya coğrafyasında enerji konusunda ki benzerlik ve farklılıklarını ortaya koymak amacıyla yapılmış bir çalışmadır.

Enerji konusu, geçmişten günümüze uluslararası sistemin şekillenmesinde son derece önemli bir rol oynamıştır. Giderek artan enerji ihtiyacı sebebiyle ortaya çıkan çatışmaların çok yoğun yaşandığı bir coğrafya olan Güney Kafkasya'daki devletlerin Soğuk Savaş sonrası tutumu, AB'ye bakış açıları, AB ve Türkiye'nin bölgedeki rolleri bu çalışmanın konusu olmuştur. Avrupa Birliği'nin Soğuk Savaş sonrası bölgede uyguladığı TACIS, ENP, TRACECA ve PCA gibi politikaların Transkafkasya devletleri üzerindeki etkileri ve AB'ye entegre olma konusundaki tutumları değerlendirilmiştir. Bu bağlamda, bölgede Türkiye'nin enerji geçişinde ki vazgeçilmez varlığı, AB-Türkiye ve Güney Kafkasya ülkelerinin de dahil olduğu projeler, AB Dış Politikası ile Türk Dış Politikasının karşılaştırılması için belirleyici bir faktör olmuştur.

Bu araştırma sonucunda, Ermenistan ile Türkiye arasında süregelen problemlerin, Türkiye'nin Avrupa Birliği'ne adaylık sürecini nasıl etkilediği ortaya çıkmıştır. Bölgenin jeopolitiğinin ve zengin enerji kaynaklarının öneminin AB enerji politikasını nasıl yönlendirdiği gündeme getirilmiştir. Soğuk Savaş sonrası Türkiye'nin bölgeye yakınlığı ve bölge devletlerine karşı olan dış politika tutumu ortaya koyulmuştur. AB'nin Güney Kafkasya bölgesinde ki dış politikasının enerji, güvenlik ve ulaşım konularıyla ilgili olarak nasıl şekillendiği açıklanmış bununla beraber Türkiye'nin bu politikanın neresinde olduğu ve neresinde olması gerektiği belirtilmiştir.

Anahtar Kelimeler: Güney Kafkasya, TACIS, ENP, BTC, BTE, NABUCCO, PCA, Enerji, Dağlık Karabağ, Boruhatları, Güney Osetya, BDT, TRACECA, BTK, Ulaşım

INTRODUCTION

The purpose in writing this thesis is to analyse Turkish foreign policy and European Union foreign policy in the case of “Energy “ towards the South Caucasus and the changes in this policy as a result of the European Union (EU) candidature and a comparison between the policies of Turkey and the EU towards the region. This thesis is composed of four chapters. Chapter 1 is about the definition of the region, socio-economic overview of the South Caucasus and the major conflicts in the region as Nagorno-Karabakh Issue and South Ossetia Issue. By the reason of the Nagorno-Karabakh Issue and the closure of Armenian border, it is believed that Turkish-Armenian relationship represents a turning point- especially after the independence of Azerbaijan and Armenia-for the Turkish foreign policy towards the region In this part, the importance of geographical position of the region and wealthy energy resources have been mentioned. With giving the historical background about the region after the Cold War, it would be easy to analyse ethnic conflicts, disputes and relations between three states in South Caucasus. Chapter 2 is about the EU Foreign Policy and Energy Policy towards the South Caucasus. This chapter has six components. The first addresses the general framework of EU Foreign Policy. The basic parameters of EU foreign policy has been mentioned. The second discusses the interests and the instruments of the EU in the region. How interests of EU are translated into policy and programmes. In relation to that, it was focused on the one hand on issues related with the EU enlargement, EU policies as ENP, TACIS, PCA in the region especially in three states, Azerbaijan, Armenia and Georgia; formation of a common foreign policy in general and a common policy towards the South Caucasus in particular. On the other hand, EU energy policy was examined. The EU, the leading energy importer in the world which recently extended its borders to the Central Asia and The South Caucasus, finds itself at the centre of an energy debate immediately affecting the states in the region. At this stage, attention is drawn to the energy security in the region. Since the security issue has been considered in and security threats against Turkey and EU has arisen out on energy and transport issue in the South Caucasus.

In examining EU perspectives and approaches to the region, it is important to recognize that there is no real history of interaction between the EU and its member states on the one hand and the states of the Southern Caucasus on the other.

Chapter 3 is about Turkish Foreign Policy towards the South Caucasus, the basic parameters of Turkish Foreign Policy, the pipeline and railway projects, the changes in Turkish Foreign Policy after the Cold War and the objectives of Turkish Foreign Policy in the region. The first part of the chapter deals with the general framework of Turkish Foreign Policy. After discussing the basic factors, the chapter is followed by the Turkish Foreign Policy towards the South Caucasus. In this part, the focal point is historical proximity. By the reason of Turkey's geographical position; relations between Turkey and Armenia, Turkey and Azerbaijan, Turkey and Georgia generally based on ethnicity. Thus, Turkish Government couldn't adopt a neutral stance toward the three states at the same time. By the reason of the Turkey's pro-Azerbaijani stance in the Nagorno-Karabakh Conflict, it has become a determinant of Turkey's foreign policy in the region. In the next part of the Chapter 3, it was focused on energy policy of Turkey in the region as priorities of Turkey in the region, the common energy projects between EU and Turkey, Turkey's crucial role in the energy hub. The aim and the impact the projects on the southern Caucasus states and Turkey was examined. At last part, the construction process of BTC, BTK, BTE and NABUCCO was mentioned. The future of these projects were discussed.

The final part, Chapter 4 presents an evaluation of the similarities and differences between Turkish Foreign Policy and EU Foreign Policy within the three main issue that it can be expressed as triangle; Energy, Transport and Security. By giving several examples in each of the points of analysis, a comparison between TFP and EU Foreign Policy were made in the case of "Energy". These comparisons were made according to several factors like geographical location, the size of the country, the cultural characteristics, and the political and economic background of the country and the tradition of foreign policy.

In conclusion, it is believed that other researches in this respect may also include other issue like ethnic conflicts and disputes in the South Caucasus, The Russian dominance and impact in the region, EU Enlargement that is related to the region would contribute to the researches on this topic. These remaining issues are also important and need further research by other students and scholars but it would be impossible for me to cover all of these issues in this thesis.

Aim of the Thesis

The aim of this thesis is to understand the similarities and differences between Turkey and other member and candidate countries in terms of the changes in foreign policy and the peculiarities of Turkey here. It is also examined the place of Turkey in the EU's policy towards the region in the current conditions and in the future.

Method

In writing this thesis, method of critical thinking was adopted. The developments and changes were analysed within the framework of international system. This thesis approaches the research question in an interdisciplinary way. It was benefited from secondary sources as academic journals, books and reports.

Importance of the Thesis

By examining various sources, it was analysed the similarities and differences between EU foreign policy and Turkish foreign policy towards the region and the impact of the EU candidature on Turkish foreign policy and where Turkey is in the South Caucasus policy of the European Union.

CHAPTER 1: HISTORICAL DEVELOPMENT AND AN OVERVIEW TOWARDS THE REGION

1.1. A Definition of the Region

The transformation process that has been brought about on 1980's in the USSR has led considerable changes for the future of the CIS(Commonwealth of Independent States) after the disintegration of the USSR(Union of Soviet Socialist Republics). Many observers perceive the CIS as a geopolitical tool, allowing Russia to maintain its influence over the former Soviet republics. Since its formation, the member-states of CIS have signed a large number of documents concerning integration and cooperation on matters of economics, defense and foreign policy. The aim is to provide integration in a common field and the EU can be a model for CIS. Security, transport and energy are the main issues that has always took place in the agenda of CIS and of EU. In the beginning of the 20th century the most distinctive feature of the international system was to be formed of international relations at the level of states and the maintenance efficiency of the power politics on international relations (Gürses, 2001).

The establishment of the Soviet Union was based on circumstances of the regional and international competition however crisis which were the results of this competition has brought about the disintegration of the USSR. The disintegration of the USSR and the demise of the Cold War had brought about political vacancy in Eurasia (Şihaliyev, 2004). By the reason of this situation; the new competition on energy resources has been broke out between hegemon powers in the region. On the other hand developments since the demise of the Cold War has been indicated that the world peace and stability on the whole Eurasia's Geography would be ensured by the steps that has been taken in the Caucasus (Berkok,1958)

However basic issues of New World System as ethnic and religious discrimination, instability in public and state affairs, the handicap of the government's status quo in economic and political progress, boundary disputes, restrictions on speech of people about their future have been put on the agenda in the Caucasia (Mert, 2004).

The Caucasus is a transition region between East-West and North-South that has been at a crossroad for the energy and transportation in Eurasia after the Cold War. Hence Caucasus is one of the key points in the world. Because of its geopolitic and strategic importance, it has become a battle and struggle ground that major regional and global actors contend for several interests and influences. Consequently it has been as the framework of the world and it was condigned to be called the framework of the world not only for its geopolitic importance but also for economic, political and strategical reasons.

The region, formerly contained within the boundaries of the Soviet Union, is in the early twenty-first century spread over four nations: the Russian Federation to the north; and the three republics of the South Caucasus, also known as Transcaucasia: Armenia, Azerbaijan including the Nakhichevan Autonomous Republic and Nagorno-Karabakh and Georgia including Abkhazia, the Adjarian Autonomous Republic, and South Ossetia The Russian part of this area is divided into several ethnic jurisdictions: Adygey Republic, Karachay-Cherkessia, Kabardino-Balkaria, North Ossetia, Ingushetia, Chechnya, Stavropol Territory, the Dagestan Republic, Krasnodar Territory and parts of Kalmykia and the Rostov region. By the reason of this, The Caucasus region has long been known for the diversity of its peoples. More than 40 languages are spoken by the ethnic groups of the entire region. It forms part of the traditional border between Europe and Asia (q.v. Map 1).

The policy of the Soviet Regime and the settlement of numerous people in a minor territory has brought about The Caucasus Question where the most important resources and transportation ways of the world are found (Öztürk, 2003). Especially three states in South Caucasus have strategic importance because of the geographical location of Georgia, the economic potential, the wealthy natural resources and the high population of Azerbaijan, the resolution role of Armenia in the region (Selvi, 2004). The interests of the hegemon powers in the region has been considered that the security issue of Caucasus is not a regional question, it has become an international issue. Russia's struggle is to hold high level talks in economic, military and politic relations with its last castle in Caucasus, Armenia. The USA has demanded to gain power and to take

control over Caspian Energy Resources in the region immediately afterwards planning to settle down in the region as political and military power. EU wishes to take its share from this.

After the Cold War, the changing international position in the Caucasus can be considered from various aspects. At first; Globalization, the changing global balance of power and its effects on the region. Especially global economic competition has been lead to conjuncture. Multinational companies are also one of the main actor that has focused on transfer resources. Secondly; the competiton comprises of states as Iran, Turkey, Russia and because of their neighbourhood to Caspian Sea; Uzbekistan, Kazakhstan, Turkmenistan. The dimension is based on the reflections of global competition moreover geopolitic and diplomatic attitudes of major and central regional powers. Thirdly; regional balances and paradoxes are related to ethnic and religious divergency in the region. These arguments causes increasing hot conflicts and a risk for actors whom took place in the second dimension.

Taking into account the situations discussed above, firstly it can be asserted that the North Caucasia is the backward and undeveloped region within the federation of Russia in the Soviet era. After the disintegration of the USSR, the entire CIS states including Caucasian Republics has been still governed by the domination of ex communist regime. State property are still shared with the cooperation between state and mafia and enriched a group. The competition is not only out of the region as we see. The competition is turning into a combat within ethnic groups and states on economic interests in the region.

1.1.1 Geographical Position and Importance of the Region

Caucasus is a mountainous region between the Black and Caspian seas. The Caucasus region is a relatively compact area centered on the Caucasus Mountains. The Caucasus Mountains are commonly reckoned as a dividing line between Asia and Europe, and territories in Caucasia are variably considered to be in one or both continents. The foothills to the north and some of the steppe connected to them form a northern border,

while the southern border can be defined by the extent of the Armenian plateau. The Black Sea in the west and the Caspian Sea in the east form natural boundaries in those directions. The highest peak is Mount Elbrus. It is a territory of immense ethnic, linguistic, and national diversity, and it is currently spread over the territory of four sovereign nations. Darial and Derbent Gorge are the most important gorges between Great Caucasus Mountains (Mutluer, 2002). Azerbaijan is divided into 59 rayons, 11 city districts and one autonomous republic of Nakhchivan which subdivides into 7 rayons and a city. Azerbaijan officially is the largest and most populous country in the South Caucasus region of Eurasia that is located at the crossroads of Eastern Europe and Western Asia, it is bounded by Caspian Sea to the East, Russia to the North, Georgia to the northwest, Armenia to the west, Iran to the south. On the other hand the Azerbaijani exclave of Nakhchivan is bordered by Armenia to the north and east (Alpargu, 2004).

Traditionally Georgia has a role as a prominent trade and transition corridor between Europe and Asia. Georgia is 70,000 square kilometers in area and it is located in fertile grounds in the middle of South Caucasus. There are three main areas in Georgia. On the North Great Caucasus Mountains, on the center a tectonic hole and on the South Transcaucasus Mountains (Mert, 2004).

Georgia is surrounded by Russia, Azerbaijan, Armenia, Black Sea and Turkey. It is divided into 9 regions, 2 autonomous republics, and 1 city. The regions are further subdivided into 69 districts. Currently, the status of South Ossetia, a former autonomous administrative district, also known as the Tskhinvali (is the capital of the de facto independent unrecognised republic of South Ossetia which is internationally considered as part of Georgia). region, is being negotiated with the Russian-supported separatist government. The two autonomous republics are Abkhazia and Adjara (Günel, 1994). Beyond the significant geographical position of Georgia, Steel and Roads have strengthened the importance of the geopolitical position of Georgia. In addition, Georgia is located in one of the major corridors for oil and gas transport to Europe. It is on the most nearest way from Caspian Sea to the West not only to provide oil in the Central Asia but also to provide a basis for Turkistan region exploiting high

seas (Çakmak, 1998). In this sense Turkey had attained potentials for reaching to Central Asia over Georgia through Bosphorus and Black Sea after the Cold War. In respect of the emphasized position of Georgia has brought a number of questions and disputes along with itself as an obstacle on closed geniality relations and neighbourhood through the history between Armenia and Russia (Canbarlı, 2002). Armenia is 29.800 square kilometers in area. Armenia is bordered by Georgia, Azerbaijan, Turkey and Iran. Armenia depends on Georgian economy by the reasons of deficiency of resources and geographical position (Sezgin, 2002: 48). Besides these circumstances, Armenia has serious disputes with her all neighbours except Iran instead of providing peace and stability in the region (Şihaliyev, 2004).

The characteristics of the relations between two countries which proceeds toward a strategic alliance, worries all the countries of the region. This situation has been brought some questions along with itself. May Iran and Armenia be strategic allies? Why does Armenia so much want to approach to Iran? Why does Iran wish to deepen its relations with Armenia? How does the international system affect this relationship? How do regional factors influence this relationship? What are the circumstances that propel the relationship between Iran and Armenia toward a strategic alliance (Gül and Ekici, 2002). If this situation can be analysed, aftermath the dissolution of the USSR; there were two fronts were seen on the scene. Members of the first front are Turkey, Georgia, and Azerbaijan and the USA; Russia, Armenia, Iran and China-secret actor-were in the second front. The aim is the same and common for both fronts: to strengthen their sphere of influence and to penetrate into zone in Caucasus and Central Asia. So Iran and Armenia have some alike interests and common features. For instance; both of them are out of the project of oil and gas pipelines transferring to the global market. Having benefited from the Armenian lobbies in the USA and in EU countries in the way Iran desired, as an alternative to this, wishes to prevent the unification of South Azerbaijan and Azerbaijan by the support of Armenia. Armenia has undertaken a role of a mediator on relations between Russia and Iran. Iran has paramount importance for Armenia to reach to high seas and West. Armenia has vital interests and crucial needs to maintain her existence by the establishment of high hot wires and gas pipelines (Gül and Ekici, 2002).

1.1.2 Short History Aftermath The Cold War

Azerbaijan was always been invaded and dominated by many powers by the reason of her geopolitical position. Conflicts had kept on until 19th century and some movements had begun on this century however the results of these movements had seen at the first of 20th century. Aftermath the Bolshevik Revolution in 1917,Azerbaijan had declared her independence as the Azerbaijan Democratic Republic (ADR).

The ADR was the first democratic parliamentary republic in Muslim World but lasted only 23 months until the invasion of Red Army in April 1920.After two years, Azerbaijan and Armenia were occupied and overthrown by Bolsheviks on April 28,1920 (Mert, 2004). Revolutions against communism were crushed by Red Army. Soviet Regime was declared by the invasion of Red Army, Azerbaijan along with Armenia and Georgia became the part of Transcaucasian Soviet Federative Socialist Republic (Selvi, 2004).

One part of her territory had been given to Armenia and other parts to Georgian on December 5,1986 (Gasimov, 1992). Three republic were established which were depended on Russia on the rest territories of Azerbaijan. In 1989,with the beginning of Glasnost and Perestroika policies in Russia, transformation on material and moral values had been set out in the North Azerbaijan (Saray,1993). Azerbaijani people had revolted against Russia for taking her lands back. So Red Army had carried out massacre in Azerbaijan. The USSR has maintained to put pressure on republics which struggle to declare their independence until August 30,1991-the collapse of the USSR. Later in 1991,Azerbaijan has declared her independence and it has become a member of CIS on September'93 (Alpargu, 2004). Azerbaijan is the most populous country in the region where Turkish majority are found in the total population in Caucasus. Until today Baku always is the center of revival of the nationalism and ethnicity.

Karabakh Issue was a major issue that can be discussed but can't be solved between Azerbaijan and Armenia for many years. This debate has broke out on 1921 and it has

still put on the agenda during the transition stage of Moscow in the last quarter of 20th century. This issue had tackled by Soviet Supreme therefore a temporary resolution had been implemented. According to these resolutions, the region had been granted within Azerbaijan, the decision had been denied by Armenia however Soviet Supreme didn't adopt Armenia's decision. Nagorno-Karabakh is still defacto independent state in Caucasia (Gürses, 2001).

The region which Georgia is located, has always been invaded by the great powers as Russians, Turks and Persians by the reason of its strategical geographical position until today (Mert, 2004). In the 5th-6th century A.D there were combats between Iran and Byzantine Empire in the region, in the 13th and 14th century Dengizk and Timur had invaded the region, in the 15th century the western side of the region had been underdomination of the Ottomans and Safavids (Berkok, 1958). In the 18th and 19th century aftermath the conflicts in the region, according to Russia the domination Georgia was a step to capture the khanete of Azerbaijan. After the Bolshevik Revolution on 26 May 1918, Georgia had declared its independence however aftermath the intervention of Red Army in 1921, it had joined the TSFSR(Transcaucasian Socialist Federative Soviet Republic) in 1922. In 1936 with the dissolve of TSFSR, it had become a member of the USSR.

A powerful independency movement had begun from 1990 in Georgia aftermath the dissolution of the USSR with the policies of Glasnost and Perestroika. On 31March 1991, the referendum were made around the country then on 9 April 1991, the parliament of Georgia has declared her independency (Mert, 2004).The independency process had brought many internal conflicts along with itself as Adjara, Autonomous Republic of Abkhazia and Autonomous Republic of South Ossetia are located within Georgia. The federation of Russia has exploited from Abkhazia and South Ossetia disputes for taking control over Georgia. Russia had supported ethnic groups against Georgians. The aim of Russia is to dominate the ex-republics of union and to provide Georgia's attendance to CIS (Kanbolat, 2000). Besides all resistance, Georgia had to adhere to the CIS on March 1994.In the region there is a state that brings about conflicts, disputes and poses a threat about security for Turkey, Georgia and

Azerbaijan: Armenia. From the beginning, the strategy of Armenia was based on cooperation with Russia in the region on the other hand Armenia tried to improve the relations with the West.

By the help of the power of military-strategical cooperation between Armenia and Russia, Armenia had invaded prominent quantity of territories in Azerbaijan and had penetrated on these territories. Armenians had lived in Cilicia, Eastern Anatolia, Caucasus and around the Caspian Sea as small kingdoms that were exclave of Iran, Seljuk, and Georgians until 16th century (Mert, 2004). According to the result of Otoman-Russo War, some parts of Armenian territories were given to Russia (Şihaliyev, 2004). Armenian had an opportunity to establish an independent state in 1918 however it was invaded by Bolshevik Russia in 1920 then in 1922 it had become a member of Caucasus Federation, in 1936 it had become a member of the USSR with Azerbaijan and Georgia (Mert, 2004). At first Armenia has declared its independency in 1991 then it had become a member of CIS on 21 December 1991 (Mert, 2004). Azerbaijan and Georgia consider that the CIS is the remaining part of the USSR and they have tried to integrate the system of the West besides this, Armenia has tried to integrate herself into the security system of Russia.

Azerbaijan and Georgia had tried to improve economic and politic relations with Turkey however Armenia has preferred to be out of this process. Azerbaijan and Georgia has struggle to repel Russian Army from their territories, Armenia had pointed that the only security and independency guarantee of Armenia was Russian Army on Armenian lands (Selvi, 2004). From the latest of 1918 Nagorno-Karabakh dispute between Azerbaijan and Armenia, Javakheti Question between Armenia and Georgia, Abkhazia and South Ossetia Question has been broke out and has been still continuing. Armenia had occupied the 20 % of the Azerbaijan territory during the independency process furthermore Armenia has supported the separatist movement of Armenian whom have settled down in Javakheti region of Georgia (Doğu, 1985). In fact the security undertanding of Caucasus is based on threat perceptions due to disputes between states.

The Caucasian states have faced many same challenges confronting other former communist states, but those challenges have been much more intense for Armenia than Azerbaijan, and Georgia, due to the unique historical and cultural characteristics and strategic resources of the Caucasus. The independencies of three states and the circumstances that was discussed above, have brought about many questions along with themselves. Socio-economic conditions and difficulties, related to on transition of these states are the main concerns to determine economic and social progress.

In spite of dire socio-economic conditions and widespread poverty, the Caucasian states are not traditional developing countries. Due to their Soviet past, they have high levels of literacy, relatively high life expectancy, high access to education for both men and women, and a rather advanced health care system. However, socio-economic indicators have dropped dramatically since independence. Poverty is the greatest problem for people that only a decade ago lived in relative wealth. The severance of Soviet-time economic links and the travails of transition from a centrally planned to a market economy are major causes of this phenomenon, which has led to the devastation of industry in the region and to rampant unemployment. Over half of the region's population lives below the poverty line. The economic collapse has also restricted the state's ability to fulfill key functions, and as a result both the health care and education systems have deteriorated. The number of HIV-infected persons is increasing at a dramatic rate, even though many of the infected people remain unreported due to the social stigma attached to this disease by society. We will focus on how Azerbaijan has been affected in the terms of economic and social developments during this process (www.unicef.org, 03.05.2008).

1.2. Socio-Economic Overview of the South Caucasus

The South Caucasus contains three states that emerged after the collapse of Soviet Union: Georgia, Armenia and Azerbaijan. The states in the South Caucasus have experienced a prolonged and difficult political, social and economic transition. In this context there are similarities among these states in terms of their socio-economic situations. Firstly it will be touched on the socio-economic overview of Armenia.

Armenia is a lower middle income country with a gross national income per capita of \$1,930. The country is comprised of 10 regions and the capital city of Yerevan. About 65 percent of the total 3.2 million population lives in urban areas, of which one third lives in Yerevan. A land-locked country, Armenia has high transportation costs. Armenia's borders with two important neighbors, Azerbaijan and Turkey, were closed due to the conflict over Nagorno Karabagh soon after Armenia's independence in 1991. The main surface trade links are limited to low-capacity rail and road connections with Georgia and its Black Sea ports, and a single road with Iran. Border closures have imposed costs on the economy. Agriculture generates 18 percent of Armenia's gross domestic product (GDP) and employs about 46 percent of the labor force. The services sector, concentrated in public administration and trade, generates around one third (33 percent) of GDP. As a small developing economy, Armenia depends critically on external markets for sustaining high growth and reducing poverty (www.worldbank.org.am,11.03.2008).

Azerbaijan has the opportunities and problems of an economy dependent on a single sector-energy. The benefits of rapid economic growth, driven primarily by direct foreign investment in the oil sector have not, however, been felt by the majority of the population – almost the half of which lives in poverty with the social indicators deteriorating. The long-standing conflict with Armenia remains unresolved. Consequently, displacement from the conflict in 1991 continues to cause human suffering. There are nearly 1 million internally displaced persons (IDPs) and refugees from Armenia and other countries, over one half of which are women.

Displacement confers a high degree of vulnerability, with levels of poverty that are 20 per cent percent higher than the national average (www.unicef.org/,03.05.2008). The level of poverty in Azerbaijan was officially estimated to be 34 percent of the population in 1989. However, with subsidies for employment, food, housing, and social services, poverty rarely meant severe deprivation. After independence, on the other hand, poverty increased dramatically. Average food prices multiplied as much as 28,750 times from 1988 to 1998. According to the Azerbaijan Survey of Living Conditions that was conducted in 1995, over 61 percent of the population was poor.

Poverty was substantially higher among internally displaced people (due to Armenian occupation in the Nagorno-Karabakh region). The gap between the rich and the poor widened after independence, especially when the oil-related sector began surging while the other industries (manufacturing, mining) deteriorated. The country consists of an upper class (2–4 percent) living in extraordinary luxury, while the majority of the population (80–85 percent) suffers from very low wages and poor living conditions. Although poverty is high, human development indicators such as school enrollment, literacy levels, and infant mortality rates are positive. However, public spending on education declined by three-quarters from 1992 to 1996. The health system also suffers from mismanagement, deteriorating quality, excess capacities, and access problems. In 1998, the number of hospital beds was 9,6 per 1000 people. Bribes from patients were a major form of financing adequate health care. During the 1990s, public health spending decreased. In 1999, the government's health spending was only about 20 percent of its 1990 level.

In addition one notable measure used to determine a country's quality of life is the Human Development Index (HDI), which has been compiled annually since 1990 by the United Nations Development Programme (UNDP). The HDI has been compiled since 1990 by the United Nations Development Programme (UNDP) on a regular basis. The HDI is a composite of several indicators, which measure a country's achievements in three main arenas of human development: longevity, education, and economic standard of living.

Although the concept of human development is complicated and cannot be properly captured by values and indices, the HDI offers a wide-ranging assessment of human development in certain countries, not based solely upon traditional economic and financial indicators. The Human Development Index (HDI) is used to measure quality of life in countries across the world. In a recent ranking of 177 countries, the HDI placed Azerbaijan in the medium human development category, at 99th place (www.search.ebscohost.com, 02.02.2008). Azerbaijan is less developed industrially than either Armenia or Georgia, the other South Caucasian states. Azerbaijan economy that has completed its post-Soviet transition into a major oil based economy with the

completion of the Baku-Tbilisi-Ceyhan Pipeline, from one where the state played the major role. The economy's most prominent products are oil, cotton, and gas. In order to improve industrial development, Azerbaijan signed arrangements with foreign firms to promote oil field development. The conflict with Armenia over the Nagorno-Karabakh region, however, stands as an obstacle to economic progress, including stepped-up foreign investment. Due to the fact that old Soviet ties have been broken in the transformation to a market economy, trade with Russia and the former Soviet republics has decreased, while the country has involved itself with other regions like Turkey, Iran, the United Arab Emirates, and Europe. Oil is a very important product of the country, and economic success will depend on world oil prices and the agreements over a pipeline project in the region. In 2000 the construction of a prospective oil pipeline, originating in Baku, passing through the Republic of Georgia, and terminating at Ceyhan, a Turkish port on the Mediterranean coast, was still considered a high cost project. Increasing oil prices will likely make the project more affordable in the near future.

The oil sector remains the key driver of economic growth, accounting for 62,0 % of gross domestic product from January to September 2007, up from 54,3% from January to September 2006. We anticipate that the energy sector will continue to expand in Azerbaijan, fuelled by the continuation of large investments in the sector in forthcoming years. This supports our forecast the continuation of robust growth at 18.6% in 2008, which will gently decline to 5.0% at the end of our five-year forecast period in 2012. The ongoing boom in the oil sector, combined with high global energy prices has been the key contributor to Azerbaijan's consistent trade surplus since 2005.

Azerbaijan registered a foreign trade surplus of US\$6.65bn, which is in line with our 2007 year-end forecast of a trade surplus of US\$10.6bn. This is a 52% increase over 2006, when the foreign trade surplus totalled US\$3.19bn. During the first six months of 2007, exports totalled US\$9.25bn, of this the export of goods for the oil and gas sector totalled US\$8.67bn, which reinforces the importance of the energy sector for economic growth. In addition, imports totalled US\$2.60bn in. This data is supportive of our 2007 year-end forecast of exports reaching US\$17.5bn, and imports totalling

US\$6.89bn. Going forward, we forecast that Azerbaijan's trade surplus will rise to US\$13.21 in 2008, with exports totalling US\$21.18bn and imports reaching US\$7.97bn. We anticipate that the demand for imports will reach US\$17.0bn at the end of our five-year forecast period in 2012. This will weigh in on the current account surplus, and will reduce it from 22,6% of GDP in 2007 to a forecasted 9.56% of GDP in 2012 (www.search.ebscohost.com/, 13.02.2008).

Azerbaijan shares all the formidable problems of the former Soviet republics in making the transition from a command to a market economy, but its considerable energy resources brighten its long-term prospects. Baku has only recently begun making progress on economic reform, and old economic ties and structures are slowly being replaced. Several other obstacles impede Azerbaijan's economic progress: the need for stepped up foreign investment in the non-energy sector, the continuing conflict with Armenia over the Nagorno-Karabakh region, pervasive corruption, and elevated inflation. Trade with Russia and the other former Soviet republics is declining in importance, while trade is building with Turkey and the nations of Europe. Long-term prospects will depend on world oil prices, the location of new oil and gas pipelines in the region, and Azerbaijan's ability to manage its energy wealth (www.cia.gov/, 03.05.2008).

Thirdly, it will be touched on Georgia. Georgia is a small transition economy with a population of about 4.5 million people and a gross national income (GNI) per capita of US\$1,560. In Soviet times, Georgia exported agricultural and energy-intensive industrial products to the Soviet Union and was a popular tourist destination for the region. After independence in 1991, the economy collapsed under the impact of civil war and the loss of both preferential access to Former Soviet Union (FSU) markets and large budget transfers from Moscow. Output fell by 70 percent and exports by 90 percent, the worst decline suffered by any transition economy. The conflicts in Abkhazia and South Ossetia, regions within Georgia seeking independence, took a significant toll, with about 300,000 people displaced, much physical capital destroyed, important trade routes disrupted, and the new government's authority in large segments of its territory undermined to this day. In addition, the spill-over from the

conflict in Chechnya has weakened Georgia's control of the Pankisi Gorge and surrounding territory, where there has been rampant smuggling, extortion, and kidnapping. Georgia's economy has been buffeted by internal fragmentation, droughts, and the 1998 financial crisis in Russia (www.search.ebscohost.com,13.02.2008).

Georgia is resource rich. Its location on the "Silk Road" between Europe and Asia has made it a transit conduit for goods being shipped through the Caucasus. Georgia's Black Sea coast, mountains, and rich cultural history offer strong tourist potential. Other attributes include an educated labor force, widespread land ownership, and a long tradition of entrepreneurship. Georgia has a natural resource base that offers strong economic growth potential. Fertile land and a favorable climate enable diverse agricultural production, including a range of fruits and vegetables, livestock, dairy products, nuts, and tea. The country has a long history of viticulture and some 500 varieties of grapes are cultivated. Recent investments in oil exploration have indicated significant oil and gas potential. Other physical resources include manganese, iron, coal, copper, gold, granite, limestone, marble, and mineral waters. Dense forests cover one third of the country and numerous fast-flowing rivers offer good hydropower potential (www.search.ebscohost.com, 13.02.2008).

1 million people have benefited from the rehabilitation of 400 schools, health facilities, cultural centers, water systems, irrigation systems, and roads and bridges under the Georgia Social Investment Fund project. In some cases, the physical rehabilitation of facilities has been accompanied by improvements in the delivery of basic services. Communities were encouraged to participate actively in managing the rehabilitation and operation of these facilities (www.web.worldbank.org/,17.03.2008).

1.2.1 Nagorno Karabakh Issue

Nagorno-Karabakh is located in the South Caucasus, Nagorno-Karabakh is a geopolitical oddity. Officially part of the Republic of Azerbaijan, it's actually a de facto independent republic, located close to the border of, and with extremely close ties to, Armenia. Nagorno-Karabakh is a mountainous region populated largely by ethnic

Armenians, about 120,000 by most estimates within Azerbaijan in the Caucasus. The neighboring countries, Azerbaijan and Armenia, began fighting over the territory soon after the Gorbachev's Glasnost and Perestroika policies began breaking up in 1988 (Sari, 2002). The attempt by the Armenian leadership of the Nagorno-Karabakh autonomous region to annex that territory in February 1988 and make it part of Armenia brought about fierce resistance by the Azerbaijanis. The slogans in defense of the sovereignty and national interests of the republic united the most diverse forces, including prominent intellectuals, public leaders and scholars. Relying on mass support, these forces started the struggle against the official power structures for greater independence for Azerbaijan in the economic, political and social spheres and for the acceleration of the reform process (Zinin, 1994).

Nagorno-Karabakh has long been an object of dispute between Armenia and Azerbaijan. After gaining independence from the Russian Empire in 1918, both countries were reabsorbed back into the Soviet Union during the early 1920s. In 1923, the disputed territory was officially part of the Azerbaijan Social Soviet Republic and described as the Nagorno-Karabakh Autonomous Oblast.

For the next 70 years, an uneasy status quo prevailed until the gradual demise of the Soviet Union during the late 1980s and early 1990s. In February 1988, Armenian deputies attached to the National Council of Nagorno-Karabakh voted to unify the territory with Armenia. Later, Azeri and Armenian troops confronted one another near the town of Askeran, precipitating a refugee crisis that saw the mass movement of minority populations. The territory's overall population changed markedly, as more than 500,000 Azeris, Kurds and Russians fled the region as fighting intensified in the early 1990s. Large numbers of Azeris and Kurds also left Armenia as well. In all, it has been estimated that at least 30,000 people were killed and 700,000 people displaced by the conflict. A referendum held in December 1991 confirmed that the Armenian residents of Nagorno-Karabakh and neighbouring Shahumian wanted independence from Azerbaijan, The Azeri population boycotted the referendum. In January 1992, local political leaders proclaimed the existence of a Nagorno-Karabakh Republic, which remains unrecognised by any other state, including neighbouring Armenia. In

May 1994, Russia helped to secure a ceasefire. A cease-fire has held since May 1994, an occasional border battle despite but the conflict isn't over yet. Mistrust between countries remains high. Years of warfare between Armenians and Azerbaijanis left an estimated 35,000 dead and approximately 1 million refugees in both sides a majority of refugees are Azerbaijanis (Sarı, 2002).

In the process, the Azerbaijani government effectively recognised the presence of the Nagorno-Karabakh Republic even if, for different reasons, Armenia and Azerbaijan don't recognise its independence. For Armenia, any formal recognition of the de facto republic would be seen as provocative, while Azerbaijan refuses to accept this loss to its territorial integrity. Since the ceasefire, France, Russia and the USA have been involved in peace negotiations but, as yet, there is no sign of an agreement over the territory's fate, Armenia favours a referendum by the inhabitants to decide their future, while Azerbaijan has promised to offer more autonomy to the de facto republic. In December 2006, a constitutional referendum was held, and apparently 98 per cent of voters approved the document, which described the republic as a 'sovereign, democratic legal and social state'. The vote was criticised by the EU for jeopardising the search for a peaceful resolution to the dispute.

While the fate of Nagorno-Karabakh hangs in the balance, the de facto republic continues to benefit from economic investment from the Armenian diaspora, especially in North America, and this has proven particularly valuable, as few Western companies are willing to invest in the disputed territory (www.geographical.co.uk, 06.02.2008).

Nagorno-Karabakh problem is both multidimensional and complex. The Nagorno-Karabakh conflict has been referred to as a civilizational (religious-cultural) conflict, a conflict over economic interests, a territorial issue as well as a post-colonial, political modernization issue (Nadein-Raevski, 1992). In general it may be said that the Armenian nationalists have been much more energetic and effective in making their interpretation of the Karabakh events known to the wider world than have the Azerbaijanis. The Azerbaijanis have few spokesmen in western countries except

indirectly through Turkey and Turkish lobbying organizations. Armenians of the large Diaspora communities in Europe and the Middle East have numerous cultural and political organizations, newspapers and journals through which to make their views known (Tütüncü,1998). Because of Armenian's significant political influence in Western Europe, it is not surprising that Armenian points of view about the Karabakh crisis are better known than those of Azerbaijan.

At first this conflict has involved unspeakable atrocities and violation of international norms of warfare, there is a good reason for people on either side who are responsible for these crimes of war to distort the facts and lie about what was happened (Tütüncü,1998). Propagandists on either side will exaggerate and distort reality to suit the needs of their cause. The exodus of Armenians from Azerbaijan after the sumgait riots and the escalation of conflict between communities in Karabakh is much better known than the departure of the Azeris from Armenia. Furthermore Armenia has changed its policy towards the Nagorno Karabakh problem. Armenian government and officials have stated that Armenia has no territorial claims to Azerbaijan and Nagorno-Karabakh was the internal matter of Azerbaijan and the problem of self-determination of the Armenian population there.

Consequently arriving at a solution of the minorities problem based upon the framework of the present borders and on the basis of Article 27 of the Covenant on Civil and Political Right is much more constructive than secession which has always contributed to destabilization in the South Caucasus (Tütüncü,1998). The problem of self determination and subsequent secession is a very complicated question, especially in such areas as the Caucasus where the state borders don't coincide with ethnicity. If secession as a result of self determination is the only possible mean for peaceful resolution of the Nagorno-Karabakh conflict as Armenian politicians and experts insist, then the other national minorities in Georgia and Azerbaijan must have the same right for external self-determination, secession and establishment of independent states to the territory of the mother nation (Tütüncü,1998).

A secessionist approach in this region will lead to instability, confrontation and bloodshed. The demands for the secession of Nagorno-Karabakh from Azerbaijan after the deportation of Azeris from Armenia, by Armenians insisting that their rights have been violated not only illegal on the principles of UN and OSCE but also is immoral. Nowadays most of scholars and politicians discuss that does the independence of Kosovo lead a great unease in the states that suffer from separatist movements in Nagorno-Karabakh Issue?

1.2.2. South Ossetia Issue

The Ossetians are believed to be descended from tribes which migrated into the area from Asia many hundreds of years ago and settled in what is now North Ossetia. As the Russian empire expanded into the area in the 18th and 19th centuries, the Ossetians did not join other peoples of the North Caucasus in putting up fierce resistance. Some fought alongside the Russians against neighbours who had long been rivals, while others made the difficult journey south across the mountains to escape.

By tradition, the Ossetians have had good relations with Russians and were regarded as loyal citizens, first of the Russian empire and later of the Soviet Union. They sided with the Kremlin when Bolshevik forces occupied Georgia in the early 1920s and, as part of the carve-up which followed, the South Ossetian Autonomous Region was created in Georgia and North Ossetia was formed in Russia. In the twilight of the Soviet Union, as Georgian nationalist Zviad Gamsakhurdia came to prominence in Tbilisi, South Ossetia too flexed its separatist muscles. Soviet forces were sent to keep the peace in late 1989 following violent clashes between Georgians and Ossetians in the capital, Tskhinvali. Violence flared again as South Ossetia declared its intention to secede from Georgia in 1990 and, the following year, effective independence.

The collapse of the USSR and Georgian independence in 1991 did nothing to dampen South Ossetia's determination to consolidate the break with Tbilisi. Sporadic violence involving Georgian irregular forces and Ossetian fighters continued until the summer of 1992 when agreement on the deployment of Georgian, Ossetian and Russian

peacekeepers was reached. Hundreds died in the fighting. Political stalemate followed. Separatist voices became less strident during President Shevardnadze's rule in Georgia. South Ossetia, its economy and infrastructure a shambles and crime rife, faded from the headlines. It returned to the foreground when Mikhail Saakashvili took the reins as president in Tbilisi. He was quick to spell out his intention to bring breakaway regions to heel. He has offered South Ossetia dialogue and autonomy within a single Georgian state but that falls far short of what separatists demand. It came as no surprise when South Ossetians voted overwhelmingly in favour of restating their demand for independence from Tbilisi in an unrecognised referendum in November 2006. A simultaneous referendum among the region's ethnic Georgians voted just as emphatically to stay with Tbilisi. Compromise seems a long way off. Tensions are never far from the surface and violence flares sporadically. Russia still has peacekeeping troops in South Ossetia although the Georgian parliament has called for them to be replaced with an international force. Russia maintains close contacts with the leadership in Tskhinvali where separatists welcome Moscow's supportive stance. To Georgia's deep annoyance, most South Ossetians have Russian passports and the Russian rouble is commonly used in trade (www.news.bbc.co.uk/,23.02.2008).

1.3. Energy Issue In The South Caucasus

Mackinder contended that the vast zone of continental and arctic drainage of Central Asia, had long been the geographical pivot of history and would remain the “pivot of the world’s politics.” According to Mackinder, the earth’s land surface was divisible into: The World Island, comprising the interlinked continents of Europe, Asia and Africa. This was the largest, most populous and the richest of all possible land combinations. The offshore islands, including the British Isles and the Islands of Japan. The outlying islands, including the continents of North America, South America and Australia. The heartland lay at the centre of the world island, stretching from the Volga to the Yangtze and from the Himalayas to the Arctic. Mackinder’s heartland was the area ruled by the Russian Empire and then by the Soviet Union. Mackinder summarised his theory as: Who rules East Europe commands the Heartland; who rules the Heartland commands the World-Island; who rules the World-Island commands the

World. Any power which controlled the World-Island would control well over 50% of the world's resources. The Heartland's size and central position made it the key to controlling the World-Island. Consequently, Mackinder asserted that the ability to efficiently administer the Eurasian heartland would give the controlling state decisive influence over the global development agenda. Mackinder argued, maintaining stability in the Eurasian heartland would go a long way towards determining global security conditions. To Mackinder, world history was essentially the story of an eternal struggle between naval and sea powers. The emergence of railroads, he argued, allowed land powers to be almost as mobile as naval powers. Mackinder had been emphasized the importance of the region with these statements. Energy is the prominent factor that attaches the importance to the region (Dodds and Sidaway, 2004).

The geopolitical importance of the South Caucasus is also based on the presence of energy resources. Stability in the Caucasus is a vital requirement for the uninterrupted transport of Caspian oil and gas. The Caspian Sea region -the South Caucasus and Central Asia- contains about 3–4 percent of the world's oil reserves and 4–6 percent of the world's gas reserves. In itself, the Caucasian share of global oil and gas reserves is not considerable. However, in light of the uncertainty over the reliability of Persian Gulf supplies, as well as the possibility that Russia may use energy delivery as a power tool, the transport of Caspian and Central Asian energy supplies to the West via the Caucasus has gained vital importance.

The importance of the region has also grown as a result of energy policies by consumer states in the West that want to decrease their dependence on resources from Russia and the Middle East. A number of states and organizations are making efforts to end Russia's near monopoly on the transport of energy supplies in the Eurasian region by creating alternative pipeline routes to transport these supplies. Thus, the Atasu-Alashankou oil pipeline (China and Kazakhstan), the Baku-Tbilisi-Ceyhan (B.T.C.) and Baku-Tbilisi-Erzurum (B.T.E.) pipelines (Georgia, Azerbaijan, Turkey and Kazakhstan) and the Nabucco gas pipeline (European Union, Turkey, Bulgaria, Romania, Hungary and Austria) are operational, under construction or planned.

1.3.1. Energy Policy Of Armenia

Armenia's energy policy; emphasizes production targets and investment needs, and also includes plans for moving toward a free market. The priorities are: Reduction of dependence on foreign fuel imports, maximum safety of nuclear energy, restoration of electricity and gas interconnections with neighboring countries, rehabilitation and modernization of energy infrastructure, creation of an efficient investment infrastructure, improvement of pricing policy, further privatization of the energy sector, energy efficiency, training and development of personnel in the energy sector. The plan for privatization is to first restructure and incorporate interconnected energy complexes, and then privatize them with strategic investors. Non-strategic facilities will be privatized by direct transfer to the private sector (q.v. Annex 1).

New energy complexes will be built by private investors under Build-Own-Transfer (BOT) and Build-Own-Operate-Transfer (BOOT) schemes. Armenia is almost completely dependent on imported energy. There are no oil wells, gas wells, or refineries in Armenia, and there is also no coal production. To diversify its fuel supplies, Armenia has attempted to implement pipeline projects that would obtain natural gas from Iran. The only domestically produced primary energy is electricity from the hydroelectric plants and the single nuclear power plant. Armenia possesses no oil reserves, no oil production, and no refineries. There are no oil pipelines into Armenia, and refined products arrive through rail or truck shipments. Oil products consumed in Armenia are all imports, primarily from the Batumi refinery in neighboring Georgia. Armenia's imports of oils products from neighboring countries were as follows: Georgia, Russia, Turkey and at last Iran. Armenia has no natural gas reserves and produces no natural gas. All the natural gas used in Armenia presently comes from Russia, via Georgia. In addition Armrosgazprom, the gas transmission and distribution utility in Armenia, is a closed joint-stock company which is 45% owned by Russia's Gazprom and 10% owned by the Russian company Itera. The remaining 45% is owned by the Armenian Government. Armenia has coal reserves estimated at 200 to 250 million tons. There are six known coal fields, at Antaramut (in the north), Ijjevan (northeast), Jajur (northwest), Jermanis (west central), Nor Arevik (south), and

Shamut (north). In addition, there are also oil shale deposits at Jajur, Nor Arevik, Aramus (central), and Dilijan (north central). However, there has never been much of a systematic evaluation to determine how much coal or oil shale can be mined economically. There are exploitable deposits at Ijevan, in the northeast part of the country, and Jermanis, in the west central part of the country, and there are plans to open at least one state-owned mine. Currently, there is no coal production in Armenia. Armenia's coal consumption of about 3,000 tons per year of imported hard coal is mainly for home heating. Armenia has one nuclear power plant, at Medzamor.

“The facility had a nominal generating capacity of 800 megawatts (MWe) and a design life of 30 years” (www.minenergy.am,05.04.2008).

However, the EU has been pressuring Armenia to shut the plant down because of its inherently unsafe design that cannot meet EU nuclear safety standards, as well as the region's continual risk of earthquakes. As it was analysed, by the reason of deficiency of energy resources of Armenia, the solution is that Armenia is ought to adopt a close policy to her neighbors. In summary; the objectives of the energy strategy of Armenia are; Achieving sustainable economic development in Armenia; enhancing the energy independence and security of the country, including diversification of imported and domestic energy resources, ensuring efficient use of domestic energy resources and development of renewable energy sources and energy saving, development of nuclear energy, intensification of regional cooperation in energy sector. (BSEC, Energy Strategy Of Armenia 2008).

1.3.2. Energy Policy of Georgia

Firstly; the priorities of objectives of energy strategy of Georgia are; diversification of the supply sources of energy carriers, minimization of dependency on imported energy carriers and more efficient development of the local energy production. Georgia's approach for energy security is always discussed and considered in details. Energy security is also prominent issue for Georgia as a member country of Energy Charter Treaty has a commitment not to hinder transportation and transit of energy carriers on

its territory. Transportation and transit of oil and natural gas is regulated by the Law of Georgia on Oil and Gas, the transportation and transit of Electricity is governed by the Law of Georgia on Electricity and Natural Gas. (BSEC, Ministry of Energy of Georgia WG on Energy Report 2008).

The main task of the policy carried out in the power sector of Georgia is full satisfaction of the demands of industry and domestic-communal sector on energy resources through diversification of the supply sources, achievement of economic independence and sustainability of the sector, provision of security. For the sustainability of sector, liberalization and deregulation are essential components. Other main component is to enact market rules on electricity and gas.

Georgian Government has a policy for privatization in energy sector; this policy is to ensure transparency of privatization process in the sectors of electricity and natural gas to guarantee stable supply of the end suppliers with electricity and natural gas and to define and separate the rights and responsibilities of the participating parties during privatization process (state and investor) on the basis of relevant agreements. Another policy is related to ensure energy security; Rehabilitation and Re-Equipment is the main task as rehabilitation and expansion of gas main and distribution network for natural gas; maximum support of the use of natural gas and other task is related to construction of new under the item of energy security. Ensuring operation in parallel regime with energy systems of neighbor countries taking into account existing technical possibilities(q.v. Annex 2).

Georgian Government aims to promote efficient utilization of power resources; under this title, some items can be explained as, improvement of energy efficiency in industrial and domestic spheres, creating sound legislative basis and institutional framework for improvement of energy efficiency in the country; to study and putting into operation measures necessary for the use of thermal and co-generation systems, also renewable sources of energy. The main tasks of long term policy of Georgia; are full re-equipment of technologically outdated and physically obsolete technical basis; construction of new power plants, transmission infrastructure for electric energy and

natural gas; diversification of imported energy carriers (natural gas, oil, electric energy); setting up of the commercially profitable economic model of the sector. (www.minenergy.gov.ge, 05.04.2008).

1.3.3. Energy Policy of Azerbaijan

Since its independence of Azerbaijan in 1991, Azerbaijan has attracted a significant international interest in its substantial oil and natural gas reserves. It is attractive for foreign investors that they help to the country to develop its rich oil and natural gas reserves in the Caspian Sea basin, and construction of new pipelines may allow Azerbaijan to become a significant energy exporter over the next decade. Azerbaijan's wishes for future economic growth rests in large part with successful development of its vast oil and natural gas resources in the Caspian Sea Region. Being a main hydrocarbon exporter, it is in Azerbaijan's interest to deliver its resources securely to the international markets. For instance; The Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which is expected to play a crucial role in delivering Caspian energy resources to the world markets.

“Crude oil and oil product exports make up over 70% of Azerbaijan's exports, and oil related revenue makes up nearly 50% of budget revenues. Azerbaijan's oil production (total liquids) averaged 318,000 barrels per day (bbl/d) in 2002, of which approximately 310,000 bbl/d was crude oil. This represents a 4% increase over 2001 production, and builds upon five consecutive years of growth. At the same time, domestic petroleum consumption in Azerbaijan has fallen since independence, resulting in a growing margin for net petroleum exports. Azerbaijan exported approximately 178,000 bbl/d in 2002, most of which was routed to Russia, Turkey, and Italy. “ (www.inogate.org, 09.05.2008).

The country's largest hydrocarbon structures are located offshore in the Caspian Sea and account for most of the country's current petroleum production. The majority of Azerbaijan's oil output comes from the State Oil Company of Azerbaijan (SOCAR). SOCAR was established in September 1992 with the merger of Azerbaijan's two state oil companies, Azerineft and Azneftkimiya. SOCAR and its many subsidiaries are responsible for the production of oil and natural gas in Azerbaijan, for operation of the

country's two refineries, for running the country's pipeline system, and for managing the country's oil and gas imports and exports. While government ministries handle exploration and production agreements with foreign companies, SOCAR is party to all of the international consortia developing new oil and gas projects in Azerbaijan. (www.socar.az/,17.05.2008).

Most of SOCAR's production is derived from the offshore field "Gunashli". Azerbaijan's increase in oil production since 1997 has mainly come from the international consortium known as the Azerbaijan International Operating Company (AIOC). AIOC partners: BP, Unocal, SOCAR, Inpex, Statoil, ExxonMobil, TPAO, Devon Energy, Itochu, Delta/Hess) operates the offshore Azeri Chirag and deep water Gunashli (ACG) mega-structure, which is estimated to contain proven crude oil reserves of 5.4 billion barrels according to the field's operator, British Petroleum. (www.inogate.org, www.azerienergy.com, 09.05.2008).

According to these data; it can be said that oil is the national wealth of Azerbaijan and the paramount alternative energy hub for Europe. Therefore Azerbaijan has energy strategies and policies for ensuring energy diversification, energy security and promoting renewable energy resources. First of all energy security and stability is one of the main priorities of the domestic and foreign policy of Azerbaijan.

"Barry Buzan and other members of the so-called Copenhagen School have expanded the concept of security so that it includes political, economic, societal and environmental components in addition to a military dimension. The term energy security may be accommodated within the framework of the economic dimension of security, but energy security may also include the other components of security listed by Buzan and his colleagues. Energy security focuses on the imperative for governments to secure adequate supplies of energy at affordable prices. In order to reduce the vulnerability of a state to the possible disruption of energy supplies, officials should seek to diversify their suppliers and not become too dependent on one energy producer. Over-dependence could enable the energy supplier to exert political and economic leverage over the energy consuming state. Energy security also concerns access to energy. It is important that natural gas and crude oil, for example, is safely delivered to consumers along pipelines or, with reference to crude oil, by other means of transport." (Winrow, 2005).

Pipelines are being secured by Azerbaijan, Georgia, and Turkey. Ensuring diversification of energy supply and transport routes is another important issue. Oil is not the only energy resources of Azerbaijan. The government of Azerbaijan attaches important other resources as gas, coal, electricity and renewable resources. Especially the Azerbaijani gas will undoubtedly play a significant role in diversification of Europe's gas supply sources.

“On the other hand; more than \$21 billion of foreign investment has been invested in Azerbaijan during 1993-2005, of which \$16.7 billion has been directed to the energy sector and the remaining \$4.3 billion to the non-energy sector.” (Ministry of Fuel and Energy of Azerbaijan, Report 2008).

The UK, The USA, Turkey, Japan, Norway, France and other countries have been the main investors. The Government of Azerbaijan is taking necessary measures to create a favorable environment for foreign investment. The rights of foreign investors are protected by the Law on Foreign Investments and other bilateral agreements. The other objectives of energy policy of Azerbaijan are; to ensure implementation of professional standards, to promote the exchange of energy related information and best practices, and to promote renewable energy sources and technologies (q.v. Annex 3).

CHAPTER 2. EUROPEAN UNION FOREIGN POLICY TOWARDS THE SOUTH CAUCASUS

There are a few reasons why the South Caucasus is of a special importance for the EU. EU's growing interest in diversification of the energy supplies, first of all gas, pushes it towards closer cooperation with the Caucasus. In the coming decade the region will experience major changes coming from the significant oil and gas production and transportation. The increase in revenues from the fields in the Caspian is due to increased oil and natural gas production. In Azerbaijan, according to estimates, the production will peak in the next few years. The oil pipeline Baku-Tbilisi-Ceyhan, construction of which was completed in 2005 started to deliver big oil from the major offshore field Azeri-Chirag-Guneshli from the Caspian to the European markets. The gas from the field Shahdeniz in the Azerbaijani sector of the Caspian is expected to be delivered to the European consumers upon the construction of the pipeline Baku-Erzurum in 2006, thus contributing to the diversification of the energy supplies for Europe, who has been strongly dependent on Russian gas supplies. The convenient geographic location on the cross roads of major East-West transportation routes is making the Caucasus attractive in trade, military and communication terms. Azerbaijan and Georgia, connecting exits to two seas – Caspian and Black Sea provide a convenient transit from the Central Asia oil and gas resources in Kazakhstan, Turkmenistan to Europe.

On the other hand, the Caucasus states, previously being weak and unstable, are now capable of providing security through cooperation with their European and American partners in the joint programs on fight with terrorism, trafficking, in peacekeeping. All this justifies EU's greater involvement in the region. The ENP (European Neighborhood Policy) is in development of the zone of prosperity and a friendly neighborhood. The Strategy of European Neighborhood Policy focuses on the European Union has a strong interest in the stability and development of the South Caucasus.

The Caucasus has common borders with influential regional powers, such as Russia and Iran, who are in the focus of the international attention. Of no less importance is the proximity of Turkey who is member of NATO and a candidate to EU accession. The South Caucasus is a historical bridge between the cultures and civilizations and a promoter of modernization.

Azerbaijan, a country with pre-dominantly Muslim population, has demonstrated a unique example of modernization, caused by the development of industrial capitalism in the nineteenth century. Aftermath the totalitarian regime, the institutions of the pre-Soviet period appeared to be strong enough to survive totalitarianism, while the liberal traditions nowadays continue to survive post-Soviet autocracy in the form of political opposition, plurality of media and civil society. This indicates presence of a significant reform potential in the South Caucasus societies, which, if developed, can have a considerable influence on geographical areas extending the borders of the region and lead to the greater ring of friendly states with enduring a democratic stability (Alieva, 2006).

2.1. The Basic Parameters Of EU Foreign Policy

The key priority in the EU's external relations is to promote prosperity, democracy, peace, stability and security in its immediate environs. The EU possesses many of the major foreign policy instruments of a state. In fact, the EU's main problem in foreign policy implementation is not so much the lack of effective instruments, but in the difficulties involved in finding the will to use those instruments in a strategic, coherent fashion. Part of this problem is political; finding a consensus among 25 EU member states can be difficult especially in areas involving security or defence. Another part of the problem is institutional: the effective implementation of EU foreign policy often requires decision-making across two or more EU pillars, which invites turf battles or other disputes among EU member states and between EU states and EU organizations such as the Commission and Parliament. Economic sanctions are especially problematic, as they require decision-making in both the first(EC) and second(CFSP) pillars. Yet the EU's ability to find a consensus on any question of foreign policy is a

testament to the effectiveness of its institutionalised policy mechanisms in facilitating international cooperation. These instruments of policy coordination can be grouped under three general headings: Diplomacy, economic tools and military tools.

The 1957 Treaty of Rome did not provide for common diplomacy on foreign policy problems, although it did include a minor provision for consultation on foreign policy issues, such as war, that might impact the functioning of the EC. At the time EU member states were preoccupied with a debate over whether to include a defence component to European Integration. This idea was eventually abandoned in favour of a weak intergovernmental system, European Political Cooperation was created in 1970 to facilitate discussion and if possible, joint action in matters of foreign policy. EPC's two main policy tools are; declarations and demarches. Declarations merely Express the EU's opinion on an issue and demarches are formal presentations of the EU's position on an issue made to representatives of third states and international organizations. Since the Amsterdam Treaty of 1997, the EU has bolstered its general diplomatic capability in three ways. First, the distinction between CFSP common positions and joint actions has been overshadowed by much greater use of the first pillar(EC)resources an policy tools (Hill and Smith, 2005).

Second, Amsterdam provided for the creation of common strategies to help provide greater coherence to the EU's major external policies, especially where the instruments cross EU pillars. A final point on the general diplomatic activity of the EU which largely involves the CFSP, is that CFSP budget is fairly small relative to spending in other areas of external relations; about 63 million euro for 2004 for the CFSP by itself. A number of important changes were introduced in the Amsterdam Treaty since then there have been numerous developments in CFSP. It has been agreed to embark on a common security and defence policy (CESDP) within the overall framework of the CFSP. Work has continued apace. The European Council at Laeken of 14–15 December 2001 adopted a declaration on the operational capability of the ESDP, officially recognising that the Union is now capable of conducting some crisis management operations. Interim structures established after the Amsterdam treaty have become permanent. With the Nice Treaty, certain amendments to the CFSP provisions

of the treaty were agreed. The Amsterdam Treaty spells out five fundamental objectives of CFSP (www.ec.europa.eu/05.04.2008):

- to safeguard the common values, fundamental interests, independence and integrity of the Union in conformity with the principle of the United Nations Charter
- to strengthen the security of the Union in all ways;
- to preserve peace and strengthen international security, in accordance with the principles of the United Nations Charter, as well as the principle of the Helsinki Final Act and the objectives of the Paris Charter, including those on external borders
- to promote international co-operation;
- to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms.

Secondly we will discuss economic tools below. Although the EU's diplomatic capability has expanded considerably since the creation of EPC, its real strength lies in the economic tools found primarily in the first pillar: the EC. Through the development of this policy domain, and its formal links to other EU pillars, the EU has managed to evolve from a relatively inward-focused regional economic organisation to a more outward-focused global political actor.

Although the EU is still sometimes accused of being an economic giant but a political dwarf, its foreign policy capabilities range far beyond what might be expected of an organisation primarily devoted to regional economic integration. In the economic realm, this capability involves both carrots and sticks or positive and negative policy tools. The EU's first and perhaps most prominent economic carrot for foreign policy involves its devotion to development aid, particularly among former colonies of EU

member states. The EU also spends about 400 million euro a year on general humanitarian aid. Last instrument is military tools. The capability-expectations gap is the widest in the area of military/defense affairs. It is questionable whether the ESDP will ever include the key elements of a true defence pact, such as a formal security guarantee for EU member states, an unified command and control structure and a policy on nuclear weapons. Lacking these elements, the EU might find it difficult to deter, compel and defend outsiders in any coherent fashion, although it is clearly starting to cope with some of these issues on a small-scale basis (Hill and Smith, 2005).

2.2. European Union Foreign Policy Towards South Caucasus

The South Caucasus was included in the ENP soon after its initiation. The inclusion of the South Caucasus is crucial in efforts to strengthen international security with respect to the danger of increasing instability. The EU also views the region as a source of insecurity, especially concerning the threat of terrorism and organized crime. The frozen conflicts of the region constitute a direct security threat to the EU, as do the conflict in the Balkans, which are the Union's direct neighbors. However, Caspian energy resources and European Oil and gas companies investments important for the EU's energy security.

The core objective of the EU is to promote stability and security if the states of the South Caucasus and to assist in their sustainable economic development. Security and stability are preconditions for the development of these three states. The EP states that the EU could play an active role in conflict resolution, political and economic reform and intra-regional cooperation. It also states that the EU should conduct a dialogue with Turkey on each other's policies and actions vis-a-vis the region. In this respect, the EP states that Turkey should be urged to take the necessary steps to establish good-neighborly relations, with particular regard to the lifting of trade restrictions and the gradual opening of the land border with Armenia, and calls upon all the countries in the region not to block efforts to bring three states closer together by demanding a resolution of the Nagorno-Karabakh conflict as a precondition and recalls its proposal

to develop a Stability Pact for South Caucasus resembling the one for South East Europe. The South Caucasus is important to Europe for another reason: its energy sources and energy transit routes. The EU is the world's biggest gas import market and also the world's fastest growing energy market. Although it already possesses a variety of energy import resources, like Russia and Algeria, it is seeking to diversify its suppliers. Turkey is a natural corridor through which gas from a wide variety of suppliers, in an arc from the Caspian through the Middle East and the Gulf to Egypt, can Access the EU market by pipeline (Terzi, 2005).

Relations between the EU and the Southern Caucasus region have developed immediately after the collapse of the Soviet Union. The basic for developing of relationships between the EU and Southern Caucasus States like Azerbaijan, Armenia and Georgia was TACIS Program, under the framework of which the EU has provided technical assistance to the Newly Independent States. Under the scope of TACIS program the most influential activities has been developed under the such projects like TRACECA, responsible for increasing transportation infrastructure in the former Soviet Union republic, out of Russia INOGATE, with which energy sources and transportation of them into the EU are regulated. As the relationship has been developed, previous basic was inappropriate for expanding relationship towards other fields in the political and legal meaning. So, new legal document Partnership and Cooperation Agreement has been signed between partners, which brought legal structure and definition for relationship of the EU and the Southern Caucasian States. This agreement led to improved relations between the parties.

After the last EU enlargement in 2004 and 2007, the countries of the Southern Caucasus states have got common border with the EU through the Black Sea. Enlargement forced processes and brought a question about following relationship between neighbors. Thus, a new mechanism, New Neighborhood Policy has been developed by the EU. This initiative includes the development of an individual approach to each country. So each country determined its priorities in the areas that they wanted to build and where they would like to get support from the EU. Relations between the EU and the South Caucasus became strategically importance especially in

areas such as energy, transport and security. The region is admitted by the EU as possibility for achieving alternative to the Middle East and Russia energy resources, as well as possible transit route for transportation of energy from the states of the Caspian Basin and other commodities. The EU attaches great importance to development projects in this area. In this case, the EU's policy towards the region is based getting energy resources with secure and reliable routes. EU aims to provide a secure and a safe transit route in the region besides disputes and conflicts. However, several ethnic conflicts in the region also are threat to the EU.

All three countries consider it their priority to full integration with European structures. But each country has chosen its own path in realizing of own goal. Therefore, if Georgia declared its desire to join the EU and are officially recognized candidate for NATO, Azerbaijan follows more balanced policy with the countries of the region and gives equal attention to all partnerships, including with the EU, Armenia also develops its relations with the EU in accordance with its strategic relationship, Russia. By the reason of the importance of the region, the Southern Caucasus states have a strong impact on relations with EU. Taking forward the development of their societies on Western values, they will continue to try to expand relations with the EU. In this case the EU must decide what will be relations with these countries in the future. If Azerbaijan, Armenia and Georgia wouldn't satisfied with proposal framework of the EU, these countries may change their priorities and seek alternatives developing ways that could initially affect the EU as well.

To promote the transition to a market economy and to reinforce a democracy, EU determined a policy in the region. This programme is called TACIS(Technical Aid to the Commonwealth of Independent States). TACIS encourages democratisation, the strengthening of the rule of law and the transition to a market economy in the New Independent States (NIS), created as a result of the break-up of the Soviet Union. It will be discussed in details below.

2.2.1. TACIS

The Soviet Union finally collapsed with the signing of the Minsk Agreement on 5 December 1991, the decision of the Alma Ata meeting on 21 December and the resulting decision of the remaining Soviet republics to form the Commonwealth of Independent States (CIS). The European Community was faced now with three problems. First, the problem of formal recognition and the conditions under which this should take place. Second is the problem of future relations with the individual republics and third is how to organize aid and assistance under the new structures. The solution to this dilemma has been the gradual development of a concept for a future agreement, a concept characterized by the Commission and the Council as going beyond first generation trade agreements and establishing political dialogue. Firstly, Commission characterized the coming agreements as partnerships and cooperation agreements that would be somewhere between simple cooperation agreements and association agreements. This would include in depth political dialogue and economic, financial cooperation. On the basis of these principles, the negotiations were aimed at partnerships and cooperation agreements with the ex-Soviet states. Negotiations based on common values such as respect of the CSCE commitments, the rule of law, respect of human rights, free and democratic elections. A final problem was how to handle economic and financial relations with the ex-Soviet republics and especially the aid programme which had been designed for a unified Soviet system. Regarding the latter, the EC's 1992 budget included three types of assistance to the Soviet Union: funds for humanitarian aid, for technical assistance and loans for purchase of food. The first two types of assistance could without difficulty be divided between the individual republics on the basis of size. The loan was provided on a commercial basis, by a consortium of European banks, backed up by a guarantee from the EC, the EC set three conditions for the republics who wanted to benefit from the loan: recognition of joint liability of the debts for the former USSR, ensuring payments of interests, agreeing to waive the clause of sovereignty (Noogaard and others, 1993).

In 1990 at the summit in Dublin and Rome, the EU decided to establish a program to provide necessary assistance to the Soviet Union called TACIS.(Technical Assistance

to the Commonwealth of Independent States) In the first stage, TACIS was the main tool in the development of the countries of the former Soviet Union and the EU. This is a major program in EU's external relations and it covers an area of 23 million square km with a total population of 285 million people. After the collapse of the Soviet Union, the main objective of the program is to provide technical and financial assistance to countries of the former Soviet Union during the transition to a democratic system of governance and market economy (Demir, 2003). On the other hand The Technical Assistance Programme TACIS differed in some important respects from the Indicative Programme, which it had replaced in 1992. Firstly although TACIS reiterates the ambition to develop effectively –functioning market economies based on private ownership and initiatives. It also emphasizes a speedy integration into the world economy as well as the development of a civil society. This slight modification of priorities is reflected in the focal sectors which were now identified as: human resources; food production and distribution; Networks: energy, transport, telecommunications; enterprise support services and nuclear safety.

Despite the dissolution of the USSR, some time felt uncertain what course future relations between the EU and emerging nations, and therefore, a point of inertia relationships forged through Russia. However already on December 31, 1991 EU recognized independence of the three republics of the Southern Caucasus. Since 1993 the EU has been delivering technical and financial assistance to the States. All three wanted to develop relations with the EU. One of the main programs in the context of TACIS is TRACECA. The EU intends to promote the development of infrastructure, common standards and rules in the region, as well as both national and international transport, energy and telecommunication networks. In 1993, at a meeting of the EU with the Ministers of Transport from the republics of the Southern Caucasus and Central Asia key principles of TRACECA has been admitted. At a meeting for the transport project, which will connect Europe via the Black Sea to the Southern Caucasus, across the Caspian Sea to the Central Asia and then to the Far East (www.ec.europa.eu/12.04.2008)

The aims of this program are: To strengthen political and economic independence of the new republics through alternative transport routes to world markets; to encourage the development of cooperation between the republics; to admit through TRACECA international financial institutions and private investors for investing in those countries; to add TRACECA transport corridor to the Trans European Transport Network. The TRACECA concept was first developed during the EU meeting held in Brussels in 1993, The meeting declaration included the revitalization of the ancient 6,400 kilometers Silk Road, TRACECA is actually a Trans-Caspian highway and transport corridor by Georgia, Azerbaijan, Turkmenistan and Uzbekistan, Originally, TRACECA was founded by Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan; Mongolia and Ukraine joined TRACECA in 1996 and Moldova in 1998, Since the TRACECA project covers a wide geographic area, different parties involved in the project have different benefits and expectations regarding the project. The ultimate goal is no doubt to construct a fully- connected transport network including different transportation means thereby facilitating the trade activities. Other major expectations include: supporting political and economic independence of republics by facilitating their access to the EU and world markets, and matching TRACECA with the trans-European network (TEN) making these two the shortest distance and comparatively the fastest road down from Central Asia to deep-sea-ship. The project's importance can be easily seen considering the expectation that the Black Sea will play a significant role in East-West international transportation totaled approximately \$330 –400 billion annually, The major expectation of NICs is to have access to world markets and to attract foreign investment through their increased infrastructure; and increased level of transportation infrastructure will no doubt help development of domestic economic activities as well. Not only Europe but also the USA supports the TRACECA project, EU strategy related to TRACECA has two aims: one is to encourage political and economic well-being and independence of the countries by helping them to have access to the European market through alternative trade routes. The second aim is to encourage regional cooperation,' These improvements are supposed to attract foreign investment both direct and portfolio by international financial institutions and private investors. The most significant aim is perhaps to get the region's rich oil and gas reserves in a convenient way. The effect of

TRACECA on the Caucasus is especially significant for Georgia and Azerbaijan because these countries own ports that make them critical transport stations. Armenia benefits from rehabilitation projects of railways and roads. Major benefits of the TRACECA project on Caucasus countries from the west to the east are as follows: Armenia will have a railway stretching from the Georgian Batumi/Poti Ports via Yerevan to Nakhichevan and from there through Iranian Julfa to Tehran and then in the direction of Central Asia and the countries of the Persian Gulf. The second benefit is the century-old railway Road from Turkish Kars through the Armenian Gyumri to Tbilisi, which will enable to more fully utilize the potential of communication roads of Turkey within the TRACECA program. Construction of a Yerevan-Tbilisi highway will allow linking Armenia's highways with the roads stretching from Tbilisi to Asia through the Caspian Sea Ports. Third, the construction of a Batum-Gyumri-Yerevan highway, which will serve as a natural continuation of the IX Crete Corridor to the Caucasus, is among Armenia's gains. Besides these, technical assistance to be provided by the EU will contribute to the prosperity of Armenian entrepreneurs heading privatized transportation companies.

Georgia, like Turkey, has a strategic geographic place and is well placed to play a critical role for the shipment of oil and gas. Many international oil companies have heavily invested in Azerbaijan, Turkmenistan and Kazakhstan to extract oil and gas. Much of that gas and oil will be exported to Europe and other world markets through Georgia. Batumi and Poti ports of Georgia are important components in the TRACECA project and may be considered Georgia's doors opening to world markets. Since they will play key roles, the ports are likely to attract foreign investment as evidenced by the Bank's project Channel Energy that will produce an oil products terminal at the port of Poti." With the completion of the TRACECA project, a large railway line will connect the Chinese port of Lianyungang on the Yellow Sea to the Georgian Ports of Poti and Batumi on the Black Sea and then to Western Europe. Georgia received \$20 million to modernize its railways and from ERBD and \$7.2 million from EU for laying optical-fiber network and technical assistance. Considering the fact that transport of petroleum and oil products constitutes 70% of total freight,

modernization of railways and ports is a critical task in the TRACECA project and in the development of Georgian infrastructure.

Azerbaijan is one of the most important countries of the TRACECA project being a bridge between Caucasus and Central Asia, not to mention its rich oil reserves. The transport and communication sector in Azerbaijan has currently 14% share in Azeri GDP and the TRACECA project will further increase the importance of the transport and communication sector. Azerbaijan already has an infrastructure left from the FSU period for transport into Russia to the north and the TRACECA project will provide Azerbaijan with the other to the west, specifically through the transport of Caspian oil to the west in addition to Russia and intensive export-import transactions (Yalçın, 2007).

TRACECA transport corridor is a compatible route for the Northern way, passing through Russia and the alternative to maritime route which connected Asia through the Suez Canal to Europe. Referring to the South Caucasus, all three countries actively participated in this program. Azerbaijan and Georgia, in order to attract the attention of the EU in September 1998 proposed an international conference to sign a multilateral treaty in the transport field. Thus, both countries have tried to enter the orbit of the EU and retire from the influence of Russia.

Another of the TACIS programme, which is crucial for the South Caucasus, is INNOGATE.(Interstate Oil and Gas Transport To Europe) The program is linked to the development and transportation of hydrocarbons resources of which located in the states of basin of the Caspian Sea. This program was developed by the European Commission (www.inogate.org, 08.05.2008). The main objectives of this program is reconstruction, increasing productivity and modernization of the region's oil and gas transport systems; Besides creating alternative ways to transport oil and gas from the Caspian Sea and Central Asia.

The TACIS Program consists some other program under of framework of which assistance to the newly independent states have been provided. One such project is

BĪSTRO program, which provides technical assistance to projects not exceeding an amount of 100,000 euros and calculated for a period not exceeding nine months. The program funded projects in areas such as finance, privatization, human resources, energy and environment. Another program of support is ECHO. Program designed for the support of countries that gained their independence, and faced with serious political, economic and social problems (Ibrahimov, 2007).

2.2.2. PCA (Partnership and Cooperation Agreement)

As the relationship between the parties developed, purely technical instruments, like the TACIS, was insufficient to deepen relations between the parties. The new tool which has task to provide additional framework was Partnership and Cooperation Agreement which was proposed by the EU countries of the former Soviet Union in 1994. This Document replaced the Treaty on Trade and Cooperation previously signed between the EU and the Soviet Union. The treaty set up relations with the Soviet Union, but after the breakup of that country in 1991 and the EU members signing Maastricht Treaty, it could no longer cover all areas of possible cooperation, and not up to date (www.ec.europa.eu/). The aims of these partnerships are to provide a suitable framework for political dialogue, support the efforts made by the countries to strengthen their democracies and develop their economies, accompany their transition to a market economy and encourage trade and investment. The PCAs also aim to provide a basis for cooperation in the legislative, economic, social, financial, scientific, civil, technological and cultural fields. The PCA with Russia also provides for the creation of the necessary conditions for the future establishment of a free trade area. The general principles concern respect for democracy, principles of international law and human rights. The market economy is also an objective set out in all the PCAs.

The PCAs also establish a bilateral political dialogue between the European Union and the different countries. The aim of the dialogue is to strengthen links between the parties, encourage the convergence of their positions on international issues of mutual concern, enhance cooperation with regard to stability and security in Europe and respect for democracy and human rights. The dialogue will take place at ministerial

level within the Cooperation Council, at parliamentary level within the Parliamentary Committee and at senior civil servant level. Diplomatic channels and meetings of experts will also be part of the political dialogue process (www.europa.eu, 07.05.2008).

PCA is instrument for establishing relations with the new independent states, according to their individual characteristics in addition EU has sought to regulate its bilateral relations with states in the region and to foster reform through PCA. The cooperation area of PCA are; cooperation in the areas democracy and human rights in the states of South Caucasus. The unresolved conflicts inside of the region could be a cause of instability in the Southern Caucasus. The EU signed PCA with Georgia, Azerbaijan and Armenia in 1999, which marked an important step in the EU's relations with the region (Macfarlane,2004).

2.2.3. ENP (European Neighborhood Policy)

In 2004, the EU completed the largest expansion in its history in the process. The Central and Eastern European countries became full members of the EU. Since that time it had led questions what further development relations with countries new EU neighbours, particularly those in Europe, including the countries of the Southern Caucasus(Annexes, Map 2). For the first time, it would be naive to believe that the EU will open a new page for the expansion to the east. Only completing the arduous process of expansion, the EU was not prepared to propose a new process and needed respite. On the other hand, keep relations with the new neighbours of the same proposal without prospects, could bring undesired results for the EU. The European Neighbourhood Policy (ENP) is modelled on the institutional and procedural experience of the EU's eastward enlargement, although it explicitly excludes a membership perspective. It thus aims to define an alternative incentive for domestic reform in neighbouring countries, referred to as 'a stake in the internal market'. Within the ENP the key defining elements of conditionality—clear incentive and enforcement structures—are vague for both the EU and its neighbouring countries. Thus, the ENP is conceptually and empirically weak when measured against a simple, rationalist

conditionality model. In line with the alternative understanding of conditionality as a process rather than a clear-cut variable, the main function of the ENP is twofold: it provides an external reference point which domestic political actors in the ENP countries can choose to utilise when it fits their agenda (both pro-EU or anti-EU); and a loose framework for socialisation. This process of socialisation involves both the EU and the ENP countries (Sasse, 2008).

The ENP expresses several related security concerns of the member states and the EU as a whole: a concern for political stability on the EU's borders, the wish to counter perceived or real negative implications of the recent rounds of eastward enlargement for the outsiders, and an attempt to define an attractive alternative to EU membership while strengthening the notion of a common foreign policy. The ENP actively links the EU's internal and external security concerns and cuts across the EU's pillar structure. The promotion of good governance, tied to democratisation and increased trade and investment, is meant to tackle concrete security issues, such as illegal migration, organised crime, the proliferation of weapons of mass destruction and environmental disasters or ethnic conflicts spilling over into EU territory. For Armenia, ENP priorities include institutional, legal, and administrative reforms and support for the transition process. EU funded projects include: A food security program directed at poverty reduction includes budgetary and technical assistance for land reform and public finance management. Nuclear safety measures entail EU support for early closure of the aging Madzamor Nuclear Power Plant and development of alternative energy strategies. For Azerbaijan, reform priorities target strengthening state structures; supporting economic and social development; promoting human rights, democratization, and the rule of law; and encouraging regional cooperation in the Southern Caucasus. EU support assists the following reforms: Fostering trade and tourism while increasing security to counter the movement of criminals and human trafficking by restructuring the customs code and modernizing the border guard service. Memorandum of Understanding to establish an energy partnership that supports the country's energy sector and secures EU energy supplies from Azerbaijan. The ENP Action Plan supports Georgia's post-"Rose revolution" reform program to transform the country into a modern market-oriented economy. Priorities include

measures to bolster Georgia's democratic institutions, strengthen the rule of law, and support market economy and regulatory reforms. Concrete EU supported achievements include: Rule of Law: EU advisory mission helped Georgia establish a comprehensive blueprint for the reform of the criminal justice code and system (courts, prosecution office, prisons), a civil register (voters' lists), and a free legal aid system. Conflict zones: EU, as the largest donor, supports economic rehabilitation, including infrastructure, and confidence-building measures in these areas (EU Focus Periodical, 2008).

The European Neighbourhood Policy contributed to the significant upgrading of the relations between the European Union and the South Caucasian countries. While this step is perceived as a beneficiary outcome for all the countries of the region, the EU-related aspirations of Georgia, Armenia and Azerbaijan differ to a considerable extent. Georgia has outlined its EU membership goals. Armenia shares these membership-related expectations, but is more careful at evaluating a variety of factors connected to this step. Azerbaijan is generally welcoming the enhanced cooperation process, but attaches lower importance to it than its South Caucasian neighbours.

2.3. EU's Energy Policy and Its Impacts on South Caucasus

The EU is today the world's largest energy consumer without its own significant reserves. The EU imports 50 percent of the energy it needs and the projections predict that the dependence on imported energy will rise to 70 percent by 2030(www.ec.europa.eu/energy/) Moreover, presumably half of the EU's gas consumption comes from only three countries; Russia, Norway, and Algeria. All forecasts agree that, gas imports would increase to 80 percent in the next 25 years. Thus, the Green Paper, a policy framework for the EU's energy security, affirms the urgent need to promote diversification of energy type, country of origin, and transit. The Green Paper identifies six priority areas for the European Council and the European Parliament to react on.

Among these priorities, to provide the enhancement of security of supply in an internal energy market and to strengthen of a coherent external energy policy are especially appropriate for addressing the challenges for facilitating Turkey's role as an energy hub. The EU is pledged to create a fully competitive internal energy market for electricity and gas. However, it is an ongoing process and the goals have not been sufficiently fulfilled yet. There are several problems to tackle.

There are two major issues concerning to Turkey's plans to become an energy hub. First, there must be an effective legislative and regulatory framework to overcome monopoly issues such as access to national grids and networks. Many markets remain largely national or dominated by a few companies. Second, there is a necessity for new investment in infrastructure in gas markets. An adequate interconnection and access to new transport routes must be secured. Therefore, in many member states, reserved capacity for former incumbents under long-term gas contracts must be freed up to foster investment in new transit routes such as trans-Caspian pipelines. In fact, a critical issue for developing the Caspian gas fields and building trans-Caspian pipelines is access to the EU energy market. The planned trans-Caspian pipelines will enhance supply and diversify transit routes for the EU energy market by interconnecting to the Turkey-Greece-Italy and the Nabucco (Turkey-Romania-Bulgaria-Hungary-Austria) gas pipelines. As known, EU depends on energy imported from regions on its periphery especially from Russia, North Africa, the Caspian and the Middle East. The degree of this dependence will increase in coming decades. This trend of rising energy imports from countries on the European periphery has important security implications. The EU has to pay attention political and economic developments in the countries of the periphery. While this import dependence is growing, the EU is seeking to liberalize internal energy markets. The liberalization process also has an impact on Europe's external energy trade relationships and on security of supply.

The requirements of European Energy security are; the new production capacities must be developed with adequate transportation systems to deliver the energy to European markets. The probability of interruptions of such supplies must be taken into account for European consumers. In addition oil and gas production capacities in countries neighboring Europe are being enlarged and transportation systems are being planned and constructed to provide additional supplies to Europe. Short-term interruptions have two potential consequences: prices may rise sharply, and physical rationing of limited supply may become necessary. Either will entail undesirable political and economic impacts. Several trends in market structure already serve to reduce the danger of short-term supply interruptions. As it was mentioned above, joint ownership of the production and transmission system by companies from the exporting and importing countries creates a mutual interest in avoiding interruptions. Fortunately joint ownership is becoming increasingly common. For instance; Gazprom and Lukoil have invested in downstream European gas and oil facilities.

The EU is trying to define a comprehensive energy security policy and to ensure that this policy is compatible with liberalized energy markets. Currently Europe is dependent on imported oil and is more dependent on imported natural gas.

Europe managed to reduce its dependence on imported oil during the 1990s by expanding production from the Norwegian sector of the North Sea and by delaying the inevitable decline of production in the UK sector. Substantial increases in natural gas production from both Norway and the United Kingdom restrained natural gas imports below 40 per cent throughout the decade in spite of rapid growth in European gas consumption (Gault, 2004).

However plausible assumptions about European rates of economic growth, energy prices, environmental regulations and other factors over the coming two decades lead to projections of increasing energy import dependence. All forecasts agree that the natural gas consumption will grow rapidly, and oil consumption will also expand, though as not fast as that of natural gas.

2.3.1. EU Instruments for Energy Policy

The European Commission, the EU's executive authority, possesses two main instruments in its drive to achieve many of its goals and ambitions in terms of energy efficiency and diversification of both energy sources and types of energy. These instruments are Single Market and The South East Europe Energy Community Treaty. The Single Market is important because the energy supplier of energy products to one country in Europe will no longer have any control over where the supply is delivered to once it reaches the EU or EU regulated areas. In practice it may take some years before all the EU countries actually commit themselves to the full scale harmonization of energy trade required to have an effective single market. The other most important instrument is Energy Community Treaty. This treaty, signed in Athens on 25 October 2005 and it entered into force on 1 July 2006 with the ratification by the EU, Albania, Bulgaria, Macedonia, UNMIK (United Nations Interim Administration Mission in Kosovo) and Romania. The signatories to the treaty were: Albania, Bulgaria, Bosnia & Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Serbia, Romania and UNMIK (www.energy-community.org, 21.06.2008).

The October 2005 treaty generally known as the ECT sometimes referred to as the Southeast Europe Energy Community Treaty. It was aimed at the integration of Southeastern Europe into the EU energy nexus. The ECT's main goals are to create a stable and regulatory framework capable of attracting investment, to create a single regulatory space for trade, to enhance security of supply, to improve the environmental situation and to develop electricity and gas market competition. From the strategic point of view, the treaty creates a supply route for gas into the EU from the Middle East and the Caspian region and this will eventually increase competition in the core EU markets and reduce dependency on single sources of gas. A question has been arisen at this point, the absence of Turkey? Turkey was one of the major participants in the process of drafting and presenting the treaty but ultimately decided against actual signature. This rejection meant that a treaty expected to ensure EU rules extended all the way to Turkey's borders with Syria, Iraq, Iran and the South Caucasus.

Over the next few years Turkey could be the next step to sign up to the ECT that negotiations are proceeding. Afterwards Georgia, Azerbaijan and Armenia would be a logical next step (Roberts, 2006: 25).

The EU's current policies and aspirations are set out in various major documents. These include: The EU's Green Paper of March 2006. The conclusions of the EU Council on 24 March 2006 and the Conclusions of various EU Councils, notably those of June 2006 and March 2007 (Roberts, 2006: 21). In terms of the impact of these policies and aspirations on the Caucasus region, the EU's commitment to three issues in particular needs to be taken into account: conservation of energy, diversification of energy supplies, and the development of a pro-active policy on new energy sources.

Throughout Europe, both inside and outside the EU, there is an immense focus on conservation of energy. This mainly focuses on energy efficiency but also reflects concerns of specific fuel scarcity, especially at times of crisis. The most prominent reasons for this focus are the tightness of energy markets, particularly in terms of global oil supply and demand but also current or anticipated shortfalls in gas supplies; the need to address the environmental consequences of relying on fossil fuels, in particular, rising carbon dioxide levels and combat human-induced climate change, the three year climb in international energy prices and security of supply, concerns that supply sources or transit routes for EU energy imports are currently at risk or might reasonably be expected to be at risk during the next 25 years or so. A focus on energy conservation and in particular, on energy efficiency, makes sense since though painful at the time of initiation, it can usually be achieved with little damage to underlying growth and indeed, often contributes to such growth. The EU's Green Paper of March 2006 lists various recommendations aimed at improving energy efficiency and the EU Council's Statement of 24 March 2006 endorses these points (Roberts, 2006: 22).

Both the Green Paper and the 24 March 2006 Council Declaration also lay great stress on diversification of energy supply. In particular, they look to augmenting EU gas supplies from two regions, North Africa and the Caspian. Implicitly, the goal is a reduction in dependency on Russia. However the references to the Caspian and North

Africa require quite different approaches. The Caspian is a very different matter for exports from Caspian producers require resolution of a variety of very different issues. It should be noted that the US Trade and Development Agency working in coordination with the European Union, is financing a study for a gas pipeline from Kazakhstan to Azerbaijan, where it would link up with the newly constructed South Caucasus pipeline system which links Azerbaijan, Georgia and Turkey. At the same time The EU is funding a complementary study on how best gas might be brought to EU member states once it has reached South Caucasus. In effect, the US and the EU are working together to test the technical feasibility of constructing a system that would enable Kazakhstan to supply gas to the EU and Ukraine without having to rely on transit through Russia. Gas from Kazakhstan might initially be shipped via a transCaspian Pipeline to Baku and thence via the South Caucasus Pipeline to Turkey, from which gas can be then forwarded onwards to Greece, via a new line currently under construction.

Moreover, in all probability, further lines will connect Greece with Italy and Turkey with Bulgaria, Romania, Hungary and Austria, Nabucco Project (Roberts, 2006: 23).

The EU's third line of approach is reliance on new energy sources. These include a variety of renewable forms of energy and for some EU member states, possibly a new generation of nuclear power stations. In this context, a key concern for countries in the region whose energy structures were developed by or with the assistance of the former Soviet Union is the operational safety of existing nuclear reactors. It is the worth noting that continued reliance of many countries in the region on power derived from Soviet-model reactors has, despite the Chernobyl disaster, ensured there is still a very strong pro-civil nuclear power lobby in these states. This is particularly true for Armenia and Bulgaria.

On the other hand, a coherent external energy policy in the EU is essential to minimize vulnerabilities to the monopolistic nature of major energy suppliers particularly in gas. There are already bilateral and regional level energy dialogues with supplier or transit countries, such as Russia, Norway, Ukraine, the Caspian region, the Mediterranean

countries, the OPEC, and the Gulf Co-operation Council. However, the effectiveness and coherence of the EU's external energy policy is dependent upon the creation of a fully integrated internal market for energy.

Thus, the priorities for the construction of new infrastructure should be clearly identified and built into strategic partnerships with Turkey and the Caspian region. The Green Paper acknowledges the need for “clearly identified priorities for the upgrading and construction of new infrastructure necessary for the EU energy supplies,” notably new gas pipelines and LNG terminals. Therefore, the need to promote diversity of energy type, country of origin, and transit requires a coherent external energy policy enabling political backing for a coordinated approach to new investments in infrastructure in gas markets. There is currently a lack of competition between gas suppliers and independent gas pipelines from the Caspian region. A strategic partnership, built on such an external policy between the EU, Turkey, and the Caspian countries will offer security and predictability for all sides by spreading the economic risks for new investments.

Accordingly, it is the right time to establish an “EU-Caspian Energy Dialogue Directorate” under the European Commission similar to the EU-Russian Energy Dialogue Directorate. Moreover, such a coherent external energy policy of the EU would have a greater value than what can be gained in a mercantilist race to secure energy supplies. Thus, rather than a zero-sum approach of “Great Game” policies, the EU and Turkey recognize the strategic partnership with Russia in energy security and the collaboration to build alternative pipeline routes to diversify and secure the EU energy markets (İpek, 2006).

In conclusion this Green Paper has set out the new energy realities facing Europe, outlined questions for debate and suggested possible actions at the European level. In taking the debate forward, it is essential to act in an integrated way. Each member state will make choices based on its own national preferences. However, in a world of global interdependence, energy policy necessarily has a European dimension. Europe's energy policy should have three main objectives. First is sustainability. It is regarding

to developing competitive renewable sources of energy and other low carbon energy sources and carriers, particularly alternative transport fuels. As well it can be explained as curbing energy demand within Europe and leading global efforts to halt climate change and improve local air quality. Second is competitiveness. It is regarding to ensuring that energy market opening brings benefits to consumers and to the economy as a whole, while stimulating investment in clean energy production and energy efficiency, mitigating the impact of higher international energy prices on the EU economy and its citizens as well keeping Europe at the cutting edge of energy technologies. Third is security of supply. It is regarding to tackling the EU's rising independence on imported energy through, an integrated approach- reducing demand, diversifying sources and routes of supply of imported energy, creating the framework which will stimulate adequate investments to meet growing energy demand, better equipping the EU to cope with emergencies, improving the conditions for European companies seeking Access to global resources and making sure that all citizens and business have access to energy.

To achieve these objectives, it is important to put them in an overall framework, in the first Strategic EU Energy Review. This could be augmented with a strategic objective which balanced the goals of sustainable energy use, competitiveness and security of supply; for example, by aiming for a minimum level of the overall EU energy mix to come from secure and low carbon energy sources. This would combine the freedom of Member states to choose between different energy sources and the need for the EU as a whole to have an energy mix that, overall, meets its three core energy objectives. Firstly, The EU needs to complete the internal gas and electricity markets. Action could include the following measures (Roberts, 2006: 84):

- The development of a European Grid, including through a European grid code. A European regulator and a European Centre for Energy Networks should also be considered
- Improved interconnections

- Creating the framework to stimulate new investment.
- More effective unbundling.
- Boosting competitiveness, including through better coordination between regulators, competition authorities and the Commission.

These must be addressed as a priority, the Commission will reach final conclusions on any additional measures that need to be taken to ensure the rapid completion of genuinely competitive, European-wide electricity and gas markets, and present concrete proposals by the end of this year. Secondly; the EU needs to ensure that its internal energy market guarantees security of supply and solidarity between Member States Concrete measures should include (Roberts, 2006: 85):

- A review of the existing Community legislation on oil and gas stocks, to focus them on today's challenges.
- A European energy supply observatory, enhancing transparency on security of energy supply issues within the EU.
- Improved network security through increased cooperation between network operators and possibly a formal European grouping of network operators.
- Greater physical security of infrastructure, possibly through common standards.
- Improved transparency on energy stocks at the European level.

Thirdly, the Community needs a real Community-wide debate on the different energy resources, including costs and contributions to climate change, to enable us to be sure that, overall, the EU's energy mix pursues the objectives of security of supply, competitiveness and sustainable development. Fourth is, Europe needs to deal with the challenges in a manner compatible with its Lisbon objectives. The Commission could

propose the following measures to the Council and Parliament. A clear goal to prioritise energy efficiency, with a goal of saving 20% of the energy that the EU would otherwise use by 2020 and agreeing a series of concrete measures to meet this objective, including (Roberts, 2006: 85):

- Efficiency campaigns, including on buildings.
- Harnessing financial instruments and mechanisms to stimulate investments.
- A renewed effort for transport.
- A Europe-wide “white certificates “ trading system.
- Better information on the energy performance of some appliances, vehicles and industrial equipment and possibly, minimum performance standards.

Adopt a long-term road-map for renewable energy sources, including:

- A renewed effort to meet existing targets.
- Consideration of which targets or objectives beyond 2010 are necessary.
- A new Community Directive on heating and cooling.
- A detailed plan to stabilise and gradually reduce the EU’s dependence on imported oil.
- Initiatives to bring clean and renewable energy sources closer to markets.

Fifth is, a strategic energy technology plan, making best use of Europe’s resources, building on European Technology platforms and with the option of joint technology initiatives or joint undertakings to develop leading markets for energy innovation. This

should be presented as soon as possible to the European Council and Parliament for endorsement.

Last proposal is regarding to a common external energy policy. In order to react to the challenges of high and volatile energy prices, increasing import dependency, strongly growing global energy demand and global warming, the EU needs to have a clearly defined external energy policy and to pursue it, at the same time at both national and Community level, with a single voice. To this end the Commission proposes (Roberts, 2006: 86):

- Identifying European priorities for the construction of new infrastructure necessary for the security of EU energy supplies.
- Developing a pan-European Energy Community Treaty
- A new energy partnership with Russia.
- A new community mechanism to enable rapid and co-ordinated reaction to emergency external energy supply situations impacting EU supplies.
- Deepening energy relations with major producers and consumers.
- An international agreement on energy efficiency.

CHAPTER 3. TURKISH FOREIGN POLICY TOWARDS THE SOUTH CAUCASUS

The emergence of Turkey's interest in the South Caucasus began with geopolitical changes that appeared in the former Soviet southern area following the disintegration of the Soviet Union. After the disintegration three states in the South Caucasus declared their independence and began to develop foreign relations with states outside the region. Encouraged by these changes, Turkish decision-makers began to show an interest in the region. The radical change in Turkey's foreign policy preferences after the 1990s had also played a part in increasing Turkey's interest in the region. Along with the changes which emerged in the international system, Turkey had to rearrange not its foreign policy principles but its foreign policy preferences. The primary reasons that forced Turkey to do this were Turkey's function and importance in NATO began to lessen, emerging volatility and fluidity in the former Soviet geopolitical area, the Soviet threat was removed and the delay in the EU full membership process. These changes laid the ground for Turkey to change from the bilateral foreign policy preference that it had strictly adhered to during the Cold War to a multilateral foreign policy preference. Along with the adoption of a multilateral foreign policy preference, The States in the South Caucasus which Turkey has cultural, ethnic, religious and historical ties began to be regarded as an alternative that might present Turkey with some economic and political advantages. However, despite sincere attempts, Turkish decision makers, for external and internal reasons, couldn't fulfill their expectations with regard to the Transcaucasian states (Güngörmüş Kona, 2005). The necessities of Turkish foreign policy in the region will be highlighted below.

3.1. The Basic Parameters Of Turkish Foreign Policy

States have adopted four types of foreign policy strategy to realize their foreign policy goals: Neutrality, isolationism, non-alignment and cooperation (Sönmezoğlu, 1989).. It should be underlined that the necessity of adopting a specific foreign policy strategy in order to maximize Turkey's economic, political and social advantages in the South Caucasus. If Turkey does not adopt and develop a specific foreign policy strategy for

the region, Turkey will become isolated from the ongoing power rivalry and will be unable to benefit from the region's potential advantages. For Turkey cooperation is the most suitable strategy option

Neutrality has a juridical character and so differs from non-alignment, which is political in nature. Any state which excludes itself from any war de facto and de jure occurring between two or more states and that wants to be regarded as excluded is accepted as neutral in international relations. Neutrality should be regarded as a foreign policy strategy chosen by freewill (Güngörmüş Kona, 2005). As for the probability of Turkey's application of neutrality as a foreign policy strategy with regard to the South Caucasus, it is unnecessary since there was a war between Azerbaijan and Armenia in the case, Nagorno Karabakh in addition there are many ethnic conflicts in the region which Turkey has to take part. Hence we can eliminate application of this type of foreign policy strategy in the South Caucasus.

Isolationism is a political and military strategy and it can be explained as the minimum participation in international problems; minimum preference in regard to developing diplomatic or economic relations with other states, and an unwillingness to conduct any military operations or to give any military privileges to any state (Güngörmüş Kona, 2005). It is not to be identified with the absence of all significant relationships but rather, with the absence of certain relationships. As it was mentioned above, isolationism is above all generally characterized by the refusal to enter into alliances and to undertake military interventions (Kurth, 1973). As the probability of Turkey applying isolationism towards South Caucasus under today's economic and political conditions this is not an option for Turkey's decision-makers. Non-alignment emerged after Second World War. It refers to remain outside the alliances and disputes between present pacts (Güngörmüş Kona, 2005). It is impossible for Turkish decision-makers to follow this type of foreign policy strategy in realizing any foreign policy goal since integration with European political, economic and social institutions has been one of the most important foreign policy goals for Turkey. In other words Turkey can only realize her aims in regard to the region through integrating herself with pacts or economic, military or political alliances.

Traditionally, Turkish foreign policy in the post-1923 Republican era has been characterized by two central guiding principles. The first basic element concerned an unequivocal orientation toward the West, an objective embodied in Turkey's quest for full membership in the European Union. The second key element involved a conservative or defensive approach to foreign policy which has tried to avoid extra-territorial interests or activities extending beyond the country's borders. The very foundations of Turkey's foreign policy however, were seriously challenged in the 1990s, resulting in a more assertive policy in the Balkans, Middle East, Caucasus, and Central Asian republics. The key political figure in this shift was Turgut Ozal, president of Turkey during the early 1990s, who had risen to prominence in the previous decade as the architect of Turkey's neo-liberal economic reforms. (Hale, 2002)

The first striking evidence of the shift in foreign policy became evident during the 1990-1991 Gulf crisis as Turkey took an active role in the U.S.-led coalition against Iraq, following the invasion of Kuwait. The new assertiveness was highlighted further in relations with former Soviet republics in the Caucasus and Central Asia, which Turkey was the first to recognize in 1991. This act was followed by intense diplomatic efforts to forge close links. Several underlying forces contributed to a dramatic shift in Turkish foreign policy in the early 1990s. During the Cold War era of bipolarism and superpower rivalry, Turkey had a critical geostrategic position in the Western alliance and NATO, constituting a formidable barrier against any Soviet expansionism toward the south. The end of the Cold War, however, presented Turkey both with new opportunities and new constraints. Following the USSR's breakup, Turkey's geostrategic value to the West was no longer as clear-cut as it had been. Moreover, the rejection of Turkey's bid to become a full-member of the European Union EU was widely interpreted in domestic policy circles and the public as exclusion on explicitly "cultural" ground (Aydın, 2004).

A deep sense of isolation and insecurity on the part of the Turkish state was a natural corollary of all these influences and--combined with changing regional conditions--encouraged a more activist role. U.S. support for Turkey's involvement in the Middle

East, the Balkans, and the Caucasus also played an important part in this change. Turkey's embrace of the "Turkic Republics" also embodied an important psychological dimension. A closer bond with people of common historical descent was a means of overcoming Turkey's traditional fear of isolation and insecurity, feelings compounded by the negative attitude on the part of Europe and the Arab Middle East as well as several ongoing conflicts around the country's own borders. The sense of isolation is crucial in understanding both the initial euphoria concerning the "Turkic" republics of the Caucasus and Central Asia as well as the subsequent development of close military and economic ties with Israel in the Middle Eastern context. It was also hoped, in the process, that an active leadership role in the regions concerned would help to revitalize Turkey's strategic value to the West and, thereby, enhance its own economic and security interests.

Significant changes in Turkey's domestic politics also contributed to the trend, particularly in relation to the former Soviet republics. Traditionally, the foreign policymaking process has been the exclusive domain of a small group of political figures and career bureaucrats. Yet the recent resurgence of Islam and nationalism in Turkish politics broadened the circles of those concerned with foreign policy and trying to influence it. A distinct foreign orientation emphasizing non-European or non-Western dimensions of Turkish identity became the hallmark of the Islamist and ultra-nationalist parties which became more significant in a highly fragmented party system. Moreover, non-government organizations in Turkey tried to establish influence and develop close cultural and economic ties with the new nations of the Caucasus and Central Asia, becoming an interest group advocating sustained closer relations. These included entrepreneurial businesses as well as NGOs engaged in cultural activities such as creating educational institutions to educate the future elites, with the aim of furthering their close interaction with Turkey (Öniş, 2001).

There are several motivating factors that stimulate states to adopt cooperation. First reason; for the states to cooperate is that they have a common goal but they lack the individual capacity to reach this goal by themselves. Second is a state may have enough capacity to reach its goal or to gain support for their policies, or to influence

other states. Third, states may adopt a cooperation strategy so as to share the responsibility of their foreign policy attempts to reach their goal with other states. Lastly, states might follow a cooperation strategy in order to increase their influence over other states through the setting up of cooperation with the U.S. and Western European states economically and politically (Güngörmüş Kona, 2005). As for the probability of Turkey's application of cooperation in its foreign policy towards South Caucasus, this is the most suitable strategy Turkey can adopt to reach its desired goals in the region by the reason of insufficiency on economic and political capacity to realize economic and political goals in the region. In addition Turkey must share responsibility of her foreign policy actions in the region with economically and politically powerful states such as the U.S. and some Western European states since Turkey's actions would probably face opposition from the Russian Federation. There are driving factors which lead Turkey follow cooperation as its foreign policy strategy in the South Caucasus. We can group these driving forces into four titles. At first we will present the economic driving forces. Under this title I will emphasize economic reasons which prevent Turkey from behaving independently but force her to cooperate with other states in order to materialize economic goals in the region. After the disintegration; these three states; Azerbaijan, Armenia and Georgia that have been trying to establish necessary norms and institutions of liberal economy, have been strongly in need of foreign financial support since they gained independence. Taking the economic expectations of these republics into consideration, they are obviously in favor of developing relations and setting up economic alliances with economically powerful states. The process of political transformation in these states has led to far-reaching changes in nearly all fields of their socio-economic system. So we can group these changes under political transformation and economic transformation. Along with the dissolution of the USSR, revival of multi-party system, free elections and return to self-governance, economic transformation has come to the agenda. We can enumerate these changes as free flow of capital, re-integration in world economy and privatisation (Zoltan, 1999). Besides these instruments Turkey and West had dissimilar economic approaches towards three states since they had various political ties with three states. As known; Turkey had socio-cultural ties with three of them. The organization of local community could be seen which people had immigrated from South and North

Caucasus to Anatolia (Aydın ve Erhan, 2006). By the reason of this Turkey can have also economic ties with Azerbaijan and Georgia however the historical events is the biggest obstacle for economic cooperation between Turkey and Armenia. The closure of the Turkish-Armenian border in April, 1993 has generated grave costs to Armenia. A re-opening of the border would benefit greatly Armenia's economy and society, even if some economic sectors may suffer from external competition. The opening would also favourably impact Armenia's political development and open the way to the country's full integration into the region. Turkey also loses significantly from the closure, while having much to gain from a policy reversal (www.europarl.europa.eu, 03.08.2008)

Actually the relations between Armenia and Turkey has been determined Turkish Foreign Policy towards the South Caucasus. Since the end of the Cold War, Turkey's policy towards the region has been based on the ethnic conflict between Armenia and the Azeris. Turkish public opinion has supported the Azeri side since the eruption of the conflict and the public have urged the Turkish government not to adopt a neutral stance toward the parties and to become a mediator which was also a favorable option for Turkish foreign policy at the time. This situation exacerbated the emerging relations between Armenia and Turkey which were already over-burdened with history. Turkey's pro-Azerbaijani stance in the Nagorno-Karabakh conflict has become a determinant of its relations with Armenia and restricted the options of Turkey's foreign policy in the region.

Turkey's policy toward Armenia right after the Armenia's declaration of independence was one to build good neighborly relations and provide aid. Aiming to base these new relations on rationality and pragmatism, both sides seemed to agree not to hold their relations hostage to history, but stood up for a normalization of relations. Besides, good neighborly relations with Armenia would strengthen Turkey's position against the Armenian diaspora in Western countries. The exacerbation of the ethnic conflict in Nagorno-Karabakh in 1992 resulted in the suspension of all such good neighborly intentions between Turkey and Armenia and resulted in the non-existence of diplomatic relations between the two countries and the enforcement by Turkey of an

embargo against Armenia. Turkey declared the solving of the Nagorno-Karabakh conflict a precondition for the establishment of relations with Armenia and Armenia declared the acknowledgement of the 'Armenia genocide' by Turkey a precondition for the same purpose. The EU has urged Turkey on several occasions to lift its embargo against Armenia and this issue is becoming of increasing importance in EU-Turkish relations (Terzi, 2005). One of the main topics in Turkey's EU accession process will become relations with Armenia and the EU's stance on the issue. The European Parliament resolution on the opening of negotiations with Turkey, dated 27 September 2005, makes a reference in its introduction to its previous resolutions, including one dated 18 June 1987, about the Armenian question. This EP resolution is expected to become an issue in the Turkish accession process since the adoption of the Acquis by a candidate state includes adoption of all acts, legally binding or not, within the Union framework. Several other EU documents formulating a policy toward Turkey make references to this resolution and the more general requirement to reach reconciliation with Armenia, normalize relations starting with the opening of the border and the establishment of diplomatic relations (www.ec.europa.eu/index_en.htm, 02.06.2008).

On Energy Issue; Turkey is geographically close to 70 percent of the world's proven energy resources, in particular to those in the Middle East and the Caspian Sea basin. With regard to the transportation of the oil and gas reserves of the Caspian Sea area, the route across eastern Turkey, connecting the energy fields to the Mediterranean, offers the most direct, cost-effective, technologically and environmentally feasible and safe option. On the other hand, the transportation of this large volume of oil by tanker through the narrow and congested Turkish Straits is not a sustainable option. For these reasons, Turkey concentrated its efforts for the transportation of Caspian oil and Gas reserves to the western markets on the realization of East-West Energy Corridor. The pipeline projects linking the Caucasus and Central Asia to Europe will be essential for the region's integration to the West. Secure and commercially profitable pipelines will help bring stability and prosperity to the region. At this juncture, the Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline (BTC) project is intended for both Central Asian and Azerbaijani oil. The legal framework of the BTC oil pipeline project was finalised by the end of 2000. The detailed engineering process was completed by June

2002. The third and last phase, namely the construction stage of the BTC project which will last 32 months was launched on 10 September 2002 and the ground-breaking ceremony took place on 18 September 2002 at Sangachal, Azerbaijan with the participation of the Presidents of Turkey, Azerbaijan and Georgia and the US Secretary of Energy. The first tanker to carry Caspian oil is expected to be loaded from Ceyhan in the first half of 2005. Regional energy trends played an important role in the determination of the pipeline route. The BTC pipeline will not only transport Caspian oil to Western markets in a safe way but also by lessening the transiting of oil tankers from the Turkish Straits, will contribute to the safety of navigation, environment and the 15 million inhabitants of Istanbul.

The BTC project will provide a sound and viable alternative for Europe, for steady, secure and cost-effective energy supply diversification. It constitutes the most environmentally safe, strategically sound and economically viable route. Turkey thus will facilitate the requirements for secure transportation of Caspian oil and gas to the world markets. The other important project of the East-West Energy Corridor is the Baku-Tbilisi-Erzurum (BTE) Natural Gas Pipeline, which will carry Azeri gas to Turkey through Georgia. The legal framework of the project is completed. The transportation of Caspian oil and gas resources through multiple pipelines will enable the European countries both to diversify and secure their energy supply. The interconnection of the gas pipeline networks of Turkey and Greece within the south European gas ring project will also constitute an essential component of Europe's energy diversification efforts in the future (www.byegm.gov.tr, 03.06.2008).

The story of oil from the Baku-Tbilisi-Ceyhan oil pipeline, which started to reach world markets in July 2006, has constituted one of the topics on the agenda of relations between states in South Caucasus following the end of the Cold War. After the dissolution of Soviet Union, there emerged new countries in Caucasus and Central Asia which has ethnic, cultural and historical ties with Turkey. The emergence of Newly Independent States created a new dimension Turkish-EU relations especially on energy issue. Turkey's new position as a way-station for energy distribution could be a useful asset in its relations with both the European Union and the United States. We

can emphasized that the rise of the region on the agenda of the relations was related to the region's hydrocarbon reserves.

The emergence of energy-rich countries in Central Asia and Caucasus after the dissolution of Soviet Union drew the attention of the OPEC-dependent western countries to the region. At this point, as a NATO member, Turkey appeared as a reliable partner in transportation of resources from these regions to the world markets. Therefore, in the aftermath of the Cold War, Turkey's strategic importance has acquired a new dimension as an energy corridor between East and West. Despite the different predictions about hydrocarbon reserves of the region, according to US Department of Energy, proven oil reserves of Caspian region is between 17 and 18 billion barrels while potential reserves of the region are between 203 and 209 billion barrels. This means that the region possesses 1.5 per cent of total world proven oil resources. In terms of natural gas, the region has 3.2 per cent of world total natural gas resources. The reserves of the region is marginal compared to Middle East reserves. Although the region possesses reserves less than in the Middle East, the reserves have strategic and political importance. First of all, the reserves provide an alternative option to OPEC sources. This create opportunities for EU and the USA to decrease their dependencies on the latter. Therefore, in terms of diversification of energy resources, the region plays an important role. Hence, Azerbaijan and Kazakhstan-for their oil reserves and Turkmenistan-for its natural gas reserves-have become a focus for the energy strategies of these countries. Secondly, these reserves decrease the power of OPEC countries to use oil as a weapon for their political aims. Hence the flow of oil from these regions to the world markets in an uninterrupted and cheaper way constitutes one of principal aims of Western countries. To summarize, in the post-Cold War period, the emergence of energy-rich countries in the Caucasus and Central Asia has added an energy dimension to the bilateral relations, which was embodied in Baku-Tblisi-Ceyhan Pipeline Project (Çamkıran, 2006).

3.2. Turkey's Energy Policy and Its Impacts on South Caucasus

Turkey is geographically located in close proximity to 71,8% of the world's proven gas and 72,7% of oil reserves, in particular those in the Middle East and the Caspian basin. It thus, forms a natural energy bridge between the source countries and consumer markets and stands as a key country in ensuring energy security through diversification of supply sources and routes, considerations that have gained increased significance in Europe today.

Major pipeline projects realized and others under construction, which will inevitably contribute to Europe's energy supply security, are enhancing Turkey's role as an important transit country on the Eurasia energy axis and energy hub in the region. To this end, Turkey has concentrated its efforts for the transportation of Caspian oil and gas reserves to Western markets on the realization of the East-West Energy Corridor, often referred to as the Silk Road of the 21st Century. The pipeline projects linking the Caucasus and Central Asia to Europe will be essential for the region's integration with the West. Secure and commercially profitable pipelines will help bring stability and prosperity to the region. Turkey's objective is to become Europe's fourth main artery of energy supply following Norway, Russia and Algeria through the realization of these projects. This will open up a new avenue for cooperation between Turkey and the EU that will also reinforce Europe's ties to Asia. Turkey's main objectives are; enhancing the security of supply; increasing domestic production; diversification in sources, origin of imports, Technologies; Regional Markets and Interconnections. Afterwards restructuring of the sector and market liberalization, improving energy efficiency and environmental effectiveness and facilitating the transportation of hydrocarbons through the energy corridor. Competitive market structure is also other main component of this energy strategy. It can be divided into two branches: State and Private Sector. In state sector, policy development can be analysed on macro scale with the Ministry of Energy and Natural Resources and Energy Market Regulatory Authority is responsible to regulate, control and supervise of the markets. Investments and market activities as generation, distribution and trading are within in the scope of private sector (BSEC, WG on Energy, 2007).

With a rapidly growing economy Turkey has become one of the fastest growing energy markets in the world. Turkey has been experiencing rapid demand growth in all segments of the energy sector for decades. Recent forecasts indicate that the growth trend of 6–8 % per year will prevail in the energy sector in the following years. Sustainable and strong economic growth together with the accompanying rise in social wealth since 2002 has led to an increase in energy demand. As a result of the same growth trend continuing in 2007, industrial sector and electricity sector primary energy consumption is expected to increase by 4 percent and 15 percent, respectively, compared to previous year, thereby leading to a 7 percent increase in total primary energy consumption with respect to 2006. Thus, 99.3 million tonnes of oil equivalent of primary energy consumption in 2006 and 1,377 kilograms of oil of per capita energy consumption in 2006 would rise to 1,455 kgoe in 2007. ((Ninth Development Plan, 2008).

The primary energy consumption, which reached around 92 million tons of oil equivalent (toe) in 2006 will rise to 126 million toe in 2010 and 222 million toe in 2020. The limits of Turkey's domestic energy sources in light of its growing energy demand have resulted in dependency on energy imports, primarily of oil and gas. At present, around 30 % of the total energy demand is being met by domestic resources, while the rest is being satisfied from a diversified portfolio of imports. Turkey attaches utmost priority to further diversification of imports in both type and origin. Exploration and production activities are also being intensified in this context. Turkish energy policy has made impressive progress after the Helsinki Summit of 1999 where Turkey was declared a candidate for accession to the EU. Turkey attaches great importance to more efficient and rational functioning of the energy sector for promoting the competitiveness of the national economy. Substantial progress has been achieved in restructuring and liberalizing the Turkish electricity and gas markets in pursuance with the EU Directives for the purpose of integration with the EU Internal Energy Market, since the enactments of the Electricity and Natural Gas Market Laws in 2001. With the Petroleum and LPG Market Laws, competition oriented mechanisms has been put into place (Ministry of Foreign Affairs Energy Strategy, 2008).

An independent regulator, The Energy Market Regulatory Authority (EMRA) has been established to be in charge of regulation and supervision of the electricity, gas, petroleum and LPG markets.

Concerning renewable energy sources, the Law on the Utilization of Renewable Energy Sources for the Purposes of Generating Electricity has been adopted in 2005 for promoting electricity production from the renewable energy sources in liberalized energy markets.

In order to use energy efficiently, prevent waste, mitigate the burden of energy costs on the economy, and increase the efficiency in the use of energy resources and to protect the environment, the Energy Efficiency Law was enacted on 2 May 2007 (Ninth Development Plan, 2008).

Turkey aims at fully utilizing its indigenous hard coal and lignite reserves, hydro and other renewable resources such as wind and solar energy to meet the demand growth in a sustainable manner. Integration of nuclear energy into the Turkish energy mix will also be one of the main tools in responding to the growing electricity demand while avoiding increasing dependence on imported fuels. The Law on Construction and Operation of Nuclear Power Plants and Energy Sale (no. 5710) has been adopted on 21 November 2007. Nuclear power plants corresponding to a total installed capacity of 5000 MW are expected to be commissioned after 2012.

3.2.1. BTC (Bakü-Tbilisi-Ceyhan) Pipeline Project

The BTC pipeline is the first direct transportation link between the Caspian and the Mediterranean seas. This pipeline is an integral part and the most important pillar of the larger Transportation network– also known as the new Silk Road – running all the way from Western China and Central Asia, through the Caspian and Caucasus, across the Black Sea, and then on to ports in Ukraine, and the Mediterranean. The central component of the East-West Energy Corridor is the Baku-Tbilisi-Ceyhan (BTC) pipeline, which is a dedicated crude oil pipeline system that extends from the Azeri-

Chirag-Deepwater Gunashli (ACG) field through Azerbaijan and Georgia to a terminal at Ceyhan on the Mediterranean coast of Turkey, bypassing the environmentally sensitive Black Sea and the Turkish Straits. This transportation Superhighway is designed to complement existing transport routes from Asia to Europe, including the traditional and often heavily overloaded outlets via Russia. Eventually, the goal is to create a fully integrated transportation network – including upgraded highways, pipelines, railroads, ports, ferries, fiber-optic lines, electricity transmission lines – that will make it easier for the states of Central Asia and the Caucasus to trade not only with each other but also with Europe, the Middle East, and the rest of the world. This system has a potential to become a very important element of the network of international economic security. But this transportation network is important not only for trade, but also for strategic and military purposes. The ports on the Black Sea and Caspian Sea, highways, railroads and air corridors provide access to the Central Eurasian inlands(q.v. Map 3).

There were many projects created to carry oil from these landlocked regions to world markets. Some of the projects were created for carrying “Early Oil” from the region. Early Oil concept means the method of testing whether the oil extracted from the region reaches world markets in an uninterrupted way. Hence, a small amount of oil was carried through the early oil pipelines to consolidate regional states sovereignties. After it was understood that the pipeline projects carrying early oil functioned well, there appeared new discussions for Main Export Pipelines. The Baku-Ceyhan Project was among other proposals, such as Iran’s swap proposal, Baku-Novorossiisk and other pipeline projects carrying oil to Pakistan. In the meantime, Baku-Ceyhan and Baku-Novorossiisk came to the forefront in this competition of proposals.

With the signing of the Contract of the Century in 1994 between Azerbaijan National Petroleum Company and multinational oil firms, a consortium was established in Azerbaijan to extract oil from the Azeri, Çırac And Güneşli oilfields. Within the framework of this agreement, the Azerbaijan International Operation Company was set up to produce and transport oil to world markets. Intensive diplomatic initiatives were taken in the 1990s by both Turkey and the USA for Baku-Ceyhan to be chosen as a

Main Export Pipeline. Following the 1998 Ankara Declaration and 1999 OSCE İstanbul Summit, in 2002, the BTC Share and Investment firms were established to construct and finance the pipeline. Its construction began in September 2002, with the first oil being pumped in May 2005 in Azerbaijan. On May 25, the presidents of Azerbaijan, Kazakhstan, Georgia, and Turkey inaugurated the Baku-Tbilisi-Ceyhan pipeline (BTC), a major artery linking oil fields in the Caspian Sea region to the Mediterranean Sea and Western markets beyond. It would take several months for oil pumped from Baku, Azerbaijan, to pass through Tbilisi, Georgia, and reach the Turkish coast at Ceyhan. Eventually, BTC will carry up to 1 million barrels per day (bbl/d) of crude oil to the Mediterranean. It is meaning that approximately 1.5% of the world's oil supply and at 1760 kilometers is the second longest of its kind in the world. With growing concern over Western dependence on Middle Eastern oil and rising global oil prices, Turkey is emerging as a key country in providing Caspian oil to the Western world. the BTC as a key east-west corridor that would ensure the independence and economic viability of the newly independent states in the Caspian Basin. The BTC also made strategic sense to the United States and Turkey because it would bypass politically unstable places like Iran, the northern Caucasus (including Chechnya), and Armenian-occupied parts of Azerbaijan (Gençsoy, 2005).

In July 2006, the first tankers were loaded oil at Ceyhan port, which symbolizes its becoming a Main Export Pipeline. Compared to other pipeline proposals, the BTC helps to decrease tanker traffic in the Bosphorus Straits, a development that increases environmental security. Moreover, because climate is suitable for tanker loading all year long, the port of Ceyhan makes it more viable compared to Novorossiisk. The most important feature of the pipeline is that it decreases dependency on existing Russian infrastructure for the transportation of the oil from the region to the world markets hence consolidating the sovereignties of the regional states. The pipeline is not viable in terms of economics since the amount of oil transported through the pipeline constitutes only 1.33 per cent of the world's daily oil consumption. However the pipeline has political and strategic importance (Çamkıran, 2006).

In 1997, Western oil companies started to explore the commercial viability of the BTC project. An international consortium of eleven partners -- Britain's BP; Azerbaijan's SOCAR; Norway's Statoil; U.S. based Unocal, Amerada Hess, and ConocoPhillips; Turkey's TPAO; Italy's Eni; Japan's INPEX and Itochu; and France's TotalFinaElf -- began construction of the pipeline in May 2003. With a 30 percent share in the project, BP is the largest stakeholder, and served as acting leader for the project's design and construction phases. The BTC, which cost an estimated \$3,7 billion for construction, financing, and line-fill, has received limited public funding. The European Bank of Reconstruction and Development and the International Finance Corporation, the World Bank's private-sector arm, pledged \$250 million in loans. Although a small amount compared to the project's total funding, World Bank participation acted as a catalyst to bring foreign direct investors to the project. (Gençsoy, 2005)

Because it traverses 176 widely varied and sensitive terrains while crossing the politically unstable Caucasus region, the BTC was bedeviled by worries about its security and environmental risks. Accordingly, the U.S. military's Special Forces trained 1,500–2,000 Georgian soldiers in anti-terrorism techniques under a \$64 million program aimed at protecting the pipeline against saboteurs. In addition, a BP-led consortium granted an additional \$25 million to local non-governmental organizations to manage environmental programs. The entire length of the 1,094-mile BTC, the longest oil-export pipeline in the world, is buried. Once the pipeline becomes fully operational, Azerbaijan will be the main beneficiary of the sale of its oil in international markets, collecting (at current prices) about \$29 billion per year in oil revenues, while Georgia and Turkey will respectively collect transit fees of \$600 million and \$1,5 billion per year (Gençsoy, 2005).

Besides these advantages and profits; another important issue has arisen; to secure BTC pipeline across Caucasus. .The security of the BTC is in danger from international terrorist organizations and from instability in rural communities. Pipelines are a target of choice for terrorist and insurgent groups. When we think of high-value targets, airports, harbors and energy networks come to our mind. The possibility of destruction of this pipeline has brought about serious problems along

with itself. Not only to emerge insecure occasion but also these may pose health risks local communities in the region. The construction of BTC pipeline is a very important step forward toward security for the region and diversification of international energy supplies in the South Caucasus region. However the BTC runs through difficult and dangerous territory. Not only does the route pass through forbidding mountains and remote locales, but it runs dangerously close to the region's frozen conflicts and hotspots: Nagorno-Karabakh, South Ossetia, the North Caucasus, Abkhazia, Armenian enclaves in southern Georgia, and the restive Kurdish regions of southeastern Turkey.

The region has experienced an episode of sabotage as recently as January, when suspicious explosions in North Ossetia cut off gas and electricity supplies to Georgia. The pipeline also faces threats on the local level. Despite reimbursement and reinstatement of the land from the British Petroleum-led BTC consortium, locals staged frequent blockages during construction, and illegal tapping attempts were found even before oil began to flow in May 2005 (Petersen, 2006).

According to BP's cooperation with BTC countries Feb. 14, entitled "Report on 2005 Activities, the British energy group has worked extensively with the three governments involved in the \$3 billion project — Azerbaijan, Georgia and Turkey — to help ensure their security forces are properly trained to safeguard stability along the BTC, while respecting human rights (www.caucas.com, 01.05.2008).

According to the Host Government Agreements that govern the BTC project, provision of security services on the pipelines and its facilities is the responsibility of the Government of Georgia, Turkey and Azerbaijan. HGA is a legal agreement between a foreign investor and the local government which is designed to reduce financial and political risks posed to investors by sudden changes in national law. If a country breaks an agreement by interrupting or modifying a project it must pay a penalty, which can risk deterring interventions necessary to protect rights and enforce national laws that apply elsewhere in the country (www.brettonwoodsproject.org/, 09.03.2008).

The Host Government Agreement was signed between the Government of the Republic of Turkey (Ministry of Energy and Natural Resources) and MEP Participants on 19th October 2000 in Ankara. Likewise, similar host government agreement was signed between Azerbaijan and MEP Participants on 17th October 2000 in Baku; and Georgia - MEP Participants on 18th October 2000 in Tbilisi. In common terms, each Host Government Agreement determines each host government's representation and warranties to the Project; and determines principles to ensure free transit of oil and to facilitate implementation of the Project (www.iea.org, 01.05.2008).

Some suggest that America wants to ensure its military presence in this geo-strategic territory. Clearly, passing through a turbulent region, the pipelines need special protection from possible terrorist attacks. NATO might see this as its duty to allocate special units in the region, which would strengthen its presence and influence in the South Caucasus and the Caspian. Although, so far NATO officials state there are no plans to get directly involved in the protection of the pipeline, they have offered their assistance in providing "NATO's military expertise to local security forces." Local security corps have already been granted training from NATO -member countries: Georgian Special State Protection Service and Azerbaijani Pipeline Security Service have been trained by American Security Company "Equity International", whereas the Turkish Gendarmerie received training from Northern Ireland security forces. It can be discussed that the security of BTC might become a good excuse for the U.S. to bring in troops or bases into Azerbaijan and Georgia (www.finchannel.com, 01.05.2008).

In summary; The building of the Baku-Tbilisi-Ceyhan pipeline constitutes a strategic milestone in post-Soviet Eurasia. In the first place, the pipeline's construction will have major implications for the South Caucasus, especially as regards its role in European and World Politics. In particular, Europe is the player that stands to gain most from the building of an energy bridge to Central Asia, to such an extent that this may be termed crucial for Europe's long-term energy security. European involvement will therefore be required for the realization of this ambitious vision: an energy corridor extending from Europe across the Caucasus to Central Asia, supplemented by a wider transportation and communications superhighway. If this is indeed

accomplished, BTC will with hindsight be recalled as the historic, first major step in this direction. Another important issue that has been arisen with the construction of BTC is Security. Investment in physical security is not enough to secure oil infrastructure. Pipelines are long and vulnerable and a determined terrorist would always succeed in blowing it up somewhere along its route. The BTC pipeline could be as strong as its weakest link. An attack on the pipeline in any place along its route will hurt not only the country where the attack took place but also the other countries which benefit from it.(Tigner, 2006) This is why multinational cooperation to secure the pipeline is of particular importance. The goal of the three countries must be to strengthen coordination and cooperation among the land forces of the three nations in preparation for defending the BTC from a terror attack. Due to security reasons, BTC is being buried under the ground. On the other hand much of the stability along the BTC corridor would depend on Russia. Russia is not supportive of BTC. It sees it as a U.S. plot to gain control over the Caucasus and cut all links between Moscow of the former Soviet states, building an economic infrastructure that would prevent the former Soviet states to ever reunite with Russia. Russia also views BTC as a way to weaken its position as major supplier of oil to the European markets. For Russia; the BTC project refers to an effort; to redraw the geography of the Caucasus on an anti-Russian map. Clearly, there are important challenges arising out of the BTC project. The potential consequences for the Armenian-Azerbaijani conflict have already been mentioned. The other main concern is the development of Russian policy. Moscow continues to aspire to dominate the transportation of oil and gas resources from the former Soviet Union. (Petersen, 2006)

Moreover Turkey pursued a policy of keeping regional balances by using the tool of diplomacy in the region. Turkish policies in the region did not constitute a threat to their interests. The stability of the region was inseparable from European stability; therefore, Turkey engaged in multilateral diplomatic initiatives to find solutions to the existing conflicts in the region. It was difficult to reach stability in Europe unless there was stability in Caucasus. Hence Turkey responded to Russia's exclusionary policies in the region by asserting its role in the region as being vital not just for the regional stability as well. We can see that Turkey has pursued a balance policy between its

commitments in the western alliance and its regional roles. As a part of its regional role to protect the sovereignties of CIS, Turkey felt responsible for their economic and social developments. Hence Turkey supported development of market economies and spread of democracy in the region. It was thought that economic development in the region would bring peace and stability. Therefore the BTC was a reflection of using the economy as a tool in realizing these foreign policy objectives. The BTC served best the objectives of Turkish policy in the region as an effective foreign policy tool. (Roberts, 2003)

3.2.2. BTK (Bakü-Tbilisi-Kars)

The South Caucasus should soon have a railway line linking Baku on the Caspian Sea to Kars in eastern Turkey. The Kars-Tbilisi-Baku railway or Kars-Akhalkalaki-Tbilisi-Baku railway, is a regional rail link project to directly connect Turkey, Georgia and Azerbaijan. The project is due to be completed by 2010. Behind this regional project that will strengthen the east-west corridor, governments are busy quarrelling with each other. Against a background of endless turmoil surrounding the presidential elections in Azerbaijan, the task group for economic co-operation between the United States and Azerbaijan met on 1 December with a view to drafting a plan of action for planned developments. Amongst the priorities put forward was Baku's application for candidacy of the World Trade Organisation, supported by Washington, the completion of the Baku-Tbilisi-Ceyhan (BTC) pipeline and the BTE gas pipeline, as well as the very controversial project of a Baku-Tbilisi-Akhalkalaki-Kars railway line (Gusep, 2005).

The construction of a 90-km long section between Akhalkalaki (Georgia) and Kars (Turkey) is planned for this new railway line and will cost an estimated 600 million dollars. There are two issues at hand. The first of these is economic. Almost 3 million tonnes of goods, primarily oil, is to be carried each year on this railway line. Currently, petrol from Turkmenistan and Kazakhstan is transported by wagons via Azerbaijan as far as Georgian ports on the Black Sea, to Poti and Batumi. Following the example of the BTC, this railway line to Turkey aims to ease congestion in petrol traffic in the

Bosporus. The second issue is political. This new transport artery will result in Turkey and Azerbaijan excluding Armenia slightly more by the regional strategy of opening up the southern Caucasus. This political-economic approach forms part of existing projects in Armenia concerning the major energy transport axes (BTC, BTE), such as roads. Today, Ankara and Baku are choosing to make Yerevan pay for his victory in Nagorno-Karabakh by intentionally isolating the region.(q.v. Map 4)

On November 21, 2007 in Georgia, near the station Marabda, the official ceremony was held related with the beginning of construction of a railway Baku-Tbilisi-Ahalkalaki-Kars, which was attended by the presidents of Azerbaijan, Turkey and Georgia. This project, the aim of which is to connect the Caucasus and respectively the Asian region through the Caspian Sea, with Europe, is the fruit of the efforts of those countries that are directly involved in this project, in other words, Azerbaijan, Turkey and Georgia (Ibrahimov, 2007).

It is noteworthy that the development and funding of the project is carried out without any involvement of international organizations or third countries. Thus the construction of 105 km of railway track, 29 km of which will pass through the territory of Georgia, and 76 km through Turkey, consortium members have decided to implement its own. In particular, Turkey will fund a section of road which passes through its territory, while funding for the Georgian segment assumed Azerbaijan. For instance, Azerbaijan has allocated for the project, whose total cost is 600 million dollars, 200 million dollars, as the government loan to Georgia for a term of 25 years under 1% per annum. In few days the International Bank of Azerbaijan will provide the first tranche of the loan, which amount will be 40 million dollars. It is expected that after completion of the construction of this road will be carried on 15 million ton goods per year. The importance of this road is that it will become an alternative, the existing Trans Siberian line, in fact a monopoly in rail transport between major countries in Europe and Asia. After construction conclusion of the tunnel passing under the Turkish straits, will be available unobstructed movement of trains from the Chinese cities up to London. (Ibrahimov,2007)

This project is crucial for all three countries involved in its implementation. It is noteworthy that this is not the first regional project, uniting political and economic interests of the three countries. The realization of Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline, as well as their successful exploitation, has provided the ground for ideas of Azerbaijan, Turkey and Georgia on further deepening of their relations, and the result of which was the Baku-Tbilisi-Kars railroad project. By the implementation of this project; a special economic zone will set up between the three regional countries. This project has already attracted interest of such countries as Kazakhstan and China, which has expressed a desire to use the railway Baku-Tbilisi-Kars, with the aim of transporting their goods to European markets. Provided with these facts, it possible to stress that this project will be profitable and funds invested in it pays off in the shortest possible time. Implementation of this project will have implications not only for Azerbaijan, Georgia and Turkey, but also for other countries in the region. (Bocioaca, 2007)

In parallel, Azerbaijan is the initiator of this project. Following the success of its energy projects, both in terms of oil and gas and its transportation to the world markets, Azerbaijan has become a major supplier of energy in the Eurasian space, which has been able to strengthen its independence. At this stage, Azerbaijan, using its favorable geopolitical situation, also wants to become a transit country for transportation of goods between Europe and Asia.

It should be noted that Azerbaijan already has transported oil products from Kazakhstan and Turkmenistan on its territory and continue to Georgian ports of Poti and Batum. However, with the realization of the railroad Baku-Tbilisi-Kars, Azerbaijan will also receive an opportunity to carry to the Georgian ports goods from China for European markets and, if possible, at the prospect, to transport goods and in the opposite direction. Another political motive for Azerbaijan the implementation of the project serves is the protracted Nagorno-Karabakh conflict between Azerbaijan and Armenia. In the event of this project implementation, Armenia will be finalized on the sidelines of ongoing regional projects that for a country with poor natural resources and without exit to the open seas, could have dire consequences, not only economically

but also politically. Having have problems in the relations not only with Azerbaijan but also with Turkey and Armenia forced to review its policy towards its neighbors. Otherwise, the country may face a problem of exclusion in the region. From an economic perspective, this project could serve as a serious alternative to the oil and gas sector, which is at the core of today's date for the Azerbaijani economy. In addition, as increasing revenues from oil projects Azerbaijan has been actively pursue projects outside the republic. In particular, Azerbaijan State Oil Company acquired in the Georgian Black Sea terminal at Kulevi, which Azerbaijan is planning to export finished oil products to the countries of the Black Sea basin. Azerbaijan Oil Company also is a major supplier of oil products and natural gas on the territory of Georgia and has been actively deploying its own filling stations in the country. SOCAR is also participating in the tender for the privatization of gas distribution lines on Georgian territory. Turning, Turkey, the SOCAR together with the Turkish company Tupras planned construction of oil refinery in the port of Ceyhan with a production force to 10 million tons of oil a year. SOCAR addition, in conjunction with other associates won a tender for the privatization of the Turkish largest petrochemical company Petkim, which produces up to 25% of chemical products to Turkey. Therefore, Baku-Tbilisi-Kars project, the construction of the Georgian part of which the company transferred to the Azerbaijani Azerinshaatservis will allow Azerbaijan to strengthen its position in the region politically and economically. (İbrahimov, 2007)

On the contrary Turkey; as a candidate for full membership in the EU, hopes to strengthen its position by becoming a transit country for the supply of energy from the Caspian basin to the EU. Following the introduction into service the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline, the strategic significance of the parties has increased, and Turkey has become the main alternative Russia, link in the supply of energy resources to world markets. After November 17, 2007 was put a gas pipeline between Turkey and Greece, became the first Azerbaijani gas to enter the European Common Market. Turkey also hopes to increase its income from transit per resale Azerbaijani gas to the European markets.

Baku-Tbilisi-Kars railroad project is important for Turkey so that this country will receive unimpeded path to the countries of South Caucasus and Central Asia. Without doubt this way will increase trade with these countries. Already, the country has set itself the goal to increase trade with Azerbaijan to 3 billion dollars, which is currently about 1 billion dollars. In addition participation in regional projects plays a great importance for Georgia. From these projects, Georgia receives significant infusions to the budget, and she is not opposed to increasing them, which would become possible after the project Baku-Tbilisi-Kars. For Georgia, which has a policy of integration with European organizations, the project is perceived as one of the concrete steps to translate its goals. Through this route will be possible direct link with the European countries through Turkey. Country actually lost owns rail link with the Western countries because of Abkhazian conflict and it will be able to recover after realization this project. Moreover, given the current onerous political situation in Georgia, formed after disperse demonstrators protesting against the Saakashvili government, the start of this project was timely and could contribute to increasing president rating to the extraordinary presidential elections to be held in early January this year (Ibrahimov, 2008).

In summary BTK is called as Iron Silk Road and the significant project of regional cooperation in the South Caucasus. The railway line of Georgia had closed down by the obstructionism of Russia and the railway line of Georgia will reborn by this project. BTK railway line acquired a crucial importance that it will be the most safe way to Europe. The Project will promote the economic development and the improvement of living standards in all the three countries. By the implementation of this Project, a historic Silk Road will be brought to life and China will be connected with Great Britain. In addition the same day that the ceremony of BTK was held, agreements on free trade and double taxation had been signed and Georgia will be able to export its produce to the world's one of the rapidly developing Turkish market at a time when Georgia's main export market in Russia has been closed down (www.embassy.mfa.gov. , 04.04.2008).

On the contrary the Project will boost security in the region. Furthermore implementation of this Project will serve to increase the transit of the export goods through the territories of three states. From the Azerbaijan side, it can be a step to establish direct transport relations of the Caspian basin with Europe and to expedite European integration process, for Azerbaijan and Georgia, it can be an opportunity to further develop cooperation within the European Neighborhood Policy and diversify transportation of the goods and services. This Project will strengthen independence and sovereignty of the regional countries and Turkey is presenting a secular, Western-oriented democratic state for these countries. Besides all these progresses, there is a question that has been arisen; the bypass of Armenia. The Baku-Tbilisi-Ceyhan pipeline has bypassed this country. So has the Baku-Tbilisi-Kars railway line project. The Armenian Diaspora tried hard to prevent these projects but failed totally. It is clear that these economically strategic projects will lead to new ones which Armenia will not be a part of again (İdiz, 2008).

This country, because of the conflict with Azerbaijan and the historic dispute with Turkey, in fact, does not have any economic relations with its closest neighbors. Because of unresolved Karabakh conflict Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline were built bypassing of this country, although the territory of Armenia is provide the shortest route. Now in the case of the completion of the project construction of the railway, Armenia will be finalized in the economic impasse. There is an alternative railway line that Armenia will be included is the existing railway between Kars and Gyumri in the northeast Armenia. The railway has been closed since 1993 after the Nagorno-Karabakh conflict, Turkey closed its border with Armenia. However Azerbaijan and Turkey are opposed to Armenia's participation in regional projects whether Armenia could withdraw its troops from Azerbaijan.

The B.T.K. railway is a small but key segment of the emerging transcontinental corridor that may encourage other former-Soviet states to settle their disputes and join in. At the moment, the railway is rather a signal to Russia than a challenge to its domination over the railway networks between East and West. As a reaction, Russia will likely increase the pressure on Georgia; it will try other alternate routes to Iran via

Azerbaijan, while bringing Armenia closer to Iran. As the multidimensional cooperation between Azerbaijan, Georgia and Turkey has intensified, there may be an emergence of a new regional alliance led by Turkey. The military factor is not yet clearly defined because Turkey has a pragmatic regional policy toward Russia and Iran. In the absence of prospects of integration with either the E.U. or N.A.T.O., Azerbaijan and Georgia may hope to maximize the advantage of their geographical location through closer regional cooperation and joint projects. The regional triumvirate that took shape is cemented by the Russia's tough stance on Georgia and Azerbaijan and sustained by the economic boom and close partnership of Turkey and Azerbaijan. Still, their alliance will be challenged by the ongoing instability in the region due to the "frozen conflicts," the unsolved status of the Caspian Sea, and other intra regional ethnic and religious tensions. Moreover, peace in the region depends also on external factors such as the relationship between the United States and Russia.

The European Union and the United States will remain supporters of an independent Central Asian-Caucasus hydrocarbon corridor and continue to promote energy cooperation among the regional actors. Yet they will be cautious about alienating Armenia. From a geopolitical perspective, the B.T.K. railway is a step toward reducing Moscow's influence in the region, a goal of the E.U. and U.S.

3.2.3. South Caucasus Pipeline-BTE(Baku-Tbilisi-Erzurum) Pipeline

Baku-Tbilisi-Erzurum is a natural gas pipeline to transport natural gas from the Shah Deniz gas field in the Azerbaijan sector of the Caspian Sea through Georgia and on to the Georgia-Turkey border, to Turkey. It is envisaged that the pipeline will export 6,6 billion cubic metres a year. It is also considered as the first leg of the Trans-Caspian Natural Gas Pipeline Project which will tap into the world's 4th largest natural gas reserves located in Turkmenistan and those in Kazakhstan (q.v. Map 5). The 42 inches diameter gas pipeline runs in the same corridor as the BTC Pipeline. It is 692 kilometres long, of which 442 kilometres is laid in Azerbaijan and 248 kilometres in Georgia. The initial capacity of the pipeline is 8,8 billion cubic meters (bcm) of gas per year, and after 2012 its capacity could be expanded to 20 bcm per year. As

explained above, the pipeline has a potential of being connected to Turkmen and Kazakh producers through the planned Trans-Caspian Gas Pipeline. The first aim of pipeline is to supply Turkey and Georgia. As a transit country, Georgia has rights to take 5 % of the annual gas flow through the pipeline in lieu of tariff and can purchase a further 0,5 billion cubic metres of gas a year at a discounted price. In longer perspective South Caucasus Pipeline will supply Europe with Caspian natural gas through the planned Nabucco, Turkey-Greece and Greece-Italy pipelines. The South Caucasus Pipeline (SCP), also named the Baku-Tbilisi-Erzurum pipeline, will run parallel to the BTC oil pipeline for most of its route before connecting to the Turkish gas infrastructure near the town of Erzurum. At a cost of roughly \$1 billion, the 550-mile long South Caucasus pipeline is designed to carry natural gas from Azerbaijan's Shah Deniz field, and have an initial capacity of 22.7 million cubic meters per day by the first quarter of 2007. The shareholders of the Shah Deniz and South Caucasus Pipeline (Baku-Tbilisi-Erzurum) project are; BP 34.1%, Statoil 25.5%, SOCAR 10.0%, Total 10.0%, Lukoil 10.0%, OIEC of Iran 10.0%, Turkish Petroleum 9.0% (Bölükbaşı, 1998)

Regional pipelines coming to Turkey from Russia, the Caspian and the Middle East are the means to provide Turkey with the resources necessary to become a regional energy hub.

In short, the more oil and gas pipelines that come through Turkey, the more sound and stable is its position as a regional energy center. With regards to natural gas delivery, a major breakthrough was the launch of the Baku-Tbilisi-Erzurum (BTE) pipeline. As a participating partner in the project, Turkey is entitled to receive annually, through BTE from the Shah Deniz offshore gas block in Azerbaijan, 6.6 billion cubic meters (bcm) of gas when the pipeline reaches full operational capacity. In March 2007 delivery of Shah Deniz gas to Turkey began, and for 2007 it is due to receive 3 bcm in total, at a fixed price of \$120 per thousand cubic meters -- half the price of Russian gas. The Shah Deniz natural gas deposit is being jointly developed by British Petroleum, 25 percent, the project operator; Statoil, 25,5 percent; the Azerbaijan State Oil Company,

10 percent; Lukoil, 10 percent; NICO, 10 percent; TotalFinaElf, 10 percent; and the state-run Turkish Petroleum Corporation (TPAO), 9 percent.(Ebel, 1997)

In 2007 production is expected to reach 8.6 bcm and in 2008 the expectation is 9.6 bcm -- a projection of an additional 1 bcm in output. The extra volumes produced will be distributed at a market sales price. The recent launch of commercial development of the Shah Deniz gas block, and the commissioning of the Baku-Tbilisi-Erzurum (BTE), presents Azerbaijan with an opportunity to bring high-quality natural gas to the EU energy markets through Georgia and Turkey. For this, a feasible option could be the Nabucco pipeline, traveling some 3,000 kilometers from Turkey to Bulgaria, Romania, Hungary and Slovakia to split further on into the Austrian, German and Czech branches. The 5 billion euro project is being developed by Austria's OMV, Hungary's MOL, the state-owned Turkish Petroleum Pipeline Corporation (BOTAS), Bulgaria's Bulgargaz and Romania's Transgaz.(Beat, 2007)

By 2011 Nabucco is expected to start delivering Caspian gas to EU consumers, pumping 31 bcm per year at full capacity. The Caspian gas will most probably originate from Azerbaijan: The situation around Iran substantially complicates the planned construction, which opens the door further for the Shah Deniz gas to be delivered to Turkey by via the BTE pipeline (Beat, 2007).

In summary an alternative gas corridor to Europe is the South Caucasus Pipeline, connecting Baku to Erzurum in Turkey, via Georgia, which will deliver 6 bcm of gas to Turkey per year under an existing gas purchase agreement. Small volumes will be delivered to Azerbaijan and Georgia, thus contributing to the energy security of those countries. The initial capacity of the gas pipeline will be 8.4 bcm per year with through put capacity to be increased to up to 30 bcm per annum, with the potential of being connected to Turkmen producers, aiming at European gas markets. The Azerbaijani fields' proximity to Turkey makes its position very competitive on Turkish and South-Eastern European markets. The natural gas connection between Turkey and Greece is currently under development, and it is to be commissioned in 2006. This connection

will provide the first opportunity to ship Caspian natural gas directly to the EU, which can be done in several ways.

3.2.4. Nabucco Project

The Nabucco project represents a new gas pipeline connecting the Caspian region, Middle East and Egypt via Turkey, Bulgaria, Romania, Hungary with Austria and further on with the Central and Western European gas markets. The pipeline length is approximately 3,300 km, starting at the Georgian/Turkish and/or Iranian/Turkish border respectively, leading to Baumgarten in Austria. In this respect it has to be taken into account that a reasonable amount of the gas volumes, reaching Baumgarten, have to be further transported through Austria to the Central and Western European Countries (Annexes, Map.6). According to market studies the pipeline has been designed to transport a maximum amount of 31 bcm/y. Estimated investment costs including financing costs for a complete new pipeline system amount to approximately 5 billion Euro in 2004 prices (www.nabucco-pipeline.com, 03.05.2008).

As known energy security has become the main theme of today's world. The internal requirements, necessary quantity and quality of energy and, where possible, from alternative sources has become an urgent issue, particularly for those countries that do not possess sufficient own resources. The European Union also isn't an exception. Outlining its ultimate objective as political union in the form of a federal state, this organization, the number of countries which have already reached 27, in dire need of energy imports, and this dependence has, over the years, will grow. The import of gas will increase because consumption of EU countries is increasing year by year. Some EU members only began to develop own gas infrastructure, and that only increases the need for accusatory new sources of gas. The alternative is further complicated by the fact that the core of the EU gas come from Russia through GAZPROM and dependence on the supply increases. (Roberts, 2004)

One of the main alternative sources of gas from the Caspian basin countries: Turkmenistan, Kazakhstan and Azerbaijan. Already Azerbaijan gas from Shahdeniz

deposit has become available to the markets of Turkey, after the opening of Baku-Tbilisi-Erzurum or Southern Caucasian pipeline. It's also planned that gas from Azerbaijan will be pumped to Greece, and from there to Italy. One of the pipeline projects planned by EU countries for the transit of from the coastal countries of the Caspian Sea to Europe is the Nabucco pipeline. The gas pipeline about 3,300 km for the purpose of supplying natural gas to Europe, will be held across the territory of Azerbaijan, Georgia, Turkey, Bulgaria, and then to Hungary, Romania to the final destination in Austria. The cost of the project is estimated at approximately 5 billion Euro, as of this amount may increase. The construction of the pipeline is scheduled for the year 2008 date of the commissioning pipeline is the year 2011. Originally scheduled to ship 16 billion cubic meters of gas per year this pipeline then will be bringing to increase a capacity up to the 30 billion by the year 2020. The development of the project will be responsibilities of such companies such as Austrian OMV, Hungarian MOL, the Turkish Botas, Bulgarian Bulgargaz and Romania's Transgaz. (www.nabucco-pipeline.com, 03.05.2008).

The Nabucco will be linked on the Turkish territory with such lines as Tabriz (Iran) - Erzurum (Turkey), and Baku-Tbilisi-Erzurum. Turkmen and Kazakh gas will be transited to Azerbaijan by another planned Trans-Caspian pipeline. Gas from this pipeline will feed into Southern Caucasian pipeline, which capacity is planned to be increased by 80%. This project has similar title with the name of the Babylonian king Nabucco, more known as Nebuchadnezzar, which expelled the Jews from Babylon. Subsequently, the Italian composer Verdi wrote opera in according to the explanation of this Biblical tale, which first time appeared on the scene in the famous theater in Milan alla Scala on March 9, 1842. Upon the strange name, in region which had nothing to do with this historic event or with the great composer, the major task of this pipeline is— to decrease GAZPROM influence in the southern part of the EU. If conditions will be suit, project will be realized as it was planned. But there are many things that may hinder this proposed project. In the first instance, the early realization of this project the most realistic seen is that the pipeline can be filled only gas coming from Azerbaijani fields, and then on condition that the capacity of Southern Caucasus pipeline would be increased. There is a little hope for the gas coming from the Tebriz-

Erzurum branch, since Iran is not sufficiently reliable partner for the supply of gas to Europe, because of political reason. In addition, Iran also need for additional supply of gas, which it imports from Turkmenistan. Iran has no capital to invest in developing own fields. And despite the fact that the country has the second largest after Russia, this year it has been forced to reduce the supply of gas to Turkey in order to meet its own needs. Not all smoothly with the transit of the Turkmen and Kazakh gas through the Trans-Caspian pipeline to Baku. The project has several negative aspects. The pipeline, estimated at 30 billion cubic meters of gas per year at a cost of 5 billion dollars has been proposed by the United States in 1996. In 1999, the USA allocated 750,000 dollars for the government of Turkmenistan to enter into a contract with the General Electric Company and Bechtel Group Study feasibility study of project. Then, the project was delayed for several reasons. (İbrahimov, 2007)

Firstly, Russia and Iran, two countries that transport Turkmen gas, expressed their protest of the construction of a pipeline under the Caspian Sea on the grounds unresolved issue on the status of the Caspian Sea and environmental concerns. Another reason is that the relations between Azerbaijan and Turkmenistan strained because of the disputed oil field, located on the maritime boundary between the two countries. Finally, after the exploration Shahdeniz field, in the Azerbaijani sector of the Caspian Sea, Turkmenistan refused Azerbaijan request 5 of 30 billion cubic meters capacity for the transit of own gas from Shahdeniz via Trans Caspian pipeline (Ibrahimov, 2007).

The Status of Caspian Sea is not resolved till this day and disputes between Azerbaijan and Turkmenistan still existed. However as both countries revealed an thaw. President Berdimukhamedov had a telephone conversation with President Aliyev. In addition, the Deputy Foreign Minister of Azerbaijan Araz Azimov called on the EU to lift the sanctions imposed on Turkmenistan and buy Turkmen gas directly rather than through Russian companies. Thus, with such initiative the EC countries may reach security issue and alternative supply of gas to their own markets.

Despite the encouraging in relationship between countries, developments to the level of the relationship and understanding is much remains to be done. In addition, the

construction of the Trans-Caspian pipeline is planned approximately between the period of 2012–2016, in other words after the imposition of Nabucco, that may bring an additional risk in the financing of the project. In the case of availability of problem with the construction of the Trans-Caspian pipeline, Western countries will have to hope largely on the supply of gas from Shahdeniz, otherwise invested 5 billion Euros can be put away. But even the implementation of the pipeline still is a risk, because the real explored gas reserves in Turkmenistan is unknown. Moreover Turkmenistan had responsibility for the long-term contracts with Russia and China on the delivery of large quantities of gas in these countries. And in this case, the question is whether Turkmenistan has additional quantity of gas for transportation through the Caspian pipeline? (BSEC, WG on Energy, 2007).

In all of these situations only Azerbaijan could feel more relaxed, which in the case of these projects will be a transit country and achieved new routes for the export of its own gas to Europe. However, even in this case, Azerbaijan will provide only political support, without any investment of own capitals in project implementation. Therefore, the determination of the EU to translate these projects was surprised and delighted, because their implementation would require an immediate solution to the raised issues. If the EU knows how and what to do and have a clear plan of action one is will a true: some powers will be strongly irritated.

CHAPTER 4: A COMPARISON OF EU AND TURKISH FOREIGN POLICY TOWARDS THE SOUTH CAUCASUS

4.1. Similarities

This thesis compares EU foreign policy and Turkish foreign policy in South Caucasus within the context of energy, transport, and security has. I would like to enumerate these issues under the framework of EU-Turkey relations, the EU policies towards the South Caucasus and their impact of Turkish Foreign Policy. I will focus on similarities and differences of EU foreign policy and Turkish foreign policy. The first issue that has been taken into account is; Security Perception of EU and Turkey towards the South Caucasus that is related to the ethnic conflicts, energy and transport corridor.

As known; Turkey is a candidate country on the way of EU membership, which will begin accession negotiations by 03.October.2005 and it is an associate member of EU since 1963 as well as member of NATO since 1952. Moreover Turkey is an associate member of the WEU.

In terms of the EU's viewpoint about Turkey, 1999 Helsinki Summit was a turning point since Turkey was given a candidate status. With this decision the traditional "security consumer" perception of Turkey was replaced by "security producer" assets of Turkey. In general, Turkey wants more participation in the foreign and security matters of the EU; it wants full and equal participation in decision-making processes of EU. However Turkey maintains that, as a non-EU European NATO member. As stated above before Helsinki decision, only negative effects of Turkey to European foreign and security policies were considered, but by giving candidate status at Helsinki Summit of 1999 Turkey's possible contributions to ESDP were also considered.. On the other hand Turkey, as a non-EU European NATO member, is an asset to European foreign and security process since EU still needs NATO in the military sense.

The instabilities in the South Caucasus may bring new security headaches to the Union and to Turkey's approach towards the region. These areas pose security challenges to

the EU and Turkey in terms of WMD, illegal trafficking of drugs and people and terrorism. The significant rate in migration issue through Turkey to Europe has been seemed up to date because of the unemployment and ethnic disputes.

With the construction of pipelines; this issue has been on the agenda again. To secure these pipelines is being necessitated the partnership between Turkey and EU. Besides these circumstances Turkey can make important contributions to the CFSP/ESDP in the sense that with its huge population and economic potential, Turkey can contribute to the EU since Europe is getting older and they need human resource more than ever. Because of the Turkey's dynamic presence in the South Caucasus region EU can use this as an asset to become a more influential global actor.

Energy is other important issue that has been discussed. EU imports approximately 60 percent of its energy needs from Turkey's neighboring regions and attaches utmost importance to secured access to these resources. Thus Turkey's location at the crossroads of major new energy transport projects, as well as the Turkish Straits linking the Black Sea and Mediterranean elevates Turkey to a vital position in the Union's energy strategies. In addition EU is uncomfortable with the notion of Russia being a major supplier. Thus, EU officials have started to probe for alternate sources. The easiest solution, at least on paper, would be tapping into the large oil and gas reserves in Central Asia and the Caspian region, something in which Turkey would play a central role. But since the EU lacks a unified energy policy, efforts to pursue Caspian Basin supplies have lagged. After BTC and South Caucasus Pipeline projects the another new line for energy transport has been emerged; Nabucco As an indispensable link between a region with 70 % of world's oil and gas reserves and EU, the biggest consumer. This link is taking shape particularly in Nabucco pipeline project which has emerged as an answer to EU's quest to reach the energy resources of Middle East, Central Asia and Caspian regions. Supposed to be in operation by 2012, Nabucco line will carry 31 billion m³ of gas to Europe per year. While it makes a reliable alternative to Russian gas for the EU, given its pivotal role in the project, it will turn Turkey into a Eurasian energy hub. Even if there were no actual flow of gas

through the line, the mere presence of Nabucco would push Gazprom to offer more competitive prices to EU countries.

On the other hand whether or not Turkey remains a regular transit country or acts similar to Russia's Gazprom for instance buying gas cheap from the east and selling it at double the price to Europe, will largely depend on the EU's willingness to accept Turkish membership prospects. Turkey's strategy of establishing itself as a transit hub for natural resources is a key component of its efforts to join the European Union. Some 800 years later, modern Turkey is once again trying to take advantage of its strategic location, only instead of caravansaries, as the inns were called, it is building pipelines. Instead of silk and spices, the chief commodities moving from East to West are oil and natural gas. For strengthening Turkish-EU energy cooperation, energy is the potential for joint activity. In the field of energy sphere; we can say that Turkey needs the European Union and the European Union needs Turkey.

4.2.Differences

There was another question has arisen on Turkish-EU agenda besides similarities of EU foreign policy and Turkish Foreign Policy towards the South Caucasus;"Armenia".Turkey needs to enter into a new era of relations with Armenia. A policy which supported a solution to the Nagorno-Karabakh problem, a healing of the armed clashes between Armenia and Azerbaijan, an installation of peace in the Caucasus, an opening up of the region to the world and to the West would be in every sense to Turkey's own advantage, which is why Turkey needs to start diplomatic relations with Armenia, open up the borders between the two countries and begin playing a constructive and influential role in the Caucasus. Just as a Turkey pursuing dialogue would weaken radical nationalist factions, it would also switch Armenia's own "policies of balance" into a Western-oriented, rather than Russia- and Iran-oriented, trajectory. Just as Turkey could use all of the possibilities lent to it by its relations with the EU in dealing with Armenia, a new approach to Armenia would also weaken the European right, which wants to use the Armenia matter to block Turkey on its path towards the EU. In addition; Armenia is EU's "European Neighborly Policy" is

the most successful "partner" of the Caucasus. This tightening of ties between the EU and Armenia, which overlaps with the sympathy that the EU already feels for Armenia, causes some to think that Turkey will be influenced by these changing balances.

The closed border between Turkey and Armenia is a limiting factor for the development of TRACECA. It appears that both sides will benefit. The closed border between Turkey and Armenia is a limiting factor for the development of TRACECA. It appears that both sides will benefit from a Turkish-Armenian rapprochement. From the viewpoint of Armenia, as the country is landlocked, it will be able to establish its connection with the Black Sea, which is with Europe, through Turkey. In other words, the most effective way for Armenia to solve its economic problems and be open to the West, is through a rapprochement with Turkey. This is the most secure, cheapest and shortest way out for Armenia. The country's full independence from Russia and its close relations with the West will be possible due to the good relations it will establish with Turkey. As for Turkey, it will be able to establish connections with Central Asia and circumvent the activities of the Armenian Diaspora by establishing good links with Yerevan. In conclusion Turkey also wishes to have good relations with its neighbours. The re-establishment of diplomatic ties with Armenia and the lifting of the economic embargo will benefit both sides. Turkey has done what it needed to in this situation and the rest depends largely on Armenia. Ankara always made sure it left doors open for rapprochement with Armenia. Ankara refused to establish full diplomatic relations partly because of Armenia's war with Azerbaijan, but also because the Armenian government did not recognise its borders with Turkey.

4.3. Analysis

In this conclusion part, it was summarized some findings in relation to the the EU candidature and membership and the place of Turkey within this picture. Firstly it was touched upon the similarities and differences between Turkey and the EU towards the South Caucasus.

In this context, security and stability of the South Caucasus region are important for the EU. The Southern Caucasus has severe problems waiting to be solved. First of all, the region is crowded with external actors. The region witnesses the conflicting interests of the neighbouring countries on the one hand and of the external powers on the other hand, thus making it even harder to establish stability in the region. Its geographic location makes the region a natural conduit for trafficking, smuggling and all kinds of organised crime. In this respect, any kind of destabilisation in the region may have an impact on the security of the

European Union. Also, the continuation of the 'frozen conflicts' in South Caucasia jeopardises Caucasian security, prevents a unified response from regional states against outside threats, and prevents the development of prosperity, democracy, peace and stability. The EU and its member states seek economic objectives in the South Caucasus. The South Caucasus represents a micro region of the broader Caspian region and can consequently be considered an important area for the EU facing new energy needs, with a view to attempt to diversify its energy supplies. Due to its geographic location, at the extreme edge of Europe, the South Caucasus could assume a key role of an energy corridor and direct trade channel between the East and West. Therefore, resolution of frozen conflicts can be seen as a prerequisite for securing energy export routes. Georgia and Azerbaijan are willing to integrate with the West. However Georgia has a long way to go for EU membership. Azerbaijan and Georgia cannot fulfil the requirements of rapprochement with the West without solving the problems of Karabakh and of South Ossetia and the Abkhazia problems, respectively. Also, solving these problems will improve the integration of the regional states, the opening of borders, and possibilities for cooperation. Democracy and human rights should be promoted. Eradicating corruption, strengthening the rule of law and human rights, alleviating poverty, are the directions toward which the countries need to channel their attempts. A compulsory condition for ensuring stability in the South Caucasus is the promotion of co-operation between the states of South Caucasus. Within the framework of the question, what can the EU do to promote cooperation in the region?. Turkey may provide an important contribution to the EU. Turkey, which has strong political and military ties with Georgia and Azerbaijan, works for the creation of an

atmosphere of stability in the Southern Caucasus and for the improvement of regional cooperation. The Black Sea Economic Cooperation Agency (BSEC), the Bakü-Tblisi-Ceyhan (BTC) and Baku-Tblisi-Erzurum Natural Gas Pipeline projects, are all works aimed at this end. The projects on energy and the transportation routes which are planned to go in the East-West axis and to cross Turkey will improve relations between Europe and the regional countries and will contribute to the linking of the regional countries to the West. Also, Turkey is an important country to serve as negotiator between the Abkhazians and Tblisi as it has good relations with Tblisi and as it hosts many citizens of Abkhazian origin.

With the full membership of Turkey to the EU, the borders of the European Union will reach the Caucasus. This development will create a positive value for the atmosphere of stability and security sought in the region. Nonetheless, stability in the Caucasus is not just a regional issue. Unless there is stability in the Caucasus, it will be difficult to have stability in Europe. It is an undeniable fact that the efforts of the regional countries are of the utmost importance in the establishment of regional stability through foreign political and economic aid. Georgia, Armenia and Azerbaijan should expect no miracles. The long-term future of the South Caucasus depends very much on increased intra and extra regional co-operation. All three should give up their efforts to solve their security problems separately. They cannot build their security and prosperity at the expense of decreasing the security and prosperity for others.

CONCLUSION

In this conclusion part, it was focused on the differences and similarities between EU foreign policy and Turkish Foreign policy towards the South Caucasus in the case of energy. It was evaluated the impact of EU policies in the region on Turkey's foreign policy toward the region. Aftermath the Cold War; the independency of three new states and new developments has arousen in the region. At first a new region has been emerged in the map. With their independencies; energy, transport and security issues has taken place on the agenda of EU and Turkey. The construction of the pipeline and transportation projects have made ties with EU and Turkey. Furthermore Turkey can be seen as an alternative choice especially on energy issues. Their interests and objectives in terms of stability are close despite the disparities of their tools in foreign policy. Turkey's geopolitical location is vital for the transfer of the natural resources of the South Caucasus t and the Central Asia to Europe. In addition to the pipeline of the Baku-Tbilisi-Ceyhan pipeline, The South Caucasus pipeline is important for the transfer of natural resources. The developments in the past several years have made the importance of energy security obvious. With the rising demand and prices, and the use of natural resources by Russia as a weapon in foreign policy, as in the case of Ukraine, the security of a constant supply of natural resources for Europe has become one of the most important issues on the European agenda. The importance of the security of the energy supplies for Europe and the position of Turkey here have been stressed by several politicians and academics in relation to the possible contribution of Turkish membership to the Union.

EU has regional policies as ENP, TACIS, PCA and TRACECA. EU has provided technical assistance to the Newly Independent States under the framework of TACIS programme. TRACECA and INOGATE are in the scope of TACIS programme. TRACECA is aiming at improvements in trade and transport along the Europe - Caucasus - Asia Corridor through stimulating the co-operation among the participating states for trade development in the region, strengthen and modernise the institutional dimension of transport; provide for integration and cohesion of the infrastructure networks; strive for establishment of the sound multimodal freight transportation

chains; support exploiting of the full potential of air transport obtain secure funding; to maintain safe, secure and sustainable transportation process. INOGATE is an international energy cooperation programme between the European Union, the Littoral States of the Black & Caspian Seas and their neighbouring countries. The aim of INOGATE is converging energy markets on the basis of the EU internal energy market principles 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; and attracting investment towards energy projects of common and regional interest. Both programmes are based on developing relations EU-South Caucasus in fields of transport and energy. From another perspective; the EU has financed these rehabilitation programs in the South Caucasus, contributing to revivals of the regions affected by conflicts and creating conditions for confidence building. Since, the EU is not directly engaged in mediating conflict settlements in the South Caucasus, but its efforts are realized through other, largely economic, tools. After the last EU enlargement in 2004 and 2007, the countries of the Southern Caucasus states have got common border with the EU through the Black Sea. Enlargement forced processes and brought a question about following relationship between neighbors. Thus, a new mechanism New Neighborhood Policy has developed by the EU. The model of rapprochement the ENP aims at looks like functional integration, which offers alternatives for strengthening cooperation without full membership. On the other hand, The European Neighbourhood Policy contributed to the significant upgrading of the relations between the European Union and the South Caucasian countries. While this step is perceived as a beneficiary outcome for all the countries of the region, the EU-related aspirations of Georgia, Armenia and Azerbaijan differ to a considerable extent. Georgia is on the border between of Europe and Asia, between former centers of empire like Turkey, Russia and Iran between democratic, autocratic and theocratic forms of governance and literally in a sandwich of terrorism, between the North Caucasus and the Middle East. Georgia has outlined its EU membership goals. Armenia shares these membership-related expectations, but is more careful at evaluating a variety of factors connected to this step. Azerbaijan is generally welcoming the enhanced cooperation process, but attaches lower importance to it than its South Caucasian neighbours. In

addition, Armenia and Azerbaijan may have the same reasons and stimulus but the existing realities as conflict in Nagorno-Karabkh and high dependence on "Russia's will"

especially in case of Armenia impedes to express same aspirations with the similar strength. These trends show that by including Armenia, Azerbaijan and Georgia in the European Neighbourhood Policy, the EU took a regional rather than individualised approach. By doing so, the EU sent an important message that it was committed to support the Southern Caucasian countries on their route towards building stable societies based on democratic values and therefore to contribute to the peaceful and prosperous development of the region.

There are some questions that have been arisen out on EU-Armenia-Turkey relations. First question is related to the closure of Armenia-Turkey boundary, second is about the Nagorno-Karabakh conflict and Turkey's approach. Third is related to the historical issue, deportation of Armenians from the Ottoman Empire. The persistence of problems between Armenia and Turkey will hinder Turkey's accession to EU also Armenia's inclusion in regional cooperation opportunities. It is leading Armenia to isolation and risk for international security. Turkey's unconditional support for Azerbaijan in its conflict with Armenia and the unresolved status of conflict in Nagorno –Karabakh are also making it difficult for Turkish-Armenian reconciliation. Political pressures from the Armenian diaspora in some European countries can not be ignored. Besides these circumstances, what is EU's stance on this issue? The European Parliament resolution on the opening of negotiations with Turkey in 2005, makes a reference in its introduction to its previous resolutions about the Armenian Question. EP resolution is expected to become an issue in Turkey's accession process since the adoption of the Acquis by a candidate state includes adoption of all acts, legally binding or not within the EU framework. Additionally Turkey will have to adopt the PCA signed between the EU and Armenia. These political and security concerns will proceed to affect Turkey's accession process.

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APPENDIXES

APPENDIX I: The Energy Questionnaire of Armenia

The Energy Strategy of Armenia was developed on the basis of the concepts of Sustainable Development. The Strategy is aimed towards the following goals:

- Achieving sustainable economic development in Armenia;
- Enhancing the energy independence and security of the country, including diversification of imported and domestic energy resources;
- Ensuring efficient use of domestic energy resources and development of renewable energy sources and energy saving.
- Development of nuclear energy
- Intensification of regional cooperation in energy sector.

These goals can be classified under prominent items. First item is related to “Security and Stability.” The energy security loss is a subject of great risk for the country, which is situated in complicated geopolitical zone, but for all that, keeping its political and economic stability. What will be the impact of energy security loss on social-economic life of the country could be assessed by the bitter experience gained during the energy crisis in Armenia during 1993-1995.

Armenia is almost completely dependent on imported energy. It does not have any oil wells, gas wells, or refineries. There is also no coal production. The only domestically produced primary energy is electricity from the hydroelectric plants and the single nuclear power plant. A special aspect of securing energy safety issue is the reservation of high risks for owners

of existing TPPs as well as for potential investors aiming to construct the new ones. Such risks are caused with the absence of gas transportation pipelines diversified by supply routes of natural gas, and limited transmission capacity of the single pipeline in operation, passing through the territory of Georgia. The construction of the first phase of Iran-Armenia gas pipeline (to be completed by the end of 2006) and commencement of Yerevan Combined Cycle Co-Generation 200 MW Power plant construction project are the main important steps undertaken by the Government of Armenia in this direction.

In the meantime, taking into consideration the importance and sensitivity of securing the energy safety for Armenia, a high emphasis is given on the development of the own renewable energy sources, such as hydro, wind, solar and geothermal energy. Two funds for construction of small hydro power plants and the development of renewable energy sources have been established and successfully are advancing, 2.6 MW wind power station was put in operation in 2005. The results of geothermal investigations were presented to the World Bank for approval and earmarking grant funds from Global Environmental Fund for drilling of a pilot well for the construction of geothermal power plant.

Reconstruction and modernization of the Abovian gas storage (by constructing at the first stage two modern compressors with total output of 1,2 mln cub.m/day, and at the second stage the compressor workshop will be expanded by 4 units with total output of 2,4 mln cb.m/day) providing an excellent opportunity for securing seasonal and daily reliable gas supply for internal needs. If EC will show interest in gas storage enlargement project, it will allow implementing transportation of hydrocarbons from region to Europe in future.

a) Ensuring freedom and security for all modes of hydrocarbon transport also with respect to international commitments:

b) Ensuring diversification of energy supply and transport routes:

Analysis and assessment of opportunities to diversify supplies, achieve regional integration are a critical element of Armenia's Energy Sector Development Strategy. The projects on rehabilitation and modernization of Electricity Transmission and Distribution Networks have been successfully implemented and are being continued by the financial assistance of international and financial organizations. It is planned to fully complete the transmission of HV network rehabilitation and implementation of the projects on improvement of interconnections with neighboring countries.

Armenia is heavily dependent on gas and oil imports from Russia. Attempts to supply diversification are hampered by the interruption of economic relations with two neighbouring countries; Azerbaijan and Turkey).

At present, a comprehensive Development Plan for Energy Sector, based on the Energy Strategy, has been elaborated with the assistance of the USAID. It should deal with consequences of an early closure of the ANPP and should address reasonable level of security of the energy sector, including diversification of energy resources supply by routes and types and the development of renewable energy sources including energy efficiency and energy saving.

The Energy Sector Development Action Plan with assistance from TACIS will be completed in 2007. It should deal with decommissioning strategy, as well as development of appropriate normative documents.

However, when the ANPP is closed, Armenia will lose an important element of diversity of its current energy supply. Therefore, reiterating its position concerning the issue of shutting down of the ANPP, the Government of the Republic of Armenia considers construction of new nuclear units as a strategic goal for maintaining and

strengthening our energy security and independence. And in the near future, we suppose to initiate the development of technical-economical grounds for the construction of new nuclear power units in long-term prospects.

1. LEGISLATION AND REGULATIONS

a) Strengthening the rule of law on energy related issues

i. By ensuring a level playing field of rules for all BSEC M/States

ii For energy operators

The energy system of Armenia has passed through difficult reformation and reconstruction.

In the result of power sector restructuring the vertically integrated power system have replaced:

- 5 generation major plants and more than 39 small generation companies;
- Transmission company (220 kV network);
- Distribution company(0,4-6/10-35-110 kV network);
- Dispatching Center (operator of power system);
- Settlement Center;
- Construction, installation, repairing companies, etc;
- Scientific-research and design institutes.

The gas industry was re-structured when Armenian and Russian joint venture called ArmRusGazprom was established in August 1997.

Energy sector state policy is carried out by the Government of the Republic of Armenia, on behalf of the Ministry of Energy of RA, and by the Public Relations Regulatory Commission.

The most important piece of legislation dealing with the restructuring of the energy sector is the Energy Law. The scope of the regulatory activity includes tariff regulation in the power, thermal and natural gas sectors and licensing in the energy sector for production, import, transmission, export and distribution of electricity, thermal energy and natural gas aiming to balance interests of consumers and licensees, formulation of equal terms for the activity of licensees and contribution to formulation and development of competitive market.

Energy sector regulations in carried by the Commission, which is acting on the basis of authorities submitted by the Law and is independent within authorized limits. The commission can't be liquidated or its authorities can't be changed without appropriate changes in the Law. The Commission consists of 5 members. According to submitted by the Prime Minister candidates, the President of RA adopted the members of Commission for 5-year period on principle of annual rotation.

The legislative acts of the Commission can be appealed by court. Tariffs established by the Commission and are not a subject to be appealed or changed.

The Energy Sector Development Strategy of Armenia has been adopted by the Government of Armenia in June 2005. The primary objective of the mentioned strategy is to formulate strategic goals for the development of the energy system in Armenia till 2025. It aims to identify the avenues to achieve those goals, based on the principles adopted by the international community for sustainable development.

The Strategy is aimed at the resolution of the following primary problems:

- Providing reliable energy supply at low rates to satisfy the fundamental needs of all customers, while enhancing energy conservation, input of energy efficient technologies in all branches of economy;
- Avoiding methods of importing the primary sources that might expose the security and economy of Armenia to events with political impacts beyond the control of the Republic of Armenia;
- Ensuring the safe operation of the ANPP to time as its energy can be replaced with adequate advanced base-load capacities and decommissioning can proceed without unacceptable economic and energy security impacts;
- Ensuring sustainable energy supply, based on the principles of sustainable development and in compliance with the international environmental commitments of the Republic of Armenia;
- Creation of an electric energy system that is export oriented and generates high added value.

b) Liberalizing energy trade and eliminating trade barriers also in relation to WTO rules and regulations

Armenia has a very liberal trade regime with no foreign exchange controls and has acceded to the WTO. However, the benefits of a liberal trade regime are partly offset by high transaction costs arising from an insufficient transport infrastructure, shortcomings in customs procedures, and the trade blockade imposed by some of its neighbours.

c) Creating an environment attractive to foreign investment

The Armenian Government is strongly committed to attract foreign investment. It has made important steps in creating an attractive and non-discriminatory investment

climate, including the establishment of a “one-step-shop” agency to facilitate inward foreign investment. Foreign companies are welcome to invest in any sector of the economy and are entitled to no less favourable treatment than domestic enterprises. The Armenian legislation provides the same legal guarantees and protection for foreign business as it does for its own citizens and businesses. Foreign investors have the right to establish any form of enterprise. Foreign investors are protected against political risks. This includes a temporary guarantee against legislative changes, and access to international attribution. Large-scale privatization offers additional opportunities.

Armenia has ratified the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards and adopted the Law on "Arbitration Courts and Arbitral Proceedings".

Armenia is a member of the International Centre for the Settlement of Investment Disputes (ICSID). It gives additional confidence to foreign investors by providing for a quick, effective and qualified settlement of investment disputes.

2. ENVIRONMENTAL PROTECTION

a) Promoting environmental protection

i. Applying environmental standards

ii. Promoting renewable energy sources and technologies

Armenia has acceded to important international conventions, concerning to energy sector, investments and environmental aspects:

- United Nations Framework Convention on Climate Change (entered into force on 21 March 1994) – Armenia has ratified;
- Kyoto Protocol (adopted in Kyoto and closed for signature on 15 March 1999) – ratified by Armenia;
- Convention on Long-range Transboundary Air Pollution (entered into force in 1983) – Armenia has ratified the Convention;
- Montreal Protocol on Substances that Deplete the Ozon Layer (entered into force on 1 January 1989) – ratified by Armenia;
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (entered into force on 5 May 1992) – ratified by Armenia;
- Convention on Environmental Impact Assessment in a Transboundary Context (Espoo, 1991) – Armenia has ratified the Convention.

The absence of organic fuel forces many countries to put emphasis on development of renewable energy sources on the basis of the state policy for energy sector. Particularly, the similar situation arose in Armenia where along with the establishment of freedom, came up the necessity to develop the alternative capacities and partially decrease the dependence from the imported hydrocarbon fuel.

For renewable energy to fulfill its potential the policy framework needs to be supportive and in particular to stimulate increasing competitiveness of such energy sources, as well as make it more attractive for foreign investments.

Renewable Energy Certificate System is not applied in Armenia, meanwhile for stimulating the development of domestic energy resources by the Article 5 of the Section 2 (State Policies and the Energy Sector) of the Law on Energy of the Republic

of Armenia a highest priority in the Energy Sector is assigned to the utilization of the domestic energy resources:

- a) All electricity (capacity) generated at small hydro power plants, as well as from renewable sources of energy within the next 15 years from the date of coming into force of the electricity (capacity) license shall be purchased pursuant to the Market Rules of by the Article 59 of the Section 11 “Transitional provisions” of the same Law and the amendment made in 2006, and
- b) provisions made for supplying Hydro Power Plants with sufficient volumes of water in order to generate the planned amounts of Electricity: the Government of RA has been issuing respective Decrees within 6 months, which has been setting procedures for providing guarantees for long-term supply of the estimated amount of water essential for power generation at hydro power plants

In the end of 2004 Law on Energy Efficiency and Renewable Energy was adopted. This law creates additional favorable conditions for the development of renewable energy.

The Public Services Regulatory Commission of the Republic of Armenia has also adopted a number of regulations in pursuit of the establishment of an attractive investment climate for the development of renewable energy sources.

Currently, the necessary legal basis encouraging the development of renewable energy is available in Armenia. Adoption of the mentioned Laws brings to intensive construction of small HPPs by private investors as well as civil works and monitoring in the sphere of wind power, the economically reasonable potential of which is estimated about 450 MW. The real evidence to above mentioned is increase of financial resources to the mentioned sphere of energy, including creation of Revolving Fund for renewable energy by WB, EBRD and Fund for reconstruction and construction of small HPPs by German Bank KfW.

A number of projects are carrying out by the financing of USAID, EU, Germany, and Iran.

iii. Applying best practices

The Power and Gas system of Armenia has passed through difficult reformation and reconstruction within last years. The projects on rehabilitation and modernization of Electricity Transmission and Distribution Networks, as well as gas system rehabilitation and renovation have been successfully implemented and are being continued by the financial assistance of international and financial organizations. It has to be noted on the projects that are already completed, such as “Program of safety, Reliability and Operational Culture Upgrading of Unit 2 of the Armenian Nuclear Power Plant for the period of 1997–2000” by the financial and technical assistance of the USA and European Commission, the Governments of Russian Federation, France; rehabilitation of Argel HPP by the financial assistance of WB, rehabilitation of 220 kV Vanadzor–2, Kamo and Alaverdi substations and 2 hydro aggregates of Kanaker HPP by the loans of KfW, the WB loan for procurement of equipment, civil works and consulting services for the National Dispatching Center, transmission and distribution systems; USAID technical assistance for Power System Metering Improvement Project, etc. Currently, under the framework of Electricity Transmission and Distribution Project the replacement of main equipment of 8 substations/220kV and 33 substations/110kV, design and construction of the first step of SCADA system is under way by the financial assistance of WB and JBIC. It is planned fully completion of transmission and HV networks rehabilitation. Among the investment projects there are to be noted the construction of “Agarak” 220 kV switch-gearing unit on the border of Iran-Armenia; the construction of Shinuhayr-Agarak part of Iran-Armenia 220kV overhead transmission line.

In district heating (DH) the policy of the Government is to encourage rehabilitation (where viable) and the construction of new, modern systems. Small systems have been deregulated so that no licensing is required and tariffs are not regulated. This policy has led to the construction of new decentralized DH systems. For larger units, the strategy is to encourage the establishment of supply contracts with the housing complexes, which, however, have limited capabilities to assume payments and liabilities on behalf of the occupiers.

Fund for renewable energy by WB, EBRD and Fund for reconstruction and construction of small HPPs by German Bank KfW was established.

3. ENERGY EFFICIENCY

a) Improving energy efficiency (gas emissions, technical standards)

Armenia acknowledges the need to improve energy efficiency. Following to State Policy of the Republic of Armenia in this sphere, Law on Energy Efficiency and Renewable Energy was adopted in the end of 2004. Currently, under elaboration is the National Program of Energy Saving and Energy Efficiency.

The Fund for energy efficiency and renewable energy was established by the assistance of WB, EBRD and other donors (Board of Trustee is headed by the Prime Minister of the RA).

“The Agreement for Cooperation between the CIS countries in Energy Efficiency and Energy Saving” was ratified by Armenia in 2003.

In this context, several programs aiming at improved energy efficiency as well as pilot projects are ongoing.

The projects on rehabilitation and modernization of Electricity Transmission and Distribution Networks have been successfully implemented and are being continued by the financial assistance of international organizations. It is planned to fully complete the transmission and HV networks rehabilitation. Construction of Combined Cycle Co-Generation Power Plant in Yerevan TPP will be a real contribution in this way.

4. TRAINING AND EDUCATION

- a) Ensuring capability of professional standards**
- b) Ensuring recognition of diplomas and certificates**
- c) Enabling employment possibilities**

Armenia already undertakes harmonization of legal and regulatory framework with that of the EU.

5. EXCHANGE OF INFORMATION

a) Improving the exchange and dissemination of energy related information and cooperation in the best practice

Exchange of information in the energy sector is being carried out under the framework of bilateral cooperation and cooperation within international organizations by:

- a. Exchange of information in energy sector; seminars, trainings, conferences, etc
- b. Exchange of new technologies and practices, presentations, site visiting, etc.
- c. Participation of Armenian experts and specialists at the international energy programs;
- d. Development and implementation of joint energy programs and projects.

6. PROMOTION OF BSEC, INTERNATIONAL COOPERATION AND PROJECT DEVELOPMENT

a) Promoting objectives according to the Energy Charter Treaty and Protocol on Energy Efficiency

Armenia also undertakes the steps for entering to EU, as almost all member states of the BSEC. The implemented reforms in the country could not avoid energy sector, too. In particular, phase-by-phase liberalization of energy sector is being implemented in accordance with the principle of European Energy Charter and oriented on realizations of mechanisms provided by the Directives of the EU.

Complying with main provisions of Energy Charter Treaty, Armenia is ready to start negotiations with all interested party for realization of transit of energy carriers through the territory of Armenia and appeal to our partners in the BSEC to give such opportunity to Armenia.

b) Cooperating with the EU, the UNECE and other international institutions

The policy and strategy is being carried out currently in energy sector of Armenia, as well as the EU Neighborhood Policy follow-up to the implementation of the balanced policy in the region related to free access to electrical and gas networks, trade and transit is in the process.

Taking into account the goals of the United Nations Millennium Declaration, the Johannesburg Plan of Implementation and the decisions of the Fourteen Session of the Commission on Sustainable Development promotion of development of sustainable energy strategies is designed for the region of Economic Commission for Europe. Assistance to member countries to improve energy conversation and efficiency, particularly in the countries that just recently underwent economic transition; reduce energy-related health and environmental impacts, including greenhouse gas emissions; facilitate the development and implementation of new environmentally-sound and economically-viable technologies; increase the use of renewable energy resources and increased number of energy efficiency investment projects are designed under the Strategic Framework for the Biennium 2008–2009/ Subprogramme 5: Sustainable Energy. From that point of view we find expedient to consider the possibilities on implementing concrete pilot projects related to the creation of “Clean energy zones” in several Marzes (Regions) of Armenia. An assistance and active participation of the UN experts in the implementation of this project at any stages will be highly welcomed.

c) Interconnecting and establishing compatible energy action plans

i. For electric power systems and in relation to UCTE

Armenia is ready for implementation of concrete steps towards integration to the Black Sea Energy Ring, both as supplier of basic energy to the region and as a transit country.

Technical and legal measures are being carried out towards securing parallel work of energy systems of CIS countries under the framework of “ElectroEnergy Council of CIS”.

Armenia had already signed the Memorandum of Understanding for Black Sea Regional Transmission Planning Project, signifying it’s acceptance of the terms and conditions and commitment of the objectives of the project.

ii. For oil and gas pipelines as well as with TENs

Upon interest in Abovian gas storage project and it’s enlargement an excellent outlook will be provided for transportation of hydrocarbons from region to Europe in future.

d) Creating a regionally integrated energy market

Mechanisms of integration in regional energy projects are:

- European energy Charter
- Black Sea Economic Cooperation
- CIS Electroenergy Council
- Participation in regional projects of TACIS, USAID, INOGATE.
- Development of bilateral and multilateral economic contacts.

It has to be noted once more, that skipping of the role and main interests of Armenia in regional energy cooperation has negative impact on technical – economic parameters of functioning of energy objects and infrastructures of regional significance. Rehabilitation of existing, but not operating gas pipelines is a real precondition for development of cheap regional projects on gas pipelines and securing high economic parameters. Development of cooperation in power sector will secure the electricity supply to region by relatively cheap capacity basis, increase efficiency and reliability of integrated each power system functioning, complete the Black Sea Power System Ring.

iii. For electricity

Current possible production of electricity from generating capacities of Armenia is 10 billion kWh per year. As noted, the tendency on growth of electricity demand had been fixed in international market, the level of which was in average 8.7% for the period of 2002-2005 at growth temps of generation 4.6% per year. The difference between the temps of growth on consumption and generation is conditioned by realization of wide-range measurements towards the improvement of energy system operating efficiency, and firstly, decrease of technical and commercial loses in network. So, Armenian energy system keeps its status of generating overstock, at least in medium-dated outlook.

The main potential of generations is concentrated on thermal power plants of the Republic of Armenia and, in particular, on Hrazdan TPP which was privatized by the party of the Russian Federation. It's reasonable to remind that exactly the Hrazdan TPP was conducting the role of supplier of basis power in the TransCaucasus United Energy System before the collapse of USSR.

In modern condition, the work of Hrazdan TPP is characterized by incomplete loading of installed capacities with conversation it to semi-peak zone of the load's graphics which brings to significant deterioration of technical-economic factors of the station's operation. Obviously, the realization of export to foreign markets of electric powers generated on Hrazdan TPP is a subject of interest both for Russian and Armenian sides.

Besides, the power system of Armenia is characterized by the infrastructure of developed energy networks and presence of the Inter Connection with all neighbouring countries. The HV electric networks of Armenia possess sufficient capacity for transmission of electricity not only for internal consumer, but for realization of transit in significant volume too.

During the meetings of the Working Group on Energy it has been repeatedly noticed that the realization of the project “Black Sea Energy Ring” without integration of Armenian energy system to it, has no reasonable sense from economic point of view.

Armenia has interconnection with all neighbouring countries, including BSEC member states. However, we have to note that from 9 available Inter Connections only 4 are in operation at present, including 2 that are working in radial regime. We repeatedly declare and declare that the Armenian side is ready to realize concrete steps for integration to Black Sea Energy Ring as supplier to the region of basic electricity and also as a transit country. The cost of generations and transmissions of Armenia’s electricity, including transit are one of the most competitive in the region, which is also an important factor.

iv. For natural gas

Armenia is a gas consumer country. Armenia has a sufficiently advanced gas-transport infrastructure. Armenia was being one of the progressive countries all over the world by its level of gasification in 1980s, constituting more than 85%.

The gas supply system consists of main, closed-loop distribution networks and underground gas storage. At maximal pressure of 12.5MPa, the effective total volume of the stored gas will be 180 million cub m.

The gas system can be imported from three directions: Georgia-Alaverdi, Azerbaijan-Idjevan, and Azerbaijan-Karabakh-Goris. At present only the first direction is operative.

The gas industry was re-structured when Armenian and Russians joint venture called “ArmRusGasprom” CJSC was established in 1997. Since that, the gas system of Armenia has been passed through difficult reformation and reconstruction.

High growth rates of social-economic activities of Armenia during the last years brought to the growth of demand for natural gas and electricity in internal market. Particularly the growth on natural gas demand has been noted in all sectors of economy. The growth temps of suppliers of natural gas for the period of 2002–2005 was in average 12.25% per year. Full rehabilitation of gas supply to consumers is planned to complete at 2007. The high level of collections, that is fixed not below 100% over the time of last years, argue about efficiency of sales policy carried by “ArmRusgasprom” CJSC.

A special attention is given to Abovian underground gas storage in the gas supply sector of the Republic, in view of securing strategic gas stocks inside country as well as capacity control by the gas floods dispatching during regional gas transport systems development process. For rehabilitation of Abovian underground gas storage a bankable Business plan was created in cooperation with TACIS and currently, we are negotiating with financial institutions.

- e) Initiating projects through the BSEC PDF or other national/ international financial instruments**

At present, the Armenian power system successfully functions in a parallel regime with Iran and with Georgia in a radial regime, Azerbaijan successfully functions in a parallel regime with Russia and Iran, Georgia in its turn functions in a parallel regime with Russia, but not regularly. In view of realization of Black Sea Energy Ring, some advancement could be reached under the regional cooperation framework directed to the rehabilitation and development of regional energy networks for their parallel and synchronized work, in condition that Armenia will extend functioning in parallel regime with Iran.

Armenian side is ready to discuss the existing technical problems mentioned below with representatives of countries involved and will provide full support for their implementation:

- Creation of regional dispatching and control services;
- Re-equipment of Armenian and Georgian power systems with RP (relay protection) and AD (anticrash devices);
- Transition of interconnections with Georgia from radial regime to synchronized by HV lines Alaverdi-220 kV; Djavakhk 110 kV; Lalvar-110 kV and new 400 kV.
- Rehabilitation and modernization of existing interstate connections.

APPENDIX II : ENERGY QUESTIONARY OF GEORGIA

According to Energy Policy of Georgia, the goals of energy strategy have been set out with the Security and Stability item. Afterwards it will touch on legislation and regulation. Third item is related to Environmental Protection and Energy Efficiency (BSEC Working Group on Energy, Energy Questionary of Georgia by the Ministry of Energy of Georgia 2008).

1. Security and Stability

a) Georgia as a member country of Energy Charter Treaty has a commitment not to hinder transportation and transit of energy carriers on its territory. Transportation and transit of oil and natural gas is regulated by the Law of Georgia on Oil and Gas, the transportation and transit of Electricity is governed by the Law of Georgia on Electricity and Natural Gas.

b) According to the Basic Directions of the State Policy in Energy Sector of Georgia which was elaborated by the Ministry of Energy of Georgia and approved by the Parliament of Georgia in June 2006, the highest priority directions of the policy to be implemented in the energy sector are:

- Diversification of the supply sources of energy carriers

- Minimization of dependency on imported energy carriers and

- More efficient development of the local energy production.

1. Legislation and Regulation

In June 2006 the parliament of Georgia has adopted amendments to the Law of Georgia on electricity and natural gas. On the basis of these amendments the existing structure of the market of electricity has been changed. Particularly, direct contractual relations are established between the electricity generation companies and the wholesale consumers of electricity. Balancing electricity will be sold through commercial operator of the system.

The regulatory body sets marginal tariffs of the generation units. The power plants with capacity up to 10 MW are free from regulation. The new structure of the market came into force from September 1, 2006. The Market rules of electricity and the market rules of natural gas aim at the establishment of the maximally favorable environment for attraction of private investments in the sectors of electricity and natural gas.

2. Environmental Protection and Energy Efficiency

The ministry of Energy of Georgia has prepared the Law of Georgia on Energy Efficiency and Renewables. At the same time of Ministry of Energy of Georgia has elaborated program for implementation of the energy efficient Technologies for 2006–2012.

APPENDIX III : The Energy Questionnaire of Azerbaijan

I. Security and Stability

a. Ensuring security and freedom for all modes of hydrocarbon transport with respect to international commitment

One of the main priorities of the domestic and foreign policy of the Republic of Azerbaijan is ensuring energy security. Being a main hydrocarbon exporter, it is in Azerbaijan's interest to deliver its resources securely to the international markets. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which is expected to play a crucial role in delivering Caspian energy resources to the world markets, was officially inaugurated on July 13, 2006. The pipeline is being secured by Azerbaijan, Georgia, and Turkey. Furthermore, it is expected that The South Caucasus gas pipeline to be utilized by the end of this year. The utilization of the gas pipeline will make it possible to deliver the gas of the Shahdeniz gas field to the European markets via Turkey.

Azerbaijan is an active member of the Energy Charter Treaty and works on adapting its energy legislation to the international standards.

b. Ensuring diversification of energy supply and transport routes

The governments of Azerbaijan and Kazakhstan have recently signed an agreement on transporting the Kazakh oil to the world markets via the BTC oil pipeline. Moreover, Azerbaijan is an active party of the INOGATE project aimed at transporting Central Asian energy resources to the European Markets.

As mentioned in the ‘Green Book’ adopted by the European Commission, Europe currently meets its gas demand importing Russian gas. Considering the inevitable increase in the European gas demand in coming years and the possible negative effects of the dependence on a sole supply source, the Azerbaijani gas will undoubtedly play a significant role in diversification of Europe’s gas supply sources.

II. Legislation and Regulation

a. Strengthening the rule of law on energy related issues

1. Adapting a level playing field of rules for all BSEC M/States

2. For energy operators

The Government of Azerbaijan is working on adaptation of its legislation to the international standards. A working group has been established at the Ministry of Industry and Energy and related proposals will soon be presented to the government. Energy, Electro-energy, Power and Heating Stations, and Investment related laws currently regulate the said sector.

b. Liberalizing energy trade and eliminating trade barriers according to WTO rules and regulations

In regard to the WTO membership issue a State Commission has been established under the auspices of the Ministry of Foreign Affairs and negotiations are being held in order to draw the current legislation near to WTO standards.

c. Creating an environment for attracting foreign investment

More than \$21 billion of foreign investment has been invested in Azerbaijan during 1993-2005, of which \$16.7 billion has been directed to the energy sector and the remaining \$4.3 billion to the non-energy sector. During the same period The UK, The USA, Turkey, Japan, Norway, France and other countries have been the main investors. The Government of Azerbaijan is taking necessary measures to create a favorable environment for foreign investment. The rights of foreign investors are protected by the “Law on Foreign Investments” and other bilateral agreements. Accordingly, the world’s biggest energy companies are currently involved in Azerbaijan’s energy sector.

III. Environmental Protection

a. Promoting Environmental Protection

1. Applying environmental standards

In order to better ecological conditions, large-scaled measures are being taken in the country in general, in the electro-energy sector in particular. Black oil is replaced with natural gas at electro-power stations in the process of producing electric and thermo energy.

Beginning from 1999, the amount black oil in the total energy usage has been reduced from 90% to 30%. For they have been using a great amount of energy in order to produce power, Sumgayit Thermo-Electric Stations No1 and No2 have been terminated. Instead, special energy economizing modern gas turbine stations (110 MWts capacity at Baku N1 Thermo-Electric Station, 440MWts capacity at North-State Regional Electric Station) have been put into operation during 2000-2002.

The construction of Yenikend Water Electric Station (150MWts), establishment of two gas turbine facilities (110MWts) at Baku Thermo-Electric Station No. 1, installation of four hydro assemblies at Mingchevir Water Electric Station, construction and utilization of a steam gas turbine (400MWts) at North-State Regional Electric Station, construction of substations and high voltage electricity lines are obvious examples of the taken measures in recent years. In the near future a steam gas turbine (400MWts) at Sumgayit Thermo-Electric Station, two steam gas turbines (each 400MWts) at Ali Bayramli State Regional Electric Station, Tovuz Water Electric Station (380MWts), Ordubad Water Electric Station (36,6MWts), and Velvele Water Electric Station are

planned to be constructed and some other small water electric stations are planned to be renovated.

As a result of replacing black oil with natural gas at “Azerenergy” affiliated electric stations since 2000, the amount of the waste emitted to the atmosphere has been reduced from 85% to 15%. In another instance, because of the huge amount of the waste emitted to the atmosphere Sumgayit thermo power stations (TPS-1 and TPS-2) have been terminated. Instead, it is planned a gas steam facility that would meet modern ecological requirements to be constructed.

In general, as a result of the consequently taken measures the amount of the toxic waste emitted to the atmosphere has four times been decreased. The Ministry of Industry and Energy is currently continuing relevant work in the same direction.

As it is known, the change in heat balance depends on that of the atmosphere. Even in the 1970s it had been figured out that the waste emitted to the atmosphere increases the concentration of the gases in the atmosphere (CO₂, CH₄, N₂O and others) and accordingly results in the warming effect.

A proper extent of the amount of the waste should be determined by working on new technological processes and gradually applying them.

2. Promoting renewable energy sources and technologies

A State Program on Use of Alternative and Renewable Energy Sources in Azerbaijan has been approved by the decree N462 of the President of Azerbaijan on October 21, 2004. The Ministry of Industry and Energy is currently holding negotiations with international financial institutions and companies on promoting and using alternative and renewable energy resources.

A Memorandum of Mutual Understanding has been signed between the Ministry of Industry and Energy and Asian Development Bank on cooperation in the sphere of utilization of alternative and renewable resources.

Applying wind energy facilities is real and has a great perspective in Azerbaijan.

In 1999, the Japanese company Tomen installed two towers 30 and 40 meters high accordingly in the Absheron Peninsula and it was found out that the average annual speed of the wind on the peninsula was 7.8-8.1 mps.

The same company has prepared a feasibility study on the installation of a wind electro power station (30 MWts) in the Gobustan area.

Based on the agreements with EBRD, The Evaluation of Renewable Energy Resources of Azerbaijan was carried out in 2002.

Having carried out the evaluation the technical potential and the economical potential of the wind energy have been defined 3000MWT and 500MWt accordingly.

The Ministry of Industry and Energy have cooperated with a number of foreign companies on use of the wind energy and begun to work on joint projects of two wind electric facilities (25-30MWt) that will be realized on the Pirallahi Island.

The development of the solar energy usage could solve the energy problem of some regions in Azerbaijan.

The Republic of Azerbaijan has a great potential in carrying out work and achieving development in this field. Studies show that the number of sunny days in some regions of the country reaches 250.

3. Applying best practices

The Government of Azerbaijan currently works with international institutions and other states for implementing high level standards related to energy efficiency, environmental protection.

IV. Energy Efficiency

a. Improving energy efficiency (gas emissions, technical standards, etc)

The Government of Azerbaijan pays a great attention to developing the energy efficiency. Accordingly, one of the meetings of the UN Commission on Sustainable Development has been held in Baku, from March 28 to March 30, 2006. And the essential part of the Baku Declaration, which was adopted as the final document of the meeting, was promoting energy efficiency.

Moreover, by the 22/2003 decree of ISO on July 1, 2003, Azerbaijan has become a member of ISO under the name of AZSTAND

V. Training and Education

- a. Ensuring implementation of professional standards**
- b. Ensuring recognition of diplomas and certificates**
- c. Ensuring employment possibilities**

The Government of Azerbaijan works with a number states and organizations on increasing training and educational possibilities.

VI. Exchange of Information

- a. Promoting the exchange of energy related information and best practices**

The Government of Azerbaijan keeps the Energy Charter, BSEC and other organizations informed of its energy sector.

VII. Promotion of BSEC, International Cooperation and Project Development

- a. Promoting objectives according to the Energy Charter Treaty and Protocol on Energy Efficiency**

The Government of Azerbaijan is one of the active members of the Energy Charter and constantly notifies the charter of correspondent information based on Energy Efficiency Protocol.

b. Cooperation with the EU and UNECE, and other international organizations

One of the priorities of the Government of Azerbaijan is the cooperation with the EU, UN and other international institutions. Azerbaijan has been included to the European Neighborhood Policy and forges relationships within the framework of the TACIS program.

c. Interconnecting and establishing compatible energy action plans

1. For electric power systems and in relation to UCTE

2. For oil and gas pipelines as well as with TENS

Within the framework of BSEC, calculations are being carried out on realizing simultaneous work of the energy systems of Azerbaijan-Georgia-Turkey. The relationships with UCTE are still regulated and realized by the CIS Electro Energy Council via the energy systems of Russia.

d. Initiating projects through the BSEC PDF or other national/international financial instruments

Azerbaijan, through the Black Sea Regional Energy Center(BSREC), is a party to a project named “Preliminary study for the development of BSEC Regional Intermediary Organization”.

APPENDIX IV: THE ENERGY QUESTIONNAIRE OF THE REPUBLIC OF TURKEY

1. SECURITY AND STABILITY

a. Ensuring freedom and security for all modes of hydrocarbon transport also with respect to international commitments

b. Ensuring diversification of energy supply and transport routes

As it is known that the most important input for development, which is the unique way to reach prosperity, is energy. Recent surveys reveal that the world energy need will increase by 60 % up to 2030, while petroleum and natural gas are expected to remain their share in the total energy mix. In order to meet this demand approximately 16 trillion \$ investment will be needed for this challenge.

Parallel to the increasing global energy demand, energy need of Turkey has been growing at a rate around 6% per annum for decades in line with the economic development and rising level of welfare. At present, roughly 30 % of the total energy demand is being met by the indigenous resources, while the rest is coming from a diversified portfolio of imports.

Also, located at a crucial geopolitical region Turkey lies adjacent to regions possessing some 73 % of the world's proven oil reserves and 72 % of the world's proven gas reserves and develops many important energy projects to form a natural bridge between the energy rich countries of the Caspian Region, The Central Asia, The Middle East and the consumer markets mainly located in Europe.

Therefore, Turkey's energy strategy is set to supply energy in a timely, reliable, cost-effective, environmentally sound and high-quality basis. Turkey has undertaken a new mission of becoming an energy hub in its region. For this purpose, several cross-border energy projects have been introduced and executed so far, with ultimate aim of forming an energy bridge between the producers and consumers.

In this context, the concept of "East-West Energy Corridor" has been elaborated which envisages production of energy resources of the East and simultaneous transportation of those to the West through environmentally sound, commercially profitable and sustainable means.

Within the concept of East-West Energy Corridor, Turkey currently undertakes two major Projects which would serve for the energy security of the European and world markets. The Baku-Tbilisi-Ceyhan Main Export Oil Pipeline Project is the crucial element of the said corridor which will be carrying 50 million tons per year primarily of Azeri and partly Kazakh oil to the Turkish Mediterranean oil terminal of Ceyhan. The Baku-Tbilisi-Ceyhan Crude Oil Pipeline Project, which is one of the biggest energy projects of the 21st Century, commercially commissioned by realizing the first tanker lifting from Ceyhan at the end of May 2006 and opening ceremony in Ceyhan on 13 July 2006.

The other Project in this corridor is the Baku-Tbilisi-Erzurum-BTE (South Caucasus Pipeline) Natural Gas Pipeline Project that is envisaged to bring Shah Deniz gas to Turkey officially due to be completed in the last quarter of 2006. The BTE Project is not only important from the perspective of meeting the domestic gas demand of Turkey but also in meeting the certain part of European Union's fastly growing gas need, thereby enhancing the security of supply.

While on one hand Turkey develops projects to meet its own gas demand on the other hand, it also envisages to serve for meeting the European Union's increasing demand by opening several other arteries to the continent via Turkey. With our aim of transporting natural gas to Europe the two projects have been developed.

The first of these is the Turkey-Greece Natural Gas Pipeline Project which is then planned to be extended up to Italy. Interconnection of the Turkish-Greek Natural Gas Pipeline grids is due to be completed in 2006 with some initial deliveries. The other route is the Turkey-Bulgaria-Romania-Hungary-Austria line which is so called as Nabucco Project. Studies are well underway among the respective institutions of the Countries for the realization of the Project.

In addition those, we're also negotiating on the related terms and conditions for the extension of Arab Gas Pipeline to Turkey with final destination to Europe. We believe that with this project Turkey will further have a chance to enhance its security of supply together with its partners. Intergovernmental negotiations together with the technical studies among the respective national gas companies are being continued.

Turkey has signed the Energy Charter Treaty and has been applying rules of it.

Energy security is at the top of the agenda for all countries and Turkey believes the hydrocarbon potential of Black Sea will complement the Caspian's, and will play a key role in supply security.

Turkey has been making research and studies to explore oil and gas potential in Black Sea. Possible oil and gas potential which will emerge within 2-3 years would certainly affect oil and gas supply. Turkey is determined to find out the hydrocarbon potential of Western, Central and Eastern Black Sea through partnerships. Intensive studies and operations are continuing as scheduled.

It is important to implement strong regulations in all countries for supporting exploration in undiscovered areas. Furthermore, sharing technology and know-how in evaluation of unconventional oil is worthy. In this respect, the role of the Organization of Black Sea Economic Cooperation is important and beneficial.

2. LEGISLATION AND REGULATION

a. Strengthening the rule of law on energy related issues

i. By ensuring a level playing field of rules for all BSEC M/States

ii. For energy operators

b. Liberalizing energy trade and eliminating trade barriers also in relation to WTO rules and regulations

c. Creating an environment attractive to foreign investment

Cross-border oil and gas projects, due to longer distances covered, generally in the order of several thousands of kilometers, require huge investments. Leaving aside the upstream investments, such projects require investment in the order of billions of dollars for the midstream. In such an investment climate, cross border projects basically require regional cooperation and stability.

In order of any type of cross-border projects to be realized, whether it is oil and gas, there appear many issues to be tackled with. Of these, Governments are playing a prominent role which, most of the time, affects the project decision.

In broad terms, Governments are supposed to take necessary actions to:

- Create a clear and stable investment regime that attracts private (domestic or foreign) investment
- Create a clear and transparent institutional and regulatory framework for gas production, trade and transit, and consumption
- Put in place an effective working framework to implement and enforce that legislation
- Define energy policy favorable to gas development and that reinforces as market potential
- Facilitate projects through better understanding between sellers, buyers and transit countries through regional cooperation

In this direction, Turkey has many experiences such as BTC Project and Caspian-Turkey-Europe Natural Gas Pipeline Project which comprises the Baku Tbilisi Erzurum Natural Gas Pipeline Project, Turkey -Greece Natural Gas Interconnection and Turkey-Bulgaria-Romania-Hungary-Austria Natural Gas Pipeline Project (Nabucco Project)

Especially with the Baku Tbilisi Ceyhan Crude Oil Pipeline (BTC) Project, the government of Turkey supports and guarantees to these international projects. For example, the security of the pipeline, land and the facilities are provided according to Turkish Law by the designated state security forces. In other words, the security of the transit pipelines in all phases of the project is guaranteed by the State. In addition,

insurance is also set compulsory unless otherwise provided in the international agreements against any likely threats. There exist also several provisions to facilitate the expropriation and land registration processes to grant exclusive and unrestricted property rights and also transfer of these rights to the property right holders.

In the market liberalization concept, governments have vital responsibilities to execute the necessary legislation. In this respect, Turkey attributes great importance to intensifying the implementation of market reforms in the energy sector as well as to the harmonisation of its energy legislation with the corresponding European Communities' legislation.

In this context, considerable progress has been achieved in the restructuring of electricity and gas sectors so as to integrate the principles of market economy.

“Electricity Market Law” no:4628 published in the Official Gazette dated March 3, 2001 is enacted to unbundle electricity market activities, enable progress into a liberalized electricity market and provide for fair and transparent market regulation. Similarly, "Natural Gas Market Law" no:4646 to allow for the liberalization of natural gas market has been enacted and published in the Official Gazette dated May 2, 2001.

In summary, the new Laws include the following key elements:

- An autonomous Energy Market Regulatory Authority, governed by a Board,
- A new licensing framework for market participants,
- An energy market, to comprised bilateral contracts between market participants,
- A cost reflecting structure for pricing,

- Eligible consumer concept, eligible consumers to be free to choose their suppliers,

Moreover, the Law on Utilization of Renewable Energy Resources for the Purpose of Generating Electrical Energy was issued official gazette in 18 May 2005.(Law no : 5346) The purpose of this Law is to expand the utilization of renewable energy resources for generating electrical energy, to benefit from these resources in secure, economic and qualified manner, to increase the diversification of energy resources, to reduce greenhouse gas emissions, to assess waste products, to protect the environment and to develop the related manufacturing sector for realizing these objectives.

The Energy Efficiency Law has been drafted and it is expected to be enacted within 2006 to give a new impulse to energy efficiency. The objective of this Law is to increase the efficient use of energy and energy resources for reducing the burden of energy costs on the economy and protecting the environment. This law comprises the principals and procedures in order to increase the energy efficiency in industrial, electrical power plants, transmission and distribution systems, building, and transport sectors.

3- ENVIRONMENTAL PROTECTION

a. Promoting environmental protection

i. Applying environmental standards

The oil and natural gas pipeline projects have been implemented according to the Environmental Impact Assessment (EIA) Reports which are compatible with EU acquis.

ii. Promoting renewable energy sources and technologies

General Directorate of Electrical Power Resources Survey and Development Administration (EIE) has been responsible from the development of renewable energy, particularly solar and wind energy in Turkey since 1982. In the past, the activities were mainly in the form of research, development and demonstration projects, while the resource assessment always had an emphasis in these activities. EIE gained a technical competency in all aspects of solar and wind energy.

Since Turkey has substantial amount of renewable energy sources, utilisation of these resources in line with the energy policy targets is given high priority. Turkey assigns due importance to the utilization of renewable energy sources in the energy balance, in order to decrease energy import dependency, to improve security of energy supply and to decrease greenhouse gas abatement.

The objective of the Law on Utilization of Renewable Energy Resources for the purpose of Generating Electricity is to promote the use of renewable energy sources in electricity generation, to integrate these resources in the economy in a reliable and economic manner, to increase the variety of resources, to decrease greenhouse gas emissions, to assess waste products, to protect the environment and to develop the related manufacturing industries which is required to achieve these goals. The ultimate objective is to establish the necessary legal and regulatory basis for the increasing use of renewable energy sources without disturbing the free market conditions and system. The main mechanisms of the Law are;

- Transitional arrangements towards a more competition based applications; Any renewable energy project starting up before 2011 will receive a price for its electricity output indexed to the average wholesale price for the first seven years of operation.

- An obligation for the electricity suppliers to purchase power from the renewable energy sources up to a level equivalent to at least 8% of the previous year's sales.
- Some other incentives for the investment period including land fees, research and manufacture.

Solar Energy

The aim of the research and development programs on solar energy by EIE is to implement and advance the existing world solar energy technology. The broader objective is to encourage the widespread adoption of the demonstrated technologies whenever appropriate within the country, considering the need for maintaining secure and competitive energy supplies and for protecting the environment.

Biodiesel Activities

Promotion studies are conducted for Biofuels like meetings, prepared and distributed brochures and booklets in order to inform media. Cooperation with the Ministry of Agriculture and agricultural unions and cooperatives is made in order to improve energy farming. Cooperation with the related institutions is realized for the preparation of legislation about biofuels.

Wind Energy

On the basis of the topography of Turkey, the Aegean coast, Marmara and the East Mediterranean regions are very favourable locations for wind power generation. In recent years, interest on harnessing wind energy has greatly increased with many resource identification studies and private sector power plant applications.

The Wind Atlas has been prepared and it gives a general idea about the wind potential of Turkey.

iii. Applying best practices

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iv. Others

Enabling activities for the preparation of Turkey's initial national communication to the UNFCCC has been started in 2005. In this study, CO2 emissions reduction potential in Turkish Iron & Steel and Cement Industry has been studying. A survey was made in these sectors and specific energy consumption values as well as specific CO2 emission values were determined for the years 1990, 2004, 2010, 2015 and 2020. By using the total amount of steel production and specific CO2 emission values, total CO2 emissions were estimated.

4- ENERGY EFFICIENCY

a. Improving energy efficiency (gas emissions, technical standards, etc)

According to the results of the energy efficiency studies, energy conservation potential up to the 30% was defined in end use sectors. Therefore, Turkey emphasizes on the rational and effective use of energy and energy conservation. In this scope, Ministry of Energy and Natural Resources (MENR) has been continuing various studies in order to develop the energy efficiency policies and programs and to improve the energy efficiency.

In Turkey, the rational utilization of energy and energy efficiency studies have been carried out mainly by General Directorate of Electrical Power Resources Survey and Development Administration (EIE) for about 25 years. Regarding energy efficiency EIE's activities mainly are on Energy Efficiency Trainings, Audits and Awareness.

In December 1992, National Energy Conservation Center was established within the body of EIE (EIE/NECC) by the Ministry of Energy and Natural Resources to increase the effectiveness of the activities and extend them overall the Country.

Under the scope of the regulation issued in 1995, industrial establishments that have over 2000 TOE energy consumption should set up an energy management system, complete energy audits in three years, monitor specific energy consumption of main products in their plants and (EIE/NECC) has been monitoring all these activities. Energy Managers have been appointed in more than 400 factories.

Energy Manager Courses

(EIE/NECC) has also started to organize the Energy Management courses in 1997 and has given the authority to three organizations in İzmir, İstanbul and Eskişehir in order to extend these courses overall Turkey. Until now approximately 800 engineers from different industrial sectors have been trained as energy manager in the courses organized by EIE and other authorized organizations and more than 600 engineers have been certificated as an energy Manager. Furthermore, Energy Management Lecture has been included in the programs of engineering faculties of some universities.

Energy Efficiency Audit

EIE/ NECC's Energy Audit Teams have been conducting the energy audits in various plants of the Turkish industrial sectors since 1981. Usually the teams of 3 engineers have carried out energy efficiency audits within approximately. 3-5 days to create

energy efficiency awareness in industry, to identify the energy saving potentials and to help the establishment of energy management in plants.

Technical standards

Heat insulation standards, TS 825, for new buildings (embodied residential, public and commercial) has been modified and issued in 1998 and became mandatory in 2000. Existing regulation on the insulation conditions for new buildings was also revised and issued by Ministry of Public Works and Settlement (MPWS) on June 8, 2000 in conformity with the standard.

5- TRAINING AND EDUCATION

a. Ensuring compatibility of professional standards

Petroleum Pipeline Corporation (BOTAŞ) has been arranging programs for its personnel in order to keep up their knowledge and skills with international standards. These training programs are available for national and international companies.

6 - EXCHANGE OF INFORMATION

a. Improving the exchange and dissemination of energy related information and cooperation in best practice

By the international projects, exchange and dissemination of information has been done. The Energy Conservation Project has been completed period of August 2000-2005 in cooperation with General Directorate of Electrical Power Resources Survey and Development Administration (EIE) and Japan International Cooperation Agency (JICA), an Energy Conservation Training Center was established in EIE Facilities. EIE's intention was to give training on energy management to both engineers from Turkish industry and Region countries and to act as an International Training Center so as to share its experience gained for a long time with these countries with the financial

support of international organisations. EIE has already organized five International Energy Manager Courses in cooperation with UN-ESCAP and JICA in 2002, 2003, 2004, 2005 and 2006, for Western and Central Asia And Black Sea Region countries. In order to continue these courses a new Third Country Training Project with JICA has been started in 2004. Many of BSEC Member Countries participated to these courses.

With the support of EU, an Energy Efficiency Strategy was developed and adopted in 2004 Twinning Project to strength the current legislative and institutional structure and to define the energy efficiency potential and indicators of Turkey has been initiated in July 2005. Twinning project, aiming to strength the administrative and legal framework and to determine energy saving potentials, indicators and barriers on sectoral basis, is carried out by in cooperation with ADEME from France and SENTERNOVEM from The Netherlands.

UNDP/GEF “S&L-EUCC Project-Capacity-Building Programme for the Removal of Barriers to the Cost-Effective Development and Implementation of Energy Efficiency Standards and Labeling in EU Candidate Countries.” Officially the project launched at the end of July 2005 by the GEF Local point of Candidate Countries (Romania; Turkey, Croatia and Bulgaria). The direct outputs of the Full-Scale project have been designed to lead to the adoption and implementation of energy efficiency standards and labels as outlined in the EU Directives in the partner countries more rapidly than would otherwise occur. In the process, the project will also build information and awareness, policy support to remove regulatory barriers to Energy Efficiency Standards and Labeling (EES&L), investment and financial support, and institutional strengthening.

Within the technical cooperation between Turkey And Germany (GTZ Project) “Efficient Utilization of Energy in the Building Sector of Turkey” has been completed period of 2002 and 2005.

It is known that all countries surrounding Black Sea intent to explore and extract the hydrocarbon in their own territory in Black Sea. They are acquiring seismic separately

and are looking for drilling rigs from international market which are very expensive and scarce nowadays. Black Sea region countries also want to attract foreign investment.

Turkey also believe the synergy that will be created among the Black Sea countries will result in efficient development of Black Sea resources. For example; transfer of deepwater drilling techniques, rig club establishment, hydrocarbon transport issues, regional gas marketing solutions, exchange of marine, environmental and weather data and many other different topics would benefit from such cooperation.

Within this context; all countries should consider the high adding value that will be brought by common understanding of regional geology, the technology transfer and sharing of actual data knowledge.

In order to explore the hydrocarbon potential effectively, develop resources efficiently and promote it as a potential production hub, it will be most beneficial for the region's countries to establish an ad-hoc working group under BSEC to study the oil & gas exploitation and transportation projects.

7. PROMOTION OF BSEC, INTERNATIONAL COOPERATION AND PROJECT DEVELOPMENT

a. Promoting objectives according to the Energy Charter Treaty and Protocol on Energy Efficiency

Turkey has signed the Energy Charter Treaty and has been applying the rules of it. Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects and United Nations Framework Convention Climate Change were ratified by Turkish Parliament on February 2000 and October 2003 respectively.

b. Cooperation with the EU and UNECE and other international institutions

As an Acceding Country to EU, Turkey has been cooperating with EU in all energy aspects. Turkey also cooperates with the United Nations Economic Commission for Europe (UNECE). In this context, Turkish Pipeline Corporation (BOTAS) is a member of UNECE Gas Center and Eurogas, GIE, GIIGNL as well.

c. Interconnecting and establishing compatible energy action plans

i. For electric power systems and in relation to UCTE

All the studies towards the creation of a competitive energy market in the Southeast Europe and its integration into the internal market of the EU as well as the studies under BSEC Regional Transmission Planning Project are being handled in full compliance with international norms and the EU legislation. The legal and regulatory framework concerning the Electricity Market is closely linked to the rules and regulations of UCTE to which the connection of Turkish Power System is a priority. Electricity Market Law in Turkey has taken basis the rules and regulation of the UCTE to which the connection of Turkish Power System is priority given objective.

ii. For oil and gas pipelines as well as with TENS

As mentioned previously, while on one hand Turkey develops projects to meet its own gas demand on the other hand, it also envisages to serve for meeting the European Union's increasing demand by opening several other arteries to the continent via Turkey. The first of these is the Turkey-Greece Natural Gas Pipeline Project which is then planned to be extended up to Italy. Interconnection of the Turkish-Greek Natural Gas Pipeline grids is due to be completed in 2006 with some initial deliveries. The other route is the Turkey-Bulgaria-Romania-Hungary-Austria line which is so called as

Nabucco Project. Studies are well underway among the respective institutions of the Countries for the realization of the Project in a cooperative atmosphere.

In the Greece-Italy Natural Gas Pipeline project, this is the extension part of the Turkey-Greece project; it was benefited from the EU TEN Funds for the engineering and feasibility studies. Like Turkey-Greece Project, in Nabucco Project, it is again receiving support from EU TEN funds.

d. Creating a regionally integrated energy market

i. For electricity

ii. For natural gas

Turkey attaches due importance in establishment of competitive electricity and gas markets in the region. Turkey has a strategic role to play in connecting the resources and demanding markets.

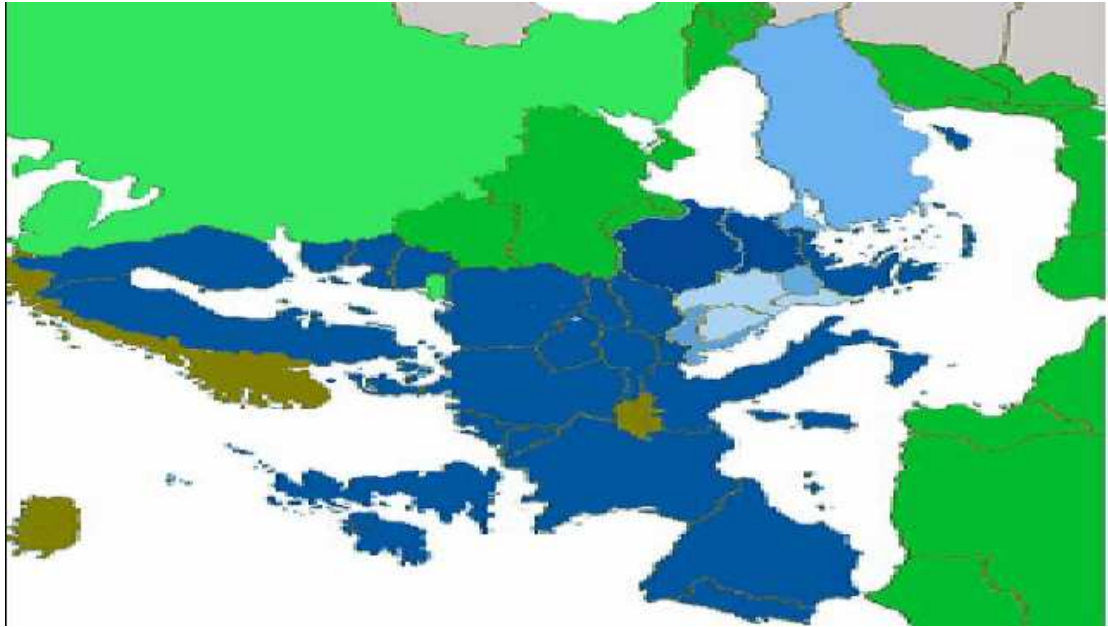
e. Initiating projects through the BSEC PDF or other national/international financial instruments

Petroleum Pipeline Corporation (BOTAŞ) has been developing projects in order to satisfy the international demand and has been attracting the attention of International Finance Institute (IFI)s by gaining the support of EU and other international environments. In this context, BOTAŞ proposes BSEC PDF to support projects defined to be necessary for BSEC region, but could not attract the interest of either EU or other international environments.



Map 1. The Cacasus and Central Asia

Reference: <http://images.google.com.tr/>



Map 2. The ENP and Regional Cooperation

Reference: www.ec.europa.eu/world/enp/policy.



Map.3 Baku-Tbilisi-Ceyhan Project

- ✓ 1776 kms
- ✓ Azerbaijan via Georgia and Turkey to the Marine Terminal at Ceyhan
- ✓ 1 million barrels per day transport capacity

Reference: BSEC Working Group of Energy February 12–13, 2007
Istanbul – TÜRKİYE



Map 4. Baku-Tbilisi-Kars Railway Project

Reference: http://cominganarchy.com/wordpress/wp-content/uploads/2007/12/ktb_rail.jpg



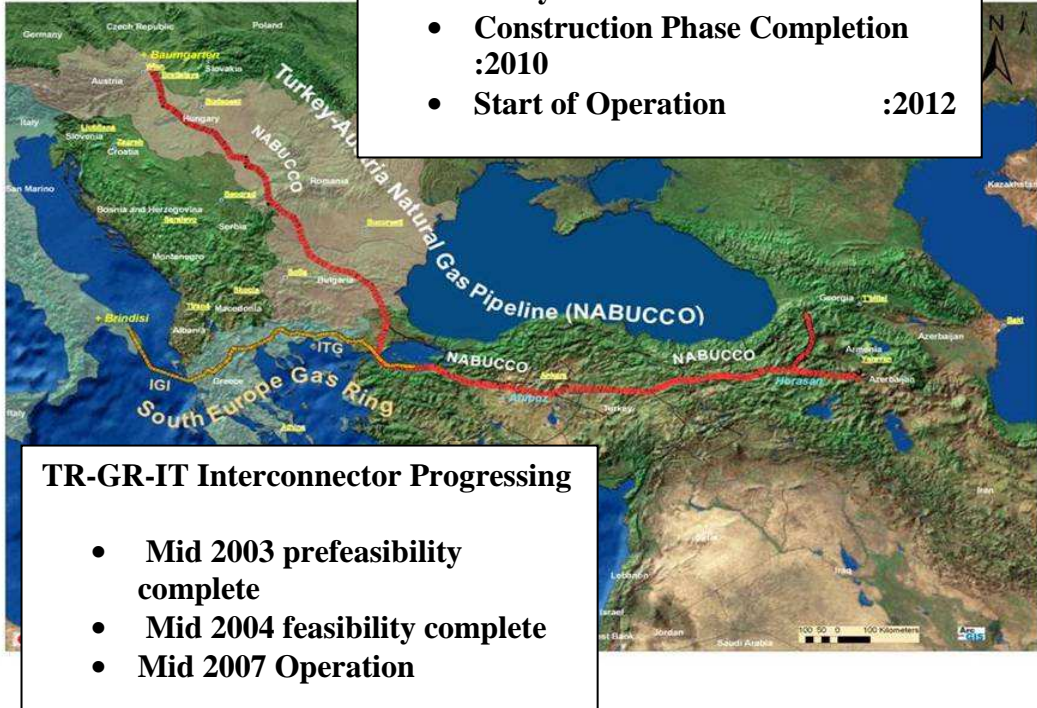
Map 5. Baku-Tbilisi-Erzurum Project (Shahdeniz)

- ✓ start operation early 2007
- ✓ 8,1 – 22 bcm / year

Reference: BSEC Working Group of Energy February 12-13, 2007
Istanbul - TÜRKİYE

Milestones of the Nabucco Project :

- Detailed Technical Design / EIA Study:2006-2007
- Construction Phase Completion :2010
- Start of Operation :2012



Map 6. Gas To Europe-Nabucco Project

Reference: BSEC Working Group of Energy February 12-13, 2007
Istanbul – TÜRKİYE

CURRICULUM VITAE

Personal Details:

First Name: Hande
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2006-2007 Ostrava University/Czech Republic –International Relations-ERASMUS MA Programme

2005-2006 Sakarya University-International Relations MA Programme

2001 – To date Sakarya University, Faculty of Economics&Administration

Graduation date - 2005 Faculty: Economics&Administration

Major: Political Science&International Relations

Specialization: International Relations-Courses are based on 30% English

1994 – 2001 Figen Sakallioğlu Anatolian High School

Additional Activities:

30.10.2006-22.12.2006 Berlin GOETHE-INSTITUT Certificate of Intensive German Course

10-22.02.2003 Certificate of Attendance “ Second German Turkish Conference On European Integration- Universitat Siegen/Königswinter-Brussel Maastricht

21-24.08.2007 Certificate of Attendance 5th EUPRA General Conference”Challenges of PEACE and DEMOCRACY in Europe.

2006-2007 AIESEC Exchange Programme-Attendance of Global Village-Ostrava Czech Republic

15.05.2008-11.07.2008 Internship at BSEC(Organization of Black Sea Economic Cooperation) Headquarter-Istanbul

Awards:

- | | |
|----------------------|---|
| 2006 November | Speaker on Turkey's Accession To EU-Ostrava University |
| 2007 May | Speaker on "Non-Democratic Regimes In Contemporary World-Belarus Documentary"-Ostrava University |
| 2007 May | Speaker on "Local and Regional Disparities In Turkey"-Ostrava Univ. |