Geoeconomics of Energy Trade by the European Union: the case of the Southern Gas Corridor

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Abstract

An increase in trade and economic ties between countries does not exclude the escalation of conflicts in contemporary international relations; however, the means by which conflicts are pursued have shifted from military to economic sphere. In this respect, geoeconomics as an analytical framework is useful in explaining the pursuit of strategic (geo)political goals through economic means. Linking the geoeconomic thinking to realist school of thought, the focus has been on non-Western powers' use of economic instruments for geopolitical purposes. This paper sheds some light on the European Union's resort to geoeconomics in its foreign energy policy by the strategic use of its economic might and regulatory state in the case of the Southern Gas Corridor as an energy diversification project vis-à-vis the dependency on Russian gas as the single supplier. Utilizing the method of process tracing, the research demonstrates that motivated by the security of supply concerns the Commission 1) as a covert geoeconomic strategy selectively accommodated particular pipeline segments in the EU territory by providing both exemptions from competition rules and financial support for construction in contrast to the Russian-sponsored pipeline projects targeting the same energy markets in South Eastern Europe and 2) as a hegemonic geoeconomic strategy has attempted to extend the EU market model and liberalization agenda on energy to partner countries in the near abroad in order to achieve regional leadership and create favorable environment within its geopolitical landscape.

Keywords: Geoeconomics, Energy Security, Energy Trade, Gas Markets, Regulatory State, European Union, Southern Gas Corridor

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EU – European Union

SEM – Single European Market

SGC – Southern Gas Corridor

SCP – South Caucasus Pipeline

TANAP – Trans Anatolian Pipeline

TAP – Trans Adriatic Pipeline

Introduction

Energy security in the European Union (EU) has been one of the most contested topics within both policy agenda and academic literature in European affairs. As most European countries lack sufficient indigenous energy resources and heavily rely on imports, energy security is viewed in terms of "the availability of sufficient supplies at affordable prices"[1] by the EU and its member states. After recently declaring natural gas as green energy for the EU's long-term goal of attaining environmentally sustainable economy[2], the European Commission intends to diversify its imports of natural gas in order to ensure security of supply and diminish severe dependency on Russian gas for industrial and residential usage. To achieve this aim, the EU pursued a strategy of investing in new routes and pipeline projects to bypass Russia as the (traditional) major source and Ukraine as the (traditional) major transit country. Apart from a neo-liberal principle on competitive markets for energy trade, the Commission's strategy of energy diversification cannot be analyzed without touching upon the relations between the EU and Russia. Energy trade has been a defining factor in determining power relations between the two actors during the post-Cold War era. Energy has been employed as an instrument to deploy certain type of power and attain certain political objectives. Russia has exerted geopolitical power with strategies to channel its vast resources of natural gas to partners while the EU has utilized from its large and integrated market to exercise regulatory power[3]. The case of the Southern Gas Corridor project is special in this regard because 1) the EU prioritizes the project in the Energy Security Strategy (2014)[4]

[1] Yergin, Daniel. "Ensuring Energy Security." Foreign Affairs 85, no. 2 (March 1, 2006): 69–82.
[2] Welle (www.dw.com), Deutsche. "European Commission Declares Nuclear and Gas to Be Green | DW | 02.02.2022." DW.COM. Accessed April 19, 2022. https://www.dw.com/en/european-commission-declares-nuclear-and-gas-to-be-green/a-60614990.
[3] Siddi, Marco. "The Role of Power in EU-Russia Energy Relations: The Interplay between Markets and Geopolitics." Europe-Asia Studies 70, no. 10 (December 2018): 1552–71. https://doi.org/10.1080/09668136.2018.1536925.
[4] European Energy Security Strategy. 2014. COM(2014) 330 final, May 28, 2014, 16.

and the Energy Union Strategy (2015)[5] hence it is supported by the Commission through financial and regulatory means, and 2) the project targets the same market for energy in the South Eastern Europe as the Russian-backed (former) South Stream and Turkish Stream projects.

The examination of the EU's energy diversification requires a proper theoretical framework that could explain the strategy of the EU in the context of geopolitical landscape in its near abroad. Thus, the emerging academic literature on geoeconomics is a suitable analytical lens for the purpose of explaining the EU's energy diversification. Linking the geoeconomic thinking to realist school of thought, the focus has been on non-Western powers' use of economic instruments for geopolitical purposes. There has been extensive research on China's use of geoeconomic instruments, notably trade and investment, in foreign policy[6], Russia's energy geoeconomics vis-à-vis its relations with European countries[7], India's geoeconomic turn in its foreign policy as a rising power[8], and even Brazil's geoeconomic impact on South America[9]. However, geoeconomic thinking is not limited to realist paradigm. The ongoing transition from neoliberal economic order in international political economy toward a geoeconomic order characterized by the "securitization of economic policy and economization of strategic policy"[10] makes Western powers adopt their strategies with regard to international trade and investment accordingly. Therefore, this

[5] Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy. 2015. COM (2015) 80 final, 4 and 19.
[6] Blackwill, Robert D., and Jennifer M. Harris. "Geoeconomics in Chinese Foreign Policy." In War by Other Means: Geoeconomics and Statecraft, 93–128. Harvard University Press, 2016. http://www.jstor.org/stable/j.ctt1c84cr7.8.
[7] Wigell, Mikael, and Antto Vihma. "Geopolitics versus Geoeconomics: The Case of Russia's Geostrategy and Its Effects on the EU." International Affairs 92, no. 3 (May 2016): 605–27. https://doi.org/10.1111/1468-2346.12600.
[8] Ahuja, Amit, and Devesh Kapur. "India's Geoeconomic Strategy." India Review 17, no. 1 (February 1, 2018): 76–99. https://doi.org/10.1080/14736489.2018.1415282.
[9] Sören Scholvin and Andrés Malamud. "Is Brazil a Geoeconomic Node? Geography, Public Policy, and the Failure of Economic Integration in South America." Brazilian Political Science Review 14, no. 2 (August 1, 2020): 1–39. https://doi.org/10.1590/1981-3821202000020004.
[10] Roberts, Anthea, Henrique Choer Moraes, and Victor Ferguson. "Toward a Geoeconomic Order in International Trade and Investment." Journal of International Economic Law 22, no. 4 (December 20, 2019): 655–76. https://doi.org/10.1093/jiel/jgz036.

research is of great significance to shed some light on the EU's resort to geoeconomic strategy in terms of energy trade, and it aims to contribute to the literature on geoeconomics with a particular focus on the use of liberal means for realist ends. Indeed, research on liberal geoeconomics as a foreign policy strategy is growing. An illustrative example is the Germany's use of markets to attain its strategic goals and coerce other states within and beyond the European Union[11]. However, analysis of the use of market power for geopolitical objectives at the EU level, at least for energy trade and specifically the Southern Gas Corridor, is missing. It is also worth mentioning that it is crucial to carry out this study in times of 'geopolitical turn' of the European Commission under von der Leyen administration[12] that has altered the role of the EU in international relations as a liberal foreign policy actor. The research question, therefore, is the following: how does the EU, more specifically the European Commission, employ the Southern Gas Corridor project to reinforce its geopolitical position in the near abroad in response to Russian attempts to dominate the South-East European energy markets?

The underlying argument of the thesis is that the EU uses the power of its largely integrated single market and regulatory state to subtly confront Russia by diversifying natural gas imports and to strengthen its geopolitical position by attempting to export its policies to the Southern Gas Corridor partner countries, i.e. the EU resorts to liberal geoeconomics in its foreign policy in the context of energy diversification. Primary arguments and findings of the research are generated by the method of process tracing. Appealing to a wide range of sources ranging from texts of documents, official analytical reports, news pieces, as well as arguments from academic literature, historical developments leading to the current situation concerning the specific case of the Southern Gas Corridor as a strategic alternative for the EU energy

[11] Kundnani, Hans. "Germany as a Geo-Economic Power." The Washington Quarterly 34, no. 3 (August 1, 2011): 31–45. https://doi.org/10.1080/0163660X.2011.587950.
[12] European Commission - European Commission. "Speech by President-elect von der Leyen in the EP." Text. Accessed April 20, 2022. https://ec.europa.eu/commission/presscorner/detail/es/speech_19_6408.

security are examined.

The thesis follows the theory-empirics structure in terms of research design and consists of three chapters. Chapter 1 sets the ground with the theoretical framework of geoeconomics, review of the literature and its relevance to the theme of the study. Chapter 2 serves as a context chapter on institutional arrangements and regulatory toolkit of the EU on energy with a particular focus on gas trade. Chapter 3 as an empirical section introduces the Southern Gas Corridor and provides an overview of the realization and implementation of the project. Multidimensional effects of the project on geoeconomics of the EU, as well as on the competing Russian-backed projects of South Stream and Turkish Stream pipelines are discussed. The limits of the Commission's geoeconomic power regarding the reach of the EU's regulatory state to the countries along the Southern Gas Corridor are also investigated.

Chapter 1: Theoretical Framework

The theoretical framework for the research is the literature on geoeconomics. This chapter starts with the emergence and review of the literature on geoeconomics as an analytical framework, followed by the juxtaposition of similar concepts with geoeconomics, namely economic statecraft, geopolitics, and mercantilism. The chapter proceeds with the extension of geoeconomic thinking to liberal context and concludes with the relevance thereof to the empirical section of the thesis.

1.1. Geoeconomics as an analytical framework

Research on geoeconomic strand of academic literature provides insights on the link between politics and economy in international relations even though the general notion of geoeconomics remains to be undertheorized. The underlying idea behind the concept of geoeconomics, in contrast to the liberal interdependence paradigm, is that the increased trade and economic relations between countries do not exclude the escalation of conflicts in the contemporary era; however, the means by which conflicts are pursued have shifted from military to economic sphere. The term geoeconomics is first coined by Edward Luttwak in his seminal piece where he stated: "This neologism is the best term I can think of to describe the admixture of the logic of conflict with the methods of commerce – or, as Clausewitz would have written, the logic of war in the grammar of commerce"[13]. Luttwak's definition of geoeconomics is clearly inclined toward IR realism with the logic of power politics, zero-sum game, and interstate rivalry through commercial instruments. In this sense, geoeconomics serves as a useful analytical framework for foreign policy analysis that relates to the realist school of thought in IR but goes beyond traditional strategies in realism. A more precise definition of geoeconomics as an analytical tool is provided by Blackwill and Harris in their

[13] Luttwak, Edward N. "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce." The National Interest, no. 20 (July 1, 1990): 17–23, p. 19.

book as "the use of economic instruments to promote and defend national interests and to produce beneficial geopolitical results; and the effects of other nations' economic actions on a country's geopolitical goals"[14]. From these definitions, geoeconomics appears to be a rewarding analytical framework for international relations in explaining instruments (means) that various states and blocs of states use to achieve superiority over others in a world of interstate rivalry (the end)[15].

Although the concept of geoeconomics challenges the optimism of the liberal interdependence by highlighting the strategic interests, scholars rely on two primary notions in interdependency paradigm developed by Robert Keohane and Joseph Nye to explain geoeconomic thinking. In their book *Power and Interdependence*, Keohane and Nye integrated realist approach to power with the logic of liberal interdependence focusing on bargaining relations. Authors posit that vulnerability and sensitivity of countries to economic outcomes are two crucial phenomena to explain the relationship between power and interdependence. In simple terms, vulnerability points to the costs of searching for substitute alternative economic partners while sensitivity refers to the speed of which an economic change in one country influences another[16]. Hence, economic interdependence might result in a conflictual situation when one actor possesses bargaining leverage in lower costs of finding alternatives owing to the asymmetric nature of interdependence. Geoeconomic analysis draws on this special relationship between power and economic interdependence by viewing interdependencies as vulnerable avenues for the application of geoeconomic instruments[17].

Broadly speaking, literature on geoeconomics follows two directions. On the one side,

[14] Robert D. Blackwill and Jennifer M. Harris. "War by Other Means: Geoeconomics and Statecraft". Harvard University Press, 2016, p. 20.
[15] Sören Scholvin and Mikael Wigell. "Power Politics by Economic Means: Geoeconomics as an Analytical Approach and Foreign Policy Practice." Comparative Strategy 37 (February 16, 2018): 73–84.
[16] Keohane, Robert O., and Joseph S. Nye. Power and Interdependence. 3rd ed. Longman, n.d.
[17] Fjäder, Christian O. Interdependence as Dependence: Economic Security in the Age of Global Interconnectedness, in Mikael Wigell, Sören Scholvin, and Mika Aaltola. Geo-Economics and Power Politics in the 21st Century: The Revival of Economic Statecraft. Routledge, 2020.

geoeconomics has been studied in the tradition of Luttwak's seminal article. Geoeconomics is defined by Hudson et al. as a series of economically induced strategies to gain control over a particular territory that are realized by economic tools, especially trade and investment[18]. Discussing the rise of China and its recourse to economic means in world politics, Hsiung acknowledges that economic security rather than military concerns has become crucial part of power politics in contemporary international relations[19]. In another scholarly contribution, Mattlin and Wigell argue that the reason why geoeconomics is primarily observed in the non-Western world is because these states appeal to non-military tools in their foreign policy to soft balance against the US[20]. Notable research on the use of geoeconomic strategies by non-Western countries also include studies on China's access to raw materials via cooperation with developing countries[21] and Russia's attempts to project power in the near abroad through energy geoeconomics[22].

On the other side, numerous scholars have studied the phenomenon incompatibly with Luttwak's approach. In this branch of literature, there exists research that relates geoeconomics to the influence of geographical conditions on economic outcomes. For instance, Kapyla and Mikkola argue that states are more likely to refrain from confrontation and subsequent conflict in the Arctic since geography of the territory prompts cooperative behavior[23]. Accordingly, the effects of material structures of spatiality on economic relations

[18] Hudson, Valerie M., Robert E. Ford, David Pack, and Eric R. Giordano. "Why the Third-World Matters, Why Europe Probably Won't - the Geoeconomics of Circumscribed Engagement." JOURNAL OF STRATEGIC STUDIES 14, no. 3 (September 1, 1991): 255–98.
[19] Hsiung, James. "The Age of Geoeconomics, China's Global Role, and Prospects of Cross-Strait Integration." Journal of Chinese Political Science 14, no. 2 (June 2009): 113–33. https://doi.org/10.1007/s11366-009-9045-y.
[20] Mattlin, Mikael, and Mikael Wigell. "Geoeconomics in the Context of Restive Regional Powers." ASIA EUROPE JOURNAL 14, no. 2 (June 1, 2016): 125–34. https://doi.org/10.1007/s10308-015-0443-9.
[21] Karkkainen, Annina. "Does China Have a Geoeconomic Strategy towards Zimbabwe? The Case of the Zimbabwean Natural Resource Sector." ASIA EUROPE JOURNAL 14, no. 2 (June 1, 2016): 185–202. https://doi.org/10.1007/s10308-015-0445-7.
[22] Wigell, Mikael, and Antto Vihma. "Geopolitics versus Geoeconomics: The Case of Russia's Geostrategy and Its Effects on the EU." International Affairs 92, no. 3 (May 2016): 605–27. https://doi.org/10.1111/1468-2346.12600.
[23] Kapyla, Juha, and Harri Mikkola. "The Promise of the Geoeconomic Arctic: A Critical Analysis." ASIA EUROPE JOURNAL 14, no. 2 (June 1, 2016): 203–20. https://doi.org/10.1007/s10308-015-0447-5.

of South Africa[24] and Brazil[25] have been investigated. In addition to geographical explanations of geoeconomics, some scholars associate geoeconomics with the rising significance of novel actors in global political economy, such as non-state entities characterized by flexibility and transnationality[26]. More specifically, Mercille alleges that while both politicians and businessmen have a mutual goal of stability, the means they use are different – businessmen employ geoeconomic tools to achieve their objectives whereas statesmen are driven by the "geopolitical logic"[27]. Similarly, Cowen and Smith emphasize the changing nature of territoriality as the underlying characteristic of geoeconomics, which gives rise to transnational transactions (e.g. multinational corporations) and security threats (e.g. terrorism) in 'borderless' international relations[28].

The literature on the Luttwakian approach to geoeconomics is applied in this thesis as the theoretical framework. This approach to geoeconomics provides a valuable analytical lens to effectively examine foreign policy in contemporary global politics in terms of the use of economic instruments in the pursuit of strategic interests by connecting both realist and liberal logics in IR. Traditional realist school underestimates the role of economic power while liberalism disregards the fact that economic power could be used for strategic aims to confront adversaries. Luttwakian geoeconomics, instead, serves "as a vibrant mid-range theory and a framework for policy analysis"[29].

[24] Scholvin, Sören, and Peter Draper. "The Gateway to Africa? Geography and South Africa's Role as an Economic Hinge Joint between Africa and the World." South African Journal of International Affairs 19, no. 3 (December 2012): 381–400. https://doi.org/10.1080/10220461.2012.740321.
[25] Sören Scholvin and Andrés Malamud. "Is Brazil a Geoeconomic Node? Geography, Public Policy, and the Failure of Economic Integration in South America." Brazilian Political Science Review 14, no. 2 (August 1, 2020): 1–39. https://doi.org/10.1590/1981-3821202000020004.
[26] Barton, Jonathan R. "'Flags of Convenience': Geoeconomics and Regulatory Minimisation." Journal of Economic & Social Geography 90, no. 2 (May 1999): 142. https://doi.org/10.1111/1467-9663.00057.
[27] Mercille, Julien. "The Radical Geopolitics of US Foreign Policy: Geopolitical and Geoeconomic Logics of Power." Political Geography 27, no. 5 (January 1, 2008): 570–86. https://doi.org/10.1016/j.polgeo.2008.06.002.
[28] Cowen, Deborah, and Neil Smith. "After Geopolitics? From the Geopolitical Social to Geoeconomics." Antipode 41, no. 1 (January 2009): 22–48. https://doi.org/10.1111/j.1467-8330.2008.00654.x.
[29] Vihma, Antto. "Geoeconomic Analysis and the Limits of Critical Geopolitics: A New Engagement with Edward Luttwak." Geopolitics 23, no. 1 (January 2, 2018): 1–21, p. 17.

1.2. Geoeconomics and economic statecraft

Geoeconomics as a foreign policy strategy is very similar to the concept of economic statecraft. In other words, economic statecraft is practical geoeconomics, or "the geostrategic use of economic power"[30]. In contrast to the *laissez-faire* economists who view economics separate from political power, IR scholars, hence, postulate that "economic activity is a source of power as well as well-being. It is, indeed, probably the most important source of power, and in a world in which military conflict between major states is unlikely, economic power will be increasingly important in determining the primacy or subordination of state"[31]. An authoritative work on economic statecraft is David A. Baldwin's book titled *Economic Statecraft*. Baldwin defines economic statecraft as "governmental influence attempts relying primarily on resources that have a reasonable semblance of a market price in terms of money"[32]. Seeing economics as an instrument of politics, he asserts that economic statecraft is an instrument of international politics manipulated by states in their foreign policy. The consequence of economic statecraft as an "influence attempt" is to influence the behavior of other states. Indeed, Baldwin claims that "the utility of economic techniques of statecraft has been systematically underestimated because of inadequacies in the analytical frameworks used to make such estimates"[33]. In this sense, geoeconomic analysis, encompassing Baldwin's conceptualization of economic statecraft, provides a complementary framework to explore various economic instruments of foreign policy.

Literature on geoeconomics extends the discussion on the tools of economic statecraft and contributes with the analysis of underexplored economic measures. Primary geoeconomic

https://doi.org/10.1080/14650045.2017.1302928.

[30] Wigell, Mikael. "Conceptualizing Regional Powers' Geoeconomic Strategies: Neo-Imperialism, Neo-Mercantilism, Hegemony, and Liberal Institutionalism." ASIA EUROPE JOURNAL 14, no. 2 (June 1, 2016): 135–51. https://doi.org/10.1007/s10308-015-0442-x.

[31] Huntington, Samuel P. "Why International Primacy Matters." International Security 17, no. 4 (Spring 1993): 68–83, p. 72. https://doi.org/10.2307/2539022.

[32] Baldwin, David A. Economic Statecraft. New edition. Princeton University Press, 2020, p. 12.

[33] Ibid., 58.

instruments Luttwak came up with were tariffs, quotas and subsidies as trade restrictions, as well as financing of national technology programs and economic intelligence since he believed in the preservation of the role of state in strategic industries[34]. In a more recent study, Blackwill and Harris expand the list of geoeconomic measures and include trade and investment policy, monetary policy, cyber security threats, foreign aid, energy, and commodities, in addition to the conventional economic and financial sanctions[35]. With regard to energy policy, authors identify three essential factors that give leverage to governments to improve their geopolitical positions: monopoly of suppliers, monopsony of consumers, and strategic location of transit countries[36]. The list of geoeconomic instruments could be extended even more, especially with the contemporary developments in global economy. For instance, investing in the construction of infrastructure – a topic that is directly related to this thesis – has not been pointed out by the above-mentioned scholars. However, there exist studies that emphasize the geoeconomic significance of infrastructure projects as foreign policy instruments at the disposal of governments to influence the behavior of other states[37]. A more relevant study to the argument of the thesis is a recent analytical report that examines strategic investments by the EU to promote market liberalization[38]. Thus, geoeconomic framework of analysis also helps determine unorthodox tools of economic statecraft applied by governments nowadays.

[34] Luttwak, Edward. "The Theory and Practice of Geoeconomics" in Clesse, Armand, Richard Cooper, and Yoshikazu Sakamoto, eds. The International System After the Collapse of the East-West Order. Brill Nijhoff, 1994. https://brill.com/view/title/9411.
[35] Robert D. Blackwill and Jennifer M. Harris. War by Other Means: Geoeconomics and Statecraft. Harvard University Press, 2016, p. 49.
[36] Ibid., 90.
[37] Khanna, Paraq. "The Era of Infrustructure Alliances" in Leonard, Mark. Connectivity Wars : Why Migration Finance and Trade Are the Geo-Economic Battlegrounds of the Future. European Council on Foreign Relations, 2016.
[38] Collins, Gabriel, and Anna Mikulska. "Gas Geoeconomics in Europe: Using Strategic Investments to Promote Market Liberalization, Counterbalance Russian Revanchism, and Enhance European Energy Security." Rice University's Baker Institute for Public Policy, 2018, 44.

1.3. Geoeconomics and geopolitics

Another similar concept with geoeconomics is geopolitics. Studies on geopolitics traditionally have two paradigmatic perspectives. While geographers view geopolitics in terms of geographical conditions affecting political outcomes[39], IR scholars approach geopolitics as "the study and practice of international power relations, typically with an emphasis on military power, within a defined geographic setting"[40]. Accordingly, geoeconomics within the discipline of international relations can be seen as the study and practice of power relations in a particular geographic territory with an emphasis on economic power.

In the literature, there is no clear-cut borderline between the two terms. Considering geoeconomics as an alternative to geopolitics, Luttwak expected geoeconomic means of statecraft would partially or fully replace geopolitical (military) ones. He argued that states, retaining their territorial character, carry out geoeconomic measures to regulate the economy in order to achieve certain strategic objectives. Recent studies, however, suggest that geoeconomic and geopolitical strategies are overlapping. Blackwill and Harris contend that "for today's most sophisticated geoeconomic actors, geoeconomc and military dimensions of statecraft tend to be mutually reinforcing"[41]. Therefore, they perceive geoeconomics as part of geopolitics and define geoeconomics in terms of "applying economic instruments to advance geopolitical ends"[42]. Grosse also argues that geoeconomics and geopolitics coexist in state practice as hybrid strategies for the exercise of both economic and military power in pursuit of strategic goals, and defines geoeconomics as "the merging of geopolitical and economic

[39] Scholvin, Sören. "Geopolitics: An Overview of Concepts and Empirical Examples from International Relations." FIIA Working Paper, April 2016, 1–25.
[40] Vihma, Antto. "Geoeconomic Analysis and the Limits of Critical Geopolitics: A New Engagement with Edward Luttwak." Geopolitics 23, no. 1 (January 2, 2018): 1–21, p. 4. https://doi.org/10.1080/14650045.2017.1302928.
[41] Robert D. Blackwill and Jennifer M. Harris. War by Other Means: Geoeconomics and Statecraft. Harvard University Press, 2016, p. 9.
[42] Ibid., 8.

goals"[43]. Csurgai discerns geoeconomics as an interdisciplinary analytical framework that "includes geopolitical factors, economic intelligence, strategic analysis and foresight"[44].

Viewing geopolitics and geoeconomics as two distinct approaches within the broad notion of geostrategy, Wigell and Vihma develop a Weberian ideal-typical typology to differentiate between the two terms[45]. Authors contrast the two strategies by their operational characteristics and effects on the target. Distinguishing the application of economic means from that of military ones, they portray geoeconomics as a covert strategy that produces low or medium threat perception compared to overt geopolitics with higher threat perception. The main goal of geoeconomic strategy is to accommodate selectively by providing economic inducements to particular actors but not others, which as a 'wedge strategy' attempts "to divide a target country or coalition, and through that to weaken its balancing potential"[46].

Table 1: Contrasting traditional geopolitics with geoeconomics[47]

	Geopolitics	*Geoeconomics*
Operational (agent)		
Means	Military	Economic
Visibility	Overt	Covert
Logic	Confrontation	Selective accommodation
Effects (target)		
Threat perception	High	Low/medium
Action-reaction force	Centripetal	Centrifugal
Behavioral tendency	Counterbalancing	Underbalancing

[43] Grosse, Tomasz G. "Geoeconomic Relations Between the EU and China: The Lessons From the EU Weapon Embargo and From Galileo." Geopolitics 19, no. 1 (January 2, 2014): 40–65. https://doi.org/10.1080/14650045.2013.789864.
[44] Csurgai, Gyula. "The Increasing Importance of Geoeconomics in Power Rivalries in the Twenty-First Century." Geopolitics 23, no. 1 (January 2018): 38–46, p. 39. https://doi.org/10.1080/14650045.2017.1359547.
[45] Wigell, Mikael, and Antto Vihma. "Geopolitics versus Geoeconomics: The Case of Russia's Geostrategy and Its Effects on the EU." International Affairs 92, no. 3 (May 2016): 605–27. https://doi.org/10.1111/1468-2346.12600.
[46] Ibid., 611.
[47] Ibid., 609.

1.4. Geoeconomics and mercantilism

It is also important to differentiate geoeconomics from another similar concept of mercantilism. Luttwak elaborated on this distinction by highlighting the possibility of switching to a military confrontation. Considering mercantilism as a 'subordinated modality', Luttwak argues that there is an ever-present likelihood that the loser of mercantilist competition would resort to military means and wage a war. Unlike in geoeconomics, the loser in economic competition is restricted to switch to the grammar of war, in Luttwak's words, because war ceased to be a practical solution and retaliation would occur by the use of economic instruments; therefore, there is 'no superior modality' in geoeconomics[48]. Luttwak adds that the underlying purpose of geoeconomics is "the best possible employment for the largest proportion of the population"[49] while mercantilism aimed at the maximization of gold stocks.

Contemporary developments, however, have shown that the application of mercantilist measures (neomercantilism), such as protectionist policies, infant industry protection, import substitution industrialization, and export-oriented manufacturing are also intended to reinforce a state's geopolitical position. Thus, geoeconomics as an analytical framework for the use of economic means for strategic ends encompasses neomercantilist strategies. From this point of view, geoeconomics could be expanded even more to include all kinds of strategies that aim at achieving strategic objectives and improving geopolitical position of the agent. A study by Wigell points to this analytical potential of geoeconomic research by conceptualizing various geoeconomic strategies, including neomercantilism, employed by regional powers[50].

[48] Luttwak, Edward N. "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce." The National Interest, no. 20 (July 1, 1990): 17–23.
[49] Ibid., 20.
[50] Wigell, Mikael. "Conceptualizing Regional Powers' Geoeconomic Strategies: Neo-Imperialism, Neo-Mercantilism, Hegemony, and Liberal Institutionalism." ASIA EUROPE JOURNAL 14, no. 2 (June 1, 2016): 135–51. https://doi.org/10.1007/s10308-015-0442-x.

1.5. Liberal geoeconomics and the EU

Review of literature on geoeconomics demonstrates that geoeconomic practice as the mean to achieve strategic objectives is not limited to realist context. In contemporary international relations, numerous liberal actors exercise geoeconomic power in their foreign policy to improve their geopolitical position. Germany, as an illustrative case in point, has utilized from its market power "to impose its economic preferences on others within the European Union in the context of a discourse of zero-sum competition between the fiscally responsible and the fiscally irresponsible"[51], thereby insisting on austerity measures instead of inflationary pressures on the euro. Pursuing 'open strategic autonomy', the EU has also attempted to project geoeconomic power in response to the rising risks of being leveraged by outsiders for geopolitical ends. The EU has implemented several initiatives in order to safeguard its geoeconomic interests by limiting access to the single market, such as trade defense mechanisms to prevent dumped imports and disruptive foreign subsidies[52].

Differentiating liberal conceptualization of geoeconomics from that of realism, Wigell alleges that liberal geoeconomics points to situation in which "economic power is used and pursued as an end in itself and not necessarily through a competitive strategic frame"[53]. Wigell's conceptualization draws upon the liberal argument of cooperative state behavior that focuses on absolute gains from cooperation in pursuit of common goals instead of competitive zero-sum game to maximize relative gains. The author assigns the EU's geoeconomic approach to hegemonic geoeconomic strategy, in which actors "deploy economic power as a

[51] Kundnani, Hans. "Germany as a Geo-Economic Power." The Washington Quarterly 34, no. 3 (August 1, 2011): 31–45, p. 41. https://doi.org/10.1080/0163660X.2011.587950.
[52] Helwig, Niklas, and Ville Sinkkonen. "Strategic Autonomy and the EU as a Global Actor: The Evolution, Debate and Theory of a Contested Term." European Foreign Affairs Review 27, no. Special (April 1, 2022): 1–20.
[53] Wigell, Mikael. "Conceptualizing Regional Powers' Geoeconomic Strategies: Neo-Imperialism, Neo-Mercantilism, Hegemony, and Liberal Institutionalism." ASIA EUROPE JOURNAL 14, no. 2 (June 1, 2016): 135–51, p. 138. https://doi.org/10.1007/s10308-015-0442-x.

means to uphold regional leadership, without habitually resorting to coercion"[54]. Hence, Wigell sees the EU as a liberal cooperative hegemon who resorts to geoeconomics to ensure a favorable external environment, thereby influencing geopolitical landscape in favor of its interests:

> "The European Union (EU) operates a quintessential geoeconomic hegemony strategy in its neighborhood. Without resorting to coercion, the EU uses its economic domination to uphold hegemony in relation to its periphery. An important motivation is to ensure the security of the continent. By relying on its formidable economic structure, the EU attempts to export its policies to its neighbors…"[55]

However, Wigell's liberal conceptualization neglects strategic dimension of geoeconomics. Building on this liberal conceptualization, Grevi develops a comprehensive framework of liberal geoeconomics as "the conversion of economic assets into political influence and the mobilization of political power to achieve economic goals through a mix of competition and cooperation"[56]. In this sense, the resort to liberal geoeconomics by the EU is also observed in the field of energy policy. The EU's recent attempts to diversify sources and routes of natural gas – the Southern Gas Corridor project being a noticeable case – as a response to the threat of dependency on Russian gas using its regulatory power to influence energy markets indicate that the EU's approach is "between the neutral application of regulatory power to make markets work and the politically motivated use of the EU's economic might to change the behavior of other states"[57]. Indeed, regulatory toolbox, in particular competition law, is the fundamental geoeconomic instrument at the disposal of the European Commission for securing beneficial geopolitical results, which is further explored in the next chapter.

[54] Ibid., 144.
[55] Ibid., 145.
[56] Grevi, Giovanni. Geo-economics and global governance, in Martiningui, Ana and Richard Youngs. Challenges for European Foreign Policy in 2012: What Kind of Geo-Economic Europe? Madrid: FREDI, 2011, p. 28.
[57] Andersen, Svein S., Andreas Goldthau, and Nick Sitter. Energy Union : Europe's New Liberal Mercantilism? Macmillan Publishers Ltd. London, 2017, p. 238.

Chapter 2: Regulatory State of the EU as a Geoeconomic Instrument

This chapter scrutinizes regulatory state of the EU as a geoeconomic instrument at the disposal of the European Commission. The focus is the policy toolkit of the Commission, in particular competition law, on building, maintaining, and managing regional natural gas markets in order to produce certain geopolitical results. The chapter concludes with the discussion of the EU's actorness in foreign energy policy through the extension of its regulatory state as a geoeconomic tool.

2.1. European Commission as the regulator

The concept of regulatory state refers to rule-based governance via regulation instead of direct intervention or other policy-making tools[58]. In its purest form, regulatory state imposes rules on economic actors to influence the market behavior so as to correct market failures and imperfections[59]. From this perspective, the EU, more specifically the European Commission as the executive institution, is exemplary for the regulatory state not only within but also beyond the frontiers of the Single European Market (SEM). The EU's regulatory state in governance is originated from the Treaty of Rome establishing the European Economic Community (EEC), which gave the European Commission effective regulatory instruments to build, maintain, and enlarge a well-functioning common market based on the rule-based trading regime. The authorization of the Commission as a supranational executive body was of great significance to remove tariff and non-tariff barriers because of protectionist and interventionist trade policies of the EU members. In other words, member states delegated regulatory executive power to the Commission with the fundamental task of establishing a rule-based common market since the politics of societal and sectoral interest groups had

[58] Lodge, Martin. "Regulation, the Regulatory State and European Politics." WEST EUROPEAN POLITICS 31, no. 1–2 (January 1, 2008): 280–301. https://doi.org/10.1080/01402380701835074.
[59] Begg, Iain. "Introduction: Regulation in the European Union." Journal of European Public Policy 3, no. 4 (December 1996): 525–35. https://doi.org/10.1080/13501769608407051.

precluded the creation of common market with demands to protect import-competing sectors against free trade. The regulatory state of the EU is not only constituted on the primary EU Treaties as mentioned above. It can also be found in the secondary EU legislation and the practice of the Commission in managing the common market.

The EU institutions become a "template for the externalization of EU policies, rules, and modes of governance"[60] that facilitates the export of the EU *acquis communautaire* beyond the EU borders. The principle of external regulation is also observed in the EU's energy policy. "Policy paradigms, tools, and preferences that the EU institutions employ within the SEM borders inform the expectations from the EU as a liberal regulatory actor in the international arena".[61] The Commission as a liberal regulatory actor treats issues in energy markets as market failures and appeals to regulatory instruments at its disposal to refrain from imperfect competition, such as the elimination of cartels and monopolies in regional gas markets. The regulatory state of the Commission to address market imperfections is comprised of threefold policy toolkit.

First, competition law as the first supranational policy of the EU[62] is the most powerful policy tool at the disposal of the Commission. Competition policy deals with issues that are considered by the Commission as unfair practices jeopardizing market competition, such as the abuse of dominant position, national monopolies, corporate agreements restricting competition, free movement of goods and services, non-discrimination, and mergers & acquisitions. The Commission holds the power to fine firms for the breach of competition law. Hence, third-country enterprises come across serious challenges in case of non-

[60] Lavenex, Sandra, and Frank Schimmelfennig. "EU Rules beyond EU Borders: Theorizing External Governance in European Politics." JOURNAL OF EUROPEAN PUBLIC POLICY 16, no. 6 (January 1, 2009): 791–812. https://doi.org/10.1080/13501760903087696.
[61] Isgandarov, Ali. "Limits of the EU's Regulatory State in Energy Security." Term Paper for Topics in European Security course. Vienna: Central European University, Winter 2022, p. 3.
[62] Mcgowan, L, and Stephen Wilks. "The First Supranational Policy in the European-Union - Competition Policy." EUROPEAN JOURNAL OF POLITICAL RESEARCH 28, no. 2 (September 1, 1995): 141–69.

compliance with the competition law[63], a good example being the case of Microsoft's abuse of dominant position that resulted in big amounts of fines.

Second, the Commission is also entitled to propose new legislation alongside enforcing rules in the single market. According to the Single European Act, the Commission proposes legislation that is later jointly adopted by the European Parliament and Council. As the EU is a multi-institutional entity based on the principle of power sharing and democratic governance, it is not surprising that the Commission does not act as a single cohesive actor for the enactment of new legislation.

Third, the Commission represents the EU in external relations and trade negotiations. As a geoeconomic strategy, the Commission exercises its regulatory power beyond the Union borders in order to control geopolitical disturbances in the near abroad by exporting its policies. The Commission participates in trade negotiations on behalf of the EU member states with the aim to influence behavior of other parties in favor of the EU interests. It is noteworthy that the success of the Commission's external regulation is conditional upon the target countries' receptiveness and compliance with the EU model.

2.2. Regulating regional gas markets

In the gas sector, the European Commission applies its regulatory toolbox to establish a competitive regional gas market for the security of supplies at affordable prices. The EU intends to create "binding rule-based frameworks for establishing security in natural gas upstream investment, transit, and trade [. . .] and to design its own internal rules to limit the ability of third-country monopolies"[64]. The Commission's regime building for gas trade includes the extension of prevailing international trade regimes and World Trade Organization

[63] Cini, Michelle, and Lee McGowan. Competition Policy in the European Union. European Union Series. London: Macmillan, 1998.
[64] Goldthau, Andreas, and Nick Sitter. A Liberal Actor in a Realist World : The European Union Regulatory State and the Global Political Economy of Energy. First edition. Oxford University Press, 2015, p. 75.

rules to energy sector, as well as the enactment of novel rules on transit and investment adopted in Brussels and applied beyond the SEM. An exemplary circumstance is the Commission's proposal to establish energy interdependence via legally binding agreements with non-EU energy exporters[65] to integrate supplier entities into the common regulatory system. The integration of third-party suppliers strengthens the regulatory power of the EU by offering the Commission instruments to manage external geopolitical disturbances through internal legislative practices, which in turn invites external suppliers to respect the EU *acquis*[66]. The Commission encounters four broad challenges in its practice of regulatory governance to deal with market imperfections and infrastructure services in regional gas markets.

First, the Commission aims to increase transparency of information regarding supply-demand dynamics and pricing mechanisms in order to boost efficiency in gas trade. The Commission supports the disclosing of prices in bilateral agreements between suppliers and EU members either through directly accumulating and disseminating information or proposing directives that entail the sharing of market data. A vivid illustration is the 1990 directive on transparency in gas and electricity prices in utilities markets that makes it obligatory for external suppliers to convey information about price arrangements and sales to the Eurostat[67].

Second challenge the Commission frequently faces is the presence of firms with dominant market position in European gas markets. The Commission addresses the issue of both domestic and foreign enterprises' abuse of dominant market position by employing the

[65] European Commission. "Second Strategic Energy Review: an EU Energy Security and Solidarity Action Plan" COM (2008): 781, Brussels.
[66] Abbasov, Faig Galib. "EU's External Energy Governance: A Multidimensional Analysis of the Southern Gas Corridor." Energy Policy 65 (February 2014): 27–36. https://doi.org/10.1016/j.enpol.2013.10.007.
[67] Council Directive 90/377/EEC of 29 June 1990 concerning a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users, 185 OJ L § (1990). http://data.europa.eu/eli/dir/1990/377/oj/eng.

directives of 1998, 2003, and 2009 on gas market liberalization as part of the competition law. A widely known case for the monopolistic market position in European gas markets is the Russian state-owned company Gazprom. Applying the Article 11 of 2009 directive, the so-called 'Gazprom clause' in the EU's Third Energy Package, the Commission inspected the breach of compliance with the unbundling of the ownership of gas production from that of gas distribution. Subsequently, an antitrust investigation was commenced by the Commission against Gazprom, which epitomizes the successful imposition of the EU's regulatory power beyond the Union borders. Gazprom committed a breach of the EU competition law 1) by including destination clauses in its bilateral contracts precluding the re-export of natural gas (hindering free movement of goods), 2) by practicing unfair pricing system that eventually charged higher prices to Bulgaria, Poland, and the Baltic countries compared to other member states, and 3) by making the supply of gas conditional on investment in pipeline infrastructure[68]. As a consequence of the investigation, Gazprom (and the Russian government) acknowledged the regulatory state of the EU and followed the SEM rules on commercial operations in the European gas markets by adapting its business strategy in accordance with the EU market model.

Third, the Commission is committed to investing in infrastructure and diversification of pipelines. There are various policy tools at the disposal of the Commission to accomplish pipeline diversification so as to attain the supply security of public goods. The Commission is capable of providing exemptions from SEM rules for certain pipeline projects, as well as financially supporting the construction of new pipeline routes considered as strategic investment. A notable instance is the Southern Gas Corridor project, which is in-depth examined in the third chapter, aimed at diversifying pipelines from Russia and Ukraine by

[68] Siddi, Marco. "The Role of Power in EU-Russia Energy Relations: The Interplay between Markets and Geopolitics." Europe-Asia Studies 70, no. 10 (December 2018): 1552–71. https://doi.org/10.1080/09668136.2018.1536925.

connecting European energy markets to Azerbaijan as the supplier and Turkey and Georgia as transit countries.

Fourth challenge in regulating regional gas markets is the availability of external shocks. External shocks occur as a result of either sectoral developments such as decline in supply and/or demand, price disputes, and damages to pipelines, or exogenous forces such as wars, coups, sanctions, and blockades that disrupt demand-supply mechanisms. The Commission's strategy is to manage external shocks once they happen rather than to predict and prevent them from happening. An illustrative example is the adoption of the Security of Gas Supply Regulation requiring minimum 30 days of storage facilities from gas companies after the 2006 and 2009 crises because of tensions escalated between the main supplier and transit countries (Russia and Ukraine).

2.3. The EU as a foreign policy actor

The discussion around the reach of the regulatory state of the EU in regional gas markets raises the question of the effectiveness of the EU's regulatory approach to foreign policy. The EU has been considered as 'normative power' in foreign affairs by scholars of European studies in the literature[69], that the EU possesses soft power to diffuse norms in international relations. However, previous sections demonstrate that regulatory authority gives the European Commission leverage in implementing energy policy, specifically in regional gas markets. Ashton rightfully alleges that "the EU has soft power with a hard edge – more than the power to set a good example […] but less than the power to impose its

[69] Bickerton, Christopher J. European Union Foreign Policy : From Effectiveness to Functionality. Palgrave Studies in European Union Politics. Palgrave Macmillan, 2011; Bretherton, Charlotte, and John Vogler. The European Union as a Global Actor. London: Routledge, 2006; Whitman, Richard G. Normative Power Europe : Empirical and Theoretical Perspectives. Palgrave Studies in European Union Politics. New York: Palgrave Macmillan, 2011; Manners, I. "Normative Power Europe Reconsidered: Beyond the Crossroads." JOURNAL OF EUROPEAN PUBLIC POLICY 13, no. 2 (March 1, 2006): 182–99. https://doi.org/10.1080/13501760500451600; Sjursen, Helene. "The EU as a 'Normative' Power: How Can This Be?" Journal of European Public Policy 13, no. 2 (March 2006): 235–51. https://doi.org/10.1080/13501760500451667.

will"[70]. Attempting to convert this allegation into an ideal-typical conceptualization, Goldthau and Sitter distinguish the EU's regulatory approach to energy trade from that of classic conceptualizations of hard and soft power in IR[71]. Power that is not targeted at a particular audience is viewed as crude power of the agent. If this power is characterized by coercion, it is (passive) hard power. It is, otherwise, soft power if it is accumulated through attraction based on voluntary behavior. What gives soft power a hard edge is some degree of conditionality by the agent. "This represents a situation where attractiveness (e.g. of a market) is complemented by a targeted and conditional approach that governs access (e.g. regulatory governance)"[72]. The EU's foreign policy approach in regional gas markets is a typical example of conditional soft power. The Commission exercises (geo)economic power, targeted at third-party governments and firms, conditional upon compliance with the EU regulation in order to gain access to attractive and integrated European gas markets.

The comparative conceptualization of the EU's conditional soft power, or "soft power with a hard edge", is visualized below in the Table 2:

Table 2: Soft power with a hard edge[73]

	Coercion	Attraction
Targeted	Hard power (target: governments)	*Conditional soft power* (target: government & firms)
Non-targeted	Passive hard power (target: none)	Soft power (target: none)

[70] Ashton, Catherine. "A World Built on Cooperation, Sovereignty, Democracy and Stability." Speech at Corvinus University, Budapest, Hungary. European Commission - European Commission, February 25, 2011. https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_11_126.
[71] Goldthau, Andreas, and Nick Sitter. A Liberal Actor in a Realist World : The European Union Regulatory State and the Global Political Economy of Energy. First edition. Oxford University Press, 2015.
[72] Ibid., 115.
[73] Ibid., 114.

All in all, regulatory state of the EU as a geoeconomic instrument is exercised by the Commission to restructure the geopolitical landscape through economic means. This approach enables the EU to pursue its interests regarding energy security in a preferred environment in which the rules of the game are set by the EU itself, thereby subsequently eliminating the influence of external geopolitical disturbances. Indeed, the Southern Gas Corridor epitomizes the regulatory approach of the Commission vis-à-vis Russian-backed pipeline projects in the context of geoeconomics of energy trade, which is further examined in the next chapter.

Chapter 3: The Southern Gas Corridor in the EU's Energy Geoeconomics

This chapter serves as the empirical section of the thesis in which the analytical framework of geoeconomic strategies employed by the EU is applied to the case of the Southern Gas Corridor (SGC) as a mega energy diversification project. After introducing the SGC project and its multidimensional geoeconomic effects in the near abroad, the chapter continues with the juxtaposition of the SGC with Russian-sponsored former South Stream and current Turkish Stream pipelines as competing geoeconomic projects. Following in the chapter, extension of the regulatory state of the EU is analyzed as a geoeconomic instrument to influence the behavior of SGC partner countries and the limits of the Commission's geoeconomic power is evaluated.

3.1. SGC as a diversification project

The SGC project is an initiative of the European Commission to diversify gas supplies and transit routes to the South Eastern European energy markets. The project was proposed in 2008 in the Second Strategic Energy Review of the European Commission as one of six priority energy infrastructures:

"A southern gas corridor must be developed for the supply of gas from Caspian and Middle Eastern sources, which could potentially supply a significant part of the EU's future needs. This is one of the EU's highest energy security priorities."[74]

The corridor commences at the Shah Deniz-2 gas field in the Caspian Sea, which is owned by a consortium led by British Petroleum, and delivers Azerbaijani gas to Turkey via South Caucasus Pipeline and Trans Anatolian Pipeline, and Italy via Trans Adriatic Pipeline across Greece, Albania, and the Adriatic Sea. The total length of the corridor is approximately 3500 kilometers carrying 16 bcm gas a year, out of which 6 bcm is contracted to be sold to Turkey

[74] Commission of the European Communities. "Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan." Brussels: Commission of the European Communities, 2008. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008DC0781&from=EN.3.

and the remaining 10 bcm to the South Eastern European markets (Greece, Albania, and Italy). Accordingly, the SGC project consists of three primary pipeline routes, which are demonstrated in the Map 1 below:

Map 1: Pipeline segments of the Southern Gas Corridor[75]

First, the South Caucasus Pipeline (SCP) starts at the Sangachal Terminal in Baku as the primary processing station for natural gas extracted from the Shah Deniz offshore fields of the Caspian Sea basin. The SCP is commonly known as the Baku-Tbilisi-Erzurum gas pipeline, the length of which is 980 kilometers. Hence, the SCP was the already existing pipeline, unlike the other two of the SGC complex, constructed in 1990s to carry Azerbaijani gas to Georgia and Turkey. The SCP is the shortest pipeline in the SGC and constitutes 20% of the total length of the corridor[76].

[75] Gotev, Georgi. "Southern Gas Corridor on Time, BP Executive Says." www.euractiv.com, May 12, 2016. https://www.euractiv.com/section/energy/news/thurs-southern-gas-corridor-on-time-bp-executive-says/.
[76] Morrison, Lee. "Southern Gas Corridor: The Geopolitical and Geo-Economic Implications of an Energy Mega-Project." Journal of Energy & Development 43, no. 1/2 (2017): 251–91.

Second, the Trans Anatolian Pipeline (TANAP) connects to the SCP in Erzurum in the north eastern part of Turkey and brings gas to the Greek border in the west crossing the whole of Turkey. The length of the pipeline is 1850 kilometers comprising 54% of the SGC. The total cost of the TANAP project is roughly $7 billion[77], $3.2 billion of which is provided by international monetary institutions and the rest by shareholder companies such as the Azerbaijani state-owned oil company SOCAR and British Petroleum[78]. As mentioned above, 6 bcm of the exported gas in the SGC is contracted for sale to Turkey through TANAP.

Third, the Trans Adriatic Pipeline (TAP) as the final segment of the SGC comprises 26% of the total length of the corridor with 878 kilometers. The pipeline is connected to the TANAP at the Turkish-Greek border channeling gas across northern Greece and Albania,. Travelling across the Adriatic Sea, it delivers Caspian gas to the coastal region of Puglia in Italy[79]. With the total cost of $5 billion, the TAP is the greatest foreign direct investment in Albania[80], as well as the largest capital investment in the history of Greece[81]. The remaining 10 bcm of gas per year is transported by the TAP to the South Eastern European gas markets after 6 bcm being sold to Turkey. More specifically, 8 bcm is exported to Italy and 1 bcm each to Albania and Bulgaria while Greece serves solely the role of a transit country[82].

Overall, the SGC was proposed, supported, and implemented by the Commission for the mere ambition of "ensuring secure and affordable supplies of energy to Europeans by

[77] O'Byrne, David. "Azeri-Turkish TANAP Gas Pipeline Finished and Ready to Export," July 1, 2019. https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/070119-azeri-turkish-tanap-gas-pipeline-finished-and-ready-to-export.
[78] Asian Infrastructure Investment Bank. "Trans Anatolian Natural Gas Pipeline (TANAP) Project," 2016. https://www.aiib.org/en/projects/approved/2016/_download/trans-anatolian/document/tanap-project-document.pdf.
[79] Graux, Nicoletta. "TAP: an increasingly important opportunity for Italy and Europe." Caspian Barrel (blog). Accessed May 27, 2022. http://caspianbarrel.org/az/2015/03/28145/.
[80] Pwc. "Doing Business and Investing in Albania." Tirana: Pwc, 2017. https://www.pwc.com/al/en/publications/Doing-Business-in-Albania-Guide_2017.pdf.
[81] European Investment Bank. "The Southern Gas Corridor and the Trans Adriatic Pipeline (TAP)," February 6, 2018. https://www.eib.org/infocentre/press/news/topical_briefs/2018-february-01/southern-gas-corridor-trans-adriatic-pipeline-tap.htm.
[82] International - U.S. Energy Information Administration (EIA). "Azerbaijan: Overview," Washington, DC 2018. https://www.eia.gov/international/analysis/country/AZE.

diversifying supply routes that decrease the dependence of EU countries on a single supplier of natural gas and other energy resources"[83]. The most important factors, therefore, are the goal to decrease heavy dependence on Russian gas as the single supplier, and the escalation of hostilities between Russia and Ukraine. The latter triggers external shocks and directly disrupts supplies to European markets since most of the Russian gas exported to Europe travels through pipeline facilities in Ukraine as a conventional transit country[84].

Despite the ambitious approach of the Commission, there exist numerous economic and security challenges for the SGC. First of all, the actual contribution of the SGC project to the Commission's objective of energy diversification from the single supplier is questionable. Being operational since the end of 2020, the TAP provided around 2.7% of the EU's total gas imports in the third quarter of 2021[85]. However, the SGC considerably contributes to the diversification of gas supplies to the South-East European economies where Gazprom has dominated markets. Another economic challenge is estimated additional costs in order to construct further infrastructure for the eastward expansion of the corridor through Trans Caspian Pipeline to pump gas from Turkmenistan, which would question the economic competitiveness of the imported gas[86]. Additionally, an increase in gas exports from Turkmenistan to China may overwhelm the production capacity "leaving little gas for export to Europe"[87]. Another challenging aspect of the SGC is the partnership with authoritarian regimes in Azerbaijan and possibly Turkmenistan that jeopardizes the normative power of the EU. The Commission's insistence on the successful implementation

[83] European Commission. "Gas and Oil Supply Routes," 2018. https://ec.europa.eu/ energy/en/topics/imports-and-secure-supplies/gas-and-oil-supply-routes.
[84] Metelitsa, Alexander. "16% of Natural Gas Consumed in Europe Flows through Ukraine." U.S. Energy Information Administration (EIA), March 14, 2014. https://www.eia.gov/todayinenergy/detail.php?id=15411.
[85] European Commission. "Quarterly Report on European Gas Markets (Q3/2021)." Market Observatory for Energy DG Energy, Volume 14 (issue 3, covering third quarter of 2021), 2022. https://energy.ec.europa.eu/system/files/2022-01/Quarterly%20report%20on%20European%20gas%20markets%20Q3_2021_FINAL.pdf.
[86] Pirani, Simon. "Azerbaijan's Gas Supply Squeeze and the Consequences for the Southern Corridor." Oxford Institute for Energy Studies, October 31, 2017. https://doi.org/10.26889/9781784670627.
[87] Morrison, Lee. "Southern Gas Corridor: The Geopolitical and Geo-Economic Implications of an Energy Mega-Project." Journal of Energy & Development 43, no. 1/2 (2017): 251–91, p. 262.

of the SGC project in spite of all these challenges points to its strategy of securing beneficial geopolitical results using (geo)economic instruments, which is separately analyzed in the last section of this chapter.

3.2. Competing geoeconomic projects

In response to the Commission's diversification initiative of the SGC from Russian gas in the South-East European energy markets, Russia proposed implementation of firstly South Stream and later Turkish Stream pipeline projects in order not to lose the dominant market position of Gazprom in South Eastern Europe by competing with the SGC. It is strategically necessary for Russia to defend its position in the relevant markets because it is not viable for Gazprom to replace the European market as it is the largest importer of Russian gas. In addition, path dependencies stemming from geography and the existing pipeline infrastructure make the replacement of the EU market costly for Gazprom[88]. Furthermore, the Russian-sponsored projects are also expected to significantly decrease and eventually cancel Russian dependence on transit pipelines in Ukraine to carry gas to customers in Europe[89]. Taking into account the significance of Russian response to the EU's geoeconomic move exemplified by the Commission's support toward the SGC through regulatory and financial means, both South Stream and Turkish Stream pipelines vis-à-vis the SGC as competing geoeconomic projects are analyzed below.

3.2.1. SGC vs South Stream

The South Stream pipeline project was the Russian initiative to supply 63 bcm of Gazprom's gas per year to the Balkans across the Black Sea and eventually to Austria and

[88] Sharples, Jack D. "The Shifting Geopolitics of Russia's Natural Gas Exports and Their Impact on EU-Russia Gas Relations." Geopolitics 21, no. 4 (October 2016): 880–912. https://doi.org/10.1080/14650045.2016.1148690.

[89] Siddi, Marco. "The Scramble for Energy Supplies to South Eastern Europe: The EU's Southern Gas Corridor, Russia's Pipelines and Turkey's Role." In Turkey as an Energy Hub?, edited by Marc Oliver Bettzüge, Mirja Schröder, and Wolfgang Wessels, 49–66. Nomos Verlagsgesellschaft mbH & Co. KG, 2017. https://doi.org/10.5771/9783845282190-49.

Italy. The specifications regarding routes of the project, which was announced in 2007 and later abandoned in 2014, are visualized in the Map 2 below:

Map 2: South Stream pipeline routes[90]

The underlying rationale behind the South Stream pipeline project was to preserve the dominant position of Gazprom against its then geoeconomic competitor Nabucco pipeline project that was aimed at carrying 31 bcm gas a year from Iraq, Azerbaijan, Turkmenistan, and Egypt. However, after the decision of the Shah Deniz consortium to prefer the TANAP-TAP route (discussed above) over Nabucco, the project was aborted in 2013[91]. The cancellation of Nabucco project and its replacement with the SGC – a more modest pipeline project with half the capacity of Nabucco – gave Russia leverage in geoeconomic competition for safeguarding the dominance of Gazprom in South-East European markets. Moreover, implementation of the South Stream as a geoeconomic project would trigger centrifugal forces by strengthening Russian influence in South-East European countries and

[90] Gotev, Georgi. "Bulgaria, Commission, Lost in Translation over South Stream." www.euractiv.com, April 25, 2014. https://www.euractiv.com/section/energy/news/bulgaria-commission-lost-in-translation-over-south-stream/.

[91] "NABUCCO: Shah Deniz II Decision a Setback for Planned European Gas Highway," June 28, 2013. https://www.publics.bg/en/news/10185/NABUCCO_Shah_Deniz_II_Decision_a_Setback_for_Planned_European_Gas_Highway.html.

"weakening their allegiance to the EU"[92]. Likewise, the project would obstruct the realization of the competing SGC, a strategically prioritized geoeconomic project of the Commission, because of its considerably larger supplying capacity[93].

As a response to Russia's covert strategy of weakening the alliance between South Eastern Europe and the EU through underbalancing, the Commission appealed to its regulatory state as a geoeconomic tool with the goal of preventing Russia's geopolitical ambitions. The Commission challenged the implementation of the South Stream project by the statement that bilateral agreements signed between Russia and European partner countries for the construction of the South Stream pipeline were in breach with the EU competition law[94]. To be precise, the project was not in compliance with "the EU's Third Energy Package, which requires unbundling energy generation from energy transmission, as well as regulated third party access to pipeline capacity"[95]. In order to proceed with commercial operations within the single market, the bilateral agreements of the South Stream necessitated certain exemptions from the Commission found in the relevant directives and regulations from the Third Energy Package[96]. In practice, such required exemptions are highly politicized and selectively accommodated by the Commission as part of its geoeconomic regulatory toolkit. For instance, in accordance with the Regulation (EC) No. 715/2009 on conditions for access to transmission networks, "gas transport system operators must build gas interconnectors in accordance with the regulated third-party access

[92] Wigell, Mikael, and Antto Vihma. "Geopolitics versus Geoeconomics: The Case of Russia's Geostrategy and Its Effects on the EU." International Affairs 92, no. 3 (May 2016): 605–27, p. 617. https://doi.org/10.1111/1468-2346.12600.
[93] Chow, Edward C. "Russian Gas Stream or Dream?" Washington DC: Center for Strategic and International Studies, February 2, 2015. https://www.csis.org/analysis/russian-gas-stream-or-dream.
[94] www.euractiv.com. "South Stream Bilateral Deals Breach EU Law, Commission Says," December 4, 2013. https://www.euractiv.com/section/competition/news/south-stream-bilateral-deals-breach-eu-law-commission-says/.
[95] Siddi, Marco. "The Scramble for Energy Supplies to South Eastern Europe: The EU's Southern Gas Corridor, Russia's Pipelines and Turkey's Role." In Turkey as an Energy Hub?, edited by Marc Oliver Bettzüge, Mirja Schröder, and Wolfgang Wessels, 49–66. Nomos Verlagsgesellschaft mbH & Co. KG, 2017. https://doi.org/10.5771/9783845282190-49.
[96] Directive 2009/72/EC, Directive 2009/73/EC, Regulation (EC) No. 713/2009, Regulation (EC) No. 714/2009 and Regulation (EC) No. 715/2009

principle, requiring states to establish systems to ensure third-party access to gas and electricity transmission and distribution networks"[97]. The compliance with the EU legislation would have not only made the construction more costly, but also deprived the project of its potential to be used for geopolitical ends for Russia. Therefore, Russia aborted the South Stream project in 2014, i.e. the Commission's geoeconomic strategy with the application of its regulatory state succeeded in precluding Russian geopolitical intentions in the region and reviving the SGC as a diversification project. For this purpose, the Commission also threatened Serbia with repercussions its EU accession process would face if bilateral agreements did not comply with the EU legislation[98] and Bulgaria for assigning the construction without consulting competitive and transparent procedures[99]. In short, the Commission's exercise of conditional soft power with the EU regulatory state at its disposal indicates the success of its external energy policy approach in regional gas markets.

The response from Russia came with the announcement of the Turkish Stream pipeline (discussed below) as a replacement to the South Stream[100] to compete with the SGC for preserving Gazprom's interests in South Eastern Europe.

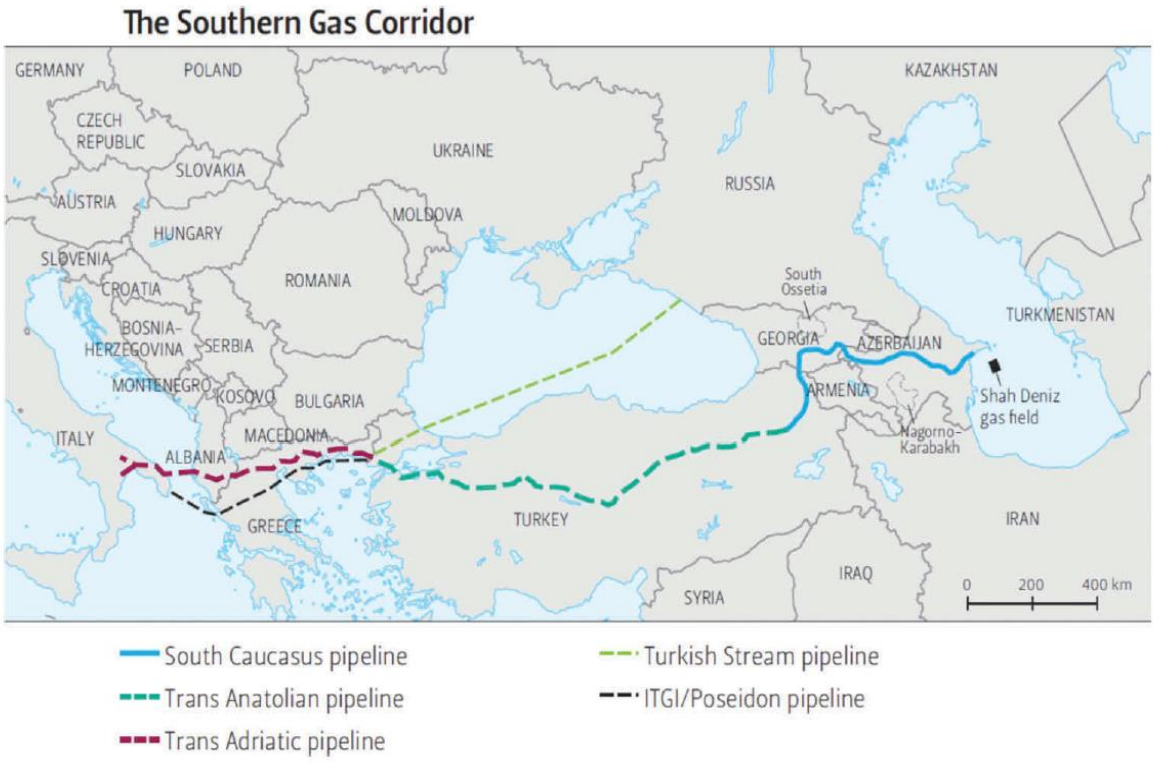
3.2.2. SGC vs Turkish Stream

The Turkish Stream pipeline project is the Russian response to the EU's projection of regulatory power that resulted in the failure of the South Stream. The Russian and Turkish governments signed an intergovernmental agreement in October 2016 for the construction of two parallel pipelines with the total length of 930 kilometers under the Black Sea each

[97] Vihma, Antto, and Umut Turksen. "The Geoeconomics of the South Stream Pipeline Project." Journal of International Affairs 69, no. 1 (October 1, 2015): 34–53, p. 43.
[98] Rettman, Andrew. "EU Puts Pressure on Serbia to Stop South Stream Gas Pipeline." EU Observer, October 7, 2014. https://euobserver.com/green-economy/125924.
[99] Sofia News Agency. "EU Commission Reiterates Calls on Bulgaria to Stop South Stream," June 3, 2014. https://www.novinite.com/articles/161040/EU+Commission+Reiterates+Calls+on+Bulgaria+to+Stop+South+Stream.
[100] Roth, Andrew. "In Diplomatic Defeat, Putin Diverts Pipeline to Turkey." The New York Times, December 1, 2014. https://www.nytimes.com/2014/12/02/world/europe/russian-gas-pipeline-turkey-south-stream.html.

delivering 15.75 bcm of Gazprom's gas a year to Turkey[101]. While one of the pipelines is for the transportation of gas to the Turkish market, the other one is planned to be extended to the Greek border in order to export gas to the South-East European markets. From the Turkish-Greek border where the Turkish Stream terminates, Gazprom relies on the ITGI/Poseidon pipeline for exporting gas to the South Eastern Europe. In this end, Gazprom concluded a memorandum of understanding with DEPA (Greek firm) and Edison (Italian firm) that are responsible for the ITGI/Poseidon pipeline project[102]. The visualization of the Turkish Stream initiative in the context of the SGC is provided in the Map 3 below:

Map 3: Turkish Stream pipeline in the context of the Southern Gas Corridor[103]



[101] For more technical details, see "TurkStream." https://www.turkstream.info/. Accessed May 30, 2022.
[102] Platts. "Gazprom Eyes New Route to Europe for Russian Gas via Black Sea," February 25, 2016. https://www.platts.com/latest-news/natural-gas/london/gazprom-eyes-new-route-to-europe-for-russian-26379221.
[103] Siddi, Marco. "The EU's Botched Geopolitical Approach to External Energy Policy: The Case of the Southern Gas Corridor." Geopolitics 24, no. 1 (January 2019): 124–44, p. 135. https://doi.org/10.1080/14650045.2017.1416606.

The Commission has given the ITGI/Poseidon pipeline the status of the Project of Common Interest[104] and an exemption from the requirement of third party access, as it did the same for the TAP. It is worth mentioning that the Commission's decisions regarding both the classification of the pipeline as a Project of Common Interest and the exemption from third party access occurred before Gazprom's proposal to utilize the pipeline for exports. Gazprom is also interested in using the TAP for gas exports to the South-East European markets – in case of the expansion of its capacity – once it becomes available for third party access[105]. Hence, reliance on the ITGI/Poseidon pipeline (and possibly TAP) relieves Russian state-owned company Gazprom of regulatory procedures to comply with in the EU territory.

In brief, in contrast to the South Stream pipeline, the Turkish Stream is intended to defend the market position of Gazprom by indirectly complying with the EU legislation, notably unbundling requirement of the Third Energy Package discussed in the previous section. Russia's reliance on pipelines not owned by Gazprom for the export of gas to the territory of the EU displays the adaptation of its strategy in accordance with the EU's regulatory framework. Although this adaptation could be viewed as the success of the Commission's regulatory geoeconomic strategy, Russia might counter the SGC project, which was initiated to diversify supplies from Russia in the first place, with the observance of the EU regulations and retain its market share in the South Eastern Europe. Compared to the South Stream project, however, the Turkish Stream is more modest in terms of its capacity to bring gas to the South-East European markets and could compete with the SGC without the threat of seizing dominant market position.

[104] European Commission. "Projects of Common Interest." Accessed May 31, 2022. https://energy.ec.europa.eu/topics/infrastructure/projects-common-interest_en.
[105] Basboga, Murat. "Turkey, Russia Sign Turkish Stream Deal," October 11, 2016. https://www.naturalgasworld.com/turkey-and-russia-signs-turkish-stream-deal-after-rapprochement-32069.

3.3. Extension of the EU's regulatory state to the SGC

As discussed in Chapter 2, the Commission as the representative of the EU in foreign energy policy is eager to promote a unified energy policy that goes beyond the Union borders through exporting the SEM rules on energy governance and competitive liberalized market principles to partner countries in the near abroad. The Energy Union proposed by the Commission in 2015 epitomizes its geoeconomic approach to external energy policy, especially the dimension of the proposal on establishing "a fully integrated internal energy market"[106]. In this sense, "completion of the internal energy market affects external players inasmuch as they have to comply with EU rules if they want to sell gas to or operate on the Single European Market"[107].

In the case of the SGC, the Commission's proposal to establish energy interdependence through legally binding agreements with non-EU energy exporters[108] intends to integrate the non-EU partner countries of the SGC project into the common regulatory framework in energy affairs. Consequently, the integration reinforces regulatory power of the EU by "the elimination of external disturbances through absorption of the players along the Southern Gas Corridor into a common institutionalized structure through which the EU can pursue its energy interests in a preferred setting, i.e. binding everyone to the rules of its own creation"[109]. The externalization of the regulatory state of the EU to the SGC actors is realized through both multilateral and bilateral institutionalization. In terms of multilateral institutionalization, the Treaty establishing Energy Community is the fundamental instrument for exporting the EU regulation and legislation on energy policy to

[106] Andersen, Svein S., Andreas Goldthau, and Nick Sitter. Energy Union : Europe's New Liberal Mercantilism? Macmillan Publishers Ltd. London, 2017.
[107] Ibid., 2.
[108] European Commission. "Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan," Brussels 2008. https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF.
[109] Abbasov, Faig Galib. "EU's External Energy Governance: A Multidimensional Analysis of the Southern Gas Corridor." Energy Policy 65 (February 2014): 27–36, p. 32. https://doi.org/10.1016/j.enpol.2013.10.007.

the non-EU contracting parties of the SGC while bilateral institutionalization occurs via bilateral arrangements.

On the multilateral level, Turkey – the main transit country of the SGC and a candidate for the EU membership – is intended to be transformed into an energy market hub as an observer country in the Energy Community. Once in the Energy Community, Turkey is required to adopt the liberalization rules of the Third Energy Package, most notably the unbundling of the gas supply, transmission, and distribution, as in the case of Gazprom discussed before. In addition, the requirement of the third party access to pipelines as public goods is to be followed. Turkey will not "be allowed to have dual pricing of energy by, for instance, raising the transmission price for exports and subsidizing down the domestic price. Inside the Energy Community, Turkey would have to charge the same cost-related fee to let gas traverse its territory as any state inside the EU with gas pipelines crossing it"[110]. Coming to the other non-EU transit countries of the SGC, Albania and Georgia are already members of the Energy Community, meaning that the EU's regulatory state on energy is automatically extended to these countries.

On the bilateral level, it is in the Commission's strategic interest to extend the EU *acquis* on energy to Azerbaijan as the supplier and potential transit country of the SGC. In this respect, the most crucial bilateral instrument is the "Twinning Project" with the main objective of approximating electricity and gas directives of the EU in Azerbaijan. Furthermore, the Eastern Partnership program is of great significance for the Commission since it provides conditionality for further cooperation between two parties to build competitive energy markets based on the SEM rules and regulations. In a word, bilateral arrangements and negotiations are pivotal for the Commission in exporting its regulatory

[110] Buchan, David. Energy and Climate Change : Europe at the Crossroads. Oxford University Press for the Oxford Institute for Energy Studies, 2009, p. 107.

framework on energy governance to Azerbaijan – most importantly the unbundling regulation and third party access provisions – because the country is not aspiring to join either the Energy Community or the EU in a foreseeable future.

A key takeaway is that in order to effectively exercise its conditional soft power toward the SGC actors and export its regulatory state, the Commission obviously needs certain conditions as 'carrots' to persuade these countries for the adoption of the EU's market model. While access to the integrated and profitable European gas markets is the primary 'carrot' for both Azerbaijan and Turkey, the EU membership as conditionality is merely applicable to Turkey. Additionally, the Commission's regulatory reach to Azerbaijan is questionable due to geopolitical distance of the country, as well as the unwillingness of the leadership to cooperate with the EU on other related issue areas. Countries of this kind tend to comply with the EU's liberal market model to the extent they benefit from cooperation.

3.4. The EU's geoeconomic approach toward the SGC

A broad analysis of the Commission-supported SGC project vis-à-vis Russian-sponsored South Stream and Turkish Stream pipelines and the attempts to extend the EU's liberalization agenda in energy markets to the countries along the SGC as part of the Commission's regulatory approach to foreign energy policy demonstrates that the Commission follows Luttwakian geoeconomics in the case of the SGC by using economic instruments to defend its strategic energy security interests and produce beneficial geopolitical results. Empirically, the EU's geoeconomic position toward the SGC is found in energy policy documents and speeches of the EU officials. The EU's Energy Security Strategy of 2014 advocates the promotion and protection of 'critical infrastructure' in the Caspian region through an 'active trade agenda':

"Beyond strengthening our relationship with existing suppliers, a EU policy goal should also

be to open the way for new sources. The establishment of the Southern Corridor and the identified projects of common interest is an important element in this respect, as it prepares the ground for supplies from the Caspian region and beyond. Pursuing an active trade agenda in this region is crucial to ensure market access but also for the development of critical infrastructure"[111]

Accordingly, the Energy Union Strategy of 2015 underscores the importance of the SGC in order to decrease 'existing dependencies on individual suppliers', subtly implying Russia:

"The Commission will work with Member States to develop access to alternative suppliers, including from the Southern Gas Corridor route, [. . .] in order to decrease existing dependencies on individual suppliers."[112]

Also, the document states the significance of establishing 'strategic energy partnerships' using 'all its foreign policy instruments':

"As part of a revitalised European energy and climate diplomacy, the EU will use all its foreign policy instruments to establish strategic energy partnerships with increasingly important producing and transit countries or regions such as Algeria and Turkey; Azerbaijan and Turkmenistan; the Middle East; Africa and other potential suppliers."[113]

Moreover, the speech given by the then High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the European Commission Federica Mogherini at the Southern Gas Corridor Advisory Council held in Baku in 2016 points to the EU's geoeconomic position in the SGC project:

"The SGC is more than energy diversification and EU energy security for us. It is also about enlarging and deepening political, economic and social ties with a number of partners in a wider region that can contribute to its implementation: Azerbaijan, Georgia, Turkey, Albania [. . .] With my interlocutors here in Baku, I look forward to discussing how to take forward

[111] "European Energy Security Strategy 2014." COM(2014) 330 Final. Brussels: European Commission, May 28, 2014, p. 16. https://doi.org/10.1163/2210-7975_HRD-4679-0058.
[112] "A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy." COM(2015) 80 Final. Brussels: European Commission, February 25, 2015, p. 19. https://eur-lex.europa.eu/resource.html?uri=cellar:1bd46c90-bdd4-11e4-bbe1-01aa75ed71a1.0001.03/DOC_1&format=PDF.
[113] Ibid., 6.

our relationship, not only in the field of energy [. . .] We need an all-round strategic partnership between us."[114]

The EU's underlying ambition in the case of the SGC is, therefore, strategic and geopolitical. As Youngs argues, "the EU is no less 'egotistically geopolitical' than any other international actor, but seeks to dress its geopolitics in the finer cloaks of rules-based discourse"[115]. Referring to the Weberian ideal-typical conceptualization of geoeconomics developed by Wigell and Vihma[116], the Commission has pursued a covert geoeconomic strategy through economic and regulatory foreign policy instruments. Instead of explicitly confronting Russia as the single supplier, the Commission attempted to weaken Russia's resolve by more subtle operation of selective accommodation, alias 'reward wedging'[117]. In this regard, unlike the Russian-backed pipelines, the Commission granted the TAP a third party access exemption[118] and provided financial support via European financial institutions[119], in addition to classifying the TAP as a project of common interest. Indeed, Franza and Van Der Linde specifically highlight this example of selective accommodation as one of the 'concealed EU foreign energy policy instruments':

"One way in which the EU has levered on regulation for foreign energy policy ends is by selectively granting Third Party Access (TPA) exemptions to pipeline projects. It is not a coincidence that full TPA exemption has been granted to the Trans Adriatic Pipeline from Azerbaijan to Italy, a piece of infrastructure that is widely perceived in Brussels as helping Europe's supply diversification goals. To the contrary, Russia is still unable to use Nord Stream at full capacity due to the lack of a full TPA exemption [. . .] This triggered Russia not

[114] "Remarks by the High Representative/Vice-President Federica Mogherini at the Southern Gas Corridor Advisory Council | EEAS Website," February 29, 2016. https://www.eeas.europa.eu/node/5333_en.
[115] Youngs, Richard. "'Europe's External Energy Policy: Between Geopolitics and the Market.' CEPS Working Document No. 278, November 2007," 2007.
[116] See Table 1 on page 12.
[117] Izumikawa, Yasuhiro. "To Coerce or Reward? Theorizing Wedge Strategies in Alliance Politics." Security Studies 22, no. 3 (July 2013): 498–531. https://doi.org/10.1080/09636412.2013.816121.
[118] "COMMISSION DECISION of 16.5.2013 on the Exemption of the Trans Adriatic Pipeline from the Requirements on Third Party Access, Tariff Regulation and Ownership Unbundling Laid down in Articles 9, 32, 41(6), 41(8) and 41(10) of Directive 2009/73/EC." Brussels: European Commission, May 16, 2013. https://ec.europa.eu/energy/sites/ener/files/documents/2013_tap_decision_en.pdf.
[119] European Investment Bank. "TRANS ADRIATIC PIPELINE," August 13, 2015. https://www.eib.org/en/projects/pipelines/all/20140596.

to apply for a similar exemption for South Stream and was one of the drivers behind the latter project's cancellation in December 2014."[120]

Furthermore, the Commission's endeavor to extend the EU *acquis* to the SGC contracting countries through both multilateral (Energy Community Treaty) and bilateral initiatives (discussed in the previous section) supports Wigell's argument[121] that the EU pursues liberal geoeconomic strategy for establishing hegemony in the near abroad so as to create favorable environment within its geopolitical landscape. Accordingly, the Commission's strategy of regional leadership based on the liberalization agenda has also influenced Russian state company Gazprom to adapt its business strategy in accordance with the SEM rules in the case of the Turkish Stream after the cancellation of the South Stream. The Commission's hegemonic geoeconomic strategy is motivated by its security of supply concerns as "the EU attempts to change the balance of power in energy security asymmetrically in favor of the consumer countries and give them structural advantage in dealing with the producer countries"[122].

It is noteworthy, however, that the Commission's conditional soft power, as an 'influence attempt' in Baldwin's terms, is more effective against companies rather than governments, exemplified by the alteration of business strategy of Gazprom. The projection of SEM rules in gas sector in the near abroad is dependent upon the receptiveness of the foreign government toward the EU market model. As discussed earlier, Albania, Georgia, and Turkey are more willing to adopt the regulatory framework of the EU compared to Azerbaijan because of its unwillingness to join the EU and geopolitical distance.

[120] Franza, Luca and Coby Van Der Linde. Geopolitics and the Foreign Policy Dimension of EU Energy Security, in Andersen, Svein S., Andreas Goldthau, and Nick Sitter. Energy Union : Europe's New Liberal Mercantilism? Macmillan Publishers Ltd. London, 2017, p. 91.
[121] See the section on liberal geoeconomics on page 14.
[122] Abbasov, Faig Galib. "EU's External Energy Governance: A Multidimensional Analysis of the Southern Gas Corridor." Energy Policy 65 (February 2014): 27–36, p. 33. https://doi.org/10.1016/j.enpol.2013.10.007.

Conclusion

The primary goal of this thesis was to explore the EU's resort to geoeconomics in energy trade by the strategic use of its economic might and regulatory state in the case of the Southern Gas Corridor vis-à-vis the dependency on Russian gas as the single supplier. After the review of literature on geoeconomics as the theoretical framework and its juxtaposition with similar concepts, namely economic statecraft, geopolitics, and mercantilism, as well as the provision of the necessary background context on the EU's regulatory state in regional gas markets as a geoeconomic instrument for the projection of conditional soft power in the near abroad, the EU's geoeconomic approach has been unfolded with the case study of the SGC as the Commission's strategically-oriented diversification project.

The argument raised throughout the thesis is twofold. Firstly, it has been alleged that the Commission as a covert geoeconomic strategy selectively accommodated the TAP – a pipeline segment of the SGC in the EU territory – by providing both exemptions from SEM rules and financial support for its construction in contrast to the Russian-sponsored pipeline projects targeting the same energy markets in South Eastern Europe. Secondly, it has been asserted that the Commission as a hegemonic geoeconomic strategy has attempted to extend the EU market model and liberalization agenda on energy to the SGC partner countries in order to achieve regional leadership and create favorable environment within its geopolitical landscape. Overall, the Commission's use of (geo)economic instruments for producing beneficial geopolitical results is motivated by the security of supply concerns as a primary gas importer without indigenous energy resources. The robust set of regulatory toolkit and the large integrated European market facilitate the Commission's strategic ambitions to ensure energy security in the EU. In this sense, this study is of great significance considering the recent geopolitical shift of the Commission under the von der Leyen administration. The

research also contributes to the debate on the EU's actorness in foreign affairs through evaluation of the Commission's geoeconomic practice as equivalent to economic statecraft in foreign policy analysis literature.

As every research project, this study also has its limitations. First, the focus of the research is on natural gas trade and the EU's role in managing regional gas markets. In contrast to regional gas trade, the geoeconomic strategy of the Commission might not be equally effective in international oil markets and climate policy. Therefore, further research could expand the application of geoeconomic strategies of the EU in other fields of policy not restricted to energy trade but also environment, social policy or others. Second, the research has taken the EU as a whole without looking at the behavior of member states, thereby concentrating on the Commission's course of action as an executive body of the EU in external energy policy. Further scholarly work could unpack the variation of behavior among member states in the context of the Commission's geoeconomic strategies in gas trade. This is intriguing because while some members (e.g. Poland, the Baltics) support the Commission's strategy, some counter it (e.g. Hungary, Germany). Third, the study has avoided exhaustive technical information on pipeline projects, such as ownership, financing, pricing, costs, etc., because of both space considerations and irrelevance of some technical information for the main argument of the thesis, even though detailed technical information could be accessed through respective sources provided in the footnotes.

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