



Power in the Global Economy: States versus Firms?

An analysis of Eurasian pipeline projects

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Abstract

This thesis aims to explore the political dynamics between governments and multinational corporations in the case of transnational pipeline projects. Two cases are compared: the successful Baku-Tbilisi-Ceyhan (BTC) pipeline running from Azerbaijan via Georgia to Turkey, and the conflictuous pipelines between Russia and Ukraine. The oil flow through the BTC pipeline has been uninterrupted since its inception, while the gas flow through the Russian pipelines was halted on several occasions. By looking for the reasons behind the success and the failure in the two cases it becomes possible to see how these projects of cooperation are set up and whether governments or companies are chief responsible for their creation and continuation. In the field of international relations this topic has received relatively little attention so far, particularly by state-centric perspectives that consider the economic realm 'low politics'. The energy sector was chosen specifically because it includes some of the world's largest corporations, which have been rather secluded from analysis by political scientists. This thesis applies and thus tests two theories in a paired comparison case study of transnational pipeline projects. Neoliberalism follows a more state-centric approach on the basis of which cooperation in the form of transnational projects is considered dependent on the governmental relation between states, which in turn is based on interdependency, hegemony and iteration. The business oriented global value chain theory (GVC) postulates in contrast that lead firms are able by issuing credible commitments to initiate and sustain cooperation. As will be shown, the GVC theory is better able to explain the difference in outcome. The presence of a dominating lead firm proved to be a decisive factor, yet its ability to extend credible commitments was only of minor importance. The variables put forward by neoliberalism did not have much explanatory value. Overall, the research shows how companies have become one of the defining features of the modern global economy.

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Chapter 1 – Introduction

Pipelines, transporting oil and gas, are essential for providing the world with energy. They connect producers with consumers and provide a much faster way of transportation than via trucks or ships. Globally there is around 3.5 million km of pipeline, spread over 120 different countries (CIA, 2013). The majority of the resource transportation, however, only goes through a handful of large-scale pipelines. Two of the largest pipelines in the world are the Baku-Tbilisi-Ceyhan (BTC) pipeline and the Urengoy-Pomary-Uzhgorod (UPU, also called ‘Bratstvo’ or in English ‘Brotherhood’) pipeline. The BTC pipeline transports oil and gas condensate from the Azerbaijan section of the Caspian Sea via Georgia to the Turkish port Ceyhan in the Mediterranean. The former Soviet UPU pipeline connects the Urengoi gas field in Russian Siberia with Ukraine, after which the gas is further spread among Western consumer countries. The transport through the Bratsvo pipeline is supplemented by Central Asian resources coming from the Russian ‘Soyuz’ (which translates to ‘Union’) pipeline.

The governance structures of such transnational pipeline projects are largely comparable. The governments involved in the pipeline sign an intergovernmental agreement, which describes the broad outlines of how the cooperation between them will look like. The intergovernmental agreement further ratifies the political approval for the pipeline and creates a first general regulatory framework. The pipeline’s construction and operation is conducted through the cooperation of multiple (state)companies. They sign a more extensive corporate agreement, in which they specify the technical standards and procedures, price mechanisms and the management system. The same regulatory structure can be found in both the BTC and the UPU pipeline.

The cooperation in the two pipeline projects, between governments as well as companies, started around the same time. The fall of the Soviet Union provided the opportunity for constructing the BTC pipeline and it necessitated the cooperation between Russian and Ukrainian parties. Yet while the BTC pipeline turned out to be a success, the pipelines connecting Russia with Ukraine formed the cause of many conflicts. The BTC pipeline was celebrated in 2006 as the ‘first great engineering project of the 21st century’ by the CEO of BP and became known as ‘the pipe of gold’, due to the large revenues it generated (Sovacool & Cooper, 2013, p. 112). The fact that the oil flow was uninterrupted throughout the researched period shows the success of the cooperation in the BTC pipeline.

The gas flow in the Bratsvo and Soyuz lines, on the other hand, was interrupted on several occasions. A complete cut-off in 2009 of the gas transportation through the pipelines resulted in a humanitarian crisis in the Balkan countries, which were completely dependent on the resources coming from the Bratsvo pipeline. This thesis aims to examine the reasons behind these different outcomes in the two cases and will therefore focus on the following research question: what explains the success of the cooperation the BTC pipeline and the failure of the cooperation in the Bratsvo and Soyuz pipelines?

The involvement of both governments and companies in pipeline projects feeds into a

discussion that was started by Susan Strange twenty-five years ago. Strange called upon the field of international relations ‘to put the study of international business at the centre, together with states, instead of at the periphery’ (Strange, 1991, p. 245). Research into the political influence of companies and their role in the governance of the global political economy has come a long way since then, particularly with the growth of the field of international political economy. Yet the study of corporate power is still far away from being centre-staged at contemporary international relations (IR) research. The studies that do include companies in their analysis have, surprisingly, largely ignored some of the world’s largest corporations. The top ten of the 2014 Forbes 500 list included six multinational oil and gas corporations (Forbes, 2014), but they have received only scant attention so far.

The theorisation of corporate power has primarily been secluded to subfields of IR such as international political economy, globalisation studies and environmental politics. Strange’s later plea towards Krasner that ‘the world has changed’ (1994, p. 209) largely fell on deaf ears, as even till this day the state continues to be the basic unit of analysis in many of the current IR studies. Whether taking the state as core actor still provides the best format to view and describe the modern world is debatable.

The 21st century has been characterised by the rising intensity of globalisation, understood as the growing integration of economies and societies around the world (World Bank, 2001). Quick technological advances in communications and transportation technology made it increasingly easier to move people, products, culture and knowledge around the world. It facilitated a process of worldwide cooperation and resulted in ‘a massive expansion of global trade over the past 200 years’ (WTO, 2013, p. 46). Especially the last thirty years have shown spectacular growth in international trade flows (ibid., p. 55).

Transnational corporations (TNCs) stood at the basis of these developments by connecting previously separate areas through the organisation of their global commodity chains. These chains have now become truly global. American retailer Wal-Mart for example relies on more than 100,000 suppliers throughout its commodity chain, to serve its 200 million customers in over 27 countries (Wal-Mart, 2013). In line with this development some scholars have stressed ‘to bring the firm back’ in IR research (Eden L. , 1991, p. 197). Yet other actors beyond the state have received more attention (Dauvergne & Lister, 2010, p. 146; Fuchs, 2005, p. 771). The study of transnational activist networks, NGOs and IGOs is now less on the periphery of IR theory than TNCs. (see for example Avant, Finnemore, & Sell, 2010; Bostrom & Hallstrom, 2010; Blyth, 2008; Kamat, 2004)

Recent IR studies focusing on companies mostly looked at ‘big box’ retailers as Wal-Mart or IKEA (Humphrey & Schmitz, 2002), probably because they employ more traditional value chains. Other research has analysed developments in the coffee market (Petkova, 2006), industries as forestry (Dauvergne & Lister, 2010) and agrifood (Clapp & Fuchs, 2009), as well as a range of other sectors (Gereffi et al., 2005). Among the relatively few IR studies that analyse corporate power the energy sector only takes a minor position. The study of the energy sector is for some reason restricted to

predominantly economists, engineers and energy specialists. A meta research conducted by Sovacool (2014) shows that studies published by authors with a background in political science only make up 1.9 per cent of the academic work regarding energy. Predictably, as a result the literature on energy mainly consists of either highly technical policy recommendations or specialised market research (such as Le Coq & Paltseva, 2012; Finon & Locatelli, 2007; Laurila, 2003; Umbach, 2010).

The political scientists who write about energy often base their analysis on strongly realist notions of international relations. Realism takes the state as the central actor, which acts unitary, rational and solely pursues self-interested goals. Oil and gas supplies then become mainly strategic tools used for non-commercial foreign policy aims (Klare, 2002; Christie et al., 2010; Shaffer, 2013). It also resembles the way how many others outside of the academic world look at energy. German foreign minister Steinmeier for example warned that ‘energy must not become the currency of power in international relations’ (Schaffer, 2009, p. 3). Realism, however, is inadequate to describe many of the current events in global energy. It is not well suited to explain the growing role of TNCs nor the many situations of cooperation that occur.

Pipelines transporting oil and gas are, following realism, often regarded as ‘steel umbilical cords of dependence’ between countries (Anceschi, 2009, p. 85). Yet in fact they strongly rely on cooperation between governments and between companies for their design, construction and operation. There is thus a high need in the field of IR for studies that are able to incorporate companies as well as governments in their analysis and thereby specifically focus on the energy sector. Furthermore, in global energy there is a growing need for international transportation, and hence cooperation, through pipelines. Concentrating on these projects is therefore also interesting from a societal viewpoint, since over the coming decades numerous new pipeline projects will have to be initiated to satisfy the ongoing global growth in energy consumption (Correlje & Van der Linde, 2006).

Other theories besides realism are more adequate to analyse cases of cooperation and the behaviour of companies. Neoliberalism offers a more sophisticated perspective in the state-centric approach with attention for non-state actors. Cooperation in transnational economic projects is in essence explained in neoliberalism by three elements. Firstly, by rising interconnectedness between states through growing interdependence. Secondly, by the efforts of a state hegemon, who provides security and stability. And thirdly, by repeated contact between governments as in the long run cooperation becomes rewarding. Companies add through cross-border trade to the level of interdependence but in general follow the directions laid out by states, according to neoliberalism.

The business-oriented global value chain (GVC) theory builds on Strange’s analysis and takes companies as the main actors. Essential to GVC theory is the governance of the value chains set up by TNCs. Depending on the degree of explicit coordination within the chain the governance can take different forms. The coordination is in the hands of the ‘lead firm’, which initiates and sustains economic cooperation. Their power to do so is in the energy sector influenced by their ability to

extend credible commitments to other companies. Credible commitments are based on the lead firm's financial investment in the pipeline and potential profits, and a clear regulatory framework. GVC theory reverses the role of governments and states in contrast that they will follow corporate initiatives.

Researching the cases based on the two theories allows for conducting a paired comparison case study. In comparing these to some extent similar pipeline projects it becomes easier to isolate the variables responsible for the difference in outcome, leading to more sound conclusions regarding the two positions. By using process tracing the factors connecting the independent variables, as hypothesised by the theories, with the dependent variable can be thoroughly examined. The research in this thesis relies for a large part on the work of Baran (2002), Babali (2005), Chow and Hendrikx (2010), Sovacool (2012) and Sovacool and Cooper (2013) in the BTC case. And for the Bratsvo and Soyuz case on Larrabee (2007; 2010), Abdelal (2013), Stern (2006) and Pirani et al. (2009).

The analysis conducted in this thesis suggests that the variables as posed by neoliberalism are largely unable to explain the different outcome of the two cases. GVC theory is better able in explaining economic cooperation and especially the existence of a lead firm proves to be a determining factor. The (in)ability to extend credible commitments did not have a strong impact on the cooperation. Rather, the investments and profits, as well as the regulatory framework, form independent factors of their own, motivating companies to either engage in cooperation or defect. Overall, it shows that companies do have an important role in transnational economic cooperation.

In the next chapter the explanatory theories and their causal models are further discussed. Issues regarding epistemology and the chosen methodology are clarified in chapter 3, which also includes an operationalization of the main concepts and hypotheses. In chapter 4 the BTC pipeline case will be analysed in order to test the hypotheses postulated by neoliberalism and GVC theory. Chapter 5 will take a similar format as chapter 4 and analyse the case of the Bratsvo and Soyuz pipelines. A conclusion will summarise the main findings and lay out further paths for scientific research.

Chapter 2 – Theoretical framework

This chapter will firstly explain the main points of neorealism and show how the contemporary literature on energy is predominantly based on realist reasoning. The realist paradigm is subsequently discussed and criticised for being unable to explain cooperation and for its inability to take the role of non-state actors into account. The third and fourth sections outline how neoliberalism and global value chain theory might possibly remedy realism's shortcomings. Several hypotheses will be derived from these theories and later put to test in the empirical analyses.

2.1 Neorealism

The realist paradigm has often been described as the dominant worldview in the study of International Relations, and has been implicated in every major IR debate in the last 50 years (Elman, 2007, p. 11; Forde, 1995, p. 140). Realism stems from an extensive intellectual tradition and can be traced back to early thinkers as Thucydides, Machiavelli and Hobbes (Waltz, 2002, p. 198). Realists have retained a largely pessimistic outlook on the world. The original classical realists such as Morgenthau claim that conflicts in international politics stem from the search for power that is embedded in the human nature (Morgenthau, 1978, pp. 4-15). Classical realism has been surpassed by the more modern neorealists, who propose that IR should aim for making general statements on the basis of a hypothetico-deductive model of research (and thereby resemble the natural sciences) (Mearsheimer, 2007, pp. 73-74).

Hobbes already explained how the absence of overriding authority forced individuals in constant conflict with each other, leading their lives to be 'solitary, poor, nasty, brutish and short' (Hobbes, 1962, p. 100). States, the main actors in world politics, operate in an anarchic system (Walt, 2002). There is no authority above states capable of regulating their behaviour in international politics, which leads to an absence of any guarantee that a state will not be 'invaded, overrun, conquered and pillaged' (Kirschner, 2009, p. 36). Each state possesses some military capability, which forms the basis for ensuring a state's security, or which serves to inflict harm on another state (Mearsheimer, 2007, p. 79). States can never be certain of the intentions of other states and will always be alert to the ever-present possibility of war (Elman, 2007, p.12).

States are ruled by fear from each other. As Mearsheimer (2007, p. 80) puts it: 'The level of fear between states varies from case to case, but it can never be reduced to an inconsequential level. The stakes are simply too great to allow that to happen'. States therefore have to rely on themselves to ensure their survival, since other states are potential threats. The main goal of states is survival (ibid.). Although states can pursue other goals like prosperity, those aims must always take a back seat to survival. It is the survival of the state that enables the pursuit of those other goals (ibid.). In realism it is assumed that states behave rationally, and thus can order their preferences and come up with strategies that maximise their prospects for survival (Dougherty & Pfaltzgraff, 2001, p. 74).

Neorealism leaves very little room for international cooperation. Even though states will always put their own interests ahead, in their dealing with adversaries, however, they can form alliances with other states (Waltz, 1979). The extent to which states can engage with each other to form alliances is a subject of disagreement among the realists, notably among offensive and defensive realists. The strand of offensive realism claims that these options are extremely limited (Mearsheimer, 2001; 2007). Forming coalitions 'provides opportunities for a clever aggressor to take advantage of other states' (Mearsheimer, 2007, p. 83). In war, the attacker enjoys considerable strategic advantages over the defender (ibid.). States are therefore constantly looking for opportunities to gain advantage of each other. To secure their survival, states need to build up a safety margin of as much power as possible, preferably leading to hegemony (Mearsheimer, 2001).

Defensive realists, in contrast, allow for more opportunities to cooperate. According to defensive realism, states strive for an 'appropriate amount of power' (Waltz, 1979, p. 40). It is expected that the unequal distribution of power in the international system will cause states to cooperate in order to 'balance' a threat posed by a more powerful state, by which they create a world constellation characterised by a 'balance of power' (Toft, 2005, pp. 381-383; Waltz, 2000, p. 201). During conflicts, the defence receives all primacy, and therefore states will tend to focus on maintaining their position in the balance of power rather than being offensive (ibid.).

Energy and neorealism

The contemporary research on energy politics commonly follows this style of neorealist reasoning. Many of the scholars in the field of energy studies are even in situations of cooperation predominantly focused on states' relative power positions and geopolitical conflicts. Generally written by economists, business scholars and industry experts, this research is not outspokenly realist or explicitly theory-driven. Nonetheless it is often implicitly guided by 'strongly realist assumptions' (Sander, 2013, p. 451).

Scholars such as Humphreys (2005) follow offensive realist assumptions to explain connections between international conflict and natural resources. Humphreys explains how states engage in conflicts because of a 'greedy resource mechanism' (Humphreys, 2005, p. 511). States aggressively seek to expand their power, as stated by offensive realism, and natural resources are an essential aspect of that power. Small states with abundant natural resources are therefore much more likely to be attacked by great powers than states with fewer resources (ibid.). The presence of natural resources further restricts the already constrained options for collaboration (Baldwin, 1979, p. 177).

The link between scarce natural resources and states' power considerations is made often in the energy literature (see Correlje & Van der Linde, 2006; Shaffer, 2009, pp. 27-30; Sovacool, 2012). Christie et al. (2010, p. 66), for example, clearly emphasize that 'energy security is national security'. Oil is a strategic commodity 'indispensable for core functions of modern economic systems and national defence' (ibid.). In order to retain their security, states must strive for access to scarce energy

supplies in a highly competitive world energy market (Baghat, 2006; Balmaceda, 2008, p. 20; Sovacool et al., 2011). It is argued that within the global competition for scarce natural resources states can strategically use their supplies as a 'weapon' to advance their national interest (Shaffer, 2013, p. 115).

A further, common argument from this perspective is that states resort to 'resource nationalism' (Klare, 2002, p. 34). This means that the states which have access to abundant natural resources can use this advantage to protect domestic consumer markets, limit the abilities of foreign or private enterprises, create competitive national advantages in delivery or empower certain state-owned firms as national champions (ibid., pp. 40-43). Since energy demand is expected to continue to rise for the foreseeable future, and with an increasingly overloaded energy infrastructure network, scholars such as Klare (2002), but also Shaffer (2009, p. 30) and Cao & Bluth (2013, p. 382) claim that this may eventually result in resource wars when animosity between states becomes grow as shortages mount. With the emergence of pipelines as a medium to deliver both oil and especially gas (which is harder to transport by ships), states are argued to further exploit the dependency of other states for commercial purposes (Bilgin, 2008). As a common denominator, these authors almost exclusively emphasise the highly conflictual and competitive nature of energy politics, while there is also cooperation.

Even pipeline projects, which require governmental cooperation to some extent, is in the literature described using neorealist terms. Cobanli (2013) and Omonbude (2007) for example use game theory to depict the behaviour of governments in cross-border pipeline projects, and Menegaki (2010) employs economic bargaining principles to investigate the viability of a pipeline connecting Greece, Turkey and Bulgaria. The research of Cobanli (2013), Omonbude (2007) and Menegaki (2010) suggests cooperation between states will arise only when they are unable to use resources and infrastructure for short-term strategic gains, and there is an interest in trade. In this research states are typically viewed as unitary actors solely focused on their relative power positions.

The neorealist assumptions, however, do not provide a proper basis for analysing the energy sector in general and transnational pipeline projects in particular. The search for scarce natural resources by states may not only incite conflicts but may also induce cooperation. Conflict-focused realism has difficulties explaining shared state efforts in extracting energy supplies. Pipeline projects especially can be prime examples of cooperation in the energy sector. States through which the pipeline will run usually establish a general regulatory framework through an intergovernmental agreement. Such an agreement gives political approval for the construction of the pipeline and sketches the broad outlines of how the cooperation will take shape.

Even defensive realism deems the opportunities for cooperation limited. Rising interdependency decreases autonomy and creates vulnerabilities, leading to more rather than less conflict (Dougherty & Pfaltzgraff, 2001, p. 76). States will always cast a 'judicious eye' on international economic relations and will constantly be concerned about the consequences of those

interactions for its national security (Kirschner, 2009, pp. 36, 39). Mutually beneficial transactions might leave the state less secure and it will cause a state 'to make departures from those policies that maximise wealth and short-term economic growth in the name of national security' (ibid.). There is a constant risk that another state will obtain more relative gains from cooperating, which may have an effect on their relative power position. States cannot accept a possible decline in power in an anarchic system, as this may lead to their destruction (Grieco, 1993, pp. 302-303). An agreement can quickly be broken by another state if this is in their interest. This constant uncertainty, so neorealism predicts, severely restrains the possibilities for long-term international cooperation, as is required in pipeline projects.

Neorealism is therefore unable to thoroughly explain successful transnational cooperation pertaining to pipelines. In successful projects, a pipeline is constructed and operated without much conflict rising between the involved parties, ultimately leading to a constant and uninterrupted flow of natural resources from the moment it becomes operational. Unsuccessful projects will be characterised by interruptions, in which the stream through the pipeline is reduced or completely cut off. With its much stronger focus on conflict rather than cooperation neorealism might be able to explain such unsuccessful cases, but, as shown above, neorealism forms a less suitable starting point for analysing cases with successful cooperation. Most of the researchers in the energy sphere aim to explain successful cases, as they hope to find and analyse the underlying factors that caused the success (Sovacool & Van de Graaf, 2014, p. 17). This seems to some extent justified, as still a majority of the (pipeline) projects in energy are deemed largely successful (Sovacool, 2014).

Yet only investigating the successes may lead to 'a false narrative about 'winners' that blind energy analysts to the multifarious ways that energy projects can fail' (Sovacool & Van de Graaf, 2014, p. 17-18). In understanding the workings of energy projects scrutinising the reasons behind failure are just as important as the reasons behind success. Hence, to be able to fully analyse developments in global energy and specifically with regard to pipelines, it is important a theory is able to explain cases of both success and failure. Neorealism is less able to do this.

Another problem in using neorealism to explain outcomes in energy projects comes from the theory's narrow ontological focus. With its sole concentration on state actors, neorealism is unable to include non-state actors in its analysis. TNCs take up an important role in the energy sector and together with governments structure the way it is organised. Pipeline projects offer a clear example of the necessary involvement of companies. The technical know-how and the involvement of multiple energy companies are required for the extraction of resources, as well as for its refinement and transportation through pipelines. In order to do so the companies make a corporate agreement, which regulates their cooperation on a detailed level. Realism only theorises the behaviour of states. The anarchic structure in which states act imposes similar incentives on states to strive for power, regardless of non-state actors within or outside the state. To what extent companies are of importance and whether they also form a political force is part of the discussion, but to be able to judge their role

it is essential to at least discuss it in the analysis. Neorealism excludes corporations from the outset and starts by assuming they are not involved.

Both cooperation between governments and the involvement of energy companies form a basic component of transnational pipelines. Neorealism's dominant focus on conflict and its inability to include non-state actors make it less suitable for researching the success and failure of pipeline projects. Other theories are better able to explain cases of cooperation and can include non-state actors in their analysis. A first theoretical improvement for this study is offered by neoliberalism, which adopts some of the realist assumptions but is still able to explain how cooperation between states might arise and it can account to some extent for the role of non-state actors.

2.2 Neoliberalism

Neoliberalism emerged out of scholarly attempts from around the 1980s to challenge the dominance of (neo)realism and its pessimistic worldview (Sterling-Folker, 2007, p. 118). It was built on early ideas as stated in the pluralist literature of the 1960s and early 1970s, which questioned the realist assumption that states could analytically be treated as rational, unitary actors. It put the spotlight on different non-state actors, thereby breaking down barriers between domestic and international affairs (ibid.). It argued that it was 'no longer possible to understand international relations simply by studying the interactions among governments', since 'state boundaries were seen as increasingly permeable' (Little, 1996, p. 66). Keohane and Nye (1971, p. 329) explained in their early work how the term 'transnational relations' better captured the increasingly pervasive intrastate interaction between states. They argued that this interaction challenges the independent authority and autonomy of national governments, which are no longer always able to decisively influence international outcomes (Sterling-Folker, 2007, p. 118). The end of the twentieth century provided strong empirical support for the liberal alternatives to realism (Elman, 2007, p. 14). European integration continued even in absence of American-Soviet competition, while a wave of democratisation and economic liberalisation rolled through Eastern Europe and the developing world, and the 'improbability of war between the great powers all made realism seem outdated' (Jervis, 2002, p. 10).

Neoliberalism's 'central concern' is to explain the remits of cooperation among states and other non-state actors in the international anarchic system (Sterling-Folker, 2007, p. 114). Additionally, the transnationalist foundations of neoliberalism, as stated by Keohane and Nye (1977), allow some ontological space for non-state actors, such as corporations. These two elements together make the neoliberal approach a more suitable starting point for analysing international cooperation in the energy sector. In particular, modern neoliberalism can offer explanations for when and how cooperation between states should occur. Neoliberalism concurs with realism that history has not shown many prospects for successful collaboration, but states that contemporary developments have made international cooperation relatively easier to achieve (ibid.).

Although neoliberal scholars criticised realism, they often did so on realist terms by

analytically adopting rational state-centric unitary actors interacting in an anarchic environment (Elman, 2007, p. 15). Neoliberals then argue, in strong contrast with realism, that an anarchic environment with self-interested actors does not necessarily lead to a world in which states live in constant fear of each other (Sterling-Folker, 2007, p. 118). Rather, anarchy is ‘a vacuum that is gradually being filled with human-created processes and institutions (Sterling-Folker, 2001, p. 70).

These processes and institutions, and hence cooperation between states, comes in the form of regimes, which Krasner (1983, p. 186) defines as ‘sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actor expectations converge in a given area of international relations’. Regimes encompass principles and norms and must embody ‘some sense of general obligation’ (Krasner, 1983, p. 187). It follows from this that state behaviour governed by regimes then cannot be solely based on calculations of relative power positions, as in realism (Sterling-Folker, 2007, p. 119). The combination of behaviour with principles distinguishes conventional activity guided by narrow calculations of interest from regime governed behaviour in the international system (Krasner, 1983).

Interdependency

Neoliberalism is originally built on two historical developments that greatly enlarged the prospects for successful international cooperation (Sterling-Folker, 2007, p. 119). Transnationalism, as a predecessor of neoliberalism, pointed to the increasing interdependence between states in a variety of issue areas, as a result of advancements in industry, trade and technology (ibid.). The growing economic entanglement between states has been characterised by Keohane and Nye (1977; 1987; 1998, p. 83) as ‘complex interdependence’. In a world of complex interdependence, military force matters less and less and countries become connected by multiple social, economic and political relationships (ibid.). Although the state remains the basic unit of analysis, the – revised – transnationalist concept of complex interdependence (see Keohane & Nye, 1987) leaves more room for non-state actors than is the case in later neoliberal theory.

Complex interdependence has three main characteristics. Firstly, societies are viewed as being connected through multiple channels. This includes informal ties between governmental elites, as well as through official foreign offices, as well as ties between nongovernmental elites and transnational organisations, such as TNCs (Keohane & Nye, 1987, p. 727). This idea then goes beyond the intrastate relations assumed by neorealists and incorporates transgovernmental as well as transnational relations in the analysis (Nye, 2009, p. 193). Under complex interdependence bureaucracies can contact each other directly across borders. It is less certain that states will act united when contacting foreign governments and the state components each might even have their own interpretation of the national interest (ibid.). The state becomes multifaceted as ‘[n]ational interests will be defined differently on different issues, at different times, and by different governmental units’ (Goddard et al., 2003, p. 56).

Secondly, intrastate relationships consist of multiple issues that are not arranged in a clear

hierarchy (Keohane & Nye, 1987, p. 728). The absence of a hierarchy in issues stems from the notion that (military) security no longer dominates the agenda. Many discussions that formerly were conducted domestically are now part of intrastate relations and are no longer solely confined to the foreign affairs ministry (ibid.). It is the issue at hand that matters: 'different issues create different coalitions, both within governments and across them' (Goddard et al., 2003, p. 51). In contrast, neorealists argue that the agenda will be set by (actual or anticipated) changes in the balance of power or by perceived security threats. Other issues will only be important when they affect security or military power (Nye, 2009, p. 206). Neoliberals argue however that due to globalisation and thus, growing interconnectedness, the complexity of actors and issues increases. This leads to the line between domestic and international politics becoming blurred as interdependency rises (ibid.).

Thirdly, at high levels of interdependence the military increasingly loses its utility (Keohane & Nye, 1987, p. 732). This holds for the region or issues complex interdependence can be applied to. Military force is then mostly irrelevant in resolving disagreement on economic issues within an alliance, for example, but can still be highly useful in relation with a strong rival outside of the alliance (ibid.). Importantly, the concept of complex interdependency shows how interconnectedness between states severely enlarges the prospects for successful cooperation in their relation. Different groups within the state decide through domestic politics on the hierarchy between the issues on a state's policy agenda (Jervis, 1999, p. 61). They can obtain desired interests and receive significant benefits through their interconnection. Therefore it becomes costly to threaten or end the relationship (Sterling-Folker, 2007, p. 119). As the use of force declines, interdependence becomes a 'potentially pacifying process in an anarchic environment' (ibid.).

Yet interdependence is not limited to situations of mutual benefit; it can also have conflictual consequences (Keohane and Nye 1989, p. 9). In situations of interdependence states become dependent on the transactions between them. By influencing these transactions a state can impose costs on other states. These states can be either sensitive or vulnerable to changes in the transactions dependent on the issue area (ibid., p. 11). A state is sensitive for the imposed costs by another state if it is able to minimise these costs through changing its own policy. When it is not able to significantly reduce such costs by policy changes, the state becomes vulnerable. For example, a state may be vulnerable to sudden changes in the oil price set by its trading partner (in case it lacks alternative energy sources), but only sensitive to fluctuations in the direct supply of certain minerals (which it could have stored) (Crane & Amawi, 1997, p. 108). Economic interdependence may therefore also be a source of political power for states, which in turn may hamper economic cooperation.

Such changes in political power do not, however, alter the basic premise of interdependence under transnationalism, which states that overall the 'deterrence of conflict for the sake of maintaining wealth from trade' will still hold (Crescenzi, 2002, p. 34). In essence, then, transnationalism still predicts then that once interdependence rises between states, the opportunities for and the actual cooperation will rise as well. This is specifically applies to economic cooperation. Actors within the

state – governmental and political actors in particular – which can benefit from the cooperation, will press for further intensification. It then reaches the intrastate level through the channel of governments. Even though transnationalism points to the role of several different actors besides the state in the way international relations are governed, it is important not to forget the fact that governments remain the core actors.

The same holds for economic cooperation in the form of transnational pipelines. Cooperation in the area of pipeline projects can become part of the national interest through actors mostly within the government, who will urge for the successful continuation of the project. Declining interdependence will push economic cooperation down on the state's policy list of priorities, as there will be fewer actors urging to give the issue a higher priority. The interdependence hypothesis, based on the transnationalist roots of neoliberalism, can be formulated as follows:

H1: Increasing trade interdependence between states leads to successful economic cooperation, declining trade interdependence leads to unsuccessful economic cooperation.

Hegemony

The second development that made cooperation more likely, and thus 'made realism an inaccurate description of contemporary IR' (Sterling-Folker, 2007, p. 120) is stated by the theory of hegemonic stability, a part of neoliberal theory (ibid.). According to the hegemonic stability theory, a hegemonic state has an important, even crucial role in the formation of regimes. A hegemon provides global, or regional, stability based on its self-interest. The approach theorised the period of hegemonic stability provided by the US after the Second World War. The British and the Americans, influenced by the Great Depression, the rise of fascism and WWII, created a post-war vision to stabilise world affairs according to their own preferences (Sterling-Folker, 2007, p. 120). They created the modern capitalist and free trade system, supported by formal institutions such as the IMF and the World Bank, which came to be known as the Bretton Woods system (MacMillan, 2007, p. 23). These institutions could become powerful because they were supported by the US, acting as a hegemon (ibid.). When a state has the ability to deploy a 'preponderance of power', through diplomacy, coercion or persuasion, it can become hegemonic, which means it is able to 'singlehandedly dominate the rules and arrangements of international political and economic relations' (Goldstein, 2005, pp. 83, 107). Simply said, the theory states that the more dominant the hegemon will become, the more cooperation will arise (Bilgin, 1987).

Neoliberal theory argues that the hegemon wishes to maintain its dominant position without having to incur high costs for costly coercion. Therefore the hegemon creates a framework that is both favourable for its own position as well as providing protection and stability for other states (Sterling-Folker, 2007, p. 120). Neoliberals would then attribute the 'remarkable growth of the international economy after the world war' to the US, since it was the US that provided the 'international public goods' on the basis of which cooperation could arise in the international system (Kirschner, 2009, p.

39). Cooperation between states is generated and sustained by a hegemon.

Non-state actors generally follow the structure created by the state hegemon. The hegemon provides incentives for states to adhere to the rules it constructed for the governance of international relations, which creates a stable regulatory environment. In this environment it also becomes easier for non-state actors to engage in long-term cooperation. In the case of pipelines, an intergovernmental agreement forms the regulatory framework in which non-state actors act. According to neoliberalism, the basis for successfully governing a transnational pipeline is the continuation of an intergovernmental agreement, created and sustained by a hegemon. Such cooperation will be difficult in the absence of a hegemon, as it will also remove the incentives for states to initiate a regulatory framework and comply with its arrangements. The following hypothesis can be deduced:

H2: The presence and efforts of a (regional) hegemonic state lead to successful economic cooperation, the absence of a (regional) hegemonic state leads to unsuccessful economic cooperation.

Iteration

Even when there is rising interdependency in combination with stability provided by a hegemon and common interests exist, states still face multiple challenges to overcome the barriers to successful cooperation (Sterling-Folker, 2007, p. 121). States may fail to cooperate because they lack information about the other's true preferences, they fear that the other will take advantage of the arrangement by cheating, or do so by freeriding. The potential costs of a possible beneficial agreement may be too great to risk the effort (ibid.). Neoliberals posit in contrast to the neorealists that relative gains, which may be greater for the other, do not necessarily impede cooperation. Once their concerns about future intentions are mitigated, states can focus on absolute rather than relative gains (Sterling-Folker., 2007, p. 121).

One of the most important barriers to cooperation is captured in the prisoner's dilemma (Keohane, 1984, p. 68). Building on game theory, the prisoner's dilemma shows how two actors with common interests may nevertheless end up not cooperating, because of their fear of being cheated by the other. This fear is caused by the aforementioned lack of information and transparency about the potential pay-offs (Keohane, 1984, p. 69). However, the rational non-cooperative outcome is based on the dilemma being played out once or only a few times. If the game is played repeatedly by the same players in an 'iterated prisoner's dilemma', it is generally agreed rational players are more likely to cooperate (Keohane, 1984, p. 75). This stems from the idea that refraining from cooperation is in the long run unrewarding. Short-term gains will be outweighed by the 'mutual punishment that will ensue over time' (ibid.). The recurrent interaction between actors enables them to exchange information, as well as monitor one another's behaviour, reducing concerns over actual intentions and the consequences of being cheated (Sterling-Folker, 2007, p. 123).

Repeated contact between governments will make them more certain of each other's intentions, so that they will be able to construct a meaningful intergovernmental cooperation, such as –

in the present case – in the area of transnational pipeline cooperation. Neoliberalism thus expects cooperation over a longer period of time, therefore enhancing the prospects of cooperation between states being successful and thus leading to a constantly functioning pipeline.

Non-state actors are in this process subordinate to the result of the state relation. As with hegemony, non-state actors follow the directions laid out by states in the regulatory framework and act as mere operators on the basis of government initiatives. Unsuccessful cooperation is then explained by decreasing governmental contact and the inability to conclude or uphold an intergovernmental agreement, resulting in disruptions in the resource flow through the pipeline. It leads to the final neoliberal hypothesis:

H3: Repeated contact over a prolonged period of time between governments leads to more successful economic cooperation, minimal or decreasing contact over a prolonged period of time between governments leads to unsuccessful economic cooperation.

Economic cooperation as a result of governmental relations

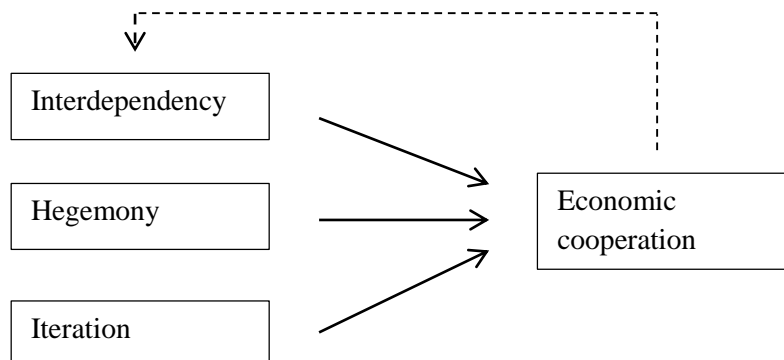
Conducting international relations firmly remains the business of states in neoliberalism. Also forms of economic cooperation, and specifically pipeline projects, are constructed and operated based on state activities. Non-state actors have a role in deciding on the hierarchy of issues on a state's policy agenda. Yet also in the area of complex interdependence neoliberalism gives primacy to state actors, such as ministries and fractions within the government. Transnational pipelines have two main features (Boyd-Carpenter & Labadi, 2004): An intergovernmental agreement and the actual construction and operation through the work of energy companies, governed by a corporate agreement. Neoliberals place much emphasis on the first as the driving force behind successful economic cooperation and hence the smooth operation of the pipeline. Figure 1 illustrates how the neoliberal model would essentially explain economic cooperation. Interdependency, hegemony and iteration form the basis for economic cooperation (which then in turn has an effect on states' economic interdependency).

While neoliberalism can explain the behaviour of states and their engagement in cooperative activities, it has more difficulty explaining corporate behaviour. It predicts that actions of companies will fall within the guidelines that states together set up and that these companies will follow the governments' initiatives. The theory cannot account for corporate actors that diverge from the state policy line. Corporate cooperation and the way it is governed is still largely left outside of the explanatory factors, even though the largest share in the work of constructing and operating a pipeline is based on this.

In contrast, global value chain theory takes a very different approach from neoliberalism and thereby largely leaves the state-centric perspective: it focuses on companies as the main organisers of economic cooperation and explains how they are able to design projects independently from

governments. They take the initiative and the lead in constructing international arrangements, which is then followed by the regulatory activities from governments.

Figure 1 – Neoliberal explanatory model



2.3 Global value chain theory

Scholars from different backgrounds have established what is now called the global value chain (GVC) approach (Gereffi, 2014, p. 10). Global value chains describe the processes in which value is added to simple commodities by large corporations who operate across borders through the commodity's conceptualisation, manufacturing, marketing and distribution (Merk, 2011, p. 74). The theory claims that companies are able to create and sustain economic cooperation through the governance of their value chains.

The GVC approach originates in the structuralist world systems theory (WST) (Hopkins & Wallerstein, 1977, pp. 112-114). WST argues that the globalisation of the world economy has differentiated national economies into wealthy core and exploited periphery areas, based on a hierarchy in modes of production (Schwartz, 2010, p. 58). Peripheral countries are forced by international trade and exploitative policies from core states to produce low value-added goods (and import expensive goods), which also keeps them in the periphery. The core benefits from the low-cost manufacturing in unequal exchange with the (semi)periphery and aims to accumulate capital (ibid.). The development of the global north, or rather Europe, Japan and North-America, and the underdevelopment of the south, are therefore two sides of the same coin (Van der Pijl, 2012, p. 175).

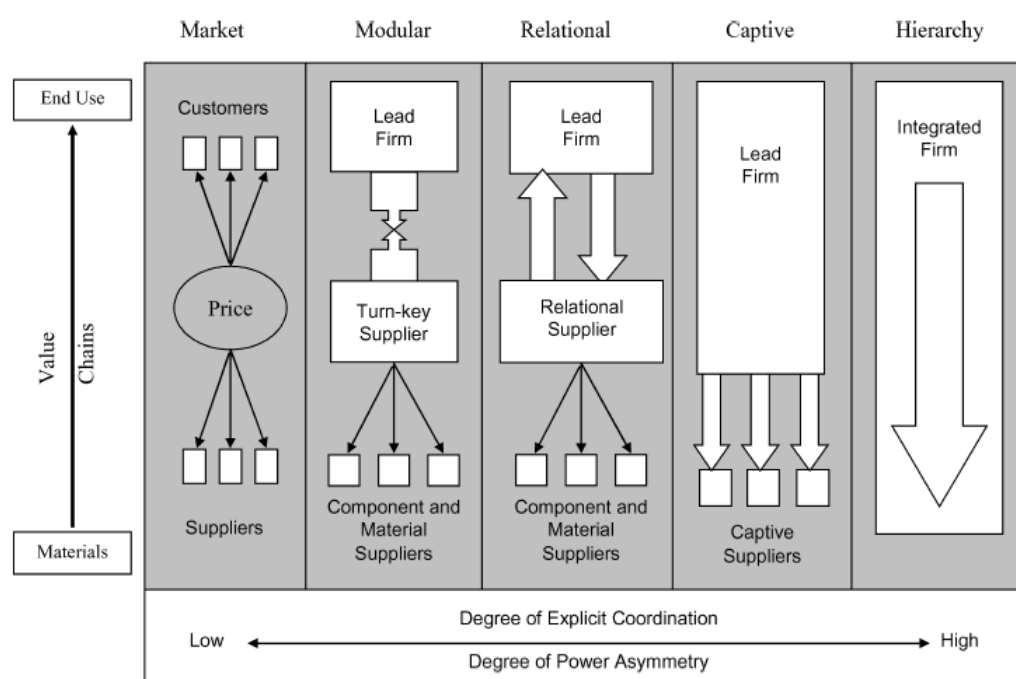
Modern GVC theory has split off from WST and developed into a much more firm-centred approach to analyse the influence of different governance styles of value chains, instead of describing the commodity chains as a result of capitalist or systemic factors (Gibbons et al., 2008, p. 316). GVC theory retained however the WST idea of hierarchy in modes of production and incorporates it into the value-added commodity chain that TNCs use. Within such a chain the concept of having a core and periphery is retained, as only leading, industrialised firms have acquired the capital, technological, managerial or marketing means to add value to its products (Gereffi, 2014, p. 12). Access to developed

country markets is dependent on the participation in these production networks sustained by the lead firms (Petkova, 2006, p. 317).

Initially GVCs were divided by a dichotomy of either being producer-driven or buyer-driven (Gereffi, 2001; Gereffi & Lee, 2012). Technical innovation in shipping and communications made international producer-driven chains possible for the natural resource industry, characterised by power being held by final-product manufacturers in capital-, technological- and skill-intensive industries (Gereffi, 2001, p. 32). In buyer-driven chains, power is exerted through mass consumption and known brand names by retailers and marketers (ibid.). The analytical framework that sprung from this, and which has now become the framework mostly used to describe modern GVCs, comes originally from Gereffi et al. (2005). They use three factors to differentiate between value chains. Firstly, the complexity of information and knowledge with regard to product and process specifications required for transactions. Second, the extent to which such information can be codified without being transaction-specific and lastly, the capabilities of suppliers to fulfil the requirements of the transaction (Gereffi et al., 2005, pp. 82-87).

On the basis of these factors they distinguish between five types of global value chain governance structures, as displayed in Figure 2 (Gereffi et al, 2005, p. 89). The way economic cooperation between corporate partners is realised depends on the type of governance structure that characterises the operations of a firm or within a sector. The first structure is a market, in which price forms the organising mechanism and the costs of switching to new partners is low for both parties. In modular value chains, the second structure, there is a stronger connection between suppliers and

Figure 2 – Five global value chain governance structures



(Gereffi et al, 2005, p. 89)

customers, but the suppliers in this structure still create products without following a buyer's exact specifications (turn-key). There are thus less transaction-specific investments. Thirdly, this is different in relational value chains where there are complex interactions between buyers and sellers and high levels of asset-specificity, which often creates mutual dependence. The fourth type is called captive value chains and is characterised by smaller suppliers being transactionally dependent on much larger buyers. Switching partner brings costs for such suppliers and they have therefore almost no choice but to rely on their buyer, who can impose a high degree of monitoring and control. Lastly, in a hierarchy the value chain is set up within a firm and organised through managerial control (ibid.). GVC theory mainly focuses on the middle three types, modular, relational and captive, as these are the types which are generally most applicable for describing and examining global industries.

Cooperation based on corporate interests

A key concept in the main governance structures as used by Gereffi et al. (2005) is the 'lead firm', which in the modular, relational and captive governance type both creates and sustains the value chain (Gereffi, 2013, p. 13). The lead firm 'exercises various degrees of power through the coordination of suppliers without any direct ownership of the firms' (ibid.). As the 'core actor[s]' in global economic governance, lead firms are the actors that set up and manage the international production networks from which they derive their influence (Gibbon et al., 2008, p. 316). Along with the changing nature of TNCs over the years, on the basis of GVC theory different firms could claim to be lead firms. In the initial dichotomy producer driven chains were governed by lead manufacturers (such as Ford) and consumer driven chains by lead retailers (such as Wal-Mart) (Gereffi, 2001, p. 34). Today, varieties within the value chains gave rise to firms in different sectors, such as marketing, industrial processing and international trading. The governance within these sectors can be differentiated on the basis of the framework developed by Gereffi et al. (2005), but it has become less obvious which firms herein are the lead firms.

The lead firm concept is comparable to the idea of hegemony as used by neoliberals, in which hegemonic states can determine by and large the rules of international relations. Lead firms are the actors capable of deciding how a value chain is governed, whether supplies should be procured within the firm, on the market, or through a long-term relational supplier (Gibbon et al., 2008, p. 319). Furthermore, lead firms decide the transaction price, volume, the standards of production, the number of suppliers, and the 'attributes that suppliers should possess on dimensions other than price' (ibid.). Economic cooperation, then, is driven by lead TNCs which, in their on-going search for profits, select, interact with and influence their partners in order to govern their global supply chain.

The activities of governments in these processes are left outside the GVC approach as theorised by Gereffi et al. (2005), but it follows from their concept that governments adhere to the structures created by lead firms. Others, such as Mintzberg et al. (1998), Levy (2008) and Dauvergne and Lister (2010) build on the arguments within GVC theory and have further worked out the impact

of these value chains on relations between companies and governments. Firms are deeply involved in ‘negotiating their external environment’ in order to protect and enlarge their market position (Mintzberg et al., 1998, p. 235). Companies will take the first step in the organisation of their value chain and establish a cross-border connection before governments get involved. By shaping the cooperation in the value chain the lead firms create a cross-border regulatory reality through their mechanisms of planning, requirements, control and management. This then builds the basis for contact between governments regarding a specific sector and for their attempts to form an intergovernmental regulatory framework (Levy, 2008, p. 17). The resulting international guidelines constructed by governments are too general to actually guide corporate behaviour and will be de facto adjusted to the practical reality created by the companies in their value chains (Dauvergne & Lister, 2010, p. 159).

Yet in the case of energy, and especially with regard to oil and gas, the influence of companies might be restrained to some extent. A state’s ability to access energy supplies ‘crucially determine the state of its economy, its national security, and the quality and sustainability of its environment’ (Shaffer, 2009, p. 1). Energy is therefore closely linked to a state’s sovereignty. While such a linkage is usually made by realists, it is also useful in the context of GVC analysis. State sovereignty is in realist terms closely associated with defence against outside invaders, but, following Strange and Stopford (1991, p. 209), can also be viewed in a broader sense. Besides external (military) security sovereignty is also build on a state’s wealth, for example, without which a state would fall apart even without outside security threats. Access to energy is not only important for military security but is also a key source of preserving wealth, which will ensure the involvement of governments in energy issues. This will probably somewhat impair the dominance of companies in pipeline cooperation, as assumed by GVC theory.

Overall, the role of companies in GVC theory is thus the opposite of their role in neoliberal theory, which placed them in a decidedly subordinate position. In GVC theory the success of economic cooperation will, even in the field of energy, still depend on the existence of a lead firm taking the initiative and thereby establishing and guiding a governance structure between corporations, which will be followed by regulations created between governments. In transnational pipelines the cooperation is firstly formed and managed by a lead firm, after which governments construct or adjust their intergovernmental agreement. A successful operation of the pipeline becomes possible through the involvement of a lead firm, while it will most likely be unsuccessful in the absence of a leading company. The first hypothesis from GVC theory can thus be formulated as shown below.

H4: The presence of a lead firm initiating and managing a value chain leads to succesful economic cooperation, the absence of a lead firm initiating and managing a value chain leads to unsuccesful economic cooperation.

How exactly a lead firm manages cooperation is dependent on the governance structure within the value chain. The energy sector would fall under the relational value chain category: it is characterised

by an inability to codify transactions, complex product specifications, and suppliers have a strong capacity to fabricate specific products. Relations are built on the exchange of tacit knowledge and highly competent suppliers provide a powerful incentive for lead firms to outsource certain tasks. It creates dependency between companies, as is typical for relational value chains. Gereffi (2005, p. 84) suggests that successful coordination within a relational value chain can be achieved through a close dialogue between such more or less equal partners, in which the mutual dependence can be regulated through trust and spatial proximity, as well as family or ethnic ties.

Stulberg (2012) explains how trust in the oil and gas sector is related to the ability to convey credible commitments by lead firms. In a cooperation case such as pipeline projects, each actor must convince the others that they will comply with the concluded agreement after the construction of the pipeline (*ibid.*, p. 818). The ability of lead firms to extend credible commitments is fundamentally dependent on two conditions. Pipelines contain significant sunk costs and transit infrastructure is strongly asset-specific, meaning that, once built, the costs have already been incurred and cannot be recovered (World Bank, 2003, p. 34). A lead firm that has incurred significant sunk costs will be very inclined to acquire a recouping for their initial investment. This will induce risk averse behaviour to minimise possible costly arbitrary disruption. Consequently, a lead firm with little incentive to recover investments will be less risk averse and are more likely to gamble for higher gains (Stulberg, 2012, p. 820). Additionally, it is likely that (the prospect of) profits that stem from the cooperation beyond the return on investments will increase the ability of the lead firm to credibly commit to that cooperation. Cooperation then becomes a long-term, mutually beneficial project in itself, in which companies are economically rewarded for cooperative, rather than disruptive, behaviour.

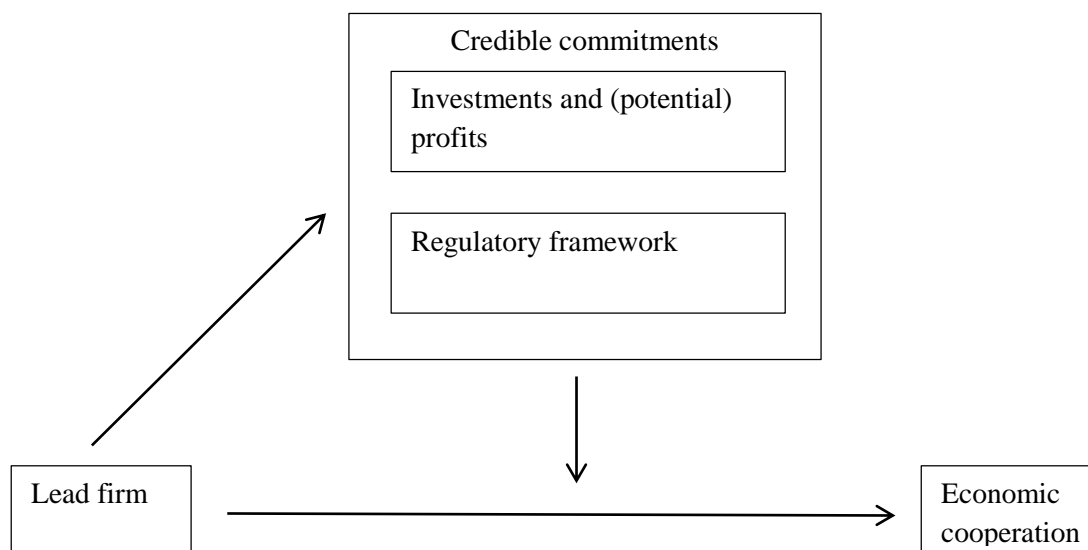
The second feature in extending credible commitments by lead firms, and thereby building successful cooperation, stems from the possibility to delineate ownership and control within a clear regulatory framework (Stulberg, 2012, p. 821). The regulatory framework that establishes the cooperation should make transparent which party has the authority to set prices, collect off-take and transport the energy resources. Such an allocation of property rights is crucial to distinguish primary stakeholder interests as well as to establish clear rules for ‘domestic and international audiences alike’ (*ibid.*). A regulatory framework ensures the involved actors bear both the costs and the benefits for their behaviour, and formally stipulates the different authorities between companies. The transaction costs of forging and sustaining agreements are reduced in a clearly delineated framework (*ibid.*, p. 822). Conversely, opaque regulatory frameworks create opportunistic incentives and raise the transaction costs for cooperation. Economic motives that would otherwise govern strategic corporate interaction in the energy sector fade away in regulatory systems that are ‘too frail ... to alleviate anxieties or resist impulses for arbitrary renegotiation’ (*ibid.*). Within the relational value chain, successful cooperation is thus based on the lead firm’s ability to extend credible commitments, through establishing a regulatory framework in which all shareholders are seeking to create at least a return on their investment. This gives the following hypotheses:

H5: The ability of lead firms to extend credible commitments leads to successful economic cooperation, the inability of lead firms to extend credible commitments leads to unsuccessful cooperation.

- *H5a: The ability to extend credible commitments stems from a company's financial investment in and/or the (potential) profits from the pipeline, the inability to extend credible commitments stems from a company's lack of financial investment in and/or the low (potential) profits from the pipeline*
- *H5b: The ability to extend credible commitments stems from the capacity to establish a clear regulatory framework, the inability to extend credible commitments stems from the incapability to establish a clear regulatory framework*

In sum, GVC theory suggests energy cooperation is built on corporate cooperation, in which the lead firm initiates and manages the coordination through credible commitments. The explanatory model is graphically displayed below in Figure 3. While GVC theory is able through this model to analyse

Figure 3 – Global value chain theory explanatory model



economic cooperation from a corporate perspective, it also has some weaker parts. The most prominent difficulty with GVC theory comes from its theorisation regarding the role of governments. Conventional GVC analysis largely ignores the position of governments and focuses solely on describing the activities by TNCs related to their value chains. GVC theory therefore leaves little room for independent government behaviour other than acting on corporate initiatives and cannot account for economic cooperation that arises based on government actions. Moreover, with its strong fixation on the organisational features of firms it underexposes the political aspects related to corporations in general.

Using GVC theory alongside neoliberalism may also pose problems with regard to their

different epistemological backgrounds. It is believed these issues can be overcome, however, and will be further discussed in the beginning of chapter three.

Chapter 3 – Epistemology, Methodology and Operationalization

The following chapter outlines the chosen methodology and operationalises the theoretical concepts that appear in the derived hypotheses. In the first section the decision for a positivist research agenda is motivated, while comparing the different epistemological backgrounds of neoliberalism and GVC theory. The second section discusses the choice for a comparative case study, followed by a justification for the case selection and used literature. In the third section, the hypotheses are displayed again and subsequently operationalised.

3.1 Epistemological backgrounds

Neoliberalism and GVC theory are rooted in different epistemological traditions. Neoliberalism, together with realism, belongs into what Ruggie (1998, p. 2) called a ‘neo-utilitarian approach’. Neo-utilitarian approaches are premised on ontological assumptions about rational, unitary state actors, and the pursuit of material interests as power and wealth (ibid., p. 4). Neo-utilitarianism implies deductive research through deriving and testing hypotheses on the basis the theory’s causal claims (Ruggie, 1998, pp. 856-862). The underlying assumptions are taken as a given and not questioned further. Neo-utilitarianism, as a theoretical tradition, is strongly related to a positivist epistemology according to which causal connections can be analysed as part of an objective reality guided by regularities (ibid.).

The GVC field has been characterised by a fierce debate about whether their research should conform to such neo-utilitarian positivist methods, or stay close to the theory’s more critical roots (Gibbons et al., 2008, pp. 323-324). Gibbons et al. (ibid.), for example, have strongly criticised Gereffi et al. (2005) for ‘narrowing of the scope of the analysis undertaken in the name of achieving parsimony and greater analytical rigour’. They point to the wide array of agents involved in value chains besides the lead firm and its immediate suppliers as has been central in Gereffi’s et al. (2005) GVC framework, described in chapter 2 (Gibbons et al., 2008, p. 324). Gibbons et al. (ibid.), but also scholars such as Petkova (2006, p. 315), assert that GVC theory should instead conduct its research based on critical theory.

Critical theory draws on a post-positivist epistemology and the assumption that there are no objective laws guiding socio-economic reality (see also Christiansen et al., 1999, p. 532). Phenomena can only be understood in their social, political and historical context, presuming that the future is open ended and political agency can change social structures. Scientific facts are based on the time and place of their occurrence (ibid.). Conducting science is, according to critical scholars, not a neutral endeavour but can serve to consolidate existing social power relations or challenge them by facilitating emancipatory transformative action. As Cox famously noted, ‘theory is always for someone and for some purpose’ (Cox R. , 1981, p. 128). What follows is that there is no objective world and therefore no such thing as objective knowledge.

This thesis, however, will deliberately follow Gereffi et al. (2005, p. 82) in their argument that ‘if a theory of global value chain governance is to be useful to policymakers, it should be parsimonious’. This does not mean that historically changing social contexts, alongside many other factors, are of non-importance. The rationale is that the evidence is extremely heterogeneous, and through simplification and abstraction, a researcher can better isolate the fundamental relationships underlying empirical situations (ibid.). Perhaps even more importantly, adopting a positivist understanding of knowledge allows a comparison with neoliberalism on relatively equal epistemological grounds. Testing two theories with different epistemological backgrounds becomes difficult if, as in this case, they are juxtaposed on the basis of mutually exclusive hypotheses. To assess each theory’s relative validity, a common epistemology and also method facilitates the research process.

3.2 Case study research

This thesis will take the form of two qualitative case studies. Qualitative analysis is through process tracing in small-N case studies able to search for the variables that link the independent to the dependent variable (Bennett, 2010, p. 201). Process tracing is a qualitative research method often used in the social sciences (Gerring, 2007, p. 172). Inference within the case is verified by employing multiple types of evidence, drawn from incomparable individual observations. Instead of seeing multiple instances of x directly leading to y (as in quantitative research), process tracing looks for a variety or a chain of factors in x. It is in some ways comparable to detective work, where the detective has to make the link between the victim (y) and several possible murderers (x) (ibid., p. 173).

Quantitative methods are largely inapplicable to this case, because of both methodological as well as practical reasons. Statistical analysis searches for correlations, but is unable to reveal the causal link between the independent and dependent variables. Furthermore, in order to estimate averages quantitative studies rely on extensive datasets (Mahoney & Goertz, 2006, p. 230). Such data is lacking in the energy sector, as cooperation through pipeline agreements remains confined to a relatively limited number of cases and GVC theory has yet to be applied to energy governance.

Quantitative researchers have criticised qualitative methods for making general claims on the basis of a too small N and because causal interference is difficult in process tracing, particularly since there are many potential mechanisms between the independent and the dependent variable (ibid., pp. 196-198). This thesis will try to mitigate these problems by adopting the strategy of paired comparison as suggested by Tarrow (2010).

Paired comparison stems from Mill’s ‘method of difference’ (Mahoney, 2000, p. 392). It can be used to eliminate rival explanations based on the logic of necessary and sufficient causes as used in qualitative research¹ (ibid.). Paired comparison can take two forms. The ‘most similar systems design’

¹ For more information regarding the logic of necessary and sufficient causes, see Mahoney and Goertz (2006, p. 229)

(MSSD) is the most applicable to the goal of this thesis. MSSD compares similar cases in order to isolate the factors responsible for the different dependent variable (Tarrow, 2010, p. 234).

In comparison to a single case study, using a MSSD strategy allows for a more ‘experimental’ setting, in which factors can to some extent be ‘controlled’ for (ibid., p. 235). It eliminates the possibility that a dependent variable might have occurred in absence of the independent variable and in a general sense provides more analytical leverage than a single case study, since it gives a clearer insight into the causal process through ‘dual process tracing’ and allows for disposing rival explanations (ibid.). With respect to statistical analysis paired comparison can incorporate a more detailed analysis leading to more causal insight, and it provides more in-depth background knowledge of the cases (ibid., p. 238).

The analysis of the hypotheses as derived in chapter 2 will take the form of an ‘explanatory narrative’, which integrates the testing of explanations into a coherent story line (Roberts G. , 2001, p. 31). Even though the term story is usually more associated with fiction rather than political science, it aids in creating a clear format that guides the reader through the analysis. A narrative style renders a better understanding, given the fact that we discern the meaning of a single event only in temporal and spatial relationship to other events (Somers & Gibson, 1994, p. 59). A narrative complies with the ways in which we view disparate facts and ‘weave them together cognitively’ in order to make sense of reality (Patterson & Monroe, 1998, p. 315).

Case selection

The case selection method as suggested by Gerring (2007) provides a way of further overcoming the problem of generalising from a small-N base. Case studies are expected to provide insight into a causal relationship across a larger population of cases (Gerring, 2007, p. 86). The case selection process therefore aims to identify cases that reproduce the relevant causal features of that population (ibid., p. 88). The focus in this thesis, the cooperation through intergovernmental and corporate agreements constituting the Bratsvo/Soyuz and the BTC pipelines, is suspected to be representative of cases of cooperation on pipeline projects. Because the cooperation as well as the governance structure takes a similar form in large-scale transnational pipelines, it is likely that because of their comparability these projects will experience similar dynamics.

No state or company is able to fully conduct pipeline projects only by itself. It will require cooperation between governments as well as between companies. In pipeline projects an intergovernmental agreement is signed that establishes a general regulatory framework, which is filled in on a detailed level by energy companies. Also the industrial standards and the basic way a pipeline is technically constructed, operated and governed is globally comparable. The pipeline projects in The Caucasus and Ukraine should therefore each form a ‘typical case’ for successful and unsuccessful transnational cooperation, which exemplifies what is considered to be a typical set of values (ibid., p. 91) of such cases that require the involvement of both governments as well as companies.

Conclusions are also expected to have wider implications for the wider field of global political economy, as it provides insight into the changing role of governments and companies. In the end the research should add to the understanding of the workings of the global political economy and especially regarding the influence of (energy) companies. Through the cases it should become clear whether states or firms are the main driving forces behind modern international economic cooperation in the form of such transnational projects.

The analysis begins in both cases at the start of the cooperation, right after the collapse of the Soviet Union, and stops in 2011. After this time the developments started that resulted in the current situation in Ukraine, which is deliberately left out of this thesis. Including it would mean researching an ongoing event, with changes on a daily basis. For a more delicate method as process tracing it helps to be able to look at the case with some distance. The timeframe for the research is therefore in the whole analysis section 1990-2011.

Literature

In order to test the hypotheses stated below, this research relies on the available secondary literature, in the form of scientific books, journal articles, as well as magazines and newspaper articles. Access to primary sources from Russia, Georgia, or other non-English speaking countries is dependent on the language capabilities of the researcher. Being unable to incorporate non-English sources, this thesis only includes secondary literature written in English. While using secondary literature relevant sources are cautiously selected, as it is possible literature proves to be inadequate or irrelevant with respect to the research question (Kothari, 2004, p. 111).

The secondary literature has to be critically evaluated in order to be used, and were therefore tested on the factors as suggested by Booth et al. (2008, p. 92); reliability, suitability and adequacy. Reliability stems from an unbiased author, collecting relevant data while using proper methods. To investigate the suitability of a source the topic and nature of the research has to be examined, as well as the relevance of its primary data with respect to the research of this thesis. When secondary literature explores a larger or smaller area of investigation it is deemed inadequate (ibid.). Additionally, in order to make more sound judgments regarding the data, this thesis will employ theory triangulation (Yin, 2008, p. 65), in which different authors with different viewpoints reach the same conclusion.

Some sources are used more frequently, in particular the research from the Oxford Institute of Energy Studies in the Bratsvo/Soyuz case (Stern, 2006; Pirani et al., 2009). The institute provides multidisciplinary research into the economics and politics of international energy and regularly publishes in high-impact academic journals. The quality of its research was further confirmed by the election of the institute as the number one energy think tank globally in a study conducted by the University of Pennsylvania (McGann, 2015). The ranking was made based on the judgement of a panel of leading experts in the field of energy regarding the quality of the institute compared to other

think tanks in the same area of expertise (ibid.). Even though also their more descriptive publications are written through the lens of the researcher they also display a high level of detail, which allows for reinterpretation.

3.3 Operationalization

As has been explained in chapter two, both neoliberalism and GVC theory postulate different propositions and causal mechanisms with regard to what drives international cooperation. Economic cooperation, the dependent variable, is in this thesis viewed as ‘active attempts to adjust policies to meet the demand of others’ (Keohane, 1984, p. 12) in order to initiate and sustain transnational pipeline projects. The success and failure of such cooperation in pipeline governance is strongly related to the success and failure of the pipeline project. Sovacool and Van de Graaf (2014, p. 18) mention five potential dimensions on which success in the governance of megaprojects (such as pipelines) can be based. These dimensions can similarly be used to describe a project’s failure when the demands for success are not met.

Firstly, a project can be a success socially when all or most of the stakeholders are satisfied with the outcome, including (environmental) NGOs, advocacy groups and the local population. Secondly, a project can be a technical success when all the systems operate according to plan and without large-scale accidents and technical problems. Thirdly, economically a project is successful when the revenues bring a return on the initial investment and the project continues to bring in profits afterwards. Fourthly, a project’s success can be determined by politics, meaning that the governance is conducted transparent and without corruption. Fifthly, psychologically the project becomes successful when there are no inflated expectations regarding the results and no biased projections.

From the five dimensions described above the technical dimension is the most applicable for determining the success of a pipeline project in this thesis. Success can occur during the two main periods of a pipeline; its construction and its operation. Considering the complexity of the project, the completion of a pipeline is a (technical) success in itself. When a pipeline is completed without cooperation, as in the Russia-Ukrainian case (the pipelines were built by the Soviets), only the operation phase is considered. The operation of a pipeline is a technical success when a gas or oil flow is established that connects a resource field directly with consumers or with a new method of transportation (such as ships or smaller pipelines). The cooperation in the pipeline, then, is successful when a pipeline is completed and the resource flow goes uninterrupted, without one of the involved parties hampering the operation (or construction) of the pipeline to such an extent that the resource flow through the pipeline (or its construction process) is halted. In case it happens that one of the parties blocks the resource flow (or its construction process) the cooperation is viewed as unsuccessful.

Also the hypotheses will be discussed. The hypotheses derived from the two opposing theories are presented again below and subsequently operationalised.

Neoliberalism

H1: Increasing trade interdependence between states leads to successful economic cooperation, declining trade interdependence leads to unsuccessful economic cooperation.

There is no standard measurement for interdependence, but most scholars stress the importance of incorporating both import and export figures and adjust them to the size of the economy (Polachek et al., 1999). This thesis will adopt the approach as used by Oneal (2003) who measures interdependence as the value of dyadic trade as a proportion of a country's total trade, in this case among the states included in the cooperation. Even though it does not measure outsourcing or intra-firm trade, which is, as GVC theory stresses, an important part of global trade (Merk, 2011, p. 74), it can be nonetheless be seen as a stable indication of interdependence in comparative case studies (Masterson, 2012, p. 9). Data will be drawn from the UN Comtrade Database (2014), which is one of the few sources that provides trade figures for the Caucasian countries. Unfortunately, data is only available from 1996 onwards (except of Turkey) and includes a slight change in measurement since 2010. The analysis therefore includes data for the period 1996-2010.

H2: The presence and efforts of a (regional) hegemonic state lead to successful economic cooperation, the absence of a (regional) hegemonic state leads to unsuccessful economic cooperation.

Hegemony is a concept used in many theories and can be based on a wide array of dimensions, ranging from capabilities to perceptions (Prys, 2008, p. 7). This thesis will rely on the neoliberal definition as used by Keohane, arguing that a hegemonic state must have 'access to crucial raw materials, control major sources of capital, maintain a large market for imports, and hold comparative advantages in goods with high value added, yielding relatively high wages and profits' (Keohane, 1984, pp. 33-34). This can similarly be applied on a regional level (Prys, 2008, p. 12). The dominance of the hegemon is further shown by subordinate behaviour of the governments of less powerful states, which seek no conflicts and overall follow the policy line set out by the hegemon (Lake, 2006, p. 25).

H3: Repeated contact over a prolonged period of time between governments leads to more successful economic cooperation, minimal or decreasing contact over a prolonged period of time between governments leads to unsuccessful economic cooperation

Cooperation becomes easier as the process of mutual adjustment continues. Pipeline projects span multiple years, often decades, and require regular contact between in the involved parties. The hypothesis states the mutual adjustment intensifies when the contact between governments continues. Contact between governments is measured by looking at the regularity of meetings between national leaders and government officials (Sterling-Folker, 2007, p. 121).

Global value chain theory

H4: The presence of a lead firm initiating and managing a value chain leads to succesful economic cooperation, the absence of a lead firm initiating and managing a value chain leads to unsuccesful economic cooperation.

The lead firm is one of the key concepts within value chain governance, but is subject to similar constraints as described in the above section on relative bargaining power. As Vernon already stated in 1968, ‘the term ‘multinational enterprise’ is sometimes confusing and always imprecise’ (Vernon, 1968, p. 114). Current applications of GVC theory (see Merk, 2011; Dauvergne & Lister, 2010; Petkova, 2006) lack abstract definitions of those firms that govern value chains. It proves to be much easier to empirically select the important firms in concrete cases. Pipelines are constructed and operated by either a consortium of different firms or through agreements in which several corporations each manage their own part of the pipeline. In the case of the former a lead firm shall have a key position within the consortium, which can be shown by a company’s shareholder percentage (assuming that a larger percentage results in a stronger power position). In general a lead firm shall take up the large part of the construction process and take decisive role in the operating and managing the process. This suggests that in order to become a lead firm a company’s capabilities and position within the pipeline agreement should be complemented by the behaviour expected from a lead firm as described in chapter 2.

H5: The ability of lead firms to extend credible commitments leads to successful economic cooperation, the inability of lead firms to extend credible commitments leads to unsuccessful cooperation

- *H5a: The ability to extend credible commitments stems from a company’s financial investment in and/or the (potential) profits from the pipeline, the inability to extend credible commitments stems from a company’s lack of financial investment in and/or the low (potential) profits from the pipeline*

The parties that have significantly financially invested in the pipeline will be keen on maintaining the cooperation, as well as when there is a strong prospect of future profits. The respective incurred costs can be traced by looking at the shareholders percentage or at the distribution of the construction costs. The (potential) profits can be determined by looking at the height of the revenues coming from the resource transportation through the pipeline (in the near future) and again the shareholders percentage, but also via the ownership (of the explore rights) of the resource field.

- *H5b: The ability to extend credible commitments stems from the capacity to establish a clear regulatory framework, the inability to extend credible commitments stems from the incapability to establish a clear regulatory framework*

A regulatory framework ‘governs a distinct issue area through the development and subsequent implementation of regulations directed at the behaviour of various actors’ (Pattberg, 2005, p. 593) and thereby enhances cooperation on the longer term. Clear regulatory frameworks allocate property rights and create transparency (Stulberg, 2012, p. 821). An indication of the strength of a regulatory framework stems from its dispute resolution mechanism, for example in the form of international arbitration; ‘a mandatory dispute resolution provision in the agreement is one of the available strategies to improve the binding nature of an agreement and, therefore, increases the credibility and value of the agreement’ (Guzman, 2001, p. 2). The non-existence of such a mechanism will eventually result in unsuccessful cooperation.

Chapter 4 – The Baku-Tbilisi-Ceyhan pipeline

4.1 Overview

Figure 4 – BTC pipeline



(Oilfund, n.d.)

Chapter four will begin with a short overview of the main developments in the BTC pipeline. The overview is meant to outline the explanandum in further detail and is intended to be merely descriptive. This overview will be followed by the analysis of the hypotheses derived from the theories as described in chapter two. The analysis of each theory will end with a short conclusion about its overall explanatory value in this case.

The BTC pipeline begins in the Azeri-Chirag-Guneshli (ACG) oil field in the Caspian Sea. It had been known since Soviet times that the soil under the Caspian Sea was rich with resources of hydrocarbons, but the difficult environment posed many difficulties for extractions (Sovacool, 2012, p. 171). Before the 1990s the Caspian Sea was largely ignored in terms of resource exploration. The great depths, the high sulphur concentration and the high temperature and pressures made any search for resources a technological challenge (Omarova, 1998, p. 187). However, after the fall of the Soviet Union attention from the newly independent post-Soviet states quickly turned towards the resources of the Caspian Sea. Also corporate interest for the Caspian resources started to soar in the early 1990s. These developments formed the start of the project that would eventually result in the successful cooperation in the construction and operation of the BTC pipeline.

Azerbaijan was left in 1991 with a struggling economy and its president Aliyev explored the possibilities of using the ACG oil field as an economic lifeline (O'lear, 2004, p. 171). The potential benefits if resource exploration would succeed would be great, as it would be a large source of

revenues for decades. Yet any exploration, as well as getting the resources to the market, was virtually impossible due to the very limited existent energy infrastructure within Azerbaijan (ibid.). The technology and financing required for the goals of the Aliyev administration could at the time only be provided by energy companies outside of the country (Manning & Jaffe, 1998, p. 113). The major energy companies were compelled to get involved as it opened the possibility of exploring one of the world's largest still unexploited oil and gas areas (ibid.).

The first attempts made by corporations at exploiting the Caspian resources were already underway when the Warsaw Pact was still in place, with Chevron being the first major entrant in Central Asia (Chow & Hendriks, 2010, p. 31). Similar efforts were later undertaken by BP, which had initiated the creation of the Azerbaijan International Oil Consortium (AIOC) in the early 1990s to investigate options to tap the Caspian resource fields (Babali, 2005, p. 31). It led in 1994 to the signing of an \$8 billion product-sharing deal in Baku between AIOC and Azerbaijan, termed the 'Contract of the Century' by Aliyev (Babali, 2005, p. 30; Sovacool, 2012, p. 213). The contract covered a period of thirty years. Production coming from the ACG field would reach 80.000 barrels a day in 1997 and eventually peak around 800.000 barrels a day at full capacity, which was expected well after 2000 (Babali, 2005, p. 31).

At first, the oil was brought to consumers via multiple channels and especially the railroad companies benefitted (Chow & Hendriks, 2010, p. 32). Once the 'early oil' supply coming from ACG started to flow its transportation quickly proved to be increasingly impractical and inefficient, and the first studies were conducted for the construction of a main export pipeline. The first investment was made in 1995 by the companies in AIOC and Azerbaijan state company SOCAR to refurbish a relatively small and old Soviet pipeline to a marine terminal in Supsa, Georgia, from where it would be further transported (ibid.). As capacity gradually kept growing, a new pipeline had to be built. This new pipeline would transport oil closer to the mainly European and to a smaller extent, American consumers. In terms of efficiency, a single, high-capacity pipeline would be the best option by far (ibid.).

The possibility of a more extensive pipeline project sparked a competition between the governments of Russia and Turkey to advance their proposals for pipelines. The Turkish government aimed for constructing a pipeline from Baku in Azerbaijan via Georgia towards the port near Ceyhan in Southern Turkey (the BTC route), while the Russians proposed to further refurbish the old route towards the Novorossiysk port at the Black Sea (Babali, 2005, p. 33). It eventually took until 1999 before the final decision was made in favour of the BTC line.

The governments of Azerbaijan, Georgia and Turkey signed a 'Memorandum of Understanding' with regard to the pipeline in 1998 (BTC, n.d.). Furthermore, the Turkish, Georgian and Azerbaijan Presidents signed the 'Intergovernmental Agreement of the Project' at an OSCE summit in Istanbul at the end of 1999. US President Clinton, also present at the summit, signed the agreement as a witness. (De Schutter, 2006, p. 396). The intergovernmental agreement would provide

the broad framework for construction of the pipeline as well as the later trade concerning the oil. Also BP and its AIOC partners decided to move forward with the BTC route.

To organise the enormously complex financial basis for the project, BP formed a new consortium together with seven other international oil companies holding interests in the ACG fields in 2000, named the Sponsor Group. In early 2001 the Baku-Tblisi-Ceyhan Pipeline Company (BTC Co) was found, a final consortium of energy companies that would share the ownership of the pipeline (Elkind, 2006, p. 42). It would manage the further development of the project and BP was now formally appointed as both managing partner and operator (ibid., p. 43). Three separate Host Government Agreements (HGAs) were signed between Azerbaijan, Georgia and Turkey and BTC Co (Maniruzzaman, 2006, p. 9). The HGAs were – in contrast with the intergovernmental agreement – more detailed and, to some extent, similar to private contracts between companies (ibid.).

In 2002 a ceremony was held in London launching the start of construction of the BTC line (Sovacool & Cooper, 2013, p. 111). It took until 2006 before the construction on the pipeline was completed and a new ceremony was held in London in the same year to officially open the pipeline. During the ceremony, the CEO of BP celebrated the inauguration of the pipeline by stating that BTC was ‘the first great engineering project of the 21st century’ (Pipelines International, 2012). At its peak during the construction the pipeline project employed around 28.000 people and consumed a majority of the world’s steel resources (Sovacool, 2012, p. 211). Technically highly advanced for its time and 1768 km in length, it now transports over 1 million barrels of oil a day from the ACG field in the South of the Caspian Sea via Georgia to Turkish Ceyhan (ibid.). Besides the ACG field it also transports additional oil volumes coming from fields in the Kazakh region of the Caspian to Ceyhan, as well as gas condensate from the later discovered Shah Deniz gas field nearby ACG (SOCAR, n.d.).

Figure 5 – Timeline BTC pipeline development

1994	A product-sharing deal is signed between the president of Azerbaijan and the BP-led AIOC consortium to develop the Azeri-Chirag-Gunehli oil and gas fields in the Caspian Sea
1997	First oil is produced from the ACG field. A working group is established to investigate possible export pipelines
1998	Signing of a 'Memorandum of Understanding' by presidents of Turkey, Azerbaijan, and Georgia to underline their support for the BTC route. BP buys energy company Amoco
1999	The intergovernmental agreement in support of the pipeline is signed by Azerbaijan, Georgia, and Turkey, during a meeting of the Organization for Security and Cooperation in Europe (OSCE) in Istanbul under the presence of US president Clinton
2000	Sponsor Group created to organise the finances for construction of the pipeline
2001	Establishment of the Baku-Tbilisi-Ceyhan Pipeline Company (BTC Co) in London
2002	Ceremony held in London to launch the construction
2003	Actual start of construction
2006	Final inauguration of the pipeline in London
2010	The billionth barrel of oil is delivered to the Turkish port Ceyhan

Since 2006 the flow in the BTC line has been uninterrupted and in 2010 the 1 billionth barrel from the ACG field was delivered to the port of Ceyhan (ibid.). The timeline of the BTC line is summarised in Figure 5.

Neoliberalism and GVC theory each place a different emphasis on what would be the driving force behind the success. Neoliberalism focuses on the role of states and the factors that led to cooperation arising between them, while GVC theory emphasises the work of a lead firm as initiator and organisor. The next section is aimed to test the divergent explanations postulated by the two theories in the case of the BTC pipeline, beginning by neoliberalism.

4.2 Testing neoliberalism

4.2.1 Interdependence: volatile figures

Interdependence between states, as explained by transnationalism, forms a basis on which cooperation between governments can emerge. The influence of interdependence is, as operationalized in chapter three, measured by the relative importance of a country's trade (as compared to its total trade) with another country. This section looks at the level of trade interdependence between the three countries that are involved in the BTC line, Turkey, Azerbaijan and Georgia, and researches whether they are connected to the developments in the BTC pipeline as outlined in the overview above.

Of the three, Turkey by far has the biggest economy and the country was able to create trade relations with the larger economies in its surrounding, such as Russia and the EU. This is reflected in its trade balance with the much smaller economies of Azerbaijan and Georgia, which together make up a relatively small percentage of Turkey's foreign trade. For most of the time, trade with Georgia stayed below the 0,5 per cent level, with only minor changes throughout the displayed period. The same counts for Azerbaijan, to which Turkey-based companies export slightly more, but overall trade with Azerbaijan also has historically remained around the 1 per cent mark. The distance with the main trading partners of Turkey, such as Russia, is considerable. The Turkish trade with Georgia and Azerbaijan is displayed in Figure 6. It is unlikely that with such low trading numbers a situation of interdependency between Turkey and either of the two other states could exist, which would probably require a stronger reliance of Turkey on the trade. The 1 or less per cent of Turkey's trade that goes to Azerbaijan and Georgia form from a Turkish perspective a weak basis to build the ties on which interdependence rests.

The figures from a Georgian and Azerbaijan perspective show a very different picture. Even though trade with both countries is of minor importance to Turkey, for both Azerbaijan and Georgia Turkey is one of the larger trading partners. The exact numbers fluctuate over time, but for Azerbaijan (as shown in Figure 7) the trade with Turkey makes up around 5-10 per cent, with larger periods above 15 and reaching around 20 in both import and export in 1998. Georgia shows a slightly more stable trade pattern in relation to Turkey with occasionally even higher numbers (see Figure 8). Overall,

Turkey makes up around 15 per cent of the total Georgian trade. The reliance of Azerbaijan and Georgia on Turkey is in comparison higher, which makes them more sensitive towards changes in the trade relation with Turkey. Their dependency on Turkey is therefore greater than the dependency of Turkey on the two Caucasian states, but because of the low figures from the Turkish side there can be no real interdependence.

Between Georgia and Azerbaijan there is also a relative low interdependency. From Azerbaijan around 5 per cent in exports and 1 per cent in imports goes to or comes from Georgia, while Georgia's trade with Azerbaijan consists of approximately 10 per cent of the export and 10 per cent of the import. For Georgia Azerbaijan is one of its main trading partners, while Georgia is less important for Azerbaijan. It makes Georgia to some extent dependent on Azerbaijan, but, similar as described above, dependency from one side does not make interdependence.

Even though the figures do not show high levels of interdependence, perhaps a growing or decreasing trend in trade interdependence is able to explain the evolution of the BTC pipeline. The next step in the analysis, therefore, is to compare the development in the trade figures, and hence the states' interdependence, alongside the developments in the BTC line from 1992 onwards. The first big step in the BTC project came when the presidents of Azerbaijan, Turkey and Georgia signed the 'Memorandum of Understanding' in 1998.. Export from Azerbaijan to Turkey reached its highest point in the 1990s in 1998 in terms of per cent share of their respective total trade. Import from Azerbaijan declined, however, and while it remained high in 1997, there was a sharp decrease in 1998 around the time the Memorandum was signed.

Azerbaijan's export peak in 1998 can be explained by the oil production from the ACG field which commenced in that year, even though it could not yet be fully transported through the pipeline.. Initially, Turkey was the main consumer, but in 1999 other consumers, predominantly from the EU, would also make use of the Azerbaijan oil (Navaretti, 2003, p. 4). The percentage of the export from Azerbaijan going to Turkey then strongly decreased again in 1999, as shown in Figure 7.

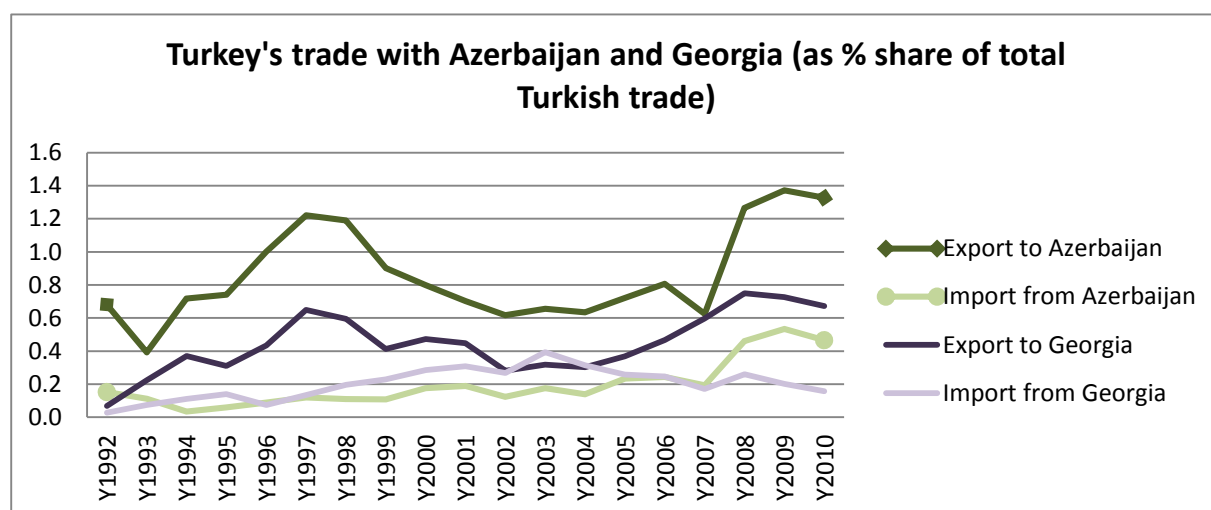
The figures from a Turkish perspective show a downward trend in general in the years after 1997. Georgia's trade dependence on Turkey and Azerbaijan decreases in 1997 and only partially goes up again in 1998. The figures combined seem to largely contradict the developments in the political relation, which reached its highest point in 1999 with the signing of the more extensive 'Intergovernmental Agreement of the Project'. In general, it can be said that during the period in which the two main agreements constituting the framework for the BTC pipeline were designed (1998-1999), the interdependence between the countries was largely on a downward trajectory. .

The same trend is noticeable in the period in which the project began and the construction started, from 2000 to 2003. Turkey's export to Georgia and Azerbaijan slightly decreased, the movement still only consisted of changes of only around 0,5 per cent of total Turkish trade. Azerbaijan's import and export figures with regard to the two other countries continued their downward trend or stayed under the 5 per cent level. Georgia shows a more volatile trade pattern in

the same period. Overall the trade with Turkey declined, while trade with Azerbaijan hovered between 5 and 10 per cent for both import and export.

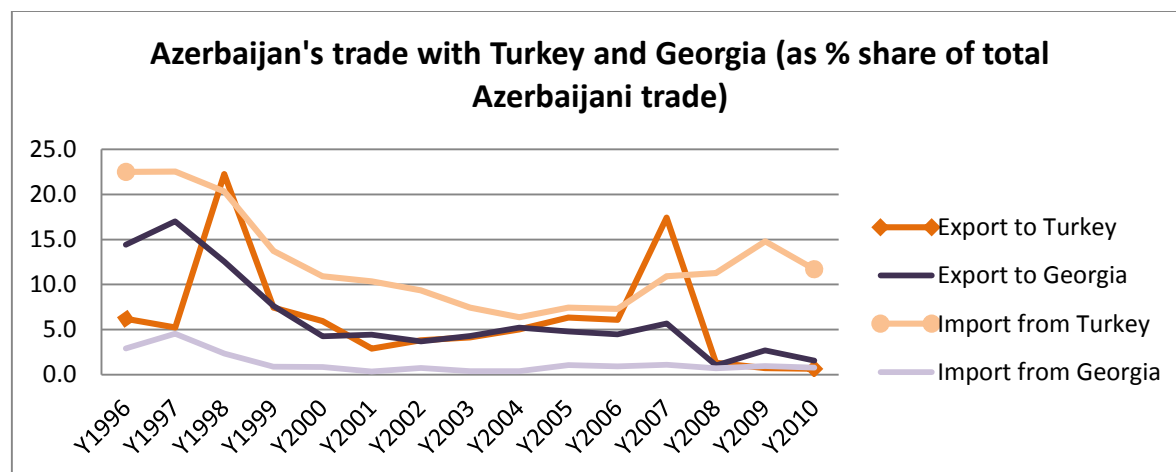
Interdependence, then, could not have been a strong factor supporting the organisation and construction process. Until the pipeline was inaugurated in 2006 trade between all three countries continued without much movement. The figures from Azerbaijan show a similar peak as occurred in 1997, when the first oil of the ACG field reached Turkey. From 2006 to 2007 the BTC pipeline became operational and the first volumes were delivered in Turkey. It did not have much effect on the figures of Turkish import from Azerbaijan, which again shows that the two Caucasian countries were of relatively little importance for the Turkish economy. Later in 2008 export from Azerbaijan could also reach other consumers and the relative importance of the offtake of Turkey strongly decreased.

Figure 6 – Turkey's trade with Azerbaijan and Georgia as % share of total Turkish trade



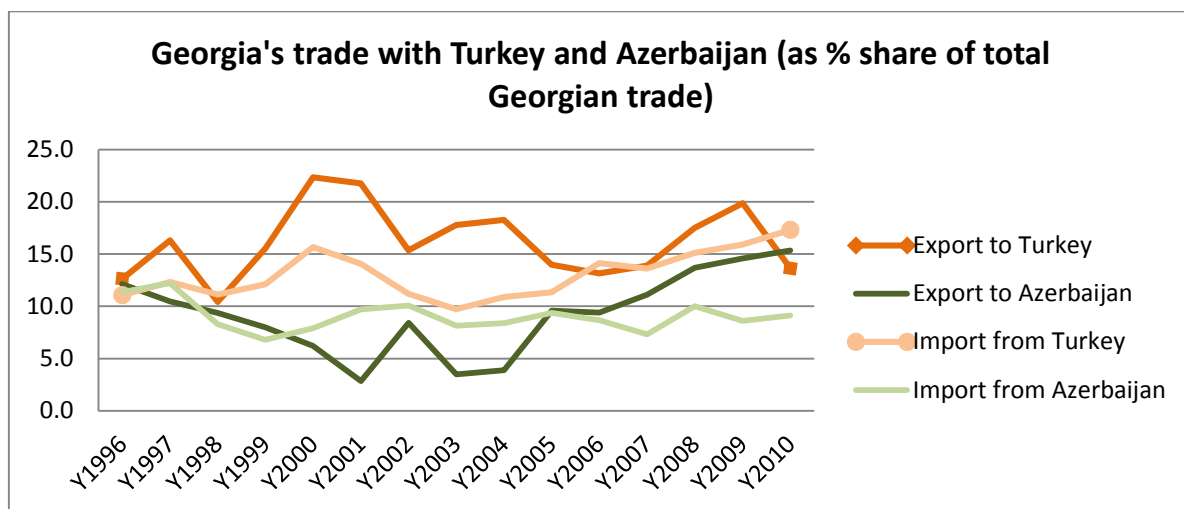
(UN Comtrade Database 2014)

Figure 7 – Azerbaijan's trade with Turkey and Georgia as % share of total Azerbaijani trade



(UN Comtrade, 2014)

Figure 8 – Georgia's trade with Turkey and Azerbaijan as % share of total Georgian trade



(UN Comtrade, 2014)

When compared, the trends in the trade figures between Azerbaijan, Georgia and Turkey during the research period do not clearly correspond with the events surrounding the BTC pipeline. Transnationalism would predict that rising numbers would be followed by governmental cooperation. Yet at the times when cooperation between the governments was on its highest level in 1998 and 1999, as well as in the subsequent phase leading up to the pipeline's construction, interdependency mostly decreased. During the construction and the operation phase there is again no overall trend of increasing interdependency, which then could lead through governmental cooperation to a successful running of the pipeline. According to the transnationalist hypothesis decreasing interdependency would similarly decrease the chance of a successful outcome. Because the cooperation in BTC project still turned out to be successful the transnationalist hypothesis can, in this case, be rejected.

The numbers do show, however, the economic importance of Turkey within the Caucasus. Almost a fourth of all Georgia's trade is with Turkey and also for Azerbaijan the numbers are relatively high. Was Turkey able to make use of its position in the trade with Azerbaijan and Georgia and, following the second hypothesis, build a hegemonic position in the region after the fall of the Soviet Union?

4.2.2 Hegemony: Turkey's aspirations and the role of the US

Based on the trading figures in the previous section Turkey is one of the likely candidates that may have established a hegemony in the Caucasus region, through which they could have enforced the cooperation in the BTC pipeline. Other candidates are formed by the US and Russia. The US is discussed below, Russia will not be analysed in this case. Russia's role in pipeline governance is extensively discussed in the next chapter, which will show that Russia was unable to become a hegemon in the region. The analysis here will begin by looking at potential hegemony of the Turkish state.

Building a strong position in the countries of the Caucasus was certainly the aim of the Turkish government. Since the 1990s Turkey has been increasingly involved in positioning itself as one of the dominant powers in the Caucasian region. However, despite Turkish increasing attempts to dominate the region both Azerbaijan and Georgia remained focused on their independence. A Turkish hegemony, as will be shown below, could therefore not be established.

The founder of modern Turkey, Atatürk, described the motto Turkey should embody as follows: 'peace at home, peace in the world' (Aras, 2000, p 36). While gradually the subsequent Turkish governments took more initiative internationally, the overall foreign policy pattern still remained relatively cautious after the Cold War (ibid.). Its foreign policy, mainly developed by the Turkish military, has been known as 'Kemalist'. Kemalism has come to mean a strong focus on the development of the Turkish state and identity and an outward orientation towards territorial security (ibid., p. 37). Economic growth was essential for development and both Azerbaijan and Georgia fitted in the export-oriented growth strategy of the Turkish government (Baran, 2002, p. 225).

In 1992, Turkey created the Black Sea Economic Cooperation (BSEC), in an attempt to play a more leading role in the development of the region. The BSEC was intended to bring together all countries surrounding the Black Sea and Azerbaijan and Armenia, but it produced only weak results (Baran, 2002, p. 227). The BSEC cooperation, which still exists, failed to become an effective formal institution for multilateral cooperation. The volatile and frequently decreasing trade figures, as portrayed in the graphs shown above, demonstrated the ineffectiveness of Turkish policy to further increase its economic position in Georgia and Azerbaijan. Turkish influence in this regard was also limited in the 1990s as the Turkish economy itself was still in a pre-development stage, with high levels of inflation and low levels of investments. It took over a decade before the Turkish economy could expand significantly and reach higher levels of international competitiveness (Jarosiewicz, 2013). Politically, the relations between Turkey and, respectively, Azerbaijan and Georgia, remained good, but were always conducted on the basis of mutual independence as demanded by the Caucasian states. The Caucasian focus on independence strongly limited the Turkish hegemonic aspirations.

Especially newly independent Azerbaijan formed one of the key priorities in Turkish foreign policy, and Turkey was the first to officially recognize that independence (Fariz, 2005, p. 79).. Elchibey, the leader of the nationalist Popular Front, was elected President of Azerbaijan mainly based on his promise to turn the tide in the war with Armenia. He would further strive for closer ties with Turkey and the US, instead of Russia (Hill & Jewett, 1994, p. 10).

President Elchibey used to say that Turks and Azeris were 'one nation, two states', as the respective societies were both rooted in the Turkic cultural and linguistic tradition (Sodergen, 2004, p. 12). However, the threat of Armenian forces winning the war created the stage for a coup attempt by Guseinov, who enjoyed Russian backing (Goltz, 1993, p. 92). After a new military defeat by the Armenians the scales tipped in favour of Guseinov, who had now joined teams with KGB veteran Aliyev. By 1993 Aliyev took up the Presidency, while Guseinov occupied the position of prime

minister (ibid.).

When Elchibey was ousted and Aliyev took over the presidency in 1993, the Turkish government feared that this would destroy the partnership between the two states they had developed (Fariz, 2005, p. 83). Yet surprisingly, the ties both Aliyev and Guseinov had with Russia and the support their fractions had received did not result in a Russia-oriented foreign policy. Rather, Aliyev 'committed his country's future towards the West' (Baran, 2002, p. 225). Aliyev even repeated the 'one nation, two states' statement made earlier by Elchibey (Karda, 2009). The Turkey-Azerbaijan relations continuously remained good under Aliyev in the 1990s, albeit that there were some underlying frictions that did sometimes break through the surface (Daloglu, 2013; Aras, 2000, pp. 43-44). These frictions showed how Azerbaijan was able to go against Turkey, which does not comply with a Turkish hegemony.

For instance, the relationship between both states never grew to such an extent that Turkey would support Azerbaijan militarily, as Russia later did. In the Armenia-Azerbaijan conflict Turkish governments adopted a cautious approach, which still reflected the policy of moderation by which Turkey traditionally operated internationally (Sayari, 2000, p. 170). This Turkish lack of assertiveness also did not correspond with the neoliberal idea of a controlling hegemon.

Stability returned in Azerbaijan with Aliyev, and he and his family continued to lead the country throughout the researched period. The relation with Turkey continued on a similar path as the one followed in the early 1990s, but as time went on, Azerbaijan's attitude towards Turkey hardened. It further underlined Azerbaijan's independence from Turkey. Especially when the AKP won the Turkish elections in 2002 a period of more strained relations started (Elbay, 2012, p. 52). The victory of the AKP party was preceded by a financial crisis that had erupted in Turkey in 2000. In the crisis, large segments of the banking sector had collapsed and millions saw the value of their savings drop (ibid.). It caused the new AKP government of Turkey in 2002 to be mostly focused on domestic issues, but they also attempted to take the first steps to reconcile the relation with Armenia (ibid.).

This led in 2002 to the 'end of the honeymoon' in Turkey-Azerbaijan relations, as the Aliyev administration would not accept closer ties between Turkey and Azerbaijan's Armenian enemy (Ismailzade, 2005, p. 79). The Turkish economy kept growing under the AKP and its foreign policy became increasingly assertive, also on the Armenian issue (Dagi, 2008, p. 27). The Turkish rapprochement with Armenia eventually culminated in 2009 into Aliyev (son of the Aliyev who came to power in 1993) making a public threat to cut off the energy flow to Turkey in the *Financial Times* (Farchy, 2014). Aliyev never made good on this threat, but his words did, together with the other, earlier disagreements, strongly underline the Azerbaijan government's ability to go against the wishes of the Turkish government despite its close relation with Turkey. So, at least with regard to Azerbaijan a Turkish hegemony could not be established.

Historically, the ties between Turkey and Georgia were more strained, with Georgia seeking Russian help against the Ottomans. A large majority of the Georgian population has an Orthodox

Christian background, which makes Georgia a less natural partner for Turkey than Azerbaijan (Aras, 2000, p. 41). Yet, since Georgia's independence, the relation between the two countries has developed without many serious complications, although it never reached the level of the Turkish relationship with Azerbaijan. Georgia received some economic and political assistance from Turkey in the 1990s, but this diminished when the crisis erupted and the AKP party formed a new government (Baran, 2002, p. 227).

Turkey continued its relations with the separatist Abkhazian region in Georgia, which has a relatively large diaspora in Turkey. The policy of the Turkish government in relation to the two separatist regions of South-Ossetia and Abkhazia would remain a strong point of contention in the bilateral relation (Maloof, 2012). Comparable to Azerbaijan, the fact that Georgia was able to openly disagree with Turkey and actively resist its policy indicated that the Turkish government was not able to subdue Georgia. The government in Turkey continuously allowed its small volume of trade with Abkhazia to rise, despite a Georgian embargo in the late 1990s (Kapanadze, 2014). The trade was conducted by Turkish vessels which would reach the region through the Black Sea and via Russian territory. Georgian officials claimed these actions represented a violation of Georgia's territorial integrity and the Georgian government responded by seizing the Turkish vessels (*ibid.*). It showed also the Georgian willingness and ability to go against its bigger neighbour. Such Georgian actions do not fit the image of a Turkish hegemony.

Besides the trade issue, Turkey largely refrained from being involved in any active way in the border issues and secessionist movements in Georgia, despite domestic pressures from Turkish Muslim groups (Onis & Yilmaz, 2009, p. 18). Especially Georgia's conflict with Russia caused the Turkish government to be very reluctant to support Georgia in its struggle to keep Abkhazia and South Ossetia under control, because this would go against Russia (Sayari, 2000, p. 175). Turkey generally aimed in its foreign policy to keep a 'delicate balance' between its alliance with NATO and the US and its relation with Russia, while the Georgian government demanded a stronger response. Especially after the short war with Russia in 2008 (Kapanandze, 2014). This limited the Turkish ability to influence Georgia or establish a hegemony.

In general, Turkey's efforts to expand its influence in its Eastern neighbourhood produced mixed results. Even though the overall relations with both Georgia and especially Azerbaijan remained essentially good, there were clear issues of strong disagreements between the Caucasian countries and Turkey. The Turkish foreign policy as conducted by the subsequent governments in the 1990s was still relatively moderate and limited by the weaker Turkish economy. When the economy grew after the Turkish economic crisis in 2000 and the new more assertive foreign policy by AKP took shape, it led to stronger counter-reactions by Azerbaijan and Georgia. Even though the consecutive political leaders from Azerbaijan as well as Georgia emphasised their strong bond with Turkey, they similarly stressed their independence. A Turkish hegemony could therefore not be the basis for the cooperation (whether it be governmental or corporate cooperation) concerning the BTC pipeline.

A US hegemony?

Another country which could potentially form a hegemon in the region is the US (Layne, 2009, p. 148). It is therefore important to also examine the activities of the US with regard to the Caucasus. If the US was able to form a hegemony in the Caucasus it conceivably could have imposed the cooperation on the countries involved in the BTC project.

After the fall of the Soviet Union, some claimed that the US could fill the void the Soviets had left. The US could become the new dominating force in the Caucasus (Weitz, 2006, p. 156). However, it quickly turned out that this would not be the case. Whereas other powers in the region attempted to build a power base with Georgia and Azerbaijan, the policy of the United States did not aim for hegemony. Rather, in the early 1990s the US actually did not have a coherent strategy for the Caucasus. This was caused in part because policymakers were unfamiliar with the region, but mostly because they were preoccupied with Russia (Baran, 2002, p. 222).

US policy towards the Caucasus was heavily influenced by its renewed approach to Russia after the Soviet collapse (Ismailzade, 2010, p. 5). Both the Bush and Clinton administrations concentrated their efforts to warm the relation with Russia and Clinton even developed a 'Russia first' policy, which placed an emphasis in US foreign policy on maintaining good ties with Russia (Ismailzade, 2010, p. 6). Georgia and Azerbaijan were much less important and US policy aimed not to anger Russia in order to achieve the goal of better US-Russia relations (Goldgeier & McFaul, 2003, p. 11). It was not until the discovery of large amounts of hydrocarbon resources in the Caspian Sea later in the 1990s US attention moved slightly towards the Caspian area, but the US was still only able to play a minor role (Baran, 2002, p. 222).

The US more or less abandoned the unsuccessful 'Russia first' policy at the end of the 1990s and returned to a new version of its former Soviet containment policy, which aimed at preventing Russia to rejuvenate the Warsaw Pact and regain its influence in the region through the use and dominance over the resources of the Caspian (Nourzhanov, 2006, p. 61). The Russian involvement in the conflicts of Serbia and Chechnya and the increasingly nationalist policies had shown the limits of a possible rapprochement between the US and Russia (Baran, 2002, p. 222). The BTC line fitted in the new containment policy; it was believed a choice for this route would loosen Russia's hold on the Caucasian states (Nourzhanov, 2006, p. 61). Especially after the attacks on the Twin Towers the US was dragged into a more proactive role in the Caucasus, although the attention was still limited when compared to other regions. Yet the influence of the US on the events in the Caucasus remained small.

The policy centred on limiting terrorism and Islamic extremism, but in the face of Russian competition also the rebuilding of the region's economies gained priority (Weitz, 2006, p. 161). To reach these goals the US government relied on the freedom doctrine, which meant to actively promote liberal democratic and economic principles (ibid.). The results achieved by the US were very limited: democratic oppositions remained weak and divided and the authoritarian leaders of both Georgia and Azerbaijan made clear that 'they would further curtail cooperation with the United States' if it would

pursue a policy threatening their overthrow (ibid.). The increased US efforts did therefore not result in an American hegemony in the Caucasus region.

While a hegemony in the Caucasus was not established, did the US government obtain a more dominant position in Turkey? Turkey has historically been much more important in the eyes of the US, especially during the Cold War (Kaygusuz, 2006, p. 14). Since the 1990s Turkey has however been more and more successful in positioning itself as one of the regional powers (Sayari, 2000, p. 169). Relations with the US have since then been tenser, which has evolved alongside the growing economic and military capacity of the Turkish state (Aslan, 2012, p. 167). The strongest blow in the Turkey-US relationship came in 2003, when the Turkish government refused to authorise the deployment of US troops in Turkey on their way to Iraq (Krahmann, 2005, p. 540). Together with the lack of attention for and influence in the Caucasus it is hard to see how, with this background, a US hegemony might have been the driving force behind economic cooperation between the three countries.

Turkey nor the US were able to become hegemonic with regard to the states involved in the BTC pipeline. The existence of a hegemonic state could therefore not be the reason behind the eventual success of the BTC. Consequently, the hegemony hypothesis can be rejected for the BTC case.

4.2.3 Iteration: contact without hegemony

Even though a Turkish or US hegemony could not be established, there had continuously been contact between Turkey, Azerbaijan and Georgia after the fall of the Soviet Union. Looking at the contact between the involved governments is necessary to answer the last neoliberal hypothesis, which claims that iteration increases the likeliness of successful cooperation. However, as will be shown below, the sustained contact in the end did not result in the establishment of the actual cooperation in the BTC pipeline.

The opportunities created by the independence Georgia and Azerbaijan quickly translated into multiple meetings and the signing of several treaties in the early 1990s. After Turkey was the first to recognize Azerbaijan's independence in 1991, it also was one of the first to establish diplomatic missions in the country (Fariz, 2005, p. 79). In 1991, Turkey also was swift to recognise and support Georgia's independence, and the first official treaty was signed after a successful coup installed Shevardnadze as president of Georgia in 1992 (Karasar, 2008, p. 3). The most prominent mechanism through which contact between national leaders and policy makers was established was the BSEC organisation in 1992. Despite its ineffectiveness, it managed to create meetings on a regular basis (Baran, 2002, p. 228).

Georgia and Azerbaijan also quickly established contact with one another in 1990. Although Georgia has more religious and cultural affinities with Christian Armenia than does Azerbaijan, the relation between the two states has been closer (Shiriyev & Kakachia, 2013, p. 9). Azerbaijan and Georgia both faced similar internal conflicts following their independence, which created sympathy

among both countries' government elites. Azerbaijan struggled with the separatist Armenian enclave of Nagorno-Karabakh and Georgia had to deal with the insurgent regions of Abkhazia and South Ossetia. Both countries have therefore emphasised the importance of territorial integrity (*ibid.*). Their mutual bond was recorded in the Azerbaijan-Georgian bilateral treaty of 1990, which focused on cooperation in several areas. This was further extended in 1993 by Georgian president Shevardnadze and Aliyev with a Treaty of Friendship. The treaty included a provision that Georgia would not re-export natural resources coming from Azerbaijan to Armenia (Hill & Jewett, 1994, p. 55).

Contact continued in the beginning of the 1990s over the shared challenges of security with regard to the states' respective separatist regions. And Shevardnadze's -unsuccessful - attempts for mediation between Azerbaijan and Armenia further ensured that encounters between the governments would continue (Cornell, 1999, p. 3). Overall, there were regular meetings between the three governments in the period before the BTC pipeline. Thus there was repeated contact, but did it also form the basis under the creation of the BTC pipeline?

By 1995, focus within the governments of the Caucasus shifted from political struggles, which had then to some extent calmed down and become less urgent, to economic growth and recovery as well as to strengthen their independence in relation to Russia (O'Lear, 2004, p. 168). The different conflicts of post-independence for example caused economic growth in Azerbaijan to contract with around 60 per cent between 1990 and 1995 (Sovacool, 2012, p. 214). To be able to make use of the resources of the Caspian was therefore an attractive idea, but also with Turkey the governments were not able to independently organise the BTC pipeline. They had to rely on energy companies for the execution of the project.

Contact between Azerbaijan, Georgia and Turkey regarding the Caspian's oil and gas reserves was established after Azerbaijan signed the product-sharing contract with AIOC in 1994 (Sovacool & Cooper, 2013, p. 114). The old Soviet Baku-Supsa pipeline was refurbished and used for the initial oil coming from the ACG field, but the trade was still on too small a scale to require an intergovernmental contract (*ibid.*). In the process of refurbishing the Baku-Supsa line Turkey immediately proposed to extend it to Ceyhan, but it found no willing audience with the companies that would have to implement such a plan.

In several intergovernmental meetings between the three countries, however, the idea of a more extensive transnational pipeline was discussed, especially when it quickly appeared that a pipeline larger than the Baku-Supsa line was needed to transport the increasing volumes of oil (Sovacool, 2012, p. 215). It led in 1998 to the signing of a Memorandum of Understanding by Azerbaijan, Turkey and Georgia, to construct the political support in favour of a pipeline project that would encompass all three states (Chow & Hendrikx, 2010, p. 35). Although this Memorandum probably helped, the project could continue only after the profitability of a pipeline via the Baku-Tbilisi-Ceyhan route was determined by the involved energy companies.

The governments could not sign an intergovernmental agreement and actually organise the

project without these companies. The Memorandum did not have much legal value; it was rather a formal version of a 'gentlemen's agreement' (Gay & Essinger, 2000, p. 6). It could be better characterised as a lobby activity towards the companies and to show the governments' political will in order to persuade them to go along with the idea of a BTC pipeline. Only when the involved companies agreed on constructing the BTC pipeline the governments could conclude their intergovernmental agreement in 1999, a year after they had signed the Memorandum. In the end, the governmental contact thus was not a decisive factor in the successful economic cooperation in the project of the BTC line.

There was iteration, but, due to the governments' inability to conduct the project without energy companies, it was not the cause for the actual cooperation in the pipeline project. Furthermore, later periods show a disconnection between the amount of intergovernmental contact and the developments in the BTC pipeline. At the time when the preparations for the BTC project, such as its finances and planning, were still ongoing the governmental contact diminished between Turkey and the other two states. The financial crisis of 2000 and the subsequent election of the AKP party had initially turned the attention of Turkey's government inwards and later, when the economy recovered, the Turkish government returned to the international stage with newfound confidence (Elbay, 2012, p. 52). Besides more tense relations, the Turkish assertiveness also resulted in a decrease in bilateral and international meetings with Azerbaijan and Georgia (Sozen, 2010, p. 103). The reduced frequency of contact did not have a noticeable effect on the situation in the BTC project, as the financing as well as the construction went according to plan. Hence, also without repeated governmental contact the BTC project could still be successful.

Moreover, the volumes transported through the then finished BTC pipeline kept rapidly growing, without interruptions, even as 2009 saw a fierce disruption in the Turkish-Azerbaijan relations. Due to this incident, when Aliyev threatened to cut off supplies to Turkey, contact between the two governments did quickly decrease. Both in the phase leading up to Aliyev's threat as well as afterwards (Onis, 2011, p. 52). It was however not accompanied by changes in the operation of the BTC project and did not affect the successful running of the pipeline. Overall, positive nor negative developments in the relations between the governments did affect the project's success or failure: positive developments did not result in successful cooperation, nor did negative developments result in unsuccessful cooperation. This leads to the conclusion that also the third hypothesis can be rejected.

4.2.4 Conclusion: neoliberalism and the BTC pipeline

While looking back at the previous analysis of the three hypotheses several conclusions can be derived. The case of the BTC pipeline shows no link between the level of interdependence and the developments in the project. At the time when governmental cooperation was high, the trade interdependence was decreasing. Interdependence, then, could not have been the cause of the success of the BTC line. The same holds for hegemony, as posed by the second neoliberal hypothesis. Both

Turkey and the US favoured the BTC line but could not create cooperation through the establishment of a hegemony. Even though repeated contact may have aligned the interests of the governments of Turkey, Azerbaijan, and Georgia with regard to the pipeline project, they could not actually establish the economic cooperation without the involvement of companies. The companies, rather than merely following government policies, made their own assessment of the profitability of a BTC pipeline. The next section, analysing GVC theory, will outline this in more detail. With regard to hypotheses related to neoliberalism and the BTC pipeline, in conclusion it can be said that they could not explain the successful economic cooperation in the BTC pipeline project. Figure 9 summarises these results.

Figure 9 – Summary of results neoliberalism and BTC pipeline

	Neoliberalism			Economic cooperation
	H1: Interdependency	H2: Hegemony	H3: Repeated contact	
Case 1: BTC pipeline	No clear connection between levels of interdependence and developments in the case	No Turkish or US hegemony	No clear connection intergovernmental contact and developments in the case	Successful

4.3 Testing Global Value Chain Theory

4.3.1 Lead firm: BP's dominance

While the previous section focused on the hypotheses related to neoliberalism, this part will concentrate on GVC theory and hence the role of companies in the BTC pipeline. The analysis begins by looking at the main concept GVC theory as represented in the fourth hypothesis; the presence of a lead firm which creates cooperation through the management of their value chain. The analysis will concentrate on the role of BP, which grew to become a leading factor in the development of the BTC project.

Many of the energy TNCs were initially reluctant to engage in the difficult environment of the Caspian Sea (Chow & Hendriks, 2010, p. 31). After Chevron, BP was the first to take the step and concluded the product-sharing deal with Azerbaijan in 1994, together with its partner companies in the AIOC consortium. It gave the companies the right to explore and exploit Azerbaijan's area of the Caspian for thirty years (Babali, 2005, p. 31). BP, as the largest shareholder in the consortium, was appointed as operator (ibid). Azerbaijan's government would receive a share of the revenues as well as a transit fee for its transportation through the country (ibid.). Since that time BP has remained active in the area and became one of the largest companies involved in the Caspian resource trade. But was it also able to act as a lead firm, and could the success of the pipeline and its organisation be attributed to the efforts of BP?

The Caspian Sea offered a crucial prospect for BP to diversify its oil supply, as its business

relied on the ability to replace recovered reserves (Carrol, 2012, p. 285). The ACG field was a way for BP to reduce its reliance on its drill sites in Alaska and the North Sea (PLATFORM, 2002, p. 45). In general, the nature of the oil industry's supply chains requires a constant strategic search for untapped reserves that potentially could affect the market (Omarova, 1998, pp. 189-191). By signing the product-sharing deal, BP had become the leading actor in exploiting the ACG field through the AIOC consortium. By 1995, the company had already invested in transportation via the Baku-Supsa line. Now that the volumes of oil increased, BP concluded that somewhere in the near future a new, larger pipeline had to be constructed in order to bring the oil to Western markets (Chow & Hendrickx, 2010, p. 30).

The search for a route for a new, large-scale pipeline by BP and its partners in AIOC triggered the governments of Turkey and Russia to try and advance their own proposals for pipelines. Both of the proposed routes by Russia and Turkey, as described in the overview, had their own up- and downsides. In general, the terrain around the Caspian provided an extremely difficult geological environment. The pipeline had to overcome the challenges of deep water construction with constant tectonic movements and mud volcanoes, as well as high differences in seasonal temperatures (Sovacool, 2012, p. 213). The Russian route to the Black Sea port of Novorossiysk would require the patching up and expansion of the existing 1400 km Baku-Tihoretsk pipeline with a new pipeline of 1500 km at a cost of around \$1.8 billion (Babali, 2005, p. 37). The BTC route, which had to bypass Armenia because of its political conflict with Azerbaijan, would traverse roughly 1700 km of even more challenging terrain. The costs for the BTC were therefore substantially higher and were estimated at \$2.9 billion (ibid.). Only by 1999 the decision was made in favour of the BTC route, ultimately by BP.

It took several years before BP was convinced of the benefits of the BTC route and in the meantime especially the Turkish government attempted to persuade the consortium to choose for this option. The big advantage of the BTC route was, as stressed by the Turkish government, that it would avoid using the already overcrowded Bosphorus strait. Transport from Novorossiysk would require tankers to move the oil via the Black Sea and the Mediterranean to Western Europe. The BTC route also would avoid the Chechnya area, even though it might face Kurdish opposition (Carroll, 2012, p. 286).

Yet the appeal of the Russian route became much greater when in 1996 a plan for a different pipeline was unfolded. Governments from Kazakhstan and Russia signed a declaration approving the construction of a pipeline from the Kazakh fields in the Caspian Sea towards Novorossiysk (Babali, 2005, p. 37). Chevron succeeded in 1996 in overcoming its earlier difficulties with Russian partners and became the project's main proponent. Chevron's large investments would tremendously increase the capacity and improve the management of the port, and thereby strongly enhance its attractiveness for others to use it (Carroll, 2012, p. 286; Chow & Hendrickx, 2010, p. 31).

The Turkish government, scared by the possibility that the investments regarding the pipeline

would go to Russia, in response made an offer to the AIOC consortium headed by BP to help finance the upgrade the Baku-Supsa line and its extension to Ceyhan. They offered to provide an eight-and-a-half year term preferential credit at an annual interest rate of 7.25 per cent (Babali, 2005, p. 36). The Turkish Treasury would be the guarantor, so as to avoid any delays caused by political reconsiderations. Being the guarantor also meant Turkey would buy all the early oil, estimated to be around 4 or 5 million tons annually (ibid.).

Even though these conditions were attractive, the consortium rejected the Turkish proposal. This was because the offer came with two conditions: (1) that the construction consortium would be controlled by the Turkish government (which would own 51 per cent of the shares) and (2) that in accepting the deal the companies would also commit to the Ceyhan route. The rejection of the Turkish proposal showed how at this stage the energy companies were very reluctant to commit to any of the options at this point (Carroll, 2012, p. 287). It also showed how BP and the other energy companies had the power to defy the Turkish as well as the Russian government. Moreover, they did not only defy the governments: by being able to decide whether to go ahead with any of the pipelines the companies, led by BP, were able to make or break regional cooperation. The ability of BP to decide on the construction and route of its value chain fits the image of the company acting as a lead firm.

Three developments, other than involvement of the governments of the US, Turkey or Russia, proved to be decisive for the decision for the BTC route by BP and AIOC. Firstly, in late 1998 the German-based engineering company Pipeline Engineering GmbH – PLE finished a large scale feasibility study and an environmental audit for transporting hydrocarbons from the Caspian to the Mediterranean Sea. The conclusions of the study provided the first evidence to persuade the AIOC members to think seriously about a route running from Azerbaijan via Georgia to Turkey as a viable way to Western markets (Babali, 2005, p. 38). Secondly, the BTC project was stuck until BP bought US oil company Amoco in 1998. With the shares of Amoco, one of the partners in AIOC, BP now owned 34 per cent of the consortium. AIOC's decisions were made by its governing committee and now BP could more strongly push for certain decisions (Chow & Hendriks, 2010, p. 33). Thirdly, the gas and condensate field Shah Deniz was discovered in 1999 nearby the ACG field. It would considerably enhance the area's commercial prospects, as the pipeline could then also transport additional liquids from Shah Deniz. The BTC corridor could be used for transporting gas to Turkey. This would be much harder to achieve from the Novorossiysk port, as gas requires more effort before it can be transported as LNG by tankers (ibid., p. 34).

With these three developments BP could determine the profitability of the BTC project and almost singlehandedly decide that the BTC route would be the most viable. In the decision-making process political factors were still important. The more obvious route through Armenia was excluded from the beginning due to Azerbaijan's clear obstruction, yet commercial interests and profit motivations ultimately retained the upper hand. BP proved to be 'the single most influential actor' in the creation of the BTC pipeline project (Sovacool, 2012, p. 213) and could clearly act as a lead firm.

Through its capabilities as a lead firm BP was able to organise the successful cooperation in the start of the BTC project, which follows the first hypothesis as stated by GVC theory.

Also in the further execution of the project BP was able to retain its role as a lead firm. While the project had been stalled for years, now the decision was made by BP's executive committee and the AIOC companies everything moved fast. At an OSCE summit in Istanbul at the end of 1999, the Turkish, Georgian and Azerbaijan presidents, who had been waiting for the green light from the consortium, signed their Intergovernmental Agreement of the Project. US President Clinton, also present at the summit, signed the agreement as a witness. (De Schutter, 2006, p. 396). In the agreement, the respective governments agreed to apply uniform technical, safety and environmental standards, create detailed tax bases in each jurisdiction and provide guarantees to the involved companies to ensure the certainty and the predictability of the regulatory regime (Boyd-Carpenter & Labadi, 2004). The details would be worked out in the Host Government Agreements (HGAs), concluded with the energy consortium (ibid.). The provisions included in the HGAs further illustrated how the governments took up a more subordinate position in relation to the energy companies and specifically BP.

The HGAs signed by Turkey, Azerbaijan and Georgia gave the companies far-reaching rights (Maniruzzaman, 2006, p. 9). In international investment agreements, a clause aimed at providing a stable fiscal and regulatory environment is common practice, especially in large scale energy and infrastructure projects. Yet the provisions in the agreements with the consortium were much wider in scope (ibid.). The HGAs would prevail over national laws except the constitution and effectively granted the consortium exemption from any financial burden that may arise due to regulatory changes in the forty years after signing. Once the BTC project had started, only the consortium could de facto terminate a HGA (Cotula, 2008, p. 173). By signing the HGA documents in 2001, the respective governments had 'effectively abrogated their executive and legislative powers' (EIA, 2003, p. 4).

The construction phase again demonstrates that BP had acquired the capabilities of a lead firm. In early 2001 the Baku-Tblisi-Ceyhan Pipeline Company (BTC Co) was founded, a final consortium of energy companies that would share the ownership of the pipeline (Elkind, 2006, p. 42). It would be the driving force for further development of the project, and BP was now formally appointed as both managing partner and operator (ibid., p. 43). While BP was holding its cards close to its chest throughout most of the 1990s with regard to building a main pipeline, the company was strongly motivated to go ahead with the BTC line after the turn of the millennium. BP's dominance over the project had also grown extensively during this period. Its major competitors, such as Chevron and ExxonMobil, who had been part of the initial AIOC consortium (although with a smaller share), were now excluded from BTC Co. It was not until 2010 before Chevron renewed cooperation with the group led by BP (Ritchie, 2013). BP would continue to be the main operator of the BTC from its inception in 2006 all the way through the investigated period (Sovacool & Cooper, 2013, p. 125).

In sum, through BP's dominance in the different phases of the project the company was able to

initiate and manage the successful cooperation in the BTC pipeline. BP took a leading role in the consortia and ultimately decided to go on with the BTC project. Governmental cooperation, through the intergovernmental agreement, followed the cooperation between companies. This leads to the conclusion that the lead firm hypothesis can be accepted for the BTC case. But to what extent was BP supported by issuing credible commitments?

4.3.2 Credible commitments: the profits of the Caspian and the stick of arbitration

Financial investments and profits

The first aspect of credible commitments comes from the investment made by the lead firm and the potential profits from the pipeline. To organise the enormously complex financial basis for the project BP formed a new consortium together with seven other international oil companies holding interests in the ACG fields in 2000, named the Sponsor Group. Credit was extended by the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the World Bank's private sector, credit organisations of seven countries and a group of 15 commercial banks (BP, n.d.). Together, these credits would cover around 70 per cent of the estimated costs of \$2.9 billion, the other direct costs would be spread among the Group members (*ibid.*). BP, being the main shareholder, would bear most of these costs.

Through its investments BP could make a credible commitment to cooperation in the BTC pipeline, but it did not form the driving force behind the successful cooperation. The initial investments, together with the prospect of increasing costs, created a common concern among the partners. A quick and smooth return on investments formed the first goal, followed by profits when the pipeline would become fully operational (Chow & Hendriks, 2010, p. 34). The president of BP Azerbaijan had stated in 2001 that investments by oil companies could expect to see a profit margin of 20 to 30 per cent, which was high for oil industry standards (Babali, 2005, p. 42). Hence the profit motive in itself formed a stronger reason for cooperation than the commitments by BP.

That a return on investments was the first goal among the companies in the BTC pipeline was illustrated by the concessions made by the consortium after protests caused a delay in the construction of the pipeline. In 2002, a ceremony was held in London launching the start of construction of the BTC line (Sovacool & Cooper, 2013, p. 111), yet it was not until the end of 2003 that the actual construction could commence. Civil society groups increasingly protested the possible effects the clauses in the HGAs could have on human rights issues and on the project's environmental impact. Amnesty International published a study in 2003 that these regulations as they were now designed ultimately would have a 'chilling effect on the states' adherence to human rights standards' (Amnesty International, 2003, p. 16).

Protests rose to such heights that BTC Co issued a joint statement (EIA, 2003, p. 5). In the statement, the companies under the BTC Co umbrella committed themselves to adhering to the OECD guidelines for Multinational Enterprises and the Voluntary Principles on Security and Human Rights

(ibid.). Potentially the protests could delay the construction of the pipeline, which would be immediately accompanied by sharply rising costs. Concessions therefore had to be made in order to control the damage and continue the construction process as fast as possible. It indicates how the companies were looking to realise the return on their investment and keep the potential profits as high as possible, which meant that delays in the start-up phase had to be avoided (Elkind, 2006, p. 59).

After continuing protests BTC Co announced their participation in a Human Rights Undertaking, which would be an impediment to their rights as originally agreed in the HGAs. In this document, the consortium agreed not to exercise its far-reaching commercial rights stemming from the original HGAs when doing so would be inconsistent with international treaties on human rights (Cotula, 2008, p. 173). While the OECD guidelines and the Voluntary Principles would be indeed mere guidelines and principles, the additional Undertaking had a legally binding nature (Babali, 2005, p. 41).

The Undertaking did not have much effect on the overall profitability of the project. According to BP, the fields that supply the BTC pipeline could generate 5.4 billion barrels of oil in total (Sovacool & Cooper, 2013, p. 111). That would mean that the resources' total revenue would amount to around \$4 trillion, depending on the oil price. Even with the current low prices, the possible revenues are impressive. The agreed transit tariffs for Georgia and Turkey were set at respectively \$40 and \$50 million (Sovacool, 2012, p. 214). Overall, the oil companies managed to secure 93 per cent of the pipeline's lifetime revenue (Sovacool & Cooper, 2013, p. 113).

The above shows how the cooperative intention among the parties was primarily created by the investments the companies made in the BTC pipeline and the potential profits they could receive. BP's credible commitment based on its investments may have contributed to the successful outcome, but it was more the investments and profits from all the companies that created a shared commitment towards cooperation. This part of the fifth hypothesis therefore does not hold up.

Regulatory framework

The second part of credible commitments comes from the framework that is set up to regulate the construction and operation of the pipeline. Together with Intergovernmental Agreement and the HGAs, the Undertaking would be part of the regulatory framework that established the basis on which BP would manage the construction and operation of the pipeline. The framework further consisted of the internal regulations from BTC Co, signed during the creation of the consortium in 2001. And lastly, the consortium signed a detailed contract with BOTAS in order to jointly operate the Turkish section of the BTC line (ibid.). The extensive regulatory framework that these agreements created not only gave BP the possibility to make a more credible commitment to cooperation in the BTC pipeline. The framework also formed a reason in itself for the involved parties to focus on cooperation. All agreements included an option for international arbitration, which forced the signatories to firstly explore all possibilities for cooperation. The effect of the arbitration option is shown in the dispute

between BTC Co and BOTAS in 2011.

Even though the flow in the pipeline was uninterrupted, conflicts did occur. Although much smaller in size compared to BP, BOTAS formed one of the key cooperating partners that was not a part of the BP-led BTC consortium. The rising tensions between them culminated into the largest conflict in the history of the pipeline (Kurtara, 2011). The contract between BOTAS and BTC Co dated back to 2002 when the BTC consortium was constructed. It included a price adjustment mechanism, which was meant to ensure that the contractual price could be changed to reflect changes in the market accordingly (Tirado, 2015). The first tensions between BOTAS and BP developed around 2006, when BP communicated that BIL, a full daughter company of BOTAS that managed the daily operation of the Turkish section of the pipeline, did not meet the required operational standards (BP, 2007). The solution was found in closer monitoring of BIL's performance by BP (*ibid.*, p. 5).

A new conflict arose in 2008 when BIL complained that the tariffs determined by BP were unfair. Oil prices had risen rather dramatically but tariffs paid by BP had stayed almost at the same level. Alongside the oil price, the price for gas had risen with it, and BIL used natural gas to operate the pump stations for the pipeline towards Ceyhan (Marriott & Minio-Paluello, 2012, p. 207). So, according to BIL, its expenses had risen without proper compensation through the tariffs for oil transit paid by BP, ultimately resulting in a net loss for the Turkish company. Around 2011 tension had risen to such heights that BIL was openly considering seeking arbitration against BTC Co (Kurtara, 2011).

The lawsuit was dropped by BIL after amendments were made to the agreement that would result in higher revenues for BOTAS and BTC Co would transfer an additional compensation of \$100 million (CESD, 2012). BIL had a strong case on the basis of the contractual price adjustment mechanism and the compensation BTC Co (and thus BP) had to pay would be uncertain if it were to come to arbitration. Also the lengthy and costly (both in finances and in image) prospect of a several year-long process of arbitration caused the parties to be focused primarily on constructive negotiation and reaching a deal (Marriott & Minio-Paluello, 2012, p. 239).

It was thus not only the commitment BP could make to cooperation on the basis of the regulatory framework that caused the peaceful outcome. The possibility of arbitration functioned as a considerable stick for both the parties and kept the focus on possibilities for cooperation. It reverses the role of the regulatory framework as described in the theory. The framework becomes not only a means for the lead firm for showing commitment to cooperation, but it also guides corporate behaviour in general towards a negotiated outcome. The same holds for the company's investments and profits in the pipeline as discussed above. The cooperative intention among the companies was created by the incentives coming from the financial benefits and the regulatory framework, rather than BP's credible commitments. The addition of credible commitments to the lead firm concept has not much explanatory value in the BTC case. The project's profitability and the regulatory framework in itself proved to be more important causes for the cooperation in the BTC pipeline.

4.3.3 Conclusion: GVC theory and the BTC pipeline

The development of the BTC pipeline and its successful outcome is closely connected to the efforts of BP. While the governments were unable to construct the pipeline based solely on their cooperation, BP managed to organise the means to do so. Even though governments had already discussed potential pipeline options, actual governmental cooperation, in the form of intergovernmental agreements, could only be concluded after BP approved the BTC project in 1999. BP made the final decision regarding the route of the pipeline and from the project's outset BP initiated and controlled most of the processes surrounding the BTC line. Following the first GVC hypothesis, BP constituted a lead company that managed its value chain. In this process BP was able to make credible commitments based on the investments in the pipeline, but the cooperative intent among the companies was more based on the potential profits that could be derived via the BTC pipeline and the incentives created by the regulatory framework, acting as independent factors leading to successful cooperation. The overall explanatory value of the hypotheses given by GVC theory is therefore mixed. The results are graphically displayed in Figure 10.

Figure 10 – Summary of results GVC theory and BTC pipeline

Global Value chain theory				
Case 1: BTC pipeline	H5: Lead firm	H6: Credible commitments		Economic cooperation
		H6a: Investments and profits	H6b: regulatory framework	
	Strong lead firm in the form of BP	High investments and high profits for BP	Clear regulatory framework	Successful

Chapter 5 – Bratsvo and Soyuz pipelines

5.1 Overview

Figure 11 – Natural gas pipelines between Russia and Europe



(EIA, 2014)

Chapter five will analyse the cooperation regarding the pipelines running from Russia to Ukraine, which constitute the second case of this thesis. The structure of the analysis will be the same as in chapter four. First an overview of the two pipelines is presented, followed by an analysis of the theories and their hypotheses. Again, a short conclusion summarises the findings after the discussion of each theory.

The pipelines that connect the Russian gas fields via Ukraine with Europe are much older than the BTC pipeline. The Russian pipeline system dates back to the 1970s and 1980s, when the construction of the two main pipelines from the Soviet Union to Europe was completed (Pipelines International, 2010). Until the breakdown in 1991 the pipelines were managed by the Soviet ministry of gas (ibid.). After the Soviet collapse, the pipelines became transnational and the management of the two pipelines was divided between the governments of Russia and Ukraine. In Ukraine, the two larger pipelines split up into several smaller ones in order to further distribute the gas in Europe.

The contact between the Russian and Ukrainian government started around the same time as between the governments involved in the BTC pipeline; in both cases quickly after the dissolution of

the Soviet Union. Also the state companies (Gazprom in Russia and UkrGazProm in Ukraine, renamed Naftogaz in 1998), were formed in the early 1990s and would organise the transnational operation of the pipeline (Heinrich, 2003, p. 49). Yet while the economic cooperation in the BTC pipeline became successful, the pipelines connecting Russia and Ukraine have been plagued with conflicts since the Soviet disintegration. On two occasions, the conflicts resulted in the gas running through the pipelines being limited or even completely cut off. In contrast, the flow in the BTC pipeline has been uninterrupted since its inception.

Of the two pipelines, the 4,451 km Urengoy-Pomary-Uzhgorod Bratsvo ('Brotherhood') pipeline constitutes Russia's most important means for gas export, transporting gas from the Urengoi field in Siberia to Europe (Pipelines International, 2010). Together with the Soyuz ('Union') pipeline, as displayed in Figure 11, it was responsible for more than 80 per cent of Russia's gas exports (Stern, 2006, p. 33). Later, this number was gradually reduced to around 60 per cent in 2011 when other export pipelines, such as Nord Stream (connecting Russia to Germany via the Baltic Sea), became operational (IER, 2014). The Soyuz pipeline links other Russian pipelines to natural gas networks in Central Asia and provides additional volumes to the resources from the Bratsvo pipeline (Stulberg, 2012, p. 823).

The first conflict regarding the trade through the Bratsvo and Soyuz pipelines emerged in 1998. Initially, in the first chaotic years after the Soviet collapse and the independence of Ukraine the pipelines were governed on an ad hoc basis without an overlapping contractual framework (Stern, 2006, p. 35). The Russian and Ukrainian governments concluded the first intergovernmental agreement in 1994 (Fredholm, 2008, p. 12). By 1998, they engaged in new negotiations about how gas coming from Turkmenistan would be included in the trade with Ukraine (ibid.). The governments agreed that the trade with Turkmenistan would be managed by a series of mostly Russian-owned intermediary companies, with the Ukrainian government as minority shareholder (Itera from 1998, Eural Trans Gas from 2003, RosUkrEnergo from 2005) (Pirani et al., 2009, p. 7). The first legal corporate contract for the pipelines' operation between Gazprom and Naftogaz was also signed in 1998 and linked the prices Naftogaz would charge for transit to the gas price set by Gazprom. Transit fees would be paid by Gazprom in gas (Abdelal, 2013, p. 430).

Even though in so doing contact between the parties was established, it turned out to be the calm before the storm. Since independence, the Ukrainian state energy company struggled to pay for its gas imports because of domestic non-payment problems. This meant that the company accumulated debt over time (ibid.). The agreement between Naftogaz and Gazprom from 1998 lacked a comprehensive solution for the debt Naftogaz had accrued since 1991. It focused on prices and tariffs of gas and transit, but the main issue was left aside (Stern, 2006, p. 35). The conflict intensified in 1999 and after rumours of Naftogaz stealing gas from the Bratsvo pipeline became public, it led to Russia's energy minister temporarily halting exports of oil and electricity (ibid.). The flow in the gas pipelines was unaffected, but later the same disagreements would also have consequences for the gas

transport.

Although the trade continued, the issue remained untouched in the next years. When in 2001 the Russian and Ukrainian government signed an additional intergovernmental transit agreement, it did not include any provisions regarding Naftogaz' debt. A first attempt at resolving the problem was made in 2004 when Gazprom and Naftogaz signed a settlement, meant to provide stability in the relationship over the next five years and regulate the increasing gas trade with Turkmenistan (ibid., p. 37). A new joint consortium by Gazprom and Naftogaz would be created to refurbish and expand the Ukrainian network for the trade with gas coming from Central Asia. Additionally, Gazprom would provide a loan to Naftogaz so it could continue financing its debts (ibid., p. 39).

However, this was still only a temporary settlement and moreover, the rising global gas price created a new issue. Ukraine already paid a lowered gas price and due to the increasing global price they now paid three to four times less than Western European countries (Pirani et al., 2009, p. 9). Together with the still increasing debts and the abolishment of the new Naftogaz-Gazprom consortium, it gave rise to a renewed conflict in 2005. It further intensified when Gazprom accused Naftogaz of not making gas available from the Russian storages in Ukraine, and on 1 January 2006 Gazprom closed off the gas supplies to Ukraine for three days (Stulberg, 2012, p. 824). As Gazprom only limited the flow in the pipeline to exclude the volumes destined for Ukrainian domestic use, the effects amounted to 'little more than minor inconvenience' (Pirani et al., 2009, p. 8). On 4 January 2006 Gazprom, Naftogaz and RosUkrEnergo agreed on a new five year-plan intended to resolve the price issues (Ukrainskaya Pravda, 2006).

Yet the plan could not prevent a much more severe cut-off from happening in 2009. When new disputes regarding gas prices and alleged illegal off-take by Naftogaz came up, it initially appeared to be resolved by agreements signed by Russian president Putin and Ukrainian president Tymoshenko in 2008, which were further specified in documents signed by the CEOs of Gazprom and Naftogaz (Pirani et al., 2009, pp. 12-14). It seemed stability had returned, yet both parties still continued to disagree on Naftogaz' total debt. (ibid., p. 19). Before 1 January 2009, Gazprom and Naftogaz needed to determine the prices for gas and transit for the year 2009, but Gazprom refused to sign a supply contract: it first demanded Naftogaz pay its debts. When no solution was found, Gazprom limited the pipeline gas flow on 1 January 2009, and only exported the gas destined for other countries. But in sharp contrast to the previous crisis, 4 January proved to be the start of a much more serious dispute.

During the first days of January, Gazprom claimed that Ukraine had stolen gas from the transit volumes, which was immediately denied by Naftogaz. Naftogaz asserted instead it had used its own gas to operate the system and that Gazprom had merely reduced its volumes (Abdelal, 2013, p. 433). The ultimate deadlock came on 7 January, when Gazprom stopped all its gas exports because according to the Russian company Ukraine had closed the transit lines, while Naftogaz declared it had closed the transport because Gazprom had stopped its export (Pirani et al, 2009, p. 19). The crisis

lasted for 13 days, in which several downstream countries experienced acute shortages of gas, especially in the Balkans (Kovasevic, 2009). It was not until the 19 January before a solution was found after a consortium of European companies would provide the payments for technical gas, which was necessary to restart the flows (Pirani et al, 2009, pp. 22-23).

The situation in the Balkans had worsened to such an extent in mid-January that international observers started to talk about a ‘humanitarian crisis’ due to the shortage of gas. The economic costs of the dispute increased rapidly for both parties and on 19 January, Putin and Tymoshenko signed an agreement ending the conflict, followed by the signing of supply and transit contracts by the heads of Gazprom and Naftogaz. The parties agreed that Ukraine would pay 80 per cent of the ‘European’ price in 2009, and 100 per cent in 2011. The contracts also included further regulations on extra offtake by Naftogaz and on the payment terms (ibid., p. 23). The developments are summarised in Figure 12.

As with the BTC case, the analysis will begin by looking at the hypotheses related to neoliberalism.

Figure 12 – Timeline Russia-Ukraine gas relation

1974	Start of construction of the Soyuz pipeline
1978	Completion of the Soyuz pipeline and the Soviet government makes first proposal to build the Bratsvo pipeline
1984	Construction of the Bratsvo pipeline finished, official inauguration in 1984 in Paris
1991	Fall of the Soviet Union and Ukrainian independence
1994	Governments of Ukraine and Russia sign intergovernmental agreement regarding the gas trade through the two pipelines
1998	First overall contract between Naftogaz and Gazprom to regulate to bilateral gas trade
1999	Temporary halt of Russian oil exports to Ukraine because of disagreement in the gas trade
2001	Additional intergovernmental transit agreement signed by governments of Russia and Ukraine
2004	Orange Revolution in Ukraine. Gazprom and Naftogaz sign settlement in order to regulate the cooperation for the next five years and also included the trade with Turkmenistan
2005	The consortium that had been set up to refurbish and expand the Ukrainian transit network for Central Asian gas is abolished
2006	1 January: Gazprom stops its gas exports to Ukraine, but keeps pumping gas through the pipelines to supply other European customers 4 January: CEOs of Gazprom, Naftogaz and RosUkrEnergo sign a new five year contract to end the dispute
2008	Russian Prime Minister Putin and Ukrainian Prime Minister Tymoshenko sign an agreement regarding the gas cooperation, which is further specified in a contract by the CEOs of Gazprom and Naftogaz
2009	1 January: Despite the newly signed contracts a new crisis erupts, which results in Gazprom cutting supplies for Ukraine 7 January: All supplies to Europe are cut off 19 January: End to the crisis when a ten year supply and transit contract is signed and gas starts flowing on its normal levels

5.2 Testing neoliberalism

5.2.1 Interdependence: stable pattern

As Turkey is the main trading partner for Georgia and Azerbaijan, so is Russia Ukraine's. Russia is by far Ukraine's most important partner when it comes to export as well as import, especially during the 1990s (see Figure 13). In 1996, the import from Russia to Ukraine accounted for 50 per cent of its total imports and almost 40 per cent of its total exports. At the end of the researched period the figures go down to around 30 per cent for imports and 20 per cent for exports, but still the Ukrainian dependence on Russia is very high. The relative importance is less for Russia, as it imports approximately 4 to 6 per cent of its total import from Ukraine and around 8 per cent of its total export go to the country (see Figure 14). Also Russia relatively imports and exports more in the late 1990s, when the percentages are slightly higher. Although Russia is not as dependent on Ukraine as Ukraine is on Russia, it still ranks high on the list of Russia's main trading partners. Ukraine is consistently in Russia's top five in both imports and exports. Therefore, we can conclude that interdependence between Russia and Ukraine is at a high level. This contradicts the transnationalist hypothesis, which would predict a successful outcome at high levels of interdependence.

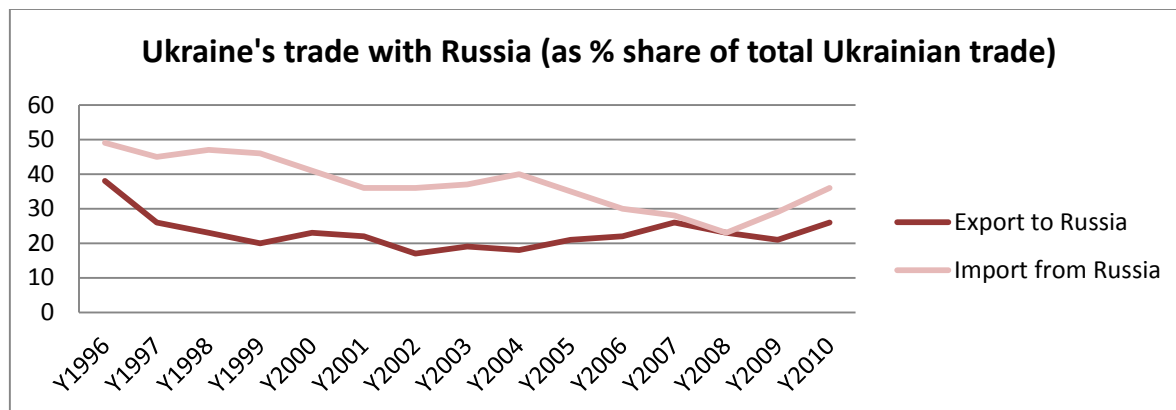
Also when the trends in the trade interdependence are compared to the events in the pipeline cooperation the hypothesis does not hold up. The trade between Russia and Ukraine remained fairly stable over the researched period, although for both states, the percentages go down slightly when compared to the high figures of the 1990s. The stability of the level of interdependence does not correspond with the highly fluctuating relationship between both governments as companies. When the first crisis occurs in 1999, the percentages are altogether still high. Export from Ukraine to Russia did decline in 1996 and 1997, though the relative imports stayed around the same level. Russia shows a similar tendency with declining exports, but there is also a strong increase in imports from Ukraine. There is thus no trend of decreasing interdependence preceding the 1999 conflict, which goes against the transnationalist' predictions.

The percentages decreased slightly around 2001, when the transit agreement between the Russian and Ukrainian government is signed, except for the export from Russia to Ukraine, which increased with about a half percentage point. The agreement then was not preceded by increasing levels of interdependence. The period before the first crisis in 2006 that would affect the gas flow running through the pipelines shows a mixed pattern, without many fluctuations in the percentages. Ukraine's export with Russia grows before 2006, while the import somewhat diminishes. Russia's trade with Ukraine only marginally decreases in the same period. Again, the mixed but overall stable pattern shows no evidence to substantiate the interdependence hypothesis.

The same conclusion can be drawn while looking at the phase leading up to the more intense conflict in 2009, which shows no major movements in the levels of interdependency. The percentages from both Russia as Ukraine stayed around the same level as they were in 2007. When the new

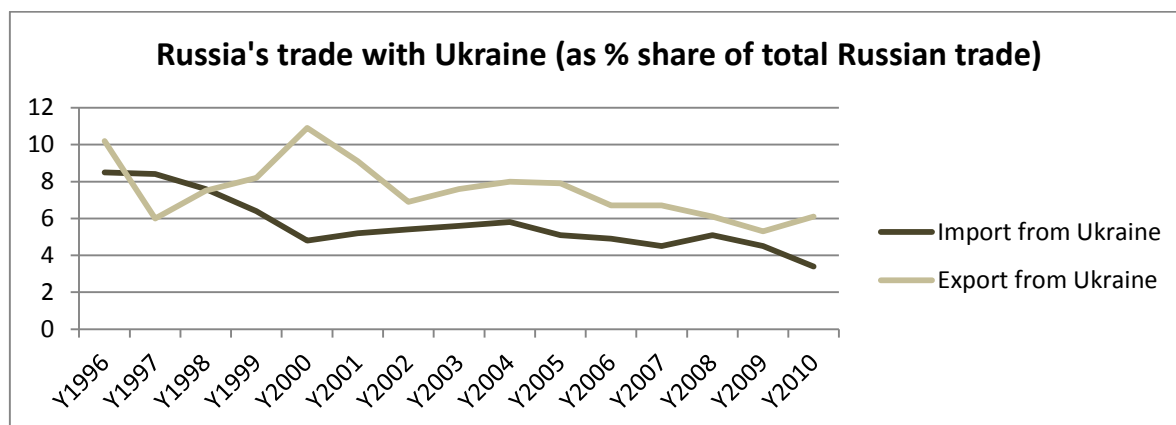
agreement between Putin and Tymoshenko was signed in 2008, the Ukrainian dependence on Russia slightly decreased. Russia's import from Ukraine decreased and the export increased, but only with very small numbers.

Figure 13 – Ukraine's trade with Russia as % share of total Ukrainian trade



(UN Comtrade Database, 2014)

Figure 14 – Russia's trade with Ukraine as % share of total Russian trade



(UN Comtrade Database, 2014)

In general, the figures show that the level of trade interdependence between Russia and Ukraine did not have a clear effect on the events in the organisation and management of the pipelines. Even though the percentages in the bilateral trade over the researched period show more of a decline than an increase, the changes were mostly minimal and did not precede situations of cooperation or conflict. The neoliberal theory of interdependence would however expect clearer declining trends in the periods before the interruptions in the pipelines. Together with the high levels of interdependence it leads to the conclusion that the transnationalist hypothesis can be rejected.

5.2.2 Hegemony: Russian (lack of) power and the rise of Putin

Ukraine's strong reliance on Russia for its trade does raise the question whether the Russian government was eventually able to translate the Ukrainian dependence into a hegemonic relationship. If so, this would contradict the neoliberal hegemony hypothesis, predicting that hegemony would lead to successful cooperation. This section will only look at the role of Russia as the US, which was described as a potential hegemon in the BTC case, in general refrained from becoming actively involved in Ukraine's affairs during the research period² (Woehrel, 2011, p. 10),

Much of the power that Soviet Union possessed was diminished in 1991, yet Russia continued to be a powerful regional state. Russia's foreign policy aimed at enhancing Russia's influence in the former Soviet states. Since the beginning of the 1990s, the Russian government had considered regaining its influence in these neighbouring states to be vital to its security interests. The goals related to the post-Soviet states were formally established in a presidential edict on Russian foreign policy in 1995 (Sokolsky & Chadick-Paley, 1999, p. 24). The main goal was to build an exclusive Russian sphere of influence, and thus in essence establishing a regional hegemony, while minimising foreign influence in the region and protecting ethnic Russians (*ibid.*). Even though Russia clearly aimed for establishing a hegemony in the region, it was ultimately not able to do so.

The edict mentions three pathways by which Russia can reach its goal. Firstly, through the integration of the former Soviet states under Russian dominance. Secondly, by using its leverage in military, political and economic spheres in order to subordinate the independence of Russia's neighbours, and thirdly that Russia should receive international recognition as 'guarantor of peace and stability' in the region (*ibid.*, p. 25). The policy guidelines, as explained by the edict, would continue to be the core of Russia's foreign policy throughout the researched period.

To build the integration of the region, Russia mainly relied on the creation of the Commonwealth of Independent States (CIS) (Porter & Saivetz, 1994, p. 75). During the 1990s Russia took up a substantial economic burden by subsidising the needs of its neighbouring governments through the CIS cooperation and thereby keep them aligned with Russia's interests (Hill & Jewett, 1994, p. 9). The Russian government maintained for example a common ruble zone, but was forced to abolish it when the inflationary consequences proved to be disastrous for the Russian economy. Other subsidies, most importantly the lowered price for energy resources, were continued throughout the 1990s. This was partly made possible by the relatively low energy prices at the time (*ibid.*, p. 70).

However, from the onset, the CIS cooperation has been unsuccessful in uniting the region under Russian leadership. Since its inception, it has been plagued by internal conflicts, disputes and rivalries (Sokolsky & Chadick-Paley, 1999, p. 28). The CIS cooperation did not result in many practical implications for its members. The most striking example of the cooperation's ineffectiveness

² Ukraine's government drew closer to Russia in the 1990s, which caused Ukraine to be 'largely ignored' by the US (Kuzio, 2003, p. 22). Also in later stages during the researched period the US government did not meddle in Russia-Ukraine relations, nor did it interfere during the subsequent crises.

comes from the inability or opposition from the CIS members to implement more than a few of the 1300 integration agreements, despite Russian pressures. The limited integration brought forth by CIS has therefore largely been confined to informal governmental contact (ibid.). Importantly, the Russian government ultimately lacked the resources that were necessary to pull foreign governments closer to Russia and it appeared already in the 1990s that Russia would not be able to create a purely Russian sphere of influence with the surrounding states (Sokolsky & Chadick-Paley, 1999, p. 28). Hence, a Russian hegemony was not established during this period.

However, with the rise of Putin in 2000 the country began to recover, both politically and economically. The economy began to grow and stability returned in Russian politics (ibid., p. 35). The capacities of the Russian state increased so that it became a 'revisionist power', seeking to re-establish its influence in the former Soviet states and change the security order in Europe (ibid.). In his famous speech in Munich in 2007 Putin asserted that the post-Cold War security order had been imposed on Russia by the West at a time it was weak. Now this was no longer the case and it opened the opportunity for Russia to reassert its influence in the former Soviet area (Haas, 2010, p. 108). The Russian suspension of the Conventional Forces in Europe Treaty, a product of the Cold War, must be viewed in this context, as well as the Russian invasion of Georgia in August 2008 (ibid.).

Yet the newfound Russian power did not reach levels such that Russia might be described as hegemonic. Not counting the brief war with Georgia, Russia's economic growth and political stability had greater effects domestically than internationally in the period until 2011 (Larrabee, 2010, p. 36). The Russian government acted mostly using coercion, which does not correspond with the neoliberal idea of hegemony. The neighbouring governments of Russia continued to act independently and were able to withstand Russian influence (ibid.). Ukraine too retained its independence throughout the researched period. Its limited rapprochement to the EU during various moments in the researched period showed Ukraine's ability to go against its more powerful neighbour, as Russia was strongly against stronger Ukraine-EU ties. For example, a Partnership and Cooperation Agreement was signed in 1998 between the EU and Ukraine, and after 2007 negotiations started on an Association Agreement (EEAS, 2015, p. 1). Overall, Russia's relationship with Ukraine never became hegemonic. But was the lack of a Russian hegemony also the reason of the failure in the pipeline cooperation?

Russia's lack of hegemony

The direct issues which caused the disruptions were largely comparable in all three crises. The debt Naftogaz had accrued since the early 1990s formed the main problem, combined with continued allegations that Naftogaz was illicitly taking gas from the pipelines that was destined for further downstream countries (or volumes that were stored in Ukraine). Two additional problems emerged before the 2006 crisis. In 2005 the Naftogaz-Gazprom consortium that would construct an expansion of the Ukrainian pipeline network was abolished. Also, during the years before the 2006 crisis, the global market price for gas had been on a steady rise, which did not translate in a higher gas price for

Ukraine. On the basis of the combination of these issues Gazprom limited the gas flow in 2006. Despite the informal ties between the Russian government and Gazprom, the government only became involved when in 2005 the disagreement turned into a crisis (Stern, 2006, pp. 39-42). At this time, the situation had already worsened to such an extent that the chances for a negotiated resolution to the conflict were low. A Russian hegemony would probably not have changed this.

The lowered energy prices for Ukraine were part of Russia's policy to build stronger political relations with the former Soviet states (Larrabee, 2007, p. 51). Ever since Putin became President of Russia in 2000 he had continued Russia's subsidised energy exports as a tool to gain political influence: 'one of the hallmarks of the Putin era was his effort, at a time of sharply rising world prices for oil and natural gas, to marshal Russia's energy wealth on behalf of the state' (Kramer, 2008, p. 10). Russia's policy of giving energy subsidies to its surrounding states was a response to a wider trend of both failed and successful 'colour' revolutions in states near Russia. Milošević fell in Serbia in 2000, which was followed by the Rose Revolution in Georgia in 2003, the Orange Revolution in Ukraine in late 2004, the Cedar Revolution in Lebanon in 2005, the Tulip Revolution in Kyrgyzstan in 2005, and the uprising in Uzbekistan in 2005 (Kramer, 2008, p.5). Russia's main policy aim was to restore or retain the connection with the states in which the uprising might lead to a more Western oriented government (ibid.). This policy prevented the Russian government from making bolder statements regarding the issues that would later provoke the gas conflict.

On the other hand, in the same period Gazprom intensified its lobby for higher gas prices for the post-Soviet states (Pirani et al., 2009, p. 10). The activities of Gazprom, rather than the Russian government, formed the direct cause of the conflict. In 2005 Gazprom demanded more strongly that Naftogaz needed to pay 'European prices' of around \$160-230 per mcm or that it should allow Gazprom to take an equity stake in the pipeline transit network (as had been agreed earlier when Gazprom, Naftogaz and RosUkrEnergo cooperated in the consortium) (Interfax Oil and Gas Report, 2005, p. 9). Naftogaz responded that it intended to pay market prices, but the price increases had to be spread out over several years (Stern, 2006, p. 42). It further stated it would pay a maximum of \$80 per million cubic meter (mcm) in 2006 (ibid.). Gazprom's responses to Naftogaz were much fiercer than the statements of the Russian government, also with regard to Naftogaz' accumulating debt.

The policy of the Russian government was primarily aimed at creating a Russian sphere of influence among the states in its neighbourhood. Had Russia the means for establishing a hegemony it would then primarily have attempted to strengthen the political ties with the Ukrainian government. Especially since building strong connections with the former Soviet states stood at the core of Russia's foreign policy. Yet it is unlikely that a Russian hegemony would have changed the situation with Naftogaz, as the conflict between the two companies largely developed separately from the political relation. The gas disputes were not political conflicts, as often suggested in the media (see for example Hermant, 2014; Lea, 2009). During the short impasse of 2006 Putin quickly became the focal point of Western criticism, as he was 'penalising' (Gow, 2009) Ukraine for the Orange revolution with

Russia's 'gas weapon' (Sefanov et al., 2009). But it is worth noting that neither the Russian government nor Gazprom stated any political demands. Moreover, 'it is not clear what kind of political demands the Russian side could credibly have made even had it wished to do so' (Stern, 2006, p. 48).

The period before the 2009 cut off shows a similar pattern. The political relation between Russia and Ukraine had improved in 2008 and an intergovernmental agreement was signed, which included a recognition of the 'necessity for uninterrupted transit of gas across Ukrainian territory on a long-term basis' (Pirani et al., 2009, p. 13). It could not prevent the disagreements between Naftogaz and Gazprom regarding Naftogaz' debts from escalating. Politics only delayed the stop of Russian gas exports, as 'even reasonably prudent commercial practice should have dictated that supplies to Ukraine should have been cut off much earlier' (Pirani et al., 2009, p. 17). A hegemonic relationship between Russia and Ukraine would perhaps have had a stronger effect on the commercial relation between Gazprom and Naftogaz, but it would probably not have solved the problems causing the conflict.

Russia's lack of hegemony thus did not form the reason behind the gas conflicts. Despite the absence of a Russian hegemony the two governments were able to conclude an intergovernmental agreement in 2008, and also in 1994 and 2001. But the cooperation between the governments did not translate into successful cooperation between the state companies, as predicted by neoliberalism. The lack of a Russian hegemony could therefore hardly be the cause for the disruptions in the Bratsvo and Soyuz pipelines. The hegemony hypothesis cannot explain the unsuccessful outcome in the cooperation

5.2.3 Iteration: conflictual relationship, continuous contact

Even though the political relation between the Russian and Ukrainian governments was not consistently good, they remained in contact throughout the 1991-2011 timeframe. This feeds into the last neoliberal hypothesis, which focuses on the amount of intergovernmental contact in relation to the evolution in the pipeline cooperation. While looking at the developments in intergovernmental contact it appears there is no clear connection between the conflicts and changes in the amount of contact between the Ukrainian and Russian government. In fact, in the periods before the 1999 and 2009 crises contact between the governments had intensified to some extent.

Initially, in the 1990s intergovernmental contact was mainly organised through the CIS framework, but the Russian government also chased separate bilateral cooperation (Larrabee, 2010, p. 38). In the period before 1997 there was a peak in bilateral meetings over Russia's Black Sea fleet in Sevastopol. It led to the signing of three intergovernmental agreements in May 1997, which also included a Treaty on Friendship, Cooperation and Partnership (Sherr, 1997, p. 33). Contact then decreased somewhat after the agreements were signed and the Russian economy collapsed in 1998. The Russian government became more preoccupied with trying to control the effects of the economic

crisis (Buchs, 1999, p. 687). The Russian and Ukrainian governments were still able, however, to make additional agreements regarding the gas coming from Turkmenistan in 1998 (Pirani et al., 2009, p. 7). Also, bilateral meetings and contact via CIS continued and there was still more intergovernmental contact in general after the 1997 accords than there was before (King, 2014). The iteration hypothesis would expect a decrease in in the period leading up to the 1999 conflict, which was not the case. This contradiction with the hypothesis is also visible in later periods.

A new period of increasing contact came with the election of Yanukovych's party in Ukraine in 2002. Yanukovych was known for his predominantly positive stance towards Russia, with an electorate based in the strongly Russia-oriented regions Donetsk and Lugansk in Eastern Ukraine (Osipian & Alexandr, 2006). The cooperation between Yanukovych and Ukrainian president Kuchma resulted in Kuchma taking over the chairmanship of the CIS heads of state council. Kuchma declared that his most important task would be to negotiate a CIS free trade agreement and a customs union (Hedenskog, 2007, p. 121). His efforts eventually led to the signing of a declaration by the Russian, Belarusian, Ukrainian and Kazakh governments in February 2003. This declaration entailed that the parties would build a single economic space and coordinate their WTO negotiations. The final agreement was ratified by Russia and Ukraine in 2004 (ibid., p. 123).

The surge in intergovernmental contact after Yanukovich' election was quickly followed by a decline when in Ukraine the Orange Revolution broke out. The single economic space was never created as Ukraine tumbled into civil unrest in 2004. The more European-oriented Yushchenko and Tymoshenko rose to power during the revolution, which was received with hope in the European countries. They hoped that Yushchenko and Tymoshenko would steer the country back to Europe and towards integration in the EU. Yet the Orange revolution had only a relatively small effect on the geopolitical orientation of the Ukrainian government (Motyl, 2008, p. 17). The Orange Revolution was more about the widespread corruption in Ukraine than it was about foreign policy (ibid.).

Clear goals for foreign policy were never set as the Yushchenko presidency struggled with internal conflicts from its inception (ibid.). Already in 2005, the cooperation between Yushchenko and Tymoshenko halted, which created the opportunity for Yanukovych to 'stage a spectacular comeback' during the parliamentary elections in 2006 (ibid., p. 16). In the months before the crisis Azarov was appointed as acting prime minister, a strong ally of Yanukovych (Kuzio, 2005, p. 179). Azarov was able to keep in touch with the Russian government during his short period as prime minister (ibid.). Contact between the Russian and Ukrainian government still decreased in the period leading up to the 2006 crisis, but Azarov restored the contact with Russia to some extent in the months before the interruption in the gas flow (ibid.). The fact that Azarov managed to continue communication with the Russians in the period preceding the 2006 conflict makes it less likely that the conflict occurred as a result of a decrease in intergovernmental contact. The iteration hypothesis is more strongly disproven, however, by looking at the period before the 2009 conflict.

In 2007, Yushchenko's Our Ukraine and Tymoshenko's Bloc Yulia Tymoshenko managed to

form a new coalition (Larrabee, 2007, p. 47). Their cooperation was the result of a shaky compromise, but it did lead to more stable governmental policy than in the years before (Copsey, 2007, p. 299). Ukraine renewed its international ties with both Russia as well as the EU. The negotiations for the Association agreement with the EU started in 2007, as well as the contact for the new energy agreement that would be signed between the Russian and Ukrainian government in 2008 (EEAS, 2015, p. 1; Pirani et al., 2009, p. 12). From February 2008 onwards Putin and Yushchenko met on several occasions to discuss the organisation of the gas trade. It led in October of that year to the signing of a agreement regulating the gas trade for the next years. (Pirani et al., 2009, p. 13). But the regular contact between the governments that preceded the conflict in early 2009 could not prevent the gas cut-off from happening. The iteration hypothesis can therefore not predict the unsuccessful cooperation in the Bratsvo and Soyuz pipelines.

Overall, a trend of increasing or decreasing contact between the Russian and Ukrainian governments did not affect the operation of the pipelines. It illustrates again, as was also the conclusion in the previous paragraph, how the political relation developed largely separately from the commercial relation between Gazprom and Naftogaz. On some occasions the repeated contact led through negotiations to intergovernmental agreements, but a corporate conflict could still occur. The neoliberal iteration hypothesis does not hold much explanatory value in this case and can be rejected..

5.2.4 Conclusion: neoliberalism and the Bratsvo and Soyuz pipelines

The three hypotheses related to neoliberalism could not explain the unsuccessful cooperation in the Bratsvo and Soyuz pipelines. The stable pattern of trade interdependence does not match the volatile political relationship and the interdependence hypothesis therefore has to be rejected. Initially, the hegemony hypothesis appeared to have more explanatory value, but the Russian lack of hegemony ultimately did not cause the disruptions. Also the last hypothesis, looking at intergovernmental contact, was rejected as there were no clear decreases in the periods before the conflicts. Figure 15 summarises these results. In general, neoliberalism and its transnationalist roots were unable to explain the unsuccessful outcome. The corporate relation appeared to be more important in the build up to the gas conflicts. The influence of the companies will be the main topic of the next section, discussing GVC theory.

Figure 15 – Summary of results neoliberalism and the Bratsvo and Soyuz pipeline

Neoliberalism				Economic cooperation
	H1: Interdependency	H2: Hegemony	H3: Repeated contact	
Case 2: Bratsvo and Soyuz pipelines	No clear connection between levels of interdependence and developments in the case	No Russian hegemony	No clear connection intergovernmental contact and developments in the case	Unsuccessful

5.3 Testing global value chain theory

5.3.1 Lead firm: Gazprom's attempts

The focus in this section, analysing the first hypothesis of GVC theory, will be on whether Gazprom was able to act as a lead firm and how that affected the cooperation. Of the two main companies that are involved in the operational management of the Russian-Ukrainian pipelines, Gazprom and Naftogaz, Gazprom is by far the largest. Gazprom is the world's largest extractor of natural gas and one of the world's largest companies in general (Forbes, 2015). As Ukraine's main energy company, Naftogaz is still far from being a small company, but in comparison with Gazprom it holds a minor position. The number of employees, as an example, shows the same picture; Gazprom employs over 400.000 people, while Naftogaz employs around 170.000 (Forbes, 2015; Bièvre & Neuhold, 2007). Despite its dominance in size, Gazprom was unable to control the situation in the Bratsvo and Soyuz pipelines, resulting in multiple interruptions in the gas flow. The corporate conflicts in the governance of the value chain stood at the root of the interruptions.

The value chain consists of the pipelines that connect the gas sites at the Siberian Urengoi field, alongside several other smaller fields, with their European consumers. Gazprom extracts, processes and transports the gas over Russian territory, after which it relies on Naftogaz to further distribute the gas among other European states. The problems in the pipelines arose where Naftogaz came in. Gazprom was consistently unable to clear the issues it had with Naftogaz, especially with regard to the latter's debt. The developments in the cooperation between Gazprom and Naftogaz show that Gazprom never could assume the role of a lead firm.

The first agreement between Naftogaz and Gazprom, signed in 1998, was meant to provide a regulatory basis and organise the gas trade. It mainly focused on the way the gas and transit prices regarding the trade in the pipelines would be determined, but the agreement did not touch upon Naftogaz' debt (Stern, 2006, p. 35). This was a concession to Naftogaz on Gazprom's part. Furthermore, when later in 1998 Gazprom's management claimed that huge volumes of gas were being illegally rechanneled for Ukrainian domestic uses, it declared that any further gas illegally taken from transit volumes would be charged at \$83 per mcm. The Russian company was 'determined not to allow Ukrainian profiteering without extracting further recompense' (ibid.). This formed the direct cause for the 1999 conflict. Yet despite Gazprom's attempts also after the conflict the gas prices remained at their low level in comparison to other European countries, even though Gazprom made continuing claims that Naftogaz was taking additional volumes from the pipelines (Abdelal, 2013, p. 433). Gazprom was clearly unable to control Naftogaz.

The company's intensive search for alternative routes further illustrated Gazprom's inability to effectively deal with Naftogaz. Gazprom envisaged future problems with the pipelines running through Ukraine after the 1999 incident and actively searched for ways to bypass Naftogaz. For example, Gazprom proposed the construction of a pipeline via Belarus to Poland (Bilgin, 2011, p.

122). The project was dropped however, as cooperation with European companies could not be achieved (Gas Matters, 2000, pp. 9-11). Other, more successful proposals included the 2001 Blue Stream pipeline, running from Russian Beregovaya to Turkish Durusu through the Black Sea, and the later 2005 Nord Stream seabed pipeline, running from Russian Babajev to German Greifswald (Bacik, 2001, p. 85). To some extent, the new pipelines mitigated Gazprom's reliance on Naftogaz to reach the European market, but the Bratsvo and Soyuz pipeline still transported around 60 per cent of Russia's total gas exports (IER, 2014).

Gazprom's continuous dependence on Naftogaz for transit and its weak control over the Ukrainian company constituted the main reason behind the unsuccessful cooperation, as demonstrated by the lead up to disruptions of 2006 and 2009. Naftogaz' debt issue was not addressed until 2004, when the two companies came to a settlement. The Ukrainian debts were temporarily settled by a loan from Gazprom, and the parties agreed on the volumes and prices of Russian gas for Ukraine, as well as on the transit volumes and tariffs (Stern, 2006, p. 39). The settlement also regulated the transit of Central Asian gas to Ukraine (Interfax Petroleum Report, 2004, p. 7). Central Asian gas, coming from Turkmenistan and exported by the Russian state-owned company Itera, started to become more important after 2000 and even surpassed Gazprom as the largest supplier of gas for Ukrainian indigenous use (Interfax Petroleum Report, 2004, p. 21).

Gazprom and Naftogaz had agreed in 2004 that a new joint venture, RosUkrEnergo, managed by a consortium of Gazprom, Naftogaz, Gazprombank and Swiss Raiffeisenbank would guide the shipping of Turkmen gas (Abdelal, 2013, p. 438). Another consortium was created, consisting of Naftogaz and Gazprom, which would expand the Ukrainian pipeline network so that it could handle the gas coming from Central Asia (Stern, 2006, p. 37). In the settlement, Gazprom largely gave in to Naftogaz' demands and with this agreement the Ukrainian company had 'evidently achieved a highly favourable arrangement for Ukraine' (Abdelal, 2013, p. 431).

Not only would Gazprom extend a loan to Naftogaz for its debts, it would also partly pay for the refurbishment and expansion of Naftogaz' transit network (ibid.). Gazprom did initiate the creation of the consortia, by which it tried to take a leading role in the organisation of the Eurasian gas trade. However, it was largely unsuccessful as it could not effectively cooperate with Naftogaz. The problems that caused the 2006 conflict followed on these disagreements between Gazprom and Naftogaz.

Already by June 2005 the consortium's plan to refurbish and expand the Ukrainian transit network was abandoned after differences pertaining to the scope of the consortium's role (Abdelal, 2013, p. 432). Gazprom declared that Naftogaz was 'not ready to discuss transferring the system to the consortium', which had been agreed in the 2004 settlement. In response, Gazprom concluded that 'the first stage without a second is not interesting' and retreated from the consortium (Interfax Oil and Gas Report, 2005, p. 8).

The collapse of the consortium had also been preceded by allegations by Gazprom that

Naftogaz had not made the gas that Naftogaz had stored in Ukrainian deposits, available to Gazprom. Gazprom had sent forty requests between 2004 and 2005, but Naftogaz published several accounts stating the gas had been stolen, disappeared due to technical problems, or was simply missing (ibid., pp. 8-9). Gazprom suggested that the missing volumes would be subtracted from the deliveries to Ukraine, which in practice would come down to a halt of gas deliveries for the remainder of 2005 (ibid.). Naftogaz responded by stating that the missing volumes would be taken from the gas transit flows destined for downstream European countries (BBC, 2005). Since Naftogaz had expressed its intention to use transit gas, Gazprom stated they would charge European export prices (Pirani et al., 2009, p. 7).

Another issue where Gazprom failed to agree with Naftogaz in June 2005 concerned the gas prices. Gazprom had been arguing for some years now that the price Ukraine (just as all of the former Soviet states) paid for its gas needed to move to European price levels (Interfax Oil and Gas report, 2005, p. 9). Naftogaz stated it would only be willing to pay a higher price if the increase would be spread out over several years and with a maximum of \$80 per mcm. The maximum set by Naftogaz was less than half of what Gazprom aimed for (Stern, 2006, p. 42). Naftogaz voiced some more suggestions that if Gazprom unilaterally raised the prices it would either raise the tariff for Russian gas destined for Europe, or that it would simply take gas from the transit volumes (Pirani et al., 2009, p. 8).

These three elements strongly intensified the disagreement between Gazprom and Naftogaz in the last months of 2005. Gazprom responded to Naftogaz' last statement regarding the gas price by saying that it would change the location of its gas sales to the Russian border, which would make the extra offtake a European problem (Stern, 2006, p. 43). Gazprom also stated they would match increased transit tariffs for Russian gas with an increase in the gas price of Turkmen volumes delivered via Russia to Ukraine (ibid.). In the last days of December 2005 Gazprom released a press statement in which it became clear the company had entered into a contract with Turkmenistan for 30 bcm of gas, most of which was to be delivered early 2006 (Stern, 2006., p. 43). In practice, this meant Gazprom had bought all available supplies from Turkmen sources, and, given the capacity of the Central Asian pipeline network, there would be nothing left for Ukraine (ibid.).

Through the control over the Turkmen supplies, Gazprom attempted to strengthen its position in its negotiations with Naftogaz, but it still aimed for cooperation. Gazprom stated that it was willing to extend loans to Naftogaz if it was not in a position to pay (ibid.). President Putin conveyed a final offer, which stated that if the Ukrainian side would agree to pay higher prices, the increase would be suspended for three months (ibid, p. 44). It all could not persuade Naftogaz to give in. Both the Ukrainian government and Naftogaz rejected Putin's proposals. Based on the inability by Gazprom to convince or force Naftogaz into more cooperative behaviour, Gazprom limited the gas supplies to Ukraine on January 1, 2006 (ibid.).

The period before the 2009 conflict also shows that Gazprom was not able to influence

Naftogaz' behaviour, which again formed the cause of the disruption. In the 2008 agreements Naftogaz was again granted a discount on its domestic gas prices (Stegen, 2011, p. 6505). The agreement signed by the companies' respective CEOs in 2008 included a deadline, 30 October of that year, for when a long-term and more binding supply contract was to be signed (Pirani et al., 2009, p. 15). Gazprom was reluctant to sign the final contract because Naftogaz had still failed to clear its debts for delivered gas (*ibid.*). Gazprom had expressed its reservations against a new discount and was now all the more keen to receive payments from Naftogaz (Stegen, 2011, p. 6509). In November 2008 Naftogaz made a payment of \$268.7 million, and in December the company acknowledged it still owed around \$1 billion to Gazprom (Pirani et al., 2009, p. 16). Conversely, Gazprom stated that Naftogaz' debt by now amounted to over \$2 billion. Naftogaz made a payment of \$800 million in response and publicly promised it would transfer further payments in the near future (Interfax, 2008). It did not solve the debate between the two parties and both the companies became increasingly engaged in a public dispute (Kovasevic, 2009, p. 13)

Gazprom offered that it could make an upfront payment regarding the transit costs for 2009, so that, for now, Naftogaz could clear some of its outstanding debt. The proposal was however rejected by Naftogaz. The rejection prompted Gazprom to make a public statement, in which it suspected that Naftogaz would not transfer new payments in 2008 and that, as a result, no supply contract could be signed for 2009 (Pirani et al., 2009, p. 15). This was fiercely denied by a Naftogaz spokesman and the company declared, in contrast to their earlier acknowledgement of the amount of debt, that it did not owe Gazprom any more money. Naftogaz claimed it had paid for deliveries for October and November, and that the payment for December was not due until January 2009 (*ibid.*).

Accusations like these kept going back and forth between Naftogaz and Gazprom throughout December 2008 (*ibid.*, p. 16). Just before the yearly contract ended on 31 December, Naftogaz chief executive Dubyna wrote a message to Gazprom in which he warned that Naftogaz would consider transit gas passing Ukraine as belonging to an 'unidentified owner' which could be confiscated (Interfax, 2009). The message 'amounted to little more than a threat to divert gas as Ukraine had done in 2006', yet it did not persuade Gazprom's management and the company stopped the gas intended for Ukraine on 1 January 2009 (Pirani et al., 2009, p. 17).

In summary, despite repeated attempts by Gazprom to seduce Naftogaz into more cooperative behaviour, its efforts turned out to be unsuccessful. Gazprom could not make use of its dominant position in the gas trade with Ukraine and continuously failed in its attempts to impose higher (European level) prices on Ukraine. When Gazprom withheld gas destined for Ukraine Naftogaz simply took gas from European volumes. Naftogaz 'had shown they were prepared to use their near-monopoly of Russian transit to Europe as the ultimate bargaining chip' (Pirani et al., 2009, p. 9). Gazprom was never able to assume the role of a lead firm in the Russian-Ukrainian pipelines and its inability to control Naftogaz' behaviour formed the main reason for the failure in the governance of

the pipelines. In the case of the Bratsvo and Soyuz pipelines the absence of a lead firm lead to unsuccessful cooperation, which follows the hypothesis as stated by GVC theory.

5.3.2 Credible commitments: financial commitments and ambiguous regulations

Financial investments and profits

Even though Gazprom did not have the ability to act as a lead firm, it was able to make credible commitments on the basis of its investments in the pipelines and the profits it could derive from the gas exports. To what extent did Gazprom's credible commitments contribute to the developments in the case? Firstly the financial credible commitments from Gazprom are analysed, which is followed by an analysis of possible credible commitments based on the established regulatory framework.

Gazprom was largely dependent on the income from the gas trade, which made the company's commitment to cooperation credible on financial grounds. For example, when in 1998 Russia was hit by an economic crisis, Gazprom had to bear some of the consequences through a huge domestic non-payment problem on top of record low oil prices in the international market (Stern, 2006, p. 35). The developments led to very low earning levels for Gazprom, which made it credible that the company would not defect on the cooperation.

With regard to the Bratsvo and Soyuz pipelines, the Russian company required regional cooperation for the delivery of the gas, and was reliant on that cooperation for most of its income. Naftogaz, on the other hand, was not as reliant on regional cooperation and as such could afford not to cooperate with Gazprom. Rather, the Ukrainian company used the situation within Russia and its control over the transit pipelines as leverage to gain a favourable deal. Naftogaz could benefit more by blackmailing Gazprom than from the transit fees the company would receive if it would cooperate. Naftogaz, in using its strong position over the transit lines, consistently aimed to extract profits. The potential revenues Naftogaz could receive by defecting formed a stronger motive for Naftogaz than a credible commitment from Gazprom.

These potential revenues for Naftogaz were high. At the end of 1998, Naftogaz' debts had accumulated to \$1.6 billion because of unpaid gas (Stern, 2006, p. 35). In early 2000 it had already risen further to \$2.8 billion, almost double the debt in 1998 (ibid.). Only in 2008 did Naftogaz decide to pay off some of its debt, but it appears that around a billion remained unpaid (Pirani et al., 2009, p. 16). In addition to saving money by not paying for its received gas, Naftogaz benefited from non-cooperation by illicitly taking gas from the transit volumes. Yet still the company received the yearly transit fees from Gazprom, as well as loans or up-front payments from the Russian company on several occasions (Abdelal, 2013, p. 430; Pirani et al., 2009, p. 15).

The situation in 2009 showed that Naftogaz was willing to risk a conflict with Gazprom in its search for higher revenues. Both before and during the conflict Naftogaz was in a position to pay its debts (Abdelal, 2013, p. 434). The Ukrainian finance ministry had altered the budget so that a \$2 billion guarantee could be provided to Naftogaz at Naftogaz' request, thus allowing the company to

borrow from state banks. Foreign exchange was made available by Ukrainian's national bank and the IMF had extended Ukraine a loan of \$16.5 billion. While the loan was designated for different goals, it allowed more financial manoeuvrability on the side of Ukraine so that it could extend the guarantee to Naftogaz (Wagstyl & Olearchyk, 2009). The situation also showed Naftogaz ability to go against the policy of the Ukrainian government, which aimed at resolving the issue.

Furthermore, Naftogaz was able to reverse the gas flow in its domestic pipeline transportation system quickly after Gazprom closed the gas transport. Ukraine had a significant amount of gas storage facilities, mostly located in Western Ukraine, in order to facilitate the trade with the rest of downstream Europe. This gas could now be used to keep Ukrainians warm until at least spring, but it meant the gas had to be transported the other way around, towards the East (Pirani et al., 2009, p. 24). Such an operation, to reverse one of the world's largest gas transit networks, required extensive preparations on the part of Naftogaz' engineers (ibid.).

The efforts by Naftogaz, and its willingness to go to such great lengths in its search for profits, demonstrated that Naftogaz' could profit more from non-cooperation than it could from cooperation. This is why Naftogaz attached little value to Gazprom's commitments to cooperation. Most of the costs of a gas cut-off could be passed on to the downstream countries in the Balkans and to a lesser extent the Ukrainian society. In comparison to the Balkan countries, Ukraine was not severely affected by the cut-off, as it could use the spare gas it had stocked (Lochner, 2011, p. 347). Together with the profits Naftogaz received through non-payment and confiscating transit volumes, it created the opportunity for Naftogaz to benefit from defecting rather than cooperating. Gazprom's financial commitment to the pipeline, in combination with its inability to act as a lead firm, could not change Naftogaz' behaviour. The theory of credible commitments is based on the existence of a lead firm, so the hypothesis cannot be rejected with certainty. However, the analysis as portrayed above still suggests that the influence of credible commitments on financial ground is highly limited.

Regulatory framework

While Gazprom was able to extend a credible commitment based on its financial investment and profits, it was not able to create regional cooperation based on the regulatory framework that was constructed to govern the pipelines. Often the regulations and rules, both in the intergovernmental agreements as well as the agreements between companies, were ambiguous and left room for multiple interpretations. The agreements also left out some of the more important issues, with Naftogaz' debt being the most important.

Going back to the agreement between Gazprom and Naftogaz from 2004, for example, shows how the document still left room for multiple interpretations. In 2005 Gazprom's CEO Miller met with Ukraine's Minister of Fuel and Energy Plachkov and Naftogaz CEO Ivchenko to discuss the implementation of the 2004 agreement (Abdelal, 2013, p. 431). The Ukrainian delegation suggested that the trade with Russia could be normalised and rely on market based interaction between Gazprom

and Naftogaz (ibid.). The gas transit tariffs, paid by Gazprom, would be higher to European levels and paid in cash instead of gas (Gazprom, 2005). Gazprom assumed that Ukraine was now ready to accept that also Ukraine's gas prices would be increased accordingly, but in the end ambiguity over the Ukrainian domestic prices remained (Abdelal, 2013, p. 432). This later constituted one of the causes of the 2006 conflict.

Also the contract that was signed shortly after the 2006 conflict illustrates the often ambiguous nature of the agreements. When on January 4 2006 the CEOs of Gazprom, RosUkrEnergo and Naftogaz signed a five year contract to end the dispute, it initially seemed that stability would return (Stern, 2006, p. 45). But again, ambiguity remained and many issues continued to be unresolved. The contract did provide regulations for some of the disputes that had caused the disruption. It set the transit tariffs charged by Naftogaz and established RosUkrEnergo as the provider of Turkmen gas (Interfax Oil and Gas Report, 2006, p. 12). RosUkrEnergo and Naftogaz would form a joint venture from February 2006 onwards to manage the sale of Central Asian gas to the Ukrainian market (Abdelal, 2013, p. 434). Furthermore, it was agreed the gas prices and transit tariffs could only be changed by the agreement of all parties (ibid.). Yet the companies had failed to reach an agreement on the gas price beyond June 2006 (Stern, 2006, pp. 45-46).

The lack of clarity was a permanent feature of the agreements signed between Gazprom and Naftogaz. In 2008 the price issue seemed to be resolved but then the problem with Naftogaz' debts reared its head once more. This was a pattern in the history of Gazprom-Naftogaz pipeline cooperation: when an agreement was concluded it was often followed by conflicts and uncertainty and additional agreements became necessary. The agreements never encompassed all the issues that were important in the gas trade. An effective regulatory framework could therefore never be constructed and it also lacked a mechanism for dispute resolution. Mostly there was a possibility included for international arbitration in the agreements through a court in Stockholm, but this was never perceived as a viable option (Albert & Rothkopf, 2009). The fact that none of the involved parties chose to pursue arbitration shows that the companies perceived the option as ineffective.

Gazprom was thus unable to make a credible commitment to cooperation on this regulatory basis. However, in general it seems that the possibility of extending credible commitments (based on finances as well as regulations) by Gazprom would not have much effect on Naftogaz, as it still controlled the transit of Russian gas exports. The decision by Naftogaz to use its control over the transit pipelines and the inability of Gazprom to influence that decision ultimately caused the conflicts. It is unlikely a more credible commitment from Gazprom to cooperation would have changed this. As well as with the profit motive of Naftogaz, also the ambiguity of the regulatory framework became a factor in itself contributing to the unsuccessful outcome.

5.3.3 Conclusion: GVC theory and the Bratsvo and Soyuz pipelines

Gazprom was unable to control its complete value chain from the gas fields to the European consumers. Naftogaz could take the transit lines hostage and thereby block the cooperation with Gazprom. The Russian company could therefore never become a lead firm. This lack of control by Gazprom proved to be vital in the lead up to the three conflicts in the pipeline cooperation that happened in the researched period. This corresponds to this thesis' fourth hypothesis as stated by GVC theory. The fifth hypothesis, in contrast, is not likely to be valid. Even though Gazprom was not a lead firm, it was able to extend a credible commitment based on its investments and profits. While the hypothesis cannot be definitively refuted, it appears that the influence of a credible commitment on financial grounds is minimal. Profits in itself formed a stronger motivator for Naftogaz. The ambiguity of the regulatory framework did not allow Gazprom to make further credible commitments. In fact, the unclear regulations concerning the cooperation in the pipelines allowed Naftogaz to engage in disruptive behaviour. Profits and regulations therefore act as independent variables that create incentives for a company to act. Again, a table summarises the basic results (Figure 16).

Figure 16 – Summary of results GVC theory and the Bratsvo and Soyuz pipelines

Global Value chain theory				
Case 2: Bratsvo and Soyuz pipelines	H5: Lead firm	H6: Credible commitments		Economic cooperation
		H6a: Investments and profits	H6b: regulatory framework	
	No firm could assume the role of lead firm	High investments and high profits for Gazprom	No credible and unclear regulatory framework	Unsuccessful

Chapter 6 – Conclusion

Transnational pipelines are enormously complex projects. The parties involved with the construction and operation of pipelines face many technological, financial and political challenges. In the BTC pipeline, these challenges were overcome. The pipeline was operated without many problems, resulting in an uninterrupted flow of oil. The Bratsvo and Soyuz pipelines, on the other hand, turned out to be largely unsuccessful. The two gas pipelines between Russia and Ukraine were plagued by conflicts and on multiple occasions the transport through the pipelines was halted. This thesis set out to explore the reasons behind both the successes and failures of these transnational pipeline projects on the basis of the hypotheses posed by neoliberalism and global value chain theory. Studying the two cases through process tracing allowed for an examination of the role of both companies and governments in these processes and the extent to which they are responsible for the successes and failures of transnational projects of economic cooperation.

The results of the analysis are summarised in Figure 17. The variables put forward by neoliberalism did not have much explanatory value in the two cases. There was no clear link between levels of trade interdependence and the developments in the pipelines. At the time when governmental cooperation was high in the BTC case it was not preceded by increasing interdependence. And while the political and commercial relations surrounding the governance of the Bratsvo and Soyuz pipelines proved troubled, the levels of interdependence between the countries show no major movements. In general, changes in interdependence do not appear to correlate with the events that occurred in the two cases. Interdependence, then, could not have been the cause of the successes and failures of the cooperation surrounding the pipeline projects.

Studying trade interdependence between the involved states did show that Georgia and Azerbaijan relied to a large extent on Turkey for the import and export of their products. Yet the Turkish dominance in trade did not translate into a regional hegemony. Turkish foreign policy was still relatively unconfident in the 1990s and when its government became more assertive after 2000, it produced stronger counter-reactions by Azerbaijan and Georgia rather than a Turkish regional hegemony. Also, the US did not manage to establish a hegemony in the region. The US government primarily focused on its relations with Russia and mostly neglected the post-Soviet states in its foreign policy.

For Ukraine, Russia was the main trading partner. Russian foreign policy goals were dominated by the goal of keeping a strategic buffer zone of Russia-oriented neighbouring states. To this end, the Russian government employed several means, from the CIS to subsidised energy, but a Russian hegemony was never created. Sometimes relations improved in the Ukraine-Russia case and political agreements could be concluded, yet Russia was far away from being able to dictate the terms.

Figure 17 - Summary of results: putting it all together

Neoliberalism				Global value chain theory			
	H1: Interdependency	H2: Hegemony	H3: Repeated contact	H5: Lead firm	H6: Credible commitments		Economic cooperation
					H6a: Investments and profits	H6b: regulatory framework	
Case 1: BTC pipeline	No clear connection between levels of interdependence and developments in the case	No Turkish or US hegemony	No clear connection intergovernmental contact and developments in the case	Strong lead firm in the form of BP	High investments and high profits for BP	Credible and clear regulatory framework	Successful
Case 2: Bratsvo and Soyuz pipelines	No clear connection between levels of interdependence and developments in the case	No Russian hegemony	No clear connection intergovernmental contact and developments in the case	No firm could assume the role of lead firm	High investments and high profits for Gazprom	No credible and unclear regulatory framework	Unsuccessful

The lack of a Russian hegemony, however, was not the reason for the disruption in the gas flow. Intergovernmental cooperation could still be established despite the lack of hegemony, but this did not result in successful cooperation between the state companies.

The disconnection between the intergovernmental relation and the corporate relation companies became also apparent while studying the contact between the respective governments. Even though repeated contact may have aligned the interests of the governments of Turkey, Azerbaijan, and Georgia with regard to the pipeline project, the establishment of the economic cooperation was not possible without the involvement of companies. The companies showed reluctance to cooperate with the governments, which goes against the neoliberal prediction of corporate activity being guided by state initiatives. The same holds for the second case. Decreasing contact between the Russian and Ukrainian government did not cause the interruptions. The intergovernmental agreement that was concluded after increased contact through negotiations in 2008 could not prevent the most severe gas conflict from erupting in 2009.

Overall, the three neoliberal hypotheses of interdependency, hegemony and repeated contact did not hold up in the two cases. Also the neoliberal assumption made in the three hypotheses that companies will merely follow the guidelines set out governments seems not substantiated by the facts found in this study. Rather, the actions by the (state) companies often deviated from the governmental policy. In general corporate behaviour stood at the basis of both the success as the failure of the pipeline projects.

Global value chain theory, with its emphasis on corporate variables, was therefore more successful in analysing the causes of successful and unsuccessful cooperation. Especially the existence

of a lead firm – as BP in the BTC case – proved to be a determining factor. In the first case, BP was the driving force behind the different consortia that exploited the ACG field, organised the BTC's complex finances and managed its construction and operation. BP came to dominate the entire project and managed the pipeline in ways that were to some extent comparable to a state hegemon. Following GVC theory, BP constituted a lead firm which managed its value chain. Its control over the pipeline project assured that the cooperation would continue and that the flow in the pipeline would go uninterrupted.

Gazprom, on the other hand, was never able to play a role similar to BP in the Bratsvo and Soyuz lines did in the BTC project. Gazprom attempted to take initiative and manage the pipeline network between Russia and Europe, but it was never able to control Naftogaz. Its dependence on the transit through Ukraine strongly limited its ability to act as a lead firm. The Russian company attempted to persuade Naftogaz into more cooperative behaviour by offering loans and up-front payments, but the Ukrainian company decided to use its control over the transit pipelines as leverage to gain favourable deals. Gazprom's lack of influence over Naftogaz ultimately resulted in the interruption of the gas exports in 2006 and 2009.

Credible commitments were of minor importance in the development of the pipeline projects. The commitment BP could make to cooperation was credible both financially as well as on the basis of the constructed regulatory framework. BP's investments in the BTC project would be high, but also the potential profits. The clear and detailed regulations created strong support for BP and enabled BP to show its commitment to cooperation. However, even though BP's commitment may have contributed to the success of the BTC pipeline, it was not a driving force behind the corporate cooperation. Instead, the search for a return on investments and profits appears to be one of the factors causing the companies to focus on cooperation. Also the regulatory framework added to the cooperative intent of the companies by raising the costs for defection through the possibility of arbitration. The two factors form independent variables in itself, motivating companies in the BTC project to focus on cooperation.

The case of the Bratsvo and Soyuz pipelines leads to a similar conclusion with regard to credible commitments. Although not a lead firm, Gazprom was able to make a credible commitment based on the income it derived via the pipeline, but it could not convince Naftogaz. While the companies in the BTC line could gain the most by cooperating, Naftogaz could benefit more from defecting. Also the lack of a credible commitment by Gazprom based on a clear regulatory framework was not the cause for Naftogaz' decision to exploit Gazprom. The ambiguity of the agreements did allow Naftogaz to further make use of its control over the gas transportation.

The addition of the credible commitments to GVC theory has proved to be of little value in explaining the different outcomes. Other factors constituted stronger motives for the behaviour of companies than the commitment to cooperation by the lead firm: factors such as profits and the incentives created by the regulatory framework. Yet GVC theory was right in pointing to the

importance of companies. Based on the two cases it is justifiable to say that companies have an important role in transnational pipelines.

The research suggests that successful governance of pipeline megaprojects is created, organised and sustained by lead firms. The lack of a powerful company may be the cause of disruptions and conflicts. Furthermore, it is likely that economic cooperation in general, as well as non-cooperation, can rise and fall through the activities of companies. This goes against the focus of neoliberalism on state factors as the main variables in transnational economic cooperation. It seems that the governance of the global economy, at least in transnational economic projects, is no longer in the hands of states and governments.

Most of the articles within the field of international relations continue to take the state as the central actor. The IR subfields that do consider companies often do the exact opposite and focus only on corporations. This thesis tried to see beyond this dichotomy by incorporating both political (focused on states) and corporate (focused on TNCs) theories and test them against each other. This allowed for a comparison of the theories' respective explanatory value in the different cases. During the research, the method of process tracing proved its value. Through process tracing, it became clear that, in most instances, the developments in the political relation did not cause changes in the operation of the pipelines. Such a conclusion would have been difficult to make without a careful consideration of the factors connecting the independent to the dependent variable.

The process tracing methods also has some inherent weaknesses. The interpretive nature of this type of qualitative research may lead to confirmation bias, where the researcher selects the data in such a way that it fits the desired outcome. A constant critical attitude towards the empirical data was therefore maintained in order to prevent this, in addition to a careful selection of the used sources. The extensive research required by process tracing generally only allows for the study of one or two cases, which may have an impact on the scope of the conclusions beyond the cases themselves. Only by further comparable research can be determined whether the conclusions of this research will continue to hold.

Further weaknesses of this thesis may come from the comparability of the two cases. Even though in both cases cooperation started around the same time, the type of cooperation differed after the fall of the Soviet Union. In the BTC case the pipeline still had to be constructed, which may have led to a different dynamic had the pipeline already existed, as was the case with the Bratsvo and Soyuz pipelines. Additionally, in the latter case state companies were most prevalent, while private companies were dominant in the BTC pipeline case. Gazprom is often viewed as a mere extension of the Russian state, but the second case also showed that the two are able to have diverging interests. The behaviour of Gazprom over the years, as well as Naftogaz, is often difficult to understand other than through the lens of conventional profit motives.

The conclusions of this thesis point to the importance of further researching the motives behind corporate behaviour. Corporate interests in transnational economic projects may be formed by

profits and the incentives created by a regulatory framework, but presumably many other factors are of importance. Also research informed by constructivism is potentially interesting in explaining the behaviour of companies. Scholarship in this area, for example regarding the role of corporate ideas and identities, still has to develop. To some extent, political business theories like GVC resemble realist thinking in assuming that companies act as rational individuals. Eventually the corporate black box, too, will have to be opened. In firms, just as in states, different factions and departments employ different opinions, despite firms being highly centralised.

The rise of TNCs affects the power of governments. To understand the developments in the global political economy, the field of IR will have to incorporate the role of companies on a much larger scale in their analysis. Blyth stated that the ‘the economy is much too important to leave to the economists’ (Farrell, 2013). The same is true for TNCs. The role of companies in the modern global economy is too influential to be only analysed by business scholars.

In short, much remains to be done. We know the world has changed. Now we need to know how exactly.

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