

TRANSNATIONAL DYNAMICS OF GLOBAL  
GOVERNANCE IN ENERGY

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Approval of the Graduate School of Social Sciences

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# **ABSTRACT**

## **TRANSNATIONAL DYNAMICS OF GLOBAL GOVERNANCE IN ENERGY**

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This thesis aims to provide an analytical outlook for the relevant dynamics of transnational relations in the field of energy with specific reference to key issues and tools for governance. Not only contemporary structure of interdependent and in some cases asymmetrical relations requires a multi-level approach in addressing main issues but also there exists considerable amount of attention in global agenda over alternative policies in response to the developments in this complex context of dynamic and transnational relations whereby an action of an actor results in spillover effects in other regions. It is necessary to have a multi dimensional approach in addressing issues of energy governance where interdependence plays a significant role.

.Keywords: Transnational, Governance, Energy, Interdependence

**ÖZ**  
**KÜRESEL ENERJİ YÖNETİŞİMİNİN ULUS ÖTESİ**  
**DİNAMİKLERİ**

ALTINORDU, Zeynep  
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Mayıs 2010,

Enerji alanında uluslar aşırı ilişkilerin ilgili dinamiklerine analitik bir bakış açısı sağlayan tez bu konudaki yönetişimin mevzularına ve gereçlerine yer vermektedir. Temel Konulara değinirken günümüzün birbirine bağlı -yer yer asimetrik- ilişkileri çok-düzeyle bir yaklaşım gerektirmekle beraber aynı zamanda Küresel bir aktörün bir hareketinin farklı bölgelere yayılan etkilerini göz önüne aldığımızda dinamik ve ulus aşırı (transnasyonel) ilişkilerin karmaşık yapısında ortaya çıkan gelişmelere tepki olarak oluşturulan alternatif politikalara küresel gündemde ilgi oldukça yoğundur. Bu sebeple, karşılıklı bağımlılığın önemli bir rol oynadığı Küresel Enerji Yönetişiminin mevzularına değinirken çok boyutlu bir yaklaşım kurmak gerekmektedir.

Anahtar Kelimeler: Ulus-aşırı, Transnasyonel, Yönetişim, Enerji, Karşılıklı Bağımlılık.

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## **1. INTRODUCTION**

Energy, which constitutes the backbone of our civilized culture, defines the nature of contemporary politics in many ways. In accordance with increasing intensity of energy as a main issue of international politics, the dynamics of interdependence and governance creates a tense area of analysis. While international bodies have a considerable work on the international governance of energy, national states continues to seek their interests both for domestic and international reasons.

International Governance of Energy is highly crucial not only for the supply security of resources but for the peaceful development and survival of human race. Recent years have shown a considerable amount of evidence, which we cannot disregard. Once energy resources of a country are under a serious threat not only any kind of production in that country is threatened but also there is a significant threat for any other country having economic relations with that country. The most affected ones in such circumstance are the individuals apart from national states. In that respect, once we consider the humanitarian aspects of this issue we can easily conclude that it is both national and international obligation for national and international bodies as well as sub-national actors to take significant steps forward for the international governance of energy.

Ambassador Arne Walther in his speech at Club de Madrid Annual Conference Opening Plenary Session Madrid, Spain on 20 October 2006 said “We are all “addicted to energy”.<sup>1</sup> Not as an end in itself. But as a means. We need it to reach economic and social objectives in each and every country. Energy also affects commercial and political relations between countries. It fuels the world economy and impacts the environment. Energy influences international politics and international politics influence energy developments. Energy is a challenge for the national and international political authority to govern.

Recent years have shown issues concerning energy fuels and services have gained a considerable significant role both for national and international policy agendas in the world. However, governments and other relevant actors have proven considerably unproductive in coordination of energy issues. Governmental and non-governmental bodies as well as problematic markets provide energy services ineffectively.

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<sup>1</sup> Ambassador Arne Walther was the first Secretary General of the International Energy Forum (2003). Ambassador Walther has previously served as Norway’s Ambassador to Austria, India, Slovakia and also to the UN Offices and the International Atomic Energy Agency in Vienna. He has served as Director General for Trade Policy, Natural Resources and Environment in the Ministry of Foreign Affairs, located in Oslo. Ambassador Walther has been Chairman of the Governing Board of the IEA and Chairman of the IEA’s Committee on non-member Countries.

The lack of good governance in energy markets such as distortion of price signals by national policies on both the supply and the demand side as well as the inadequacy of investments in energy fails to serve the public interest, leading to extreme price volatility. Since energy is accepted as critical to national security and national strength, national governments do get involved in energy issues for the sake of energy “independence” and guaranteeing supplies.

These various failures reveal governance weaknesses at both national and international levels. Nationally, few if any governments are well structured to govern energy issues, much less participate in effective systems of global energy governance. “Energy” problems cross a varied set of policy domains and agendas from military to economic and to humanitarian as well as environmental. These are dealt with by different actors and analyzed by separate groups of experts and policymakers. In accordance with this consciousness, the multifaceted character of energy issues creates a significant attention from multiple actors of international governance.

The current International Relations Literature deals with the energy issue from a state centric perspective. On the other hand there is an increasing necessity for having a perspective in which there are multiple actors with a transnational dimension. In accordance with such necessity this Thesis aims to contribute as an analytical framework for understanding factors of international energy

governance with specific reference to the interdependent relations among actors of global energy governance. In doing so, the necessity for global energy governance will be elaborated and available tools for governance will be analyzed from complex interdependence and liberal institutionalist perspectives. As this thesis puts forward, the necessary approach to global governance of energy should include multi-dimensional framework in which there is no locus of authority with multiple tools of governance. In accordance with the interdependent structure of global governance of energy this thesis also proves, once again, how crucial energy is in stimulating “change” in policies. Any action in international relations with respect to energy has a wide range of spillover affects that actors of global governance find it important to take necessary steps if necessary. These actions may deviate from political response to change in policies or to take a common step (or even establish a common policy/ international organization)

## **1.1 Research Design**

I conducted this research in several dimensions. In order to determine the dynamics of global energy governance, there is a necessity for explaining problems, issues and actors of global energy governance. But before that, it is crucial to give a literature review for the development of global governance for the sake of understanding on what grounds global energy governance may also be developed. In accordance with the changing nature of international

relations from state-centric structure to a more complex one in which multi-level actors, networks, global norms paved the way for supranational authorities to develop. In that respect, I refer to the International Relations Literature in order to explain how such a context is created and how it should be affective in defining a global approach to energy. Therefore, main aspects of a global approach will be elaborated in a theoretical framework. While some Realist assumptions still preserves its strength in defining the global context of energy relations, there are other factors, which promotes Liberal premises. I gave reference to many scholars of International Relations Theory from Rosenau to Koehane and Nye in picturing the framework of the development of a global approach. After a theoretical framework for global governance, I put some stress on the issues of global energy of governance and gave considerable amount of information with respect to different issues to be addressed by decision-makers, scholars, states, international organizations, social networks etc. These actors of international relations or, global relations in which there is no one locus of authority, were analyzed for global energy relations. In explaining main actors and their significance for issues of global energy governance I gave examples of specific actors in global energy governance, namely, World bank, Energy Charter, International Energy Agency Shell etc to materialize the arguments.

In defining their significance, I used their own websites as a reference point for understanding their structure and policies with respect to specific issues. I also

gave reference to some scholars who have specialized in the global energy governance such as Ann Florini, Daniel Yergin and Westpal. I stressed on policy papers of institutions such as International Energy Agency while determining their roles. In order to explain how the system is interdependent with respect to energy I figured out it was important to have a case study. For that matter I chose Russian-Ukrainian Gas Dispute to analyze how it affected international relations in a broader context. I've collected information from articles of energy security scholars, official websites such as Gazprom, the EU as well as newspapers and magazines.

## **1.2 Method and Analysis**

My research questions were how the global energy governance should be? What are the dynamics of governance with respect to issues of energy? How actors of global relations are affected, what are their roles? How the global governance has developed with respect to energy? What are the tools? I asked these questions in order to create a framework for understanding how we should approach towards a global governance for energy, what should be its dynamics.

I used a descriptive method in explaining the current global environment with respect to energy. I refer to scholars in global energy governance and their works and through which I figured out that a multi-level complex structure is

needed in which there is no one locus of authority. It is necessary to have multiple actors having their own agendas and priorities. We do need a multi-level approach whereby it is necessary to adjust with the needs of international society. I conclude that the delegation of power is significant for a comprehensive global approach for governance of energy as well but it is highly constrained by power politics of Realism. Nevertheless, it is too costly to pursue such policies like in the previous century. In accordance with the interdependent complexity of relations actors are more vulnerable to the actions of one another. This conclusion made me to conduct a case study as Russian Ukrainian Gas Dispute and its Implications for Europe. A dispute between two states affected a broader area. In fact, there were multiple actors including non-state actors( Gazprom). Thus this case study was a good example for proving how multi-level interactions shape energy relations and how vulnerable an actor would be with respect to an issue that has emerged between 2 other actors of international society. In addition to that while I was conducting this case study, I saw how a development in one region may lead to altering policies in another region. Thus, this brought another dimension which is *learning is an essential part of the society through which each experience teaches something*. This makes them to alter their policies or diversify in policy options. The above mentioned case study which will be discussed in the Third Chapter is a good example for exploring the dynamics of interdependency and respective



### **1.3 Structure**

In the second chapter I will make a comprehensive theoretical framework for Global Governance. I will assess how and on what grounds we need a global framework for international energy governance. This will also bring questions of fundamental problems that international spectrum faces in this field which stimulates this field. These are “Public Goods Problem”, “Free Riders Problem” and “Externalities Problem”. These main problems draw the main structure of necessity for global governance of energy. At this point I believe it was necessary to make a literature review for the global governance and set a theoretical framework for the global governance of energy. In the absence of governance conflicts may arise and makes it difficult for relevant actors to take action timely. Later, I will give fundamental reasons for the need for global governance in the energy field.

International fora set rules of governance ineffectively in the field of energy. This is mainly because of the contradicting interests of national governments as well as contradicting nature of issues of energy field. Therefore third chapter makes a comprehensive analysis of firstly main issues that should be addressed in defining the necessary framework for energy governance. Energy security, investments, environmental considerations, development and human rights issues are the foremost significant ones in defining the necessary framework for governance.

Under the light of my analysis, actors of international energy consortia will be elaborated in this chapter as well. I will refer to the current international tools for governance and obstacles they encounter. Although IEA, OPEC or relevant international regimes such as G8 and multilateral development banks such as World Bank have taken considerable amount of effort for the development of a global awareness for such necessity ineffective nature of their actions requires a more comprehensive global approach. Here, Public Private Partnerships constitutes another dimension for energy governance with their structure.

I will refer to Russian-Ukrainian- European Gas crises in the proceeding chapter in order give a comprehensive explanation for influence of asymmetrical relations and interdependence, which also generates spillover effects once the energy cut to Europe threatens many households. In this chapter I aim to show the influence of an event with respect to energy on other regions and how this lead to policy alterations. The aim for giving this case as an example is to prove the dynamic structure of global energy relations and how “energy” motivates states to generate new policies for strategic and humanitarian reasons.

As a conclusion, in accordance with given analysis, I will try to specify the basic factor of motivation for policy change in transnational relations with

respect to energy. This factor is basically humanitarian in the first place. We may explain this factor from a realist perspective.

A state is responsible of the welfare of its citizens. Thus, it should provide the supply security of energy to its citizens. Once a threat comes forward, its under respective state to take necessary action. In addition to such a realist perspective, we may also provide a more liberal perspective through which one may claim that it is international society's responsibility to provide necessary tools and frameworks to create norms which would prevent any infringement of human rights or welfare.

Considering the transnational relations among actors of international society it is crucial to determine how a shift in energy policy of an actor would affect all related issues, all other actors playing a significant role in the energy consortia or the governing tool as a whole might be considerably important area of analysis for further research. This is because there is considerable amount of spillover effect once a decision is taken with respect to energy. Either a joint decision is taken by a body of international society (intergovernmental, public private or else) or an individual state's unilateral act may influence every other actor in such a dynamic transnational web of interactions in the field of energy.

## 2. NEED FOR GLOBAL GOVERNANCE

“Governance” refers to any and all of the myriad ways in which groups of people attempt to solve collective action problems, deal with externalities, and ensure the provision of public goods. The term encompasses but goes beyond governmental functions to include the agenda-setting, negotiation, regulatory, implementation, and monitoring roles that are sometimes played by businesses or civil society actors. “Global governance” refers to efforts to deal with the wide range of border-crossing issues involving multiple states and other actors from multiple parts of the world.<sup>2</sup>

Global Governance is structured around many different actors whom have different interests and priorities whereby these stakes are pursued in a transnational context in order to address main issues of global governance. It constitutes a complex structure through which goods, services and collective action problems are dealt with by actors with the tools of governance with specific reference to norms, processes and institutions.

Although International Relations Literature preserves states as the main actors of the global arena, the current international spectrum

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<sup>2</sup> Florini, “Global Governance and Energy”, CAG Working Paper Series.(Singapore,2008). p 3

does include many processes, which embrace many different actors. In accordance with the changing structure of this context there is a necessity for understanding how we should approach for an analysis of global governance of energy and its dynamics we should address on what theoretical grounds we need global governance.

## **2.1 A Theoretical Perspective To Global Governance And Its Dynamics - Literature Review**

What do we mean by the phrase “Global Governance”?

It refers to the norms and institutions (of varying degrees of formality) and processes by means of which social goods—including wealth, power, knowledge, health, and authority—are constantly being generated and allocated by public, private, and nongovernmental actors through their cooperative and competitive actions. It is therefore obvious, that formal intergovernmental institutions constitute only a fraction of global governance in our mental universe. What is focused in global governance are the norms, institutions, and practices, but also the actors—their motives, strategies, and tactics—and the allocational consequences of their activities seen from a human security perspective.<sup>3</sup>

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3 Farer and Fisk “Enhancing International Cooperation: Between History and Necessity”, available at <http://www.riennner.com/uploads/4b4cfaac39487.pdf> accessed on 20.04. 2010

In an analysis we should include several factors, such as global social movements; civil society; the activities of international organizations; the changing regulative capacity of states; private organizations; public-private networks; transnational rule making; and forms of private authority.<sup>4</sup> Thomas Weiss has observed, “Many academics and international practitioners employ ‘governance’ to connote a complex set of structures and processes, both public and private, while more popular writers tend to use it synonymously with ‘government’.”<sup>5</sup>

When thinking about the world politics what comes closest to a theory for a global approach we should make a reference to the work of Rosenau.

“Global governance refers to more than the formal institutions and organizations through which the management of international affairs is or is not sustained. The United Nations system and national governments are surely central to the conduct of global governance, but they are only part of the full picture.”<sup>6</sup>

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<sup>4</sup> Dingwerth, Klaus and Philipp Pattberg. "Global Governance as a Perspective on World Politics," *Global Governance* 12 (2006), p.189

<sup>5</sup> Thomas G. Weiss, “Governance, Good Governance and Global Governance: Conceptual and Actual Challenges,” *Third World Quarterly* 21, no. 5 (2000): 795.

<sup>6</sup> James N. Rosenau, “Governance in the Twenty-first Century,” *Global Governance* 1, no. 1 (1995), p.13

Rosenau clarifies his understanding of global governance in his often quoted definition stating that “global governance is conceived to include systems of rule at all levels of human activity—from the family to the international organization—in which the pursuit of goals through the exercise of control has transnational repercussions.”<sup>7</sup>

Now how global governance evolved within a theoretical perspective. According to traditional international relations theories, modern nation state has an overriding impact on world politics and order. Such kind of a focus one important characteristic – the overriding significance of the modern nation-state in world politics and world order. This focus on the state and their interactions reflected the predominant theoretical perspective of the international relations discipline from its earliest days, it is aggressively supported that the nation-state form of political organization was the highest possible and that the interests, objectives, and capabilities of nation-states are what shape world politics. However, in line with the developments by 70s it is widely accepted that the power of nation-states are under question with respect to issues which have global significance.

Thakur and Weiss defines global governance as “the complex of formal and informal institutions, mechanisms, relationships, and processes between and among states, markets, citizens and organizations, both inter- and non-

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<sup>7</sup> *ibid.*

governmental, through which collective interests on the global plane are articulated, rights and obligations are established, and differences are mediated.”<sup>8</sup>

This definition emphasizes five components that are essential for analyzing contemporary international relations: level of analysis (transnational); issues; non-state actors; the dynamics of governance; and the interdependent yet loosely-coupled complex international system. I will make my analysis on the basis of this description in next chapters.

As Hannerz put it “(i)n the transnational arena, the actors may now be individuals, groups, movements, business enterprises, and in no small part it is this diversity of organizations that we need to consider”.<sup>9</sup>

Transnational governance suggests that territorial grounds and national autonomy or sovereignty cannot be taken for granted. It also implies, however, that governance activity is embedded in particular geopolitical structures and hence enveloped in multiple and interacting institutional

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<sup>8</sup> Thakur and Weiss. *The UN and Global Governance: An Unfinished History*. Bloomington: Indiana University Press. (2010)

<sup>9</sup> Marie-Laure Djelic and Kerstin Sahlin-Andersson eds. “Transnational Governance: Institutional Dynamics of Regulation”( Cambridge University Press 2008) available at <http://www.mangematin.org/Egos%202008/Texte%20Egos%20Post%20doc/Session%203%20Marie%20Laure%20and%20Kerstin/introduction.pdf> p.5



webs..... Governance in a world where boundaries are largely in flux is being shaped and pursued in constellations of public and private actors that include states, international organizations, professional associations, expert groups, civil society groups and business corporations. Governance includes regulation but goes well beyond. Governance is also about dense organizing, discursive and monitoring activities that embed, frame, stabilize and reproduce rules and regulations.<sup>10</sup>

Global governance is often conducted by different types of actors, depending on an issue—for instance for international energy governance, Energy Charter Treaty or G8. At the same time, actors that are a priori viewed as distinct may actually play similar roles—for example, establishing framework for promoting renewable energies.

### **2.1.1 Multi-Actor Framework**

The publication of the issue of *International Organization - Transnational Relations and World Politics*<sup>11</sup> in which it was recognized that there is a multi-actor framework including sub-units of states, IGOs, and non-state actors (both NGOs and MNCs) was the beginning of a new era in defining international

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<sup>10</sup> *ibid.*p.6

<sup>11</sup> For more information Keohane, Robert O. and Joseph S. Nye, Jr. *Transnational Relations and World Politics*. Cambridge: Harvard University Press. (1971)

relations. Non-state actors were accepted to be components of the “global political terrain” which have a significant role in global politics where they can manipulate international politics.<sup>12</sup>

In *Power and Interdependence*<sup>13</sup> Keohane and Nye indicated major significant transnational processes. Agenda setting strategies were included in those processes whereby international and domestic interests interlocked in addition to multiple channels which connected transnational and trans-governmental actors with specific reference to International Organizations.. While these earlier works followed from liberal theorizing, complex interdependence included a healthy dose of power and power relations. The roots of systematically including NGOs and other non-state actors, especially MNCs, were planted.

As Keohane and Nye puts forward, Global governance is multi-actor framework, which is developed and expanded during 1970s. Although states continue to be main actors of global governance, which are sovereign in nature, this sovereignty is subject to specific international norms and standards. Today sovereignty does not have the same standards with that of the 19<sup>th</sup> or the first

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<sup>12</sup> Karen A. Mingst and James P. Muldoon, Jr, “Global Governance and NGOs: Reconceptualizing International Relations for the 21 Century” Prepared for ISA Annual Convention and Book project “The NGO Challenge for International Relations Theory” New Orleans, Feb. 17, 2010

<sup>13</sup> Keohane, Robert O. and Joseph S. Nye (1977) *Power and Interdependence: World Politics in Transition*. Boston: Little Brown.

half the 20<sup>th</sup> century. States alone create IGOs; it is states that create international law and norms and generally determine their effectiveness. However governance processes are influenced by non-state actors. NGOs, MNCs, and IGOs have an effect on governance processes through which they can alter state preferences or block favorite routes of governance in order to establish new ones.

Governance spaces are formed as new issues arise and networks of actors mobilize to be involved, have a say or gain control. These networks are open to and inclusive of state actors but they also challenge state control. Hence, research on governance needs to document the changing role of states and governments in addition to focusing on the identity of new governance actors – how they emerge, construct or transform themselves to play in the new governance game; how they interact and are interrelated.<sup>14</sup>

As Stoker defines: “governance... (is) the complex set of actors and institutions that include both levels of government and outside of government; it recognizes the blurring of responsibilities and boundaries between the public and private; it recognizes different forms of power relationships and the

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<sup>14</sup> Marie-Laure Djelic and Kerstin Sahlin-Andersson, “TRANSNATIONAL GOVERNANCE Institutional dynamics of regulation”, (Cambridge University Press, 2008) p. 10 available at <http://www.mangematin.org/Egos%202008/Texte%20Egos%20Post%20doc/Session%203%20Marie%20Laure%20and%20Kerstin/introduction.pdf>

possibility of autonomous self-governing networks of actors.”<sup>15</sup> As the Commission on Global Governance defined governance it is “the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken. It includes formal. . . as well as informal arrangements that people and institutions have agreed to or perceive to be in their interest.”<sup>16</sup> As Rosenau articulated, “It embraces governmental institutions but it also subsumes informal nongovernmental mechanism whereby those persons and organizations within its purview move ahead, satisfy their needs, and fulfill their wants.”<sup>17</sup> In short, governance is a multi-level collective of governance-related activities, rules and mechanisms, formal and informal, public and private.

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<sup>15</sup> Stoker, Gerry .“Governance as Theory: Five Propositions,” *International Social Science Journal*: 17 (1998) p. 28.

<sup>16</sup> Commission on Global Governance *Our Global Neighbourhood: Report of the Commission on Global Governance*. (Oxford, UK:Oxford Univ. Press1995) cited in Karen A. Mingst and James P. Muldoon, Jr. Prepared for ISA Annual Convention and Book project “The NGO Challenge for International Relations Theory” New Orleans, Feb. 17, 2010.

<sup>17</sup> James N. Rosenau, “Governance, Order and Change in World Politics.” In *Governance Without Government: Order and Change in World Politics*, edited by James. N. Rosenau and E.O. Czempiel.(Cambridge: Cambridge University Press,1992 ) pp. 4-5

### **2.1.2 Development of Non-Governmental Organizations, International Organizations and International Regimes in Global Governance**

During the 1980s the publication of the highly regarded book *After Hegemony: Cooperation and Discord in the World Political Economy* laid out for the first time the theory of liberal institutionalism. While positing that international institutions or regimes provide critical functions (reducing the costs of transactions, facilitating bargaining across issue areas, providing information to reduce cheating), the theory remained state-centered. Cooperation is seen as a rational response by states. While the introduction of international regimes opens the door for international institutions roles, the focus is on how states benefit from these institutions and NGOs were generally not included.

NGOs had a hardly visible function in global politics and they did not have a chance either to coordinate and create networks or establish a free, and autonomous, rule base. Hence, the lack of attention to consider them in international relations is probably because of state-centric approach.

By the end of Cold War, on the other hand, no one can avoid non-state actors, specifically NGOs. In accordance with the recognition of globalization, expanding relations among different units of the global system create interdependence in which states themselves stay absent in some parts. NGOs with their ability to collect and communicate information, activate public, has formed an avenue for authority. The spread of democracy through which these

non state actors had more room to grow and operate was an important factor for the communications revolution which promoted the development of NGOs, changed how they communicated, and opened up their activities to researchers.<sup>18</sup>

Although some international relations theorist responded negatively and argued that NGOs only reflected underlying power and interests of states and thus they didn't have independent influence of their own, most liberal institutionalists and constructivists has stressed on their significance. It was time to re-define global spectrum with the new actors of international relations where relevant transnational processes were established in which evaluation of outcomes can be made and evaluative normative criteria is developed .

States may delegate authority to International Organizations and non-state actors to grant legitimacy. If major states disagree among themselves with respect to a global issue, there is chance for International Organizations and non-state actors to advance take responsibility and seek their own interests. Or in some cases, where there is no global agreement or standards then non-state actors may provide imperfect enforcement or try to generate their own codes and standards.<sup>19</sup> This is an important element of the necessity of global energy

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<sup>18</sup> Karen A. Mingst and James P. Muldoon, Jr, "Global Governance and NGOs: Reconceptualizing International Relations for the 21 Century" Prepared for ISA Annual Convention and Book project "The NGO Challenge for International Relations Theory" New Orleans, Feb. 17, 2010, p.3

<sup>19</sup> Ibid, p5.

governance. Standards and codes to be defined by international organizations will secure any threat to the international society at large with respect to international governance of energy.

The global governance approach provides a new perspective which contradicts with the traditional IR theories that recognized only states and international organizations—in world politics. It provides an analytical framework for the influence of new emerging actors and their correspondances as well as states and non-state actors in developing structures of global governance.

Global governance provides the bridges and links among the global, transnational, state, and sub-state. What matters is not the hierarchy among levels, there is no one locus of authority it is structurally complex with many sources of power.

### **2.1.3 Transnational Process**

It is widely accepted that globalization not only alters the relationship between governments and market forces but also has important implications for the identities and activities of transnational social actors.<sup>20</sup> Global governance provides a more comprehensive approach for transnational processes which

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<sup>20</sup> Tanja Brühl and Volker Rittberger, “From international to global governance: Actors, collective decision-making, and the United Nations in the world of the twentyfirst Century” available at <http://www.unu.edu/unupress/sample-chapters/globalgov.pdf>, p 1

create associations between a variety of actors at different levels. How non-state actors manipulate governance processes is very important. The bridging behavior of the various actors across different levels is very much related for the efficient governance. Broader Social Networks in addition to the interactions between actors should also be included in understanding interaction of organizations. It is well accepted that these networks try to define both the terms of domestic and international debate on purpose. They affect international and domestic policy outputs, and change the acts of states, international organizations, and other relevant actors. Networks comprise both international and domestic players and processes, bridging individuals and groups.

Another transnational process which is well-known in the constructivist literature is **organizational change**. Organizations may re-structured together with new agendas, in accordance with the new dynamics that have developed in their course of action. This will also change underlying bases of the organization and its values. With change is constant and learning is essential as constructivists put forward that learning involves redefinition of organizational purposes, re-conceptualization of problems, articulation of new ends.

It is important to understand how new norms and ideas are learned by the various actors and how those ideas are diffused across time and space. Specifically, in order to determine the roots of new norms and how they



spread out and in order to understand the impact of these new norms over relevant actors actions in social and political terms there is a need to examine so-called nonstate actors in a broader context than state centric perspective. environmental issues, and human rights are issues which have a special concern in global politics where non-state actors and networks have played major roles in the learning process. Setting standards and promoting those standards are very much considered to be an important aspect of the learning process. Although environmental aspect is out of the scope of this thesis, it will briefly be discussed in the next chapter as an important issue of global energy governance. However, I will consider another dimension of the “learning process”. It is the states learning capacity from their experiences and changing policies. This is not a normative change in the system but rather it is a learning process as a reaction to alternative scenarios of threat to consider policy alternatives respectively.

It is the lack of power which constitutes the basis of the non-state actor debate.. Since their roles are shifting in global politics. Outcomes in global regulatory regimes reflect great power interests, very consistent with realist expectations. But that may not be true across all issues. For Doris Fuchs, “the core of the global governance argument concerns the acquisition of authoritative decision-making capacity by non-state and supra-state actors.”<sup>21</sup>

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<sup>21</sup> Doris A. Fuchs, “Globalization and Global Governance: Discourses on Political Order at the Turn of the Century,” in Doris Fuchs and Friedrich

Examples of such new authority include private interfirm regimes that regulate whole market segments; private standard-setting cooperations between different societal actors; transnational advocacy networks that exercise moral authority in issue areas ranging from biodiversity to human rights; and illicit authorities, such as the mafia or mercenary armies.<sup>22</sup>

So how can global governance bring power back into the discussion, an ingredient so often missing in the non-state literature?

As Fuchs puts forward, Rationalist model of principal-agent model points out this debate. Principals (in politics, decisionmakers) delegate authority to an agent (e.g. a bureaucracy), authorizing the agent to act on behalf of the principal(s). Principals delegate such power for several reasons: “to benefit from the agent’s specialized knowledge, enhance certitude, resolve disputes, or enhance their own credibility.”<sup>23</sup> Meanwhile, principals should also be cautious of the agents taking independent actions that the principals don’t desire. Much of this literature discusses ways the principals control the agents (establishing

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Kratochwil, eds., *Transformative Change and Global Order: Reflections on Theory and Practice* (Münster: LIT Verlag, 2002), p. 11.

<sup>22</sup> Cf. Hall and Biersteker, The Emergence of Private Authority in Global Governance. Cited in Dingwerth, Klaus and Philipp Pattberg. "Global Governance as a Perspective on World Politics," *Global Governance* 12 (2006), p.189

<sup>23</sup> edited by Darren G Hawking, David A. Lake, Daniel. Nielsen and Michael J Tierney. Delegation and Agency in International Organizations(Cambridge University Press 2006) p.166

rules, monitoring and reporting, inserting checks and balances) and ways in which agents can become independent autonomous actors. What are the advantages of delegation? These can be identified as managing policy externalities, facilitating collective decision-making, resolving disputes, enhancing credibility, and creating policy bias. This is highly important for the development of inter-governmental organizations.<sup>24</sup>

The delegation of power is a matter of question still. We have specifically witnessed this phenomenon in global energy governance as well. Russia's resistance to ratify the Energy Charter is just because of its unwillingness to delegate its authority to an agent, which is designed to seek the norms and regulations that are defined by the respective members and thereof the international society together.

Within this context transnational governance of energy needs a multi-level approach whereby states, non-state actors (International organizations and Nongovernmental organizations), networks, all together defines the rules of the game. There is no one locus of authority due to complex structure of issues and actors in global energy governance whereas there are examples through which we witness the significance of delegation of authority. We will analyze dynamics of global energy governance where above-mentioned multi-level approach in which states, non-state actors with international organizations non

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<sup>24</sup> *ibid.*

governmental organizations play their own role. While learning and change is constant in such a context with many actors who continuously interact with each other, change occurs with policy alterations of actors in response to the actions of other actors.

## **2.2 Problems of Governance**

At the core of the need for governance are two fundamental problems. First is what is known as the “public goods” problem. Public Goods are the ones that are non-excludable and non-rival in consumption. Once they exist, no consumer can be excluded from consuming them and no one’s consumption interferes with the ability of other consumers to consume them. National Defense is an example for such goods. Still there exist other goods necessary, which are non-excludable although they are rival.<sup>25</sup> Common Pool Resources are examples for such resources.

The governance of such resources encounters challenges in the absence of a formal governmental mechanism. Free-rider Problem needs to be addressed. As a term “free riders” are those who consume more than their fair share of a public resource, or shoulder less than a fair share of the costs of its

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<sup>25</sup> Ann Florini, “Who governs energy? The challenges facing global energy governance / Energy Policy 37 (2009)”\_ pg 5240

production.”<sup>26</sup> Free riding is usually argued to be an economic "problem" only when it leads to the non-production or under-production of a public good, or when it leads to the excessive use of a common property resource. The free rider problem is the question of how to limit free riding (or its negative effects) in these situations.<sup>27</sup> Collective action problems exist in defining the limits of the free-riding. Collective action problems exist but according to Liberalism international organizations help states to overcome collective action problems. It is due to Liberalism's optimism about the contributions and independence of international organizations in international relations. One of the most difficult collective action problem to be solved is the “free –rider” problem. In accordance with liberal thesis, International Organizations have a stronger voice in international fora to handle issues such as free-riders problem by defining rules in a global set neutrally. However, it is a quite difficult in determining the rules for governance in energy issues. Not only states interests are framing the rules but also there is a complex interdependence among states vis-a vis energy issues. Once we consider the Russian- European Energy Relations and Ukrainian Dispute we may consider Ukraine a kind of free rider with respect to Russian Gas transporting to Europe. Russia did want to cut the gas to Ukraine but that would have also meant cutting the gas to Europe as

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<sup>26</sup>Free Rider Problem at wikipedia available at [http://en.wikipedia.org/wiki/Free\\_rider\\_problem](http://en.wikipedia.org/wiki/Free_rider_problem)

<sup>27</sup>ibid

well. Thus, Ukraine benefited from its strategic location to be a free-rider. This will be elaborated in the later chapters.

In other words, in order to overcome free-rider problem we need to determine for whom collective action is necessary to be taken. A system is also necessary for determining what goods and services to be to be governed once the market does not fully provide. In addition to that, consensus is a must regarding how these goods or services should be governed and who will pay what share of the cost of producing those goods. Lastly, the system of monitoring who is actually paying is essential.

Another problem requiring governance is encapsulated in the notion of “externalities.” An externality is produced as an incidental by product of an activity and can be positive or negative.<sup>28</sup> Environmental Pollution or impact of a decision over third parties may be considered to be fall in this criterion. Other externalities may stem from the policies of states who seek their own national or economic interests and resulted in damaging other states’ interests or economic situation or even the life standards of people in other territories.

As we increasingly move towards a global economy, which provides the development of integrated markets; in global terms we would expect impact of

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<sup>28</sup> Ann Florini, “Who governs energy? The challenges facing global energy governance” in *Energy Policy* 37 (2009). P. 5240

externality to become increasingly global. On the other hand globally governance is weak. The international political order has been characterized with the “Westphalian” system that places state sovereignty at its core.<sup>29</sup> In such a system the amelioration of externalities becomes definitely difficult. The global political economy considered to be a type of state enabled corporate mercantilism, which constitutes another significant barrier before the international management once there is a global market failure. Globalization has dealt with dismantling state based regulations over corporations. On the other hand, global market failure will necessitate broadening global regulations over corporations.

For European policy-makers, energy security is an important issue. Disruptions in supply and dramatic price increases have considerable consequences. Furthermore, it is not likely to undervalue the risks of disruption and consequent price adjustments, and there are further less material effects, such as the psychological costs of people feeling insecure about their energy supplies. Therefore, it is important from a policy perspective to estimate the size of the external costs of energy arising from energy insecurity.<sup>30</sup> Gas, coal

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<sup>29</sup> Marko Beljac, “Global Externalities and the Future of World Order” available at <http://vilemaxim.wordpress.com/2010/03/12/global-externalities-and-the-future-of-world-order/> accessed on 20.04.2010

<sup>3030</sup> *Wp5 Report (1) On National And EU Level Estimates Of Energy Supply Externalities*, Project No 518294 SES6 co-funded by the European Commission within the Sixth Framework Programme (2002-2006) University of Bath available at <http://www.feem->

and nuclear power have larger shares of the electricity generation so that price volatility of these may have prominent effects. Russia, Algeria and Norway were the three largest suppliers of natural gas imports to the EU27 from 1999-2006, with Nigeria significantly smaller, whilst Russia, Australia and South Africa were the largest source of coal imports to the EU. Any Price Volatility or disruption will end up with energy insecurity in the respective states of the European Union.<sup>31</sup> Considering Russian share of energy supply to the EU, it constitutes considerable amount of insecurity for European citizens. Once Russia cuts the gas to Ukraine what would be the external costs for the EU citizens?

### **2.3 Why Do We Need Global Governance-A Transnational Dimension?**

We need rules and measures in order to govern such circumstances and in many instances those are the governments who are responsible for taking necessary steps. Territorial boundaries divide humanity into nation-states each of which has its own rules and regulations. But this assumption has run into three sets of problems.

First, many national governments have little capacity to make and enforce rules in any reasonable reflection of the public interest, and their failures have

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[project.net/cases/documents/deliverables/D\\_05\\_1%20energy%20supply%20externalities%20update\\_Dec\\_07.pdf](http://project.net/cases/documents/deliverables/D_05_1%20energy%20supply%20externalities%20update_Dec_07.pdf)

<sup>31</sup> *ibid*



serious spillover effects on citizens of other lands.<sup>32</sup> This is related with externalities problem.

Second, globalization has increased the burden on national governments and made it more complex for them to govern and general public has higher expectations of what governments will supply (stability, prosperity, opportunity and security) while globalization negatively affects the ability of national governments to control issues within their own borders.

Third, national sovereignty constitutes a major barrier for transnational rule setting. Yet there are developments. Governments intentionally limit their sovereign rights by becoming a party to international agreements. Moreover, over the past several decades, increasing economic interdependence, understanding of universal human rights values, and acknowledgement of the transnational influences of domestic mismanagement have all questioned the issue of sovereignty. The adoption of the “responsibility to protect” principle in 2005 at the United Nations put virtually all governments on record as supporting a startling derogation of the principle of sovereignty, asserting that when national governments fail to fulfill their responsibility to protect the

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<sup>32</sup> Ann Florini, “Who governs energy? The challenges facing global energy governance” in *Energy Policy* 37 (2009) p 5241.

fundamental rights of their citizens, the international community has the right to intervene.<sup>33</sup>

Despite the existence of international organizations or regimes<sup>34</sup> to monitor those cross-border rules and regulations established through a set of international treaties or summit process as such in the case of G8, governments continuously seek their sovereign stakes and more than that those international regimes or international organizations constitutes only a piece of global governance scene. We must recognize other relevant actors playing significant roles. Considering the multilevel structure of interdependence, existence of different actors creates a transnational dimension for the framework of governance.<sup>35</sup>

The private sector sometimes makes its own rules to regulate its own activities, in addition to having a powerful voice at the governmental regulatory table. Non-governmental organizations (NGOs) often raise the issues that end up on the global agenda, frequently monitor the behavior of individual countries and

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<sup>33</sup> United Nations General Assembly Resolution 2005. A/RES/60/5

<sup>34</sup> As Krasner states it International relations scholars refers “regime” to describe the various sets of principles, rules, norms, and decision-making procedures, both formal and informal, which “govern” how states cooperate to handle border-crossing issues.

<sup>35</sup> There are many actors namely, Non-governmental organizations, multinational organizations that have significant impact on the Global Governance.

corporations, and increasingly participate directly in negotiations among governments and/or corporations.<sup>36</sup> This already complex picture of global governance is rendered increasingly complex by the bewildering array of partnerships among these many actors.

As above mentioned there is a multilevel interaction among actors of global energy governance, which creates constant interdependency. While economic interdependence is important for increasing the costs of conflict, the element of interdependence that is essential to increase cooperation is the political management of the development and maintenance of this interdependent relationship. Without this political management of interdependencies it is more likely that asymmetries will be inherent in the relationship and conflict could result, despite the high costs on both sides. The mechanism through which conflict increases in such a relationship is the fact that the asymmetries in the relationship give a state actor the ability to use their relative economic dominance in one area to influence the relationship in another area, or more simply the ability to convert economic power into political power or the other way around.

The energy field should be considered with public goods problems and externalities, many of which transnational and thus are beyond the jurisdiction

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36 Ann Florini International NGOS. In Rhodes, R.A.W., Binder, Sarah, Rockman, Bert (Eds.), *The Oxford Handbook of Political Institutions*. Oxford University Press, United States(2006), pp. 675–692.

of individual national governments to address on their own. Issues emerging from the cross border governance of energy vary from energy security to climate change, human rights to investments and sustainable development.

For that matter it is crucial to analyze first of all the issues and later actors that have a prominent role in global energy governance which in return may give us how this interdependent matrix of multi level relations channel the stream of the governance in a transnational dimension.

### **3. DYNAMICS OF GLOBAL ENERGY GOVERNANCE**

The dynamics of global energy governance are structured interdependently in a multilevel context whereby issues directly or indirectly are affected and are interrelated with one another in accordance with the moves of the actors of global energy game. The state-centric approach to issues of global governance is far from reflecting the reality. In explaining the complexity of the structure of Global Energy Governance we have to move out of the state-centric perspective in explaining the issues and relevant actors.

#### **3.1 Issues of Global Energy Governance**

Existing structure of global energy governance includes many interdependent issues, which need to be discussed. The issues arise as major concerns in Global Energy Governance are:

- Energy security;
- Environmental sustainability;
- Economic development; and
- Respect for human rights.<sup>37</sup>

I also figure out important to add as a major concern in defining global policies to be implemented as:

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<sup>37</sup> This framework is drawn from Frances Seymour and Simon Zadek, "Governing Energy: The Global Energy Challenge," Account Ability Forum 9, 2006, pp. 6-15 cited in Ann Florini, "Global Energy Governance", CAG Working Group, 2008

- Investments.

**Energy security:** Energy security, which is generally characterized as reliable and affordable access to energy supplies, is connected with military and national security. It is defined as “the uninterrupted physical availability at a price which is affordable, while respecting environment concerns”.<sup>38</sup>

Access to oil constitutes one of the major concerns of great powers since the beginning of First World War I. It is critical for national interest, and when a country face up with a situation in which it is not possible to access energy, there would be great insecurity which leads to military response.<sup>39</sup>

After the 1973 oil price shock, Henry Kissinger argued that US security had been very directly affected:

“In the last three decades we have become so increasingly dependent on imported energy that today our economy and

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<sup>38</sup> Daniel Yergin, “Ensuring Energy Security,” *Foreign Affairs*, vol 185, no. 2 (March/April 1996), p. 69 cited in Ann Florini, “Global Energy Governance”, CAG Working Group, 2008

<sup>39</sup> On the eve of World War I, First Lord of the Admiralty Winston Churchill made a historic decision: to shift the power source of the British navy's ships from coal to oil. He intended to make the fleet faster than its German counterpart. But the switch also meant that the Royal Navy would rely not on coal from Wales but on insecure oil supplies from what was then Persia. Energy security thus became a question of national strategy. Churchill's answer? "Safety and certainty in oil," he said, "lie in variety and variety alone."

well-being are hostage to decisions made by nations thousand of miles away... The energy crisis has placed at risk all of this nation's objectives in the world. It has mortgaged our economy and made our foreign policy vulnerable to unprecedented pressures.<sup>40</sup>

It is argued that rivalry over energy resources might end up with violence. Although there is a constant growing attention for alternative energy, the discovery of new oil fields and its safe delivery argued to create tension.“ ... With new oilfields being discovered at a slowing rate and alternative energy yet to fully deliver on its promise, the resulting competition, and attempts to secure their safe delivery, could constitute a potential trigger for inter-state tensions, even conflict.”<sup>41</sup>

While, oil constitutes only a part of the problem, electricity shortages and blackouts form another set of anxiety around the world. In addition to that the natural gas market grows in regional and global terms, but new vulnerabilities surface in that field as well.

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<sup>40</sup> Cited in Susan Strange, *State and Market* (Continuum International Publishing Group; 2nd edition, 1998), p. 201.

<sup>41</sup> Manjeet Singh Pardesi et al., *Energy and Security: The Geopolitics of Energy in the Asia Pacific* (Singapore: Institute of Defense and Strategic Studies, October 2006), p. 5.

Geopolitics deals with the possible strategies to gain access to limited 'geographical necessities' or requirements.<sup>42</sup> Geopolitics constitutes a very important part of the developments in energy relations. Once there occurs a threat or vulnerability with respect to current resources, search for alternative ways to access resources not only shapes the policies of the governments and stimulates international bodies to take necessary actions in terms of investments and norm building activities, it also forces international society to react united.

Apart from the supply security of energy, there are another dimensions of the security of energy. Terrorism is one of them. Al Qaeda has threatened to attack the world's vital economic infrastructure, of which energy is clearly a key component.

Daniel Yergin has pointed out; the challenges of energy security are enormous and growing:

"None of the world's complex, integrated supply chains were built with security, defined in this broad way, in mind....The challenge of energy security will grow more urgent in the years, because the scale of the global trade in energy will grow substantially as world

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<sup>42</sup> Pieterse, Wouter. "Geopolitics of Energy Transitions" *Paper presented at the annual meeting of the ISA's 50th ANNUAL CONVENTION "EXPLORING THE PAST, ANTICIPATING THE FUTURE", New York Marriott Marquis, NEW YORK CITY, NY, USA*



markets become more integrated. Currently, every day some 40 million barrels of oil cross-oceans on tankers; by 2020, that number could jump to 67 million... The amount of natural gas crossing oceans as LNG will triple to 460 million tons by 2020...Assuring the security of global energy markets will require coordination on both an international and a national basis among companies and governments, including energy, environmental, military, law enforcement, and intelligence agencies.”<sup>43</sup>

Thus we need a multi-level approach for preserving energy security. A global approach should not be formulated by a global institution governing dynamics of all relations. Instead it should include all actors in the field of energy who represents different interests, concerns and who is founded on different principles- a transnational dimension to governance.

In order to avoid or at least reduce the risks related to energy scarcity, a cooperative multilateral approach that defines energy security as a goal that can only be achieved in encompassing state cooperation is essential. Especially growing demand may bring competition between consumers and this could lead to change in the structure of market in favor of the producing countries. This might result in dependency of consumer countries and to an imbalance that can

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<sup>43</sup> Daniel Yergin, “Ensuring Energy Security,” *Foreign Affairs*, vol 185, no. 2 (March/April 1996), p. 69.

hardly be compensated by the governance structure of the IEA organization which was originally established in response to such threats.<sup>44</sup>

**Energy security** is not the same with national energy *independence*. National energy independence means providing energy from resources inside the country. However it is not reasonable or desirable.

Due to the fact that energy resources are not evenly distributed around the world, vulnerability to price shocks and supply disruption occurs. A large amount of oil reserves are concentrated in a few of mostly unstable countries. In addition to that, energy, specifically oil is manipulated by a handful of government-dominated firms since the ones who control the supply are them.<sup>45</sup> Thus, here we should refer to the necessity for a multi-level approach considering actors of governance from different levels ranging from companies to consumers, states and international organizations each of which plays a prominent role in dynamics of geopolitics in the field of energy. As I will

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<sup>44</sup> Kristen Westpal, “Energy Policy between Multilateral Governance and Geopolitics: Whiter Europe?” available at <http://library.fes.de/pdf-files/id/ipg/03931.pdf>

<sup>45</sup> David Victor, cited in “A Crude Awakening,” *Stanford Magazine*, November/December 2006, available at [www.stanfordalumni.org/news/magazine/2006/novdec/features/energy.html](http://www.stanfordalumni.org/news/magazine/2006/novdec/features/energy.html) accessed 14.12.2009

analyze the Russian-Ukrainian Gas Dispute in the next chapter; interdependent relations may create a great amount of tension despite what is believed in the complex interdependency theory of Koehn and Nye.

**Environmental sustainability:** The environmental costs of dependency on fossil fuels are significantly high. Many people in the world are increasingly interested in climate change, which in fact is resulted from the human activities that generate greenhouse gases. Greenhouse gases increase temperature and create global warming.

Other consequences of fossil fuels vary from smog to acid rain or to issues that outbreak in some developing countries at alarming levels. However, the formulation to cope with this reality and to create an environmentally sustainable world should not be solely “anything but fossils” approach. Non-fossil fuel energy sources bring their own environmental challenges.

Nuclear energy naturally involves such extremely toxic materials as uranium or plutonium, some isotopes of which need to be safely stored for hundreds of centuries. The enthusiasm over bio-fuels is slowly giving way to acknowledgement of some horrible realities. While these fuels are carbon neutral (they absorb carbon dioxide while growing, then release it when burned), cultivation of crops for fuel raises serious environmental and social

problems – soil degradation, deforestation and “food or fuel” competition over the best use of crops.<sup>46</sup>

In addition to that, more benign renewable energy sources also bring externalities. Hydropower, a key generator of electricity in most regions, necessitates the building of large dams, which often destroys environment and can dislocate thousands or millions of people. Solar photovoltaic cells are toxic substances, and their energy needs to be stored in batteries that also contain toxins. Wind power can only work in certain places and is generated by huge turbines, usually metal, whose production requires substantial energy inputs. (However, the environmental costs of solar photovoltaics and wind power are trivial (valued at less than a cent per kilowatt hour, versus 11.10cents per kilowatt hour for advanced nuclear and 19.1 for scrubbed coal).)<sup>47</sup>

**Development:** Although widening consumption of modern energy sources constitutes an important element for challenge to energy governance, the lack of access to energy resources is creating another element. Existing energy policies were unsuccessful to address the needs of many societies. More than two billion don't have access to electricity, which is crucial to a civilized

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<sup>46</sup> Ann Florini, “Global Energy Governance”, CAG Working Group, 2008. P 5

<sup>47</sup> Benjamin Sovacool, “Renewable Energy: Economically Sound, Politically Difficult,” *The Electricity Journal*, 2008, p. 25.

quality of life. Whereas the population with access to electricity for variety world regions in last three-and-a-half decades demonstrates a distinct improvement, this advancement has been very uneven across regions in the allocation of access to electricity.<sup>48</sup>

While access to electricity across various parts of the population has become more the same, the gap in consumption levels still grows between urban and rural households, between distinct governmental and geographical regions, and between the top and bottom.<sup>49</sup>

If the energy needs of the poor continues this will endanger economic development. The transition from subsistence agricultural with labor intensive economies to modern industrial and services-oriented with capital intensive societies inherently requires sufficient and affordable energy supplies.<sup>50</sup>

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<sup>48</sup> Global Development and Energy Equality available at [http://www.iiasa.ac.at/Admin/INF/feature\\_articles/Options/2007/energy\\_inequality.pdf](http://www.iiasa.ac.at/Admin/INF/feature_articles/Options/2007/energy_inequality.pdf)

<sup>49</sup> *ibid.*

<sup>50</sup> Environmental sustainability and socio-economic development are today recognized as interdependent, integral components of sustainable human development and poverty reduction. The poor are disproportionately affected by environmental degradation and lack of access to clean affordable energy services. Climate change, loss of biodiversity and ozone layer depletion are issues that hold global importance and therefore cannot be addressed by countries acting alone. UNDP helps countries strengthen their capacity to address these challenges at global, national and community levels

In addition to that, traditional biomass creates substantial danger for human health on an unpleasant level. Unprocessed biomass is generally used by nearly half of the household in the world –wood, coal, dung. According to the World Health Organization, the result is deadly: “about 2.5 million deaths each year result from indoor exposures to particulate matter in rural and urban areas in developing countries, representing 4-5% of the 50-60 million global deaths that occur annually.”<sup>51</sup>

In accordance with this reality, for UNDP, major improvement in quality and quantity of energy services in developing countries constitutes the fundamentals of Millenium Devlepmnt Goals-(MGDs).<sup>52</sup> This has led to re-focus by academia and the international development community on assessing and analyzing the extent of energy poverty and on ways of increasing the supply and use of clean and efficient energy amongst the poorest.

The UN Millennium Project as an advisory board which is constituted to determine useful steps toward accomplishing the MDGs, for the sake of

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<sup>51</sup> Nigel Bruce, Rogelio Perez-Padilla, and Rachel Albalak, “ The health effects of indoor air pollution exposure in developing countries” (World Health Organization WHO/SDE/OEH/02.05, 2002), p. 5.

<sup>52</sup> “Energizing The Millennium Development Goals”. UNDP(2006) available at <http://www.undp.org/energy/csd06-post.htm>

“greater quality and quantity of energy services will be required to meet the MDGs”.<sup>53</sup>

**Human Rights and Humanitarian Issues:** The extractive industries experience regular allegations of human rights abuses. As Ruggie notes, this predominance of extractive industries is no great surprise:

No other [sector] has so enormous and intrusive a social and environmental footprint. At local levels in poor countries no effective public institutions may be in place. This authority vacuum may compel responsible companies, faced with some of the most difficult social challenges imaginable, to perform de facto governmental roles for which they are all equipped, while other firms take advantage of the asymmetry of power they enjoy.<sup>54</sup>

Oil resources in general are to be found in countries whose human rights track is very bad. The oil firms that do business in those countries find themselves associated with the allegations:

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<sup>53</sup> Vijay Modi et al., “Energy Services for the Millennium Development Goals,” (Washington and New York: The World Bank and the United Nations Development Programme, 2005), p. 2.

<sup>54</sup> John Ruggie, “Interim Report of the Special Representative of the Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises,”(U.N.DocE/CN.4/2006/97 ,2006), p. 5.

- Shell Oil bore general condemnation for its alleged link to Nigerian troops who made serious abuses while protecting Shell personnel and equipment. Shell paid some costs and provide salary extras to troops living outside their garrison, which Shell argued as normal practice. The company claimed it had no control over the troops. But the *New York Times* reported that an internal memorandum indicated Shell specifically requested the “mobile” police, who were locally known as the “kill and go” mob.<sup>55</sup> Shell states it has spent a total amount of \$4.5 million since 1985 on community development projects.

Shell declares on its website its adherence to Human Rights Principles:

Human rights, like freedom of association, freedom from slavery and torture or the right to education, are universal. Every human being is entitled to them. They are recognised in the United Nations Declaration of Human Rights, which has been adopted by nearly every country in the world. We believe companies can and should play a constructive role in promoting human rights and have made support for human rights part of our Business Principles.<sup>56</sup>

Shell now also declares how it moves forward in countries with poor human rights records:

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<sup>55</sup> Ibid

<sup>56</sup> “SHELL’s Human Rights Approach” available at [http://www.shell.com/home/content/responsible\\_energy/society/using\\_influence\\_responsibly/human\\_rights/human\\_rights\\_issues/specific\\_human\\_rights\\_issues\\_16042007.html](http://www.shell.com/home/content/responsible_energy/society/using_influence_responsibly/human_rights/human_rights_issues/specific_human_rights_issues_16042007.html)



“The search for oil and gas can take energy companies to places with poor human rights records. This clearly presents challenges and requires making trade-offs. Refusing to operate opens the door for less-principled competitors. Staying risks being seen as complicit in a government’s practices. We decide our approach case-by-case, assessing the human rights risks faces by our operations systematically, using tools developed for us by the Danish Institute for Human Rights<sup>57</sup>

- It is not only the western energy companies who confronted with human rights accusations. Chinese oil companies in Darfur are now in the focus. As HRW puts it, “Their activities are inextricably intertwined with the governmental abuses; the abuses are gross; the corporate presence fuels, facilitates, or benefits from violations; and no remedial measures exist to mitigate those abuses”. And China is undoubtedly ready to use its international influence, as well as its veto power in the UN Security Council, to keep the Sudanese regime away from international sanctions.<sup>58</sup>

In addition to these arguments with respect to the involvement in human rights abuses, advocacy groups have also brought numerous reports about the abuse

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<sup>57</sup> SHELL’s human rights approach available at [http://www.shell.com/home/content/responsible\\_energy/society/using\\_influence\\_responsibly/human\\_rights/human\\_rights\\_issues/specific\\_human\\_rights\\_issues\\_16042007.html](http://www.shell.com/home/content/responsible_energy/society/using_influence_responsibly/human_rights/human_rights_issues/specific_human_rights_issues_16042007.html)

<sup>58</sup> for more information Michael Clough, “Darfur Whose Responsibility?”(Human Rights Watch) available at [http://www.responsibilitytoprotect.org/files/HRW\\_Darfur-WhoseResponsibilitytoProtect.pdf](http://www.responsibilitytoprotect.org/files/HRW_Darfur-WhoseResponsibilitytoProtect.pdf)

of government revenues from oil and gas by firms operating in repressive countries. In order to counter such actions the UK initiated the launch of the Extractive Industries Transparency Initiative (EITI), which calls on governments to declare and publish substantial energy revenues. In order to be more transparent, the EITI puts the responsibility on governments, rather than corporations. However, only a few governments have met the EITI requirements to publish completely audited and reconciled EITI reports.<sup>59</sup>

Apart from the human rights abuses there are considerations, which should also be taken in to account. These are well summarized by Picolotti:

First of all, considering energy policy from human rights perspective reverts our vantage point from which we depart on policy formulation. ....That is, we examine poor or marginal communities from the human rights problems they face (health, development, education, water, sanitation, productivity, etc.) to determine what sorts of energy answers that community or household will need to begin to resolve their lack of development and rights realization.<sup>60</sup>

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<sup>59</sup> *Eye on EITI: Civil Society Perspectives and Recommendations on the Extractive Industries Transparency Initiative* (London and New York: Publish What You Pay and Revenue Watch Institute, 2006)

<sup>60</sup> Romina Picolotti and Daniel Taillant. “The Human Rights Dimensions of the World Bank’s Energy Policy” available at <http://www.bicusa.org/en/Article.11688.aspx>

According to Picollotti lack of access to energy and human rights:

- Areas with limited or no access to energy are technologically underdeveloped regions in comparison with those with energy, because with limited access to the benefits of modern technology and communications and as such they need more targeted policies to address their limitations. Poorer people have less money to use energy which means the less use of electricity. In such circumstances, children do not have as much of time to study and cannot access educational resources such as internet, radio, television, video, etc.
- “Energy for heating” can described to be vital for very poor communities who go through difficult winters, while hotter climates can create intolerable indoor living conditions for lowincome households. Lack of energy can also cause health risks from spoiled foods.
- pollution which results from high-carbon energy excessively influences the health of the poor.<sup>61</sup>

Picolotti gives a precise picture of the role of human rights on energy. “Clean and affordable energy must be equally accessible for all persons. Our present global distribution of energy infrastructure and resources, and the evident

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<sup>61</sup> *ibid*

pressures of climate change on our global community does not offer such energy equity”<sup>62</sup>

According to her it is also important to prioritize regions, which need energy more than others for basic survival, human health, and development reasons. It should be considered in investment planning and providing grants and low cost financing.

In addition to that low-income consumers should not be ignored in defining the policies of pricing. While dirty energy should be more expensive than renewables, there should be concessions for poor.<sup>63</sup>

Piccollotti stresses on the investment Projects, which have social and environmental impacts, and argues that these should be well analyzed in connection with the humanitarian side as well.

Availability of renewable energy, and particularly energy self-sufficiency can be extremely relevant to human rights realization, particularly if vulnerable communities can become self-reliant on energy, and if they can convert present human rights violations (such as lack of sanitation systems or risks to safe

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<sup>62</sup> *ibid.*

<sup>63</sup> This tense dilemma should include this variable. There is a necessity to establish a more flexible approach for the poor. Only by this understanding it would be more equitable.

drinking water) into community energy sources while eliminating sanitation risks to health.<sup>64</sup>

Finally here we should also consider cases in which state conflicts over energy may create problems for individuals. This is the case where we witnessed in Ukrainian-Russian Gas dispute. Many households in Europe faced up with a serious threat. Once Russia cut the gas, a dependency of European Households over Russian Gas was questioned and still constitutes a great amount of risk. This risk motivated most of the European States to alter their energy policies. Many of which initiated new energy investments and energy efficiency and renewable energies has been promoted even more.

**Investments:** One other issue, which is crucial in Global Energy Governance, is “Investments”. In 2020, the energy consumption is argued to rise 40 per cent above its current level. Therefore, it is neccassary to have substantial amount of energy investments in order to meet the growing energy demand. Unfortunately as it was indicated Kepler and Schülke there are specific reasons for the lack of such of investments.<sup>65</sup>

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<sup>64</sup> Romina Picolotti and Jorge Daniel Taillant, “ The Human Rights Dimensions of the World Bank’s Energy Policy” available at <http://www.bicusa.org/EN/Article.11688.aspx>

<sup>65</sup> Kepler and Schülke, “Investing in the Energy Sector: An Issue of Governance” Paper prepared for IFRI(The Institut Français des Relations Internationales) available at <http://www.ifri.org/files/Energie/NoteJKSchulke.pdf>

The lack of energy investments can be attributed to six sources:

1. The unwillingness of large energy groups. The big energy companies desires to have the price increase to continue. Companies preferred to give money back to shareholders instead of risking new investments.
  2. With the increasing prices, producing countries have gradually more favored to use resources themselves, mainly expecting to keep more of the rent in the country. Expectedly, energy policies is governed by national interests.
  3. The hesitations by political decision makers. The current debate about environmental, security and economic priorities that draws domestic energy policies prevents the structuring of a stable investment framework in the energy field. Investors are not capable of a long-term projection for energy investments due to this uncertainty linked to energy policies.
  4. The lack of a steady framework for international energy policy.
  5. Local opposition to any new investment project in industrialized countries.
  6. It is more difficult to access resources. For instance, the production of a barrel of oil, a cubic meter of natural gas, or a kilowatt hour of electricity was more cheaper ten or twenty years before than today.
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Reserves are more complicated to reach (deep sea, arctic region or oil shale), the lack of skilled workers and stricter regulations, particularly in terms of security and the environment, make it so that the investments needed for constant production increase.

### **3.2 Multilevel Complexity of Actors**

The recognition of relevant actors (sub-national, national, and supranational), as well as the strategic interactions between these actors while they are pursuing their goals, and the role played by international economic ties in the processes of conflict generation and conflict escalation is highly significant in picturing the necessary framework of the Global Energy Governance. The list of relevant actors would seem quite large. International Conflicts have been linked in various theories to the interests of consumers, companies, industries, interest groups, national leaders, supranational institutions, and markets.<sup>66</sup>

All important changes that impact upon the global energy sector, such as price fluctuations, geopolitical tensions, changes in supply and demand, energy security, and financial crises are mediated by the underlying relations of the

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<sup>66</sup> Edward D Mansfield and Brian M Pollins "Interdependence and Conflict: An Introduction" in Edward D Mansfield and Brian M Pollins eds. *Economic Interdependence and International Conflict* (Michigan University Press, 2003)

main actors and the proposition that is put forward here is that the real shift that is taking place is *in these underlying relations*.<sup>67</sup>

### 3.3 Tools for Governance

States, industries, markets and other sub national or supranational institutions has established several tools for governing energy. The matrix of this picture includes:

- 1) Inter-governmental organizations
- 2) Summit process,
- 3) Multilateral development bank
- 4) A public–private partnership
- 5) Non- governmental actors such as civil society organizations, and corporations<sup>68</sup>

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<sup>67</sup> for more information please see Graaff, "Non-Triad State-Owned Energy Multinational Companies and the Transnational Dimension of Geopolitical Contestation over Energy Resources" Paper presented at the annual meeting of the ISA's 50th ANNUAL CONVENTION "EXPLORING THE PAST, ANTICIPATING THE FUTURE", New York Marriott Marquis, NEW YORK CITY, NY, USA

<sup>68</sup> Ann Florini, "Who governs energy? The challenges facing global energy governance" *Energy Policy* 37 (2009)\_ pg 5240



### 3.3.1 Intergovernmental Organizations

Inter-governmental Organizations are the most widely accepted forms of institutional governance. They range from global to regional and sub-regional under various themes. A chief school of thought that falls under the course of “realist” or “neo-realist” views them as normally voice of the power of a few national governments. Liberals have challenged this argument for decades who viewed Intergovernmental Organizations as functional, even critical mechanisms, for states in order to manage common problems of international society by decreasing the costs of negotiation and implementation for decision making.<sup>69</sup> Some Scholars on the contrary accepts Inter-governmental Organizations as significant actors of international society, which are able to influence the course of states’ actions with a limited degree.

These organizations with their significant expertise in research and presenting information have power to stimulate which topics to be addressed and which issues to receive global attention. Moreover, Intergovernmental Organizations can also shape what governments ought to do by generating norms of appropriate behavior.

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<sup>69</sup> for more information look Koehane. *After Hegemony: Cooperation and discord in the world political economy* Princeton University Press. Princeton, N.J, 1984.

In accordance with this outlook it might be useful to analyze the role of these organizations in governance of energy. The two institutions that exist at the inter-governmental level have constrained due to the interests of their selected member-states. In both organizations, energy security is strongly perceived through a nationalistic lens. First, we have OPEC which is a group of major oil-producing states that acts as an alliance to keep pressure on the world price through collective supply quotas. Secondly, there is the International Energy Agency (IEA), which makes available detailed statistics and policy guidance to the world's richest and top oil consuming states, most of which rely on substantial imports from OPEC countries. Energy Charter Treaty is a relatively new organization with a more global approach with respect to its membership, should also be mentioned here.

#### **3.3.1.1 International Energy Agency (IEA)**

International relations scholars have paid a considerable attention to International Energy Agency (IEA), which has been for decades constitutes the most influential Inter-Governmental Organization. Robert Koehane focused on the IEA's role in enabling member governments to lower the transactions costs of cooperating to achieve shared goals.

The International Energy Agency was established in 1974 in reaction to the oil crisis of 1973-74. IEA, which was originally 16 members, now comprised of

27 member states, all of which are members of the Organization for Economic Cooperation and Development (OECD) as well. (However, some states, such as Mexico, are members of the OECD whereas not of the IEA). The IEA's members belong to the industrial Western World, North America and Asia-Pacific. Together, the members of the IEA represent the largest community of energy-consuming states, which makes up 60-70% of world petroleum consumption. The IEA is closely associated with, but legally distinct from, the OECD. The IEA was established under the leadership of US Secretary of State Henry Kissinger, who projected the necessity to respond collectively to threats in the international energy setting, particularly after the Arab oil embargo of 1973. It was aimed to address energy issues. The IEA is one of the very few international organizations, which has a capacity to make legally binding decisions on its member states. Specifically, the IEA has binding requirements for a national strategic oil reserve and the capacity to impose legally binding allocation decisions in the event of an international oil supply emergency. Moreover, these decisions can be made by majority vote, rather than a universal consensus, though in practice consensus is the norm.<sup>70</sup>

Although, IEA has not always been successful in responding price shocks, it gradually becomes more successful. For instance at the outbreak of IRAN – IRAQ war, the secretariat was able to use its powers to persuade to prevent the

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<sup>70</sup> Jeff Colgan, "GPPi Policy Paper No. 6: The International Energy Agency", *Global Public Policy Institute* 2009, p. 3

competitive behavior that occurred before. Since then, more than 4 billion barrels of strategic petroleum reserves have helped to deter market manipulations.<sup>71</sup>

In addition to coordination of action of governments, a crucial role of many inter-governmental organizations is to keep statistical data and source of authoritative information. Since its foundation IEA has established reporting systems on oil prices, supply and stock positions. Currently IEA is accepted to be an authority on energy market projections, which publishes several publications and draws expertise of the experts of its member countries. Thus it has a power to influence what issues get attention and how they are addressed.<sup>72</sup>

IEA's role in shaping how its member states, other governments, or private actors conceptualize energy policy options is significant. Given the highly technical nature of the energy sector, it is likely that IEA recommendations help in setting standards and regulations for its member countries. When the G8 (discussed more in the next subsection) turned its attention to climate and energy during the 2005 Gleneagles Summit, it turned to the IEA for help. The IEA responded vigorously with a variety of publications, dialogues, and policy recommendations.

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<sup>71</sup> IEA, 2008a. IEA Response System for Oil Supply Emergencies.

<sup>72</sup> Ann Florini, "Who governs energy? The challenges facing global energy governance" in *Energy Policy* 37 (2009).

There are two key challenges and opportunities confront the IEA. First, a successful response to Energy supply shocks, such as a major oil production disruption, is dependent on the IEA's ability to coordinate effective collective action. In such circumstances it is critical that the IEA coordinate with all or most of the world's major energy consumers. Yet the world has changed considerably since the 1970s, particularly with the rise of rapidly developing economies with huge populations. In particular, some are urging the IEA to extend membership to China and India, and – for different reasons – Russia. However, there are significant obstacles and costs associated with extending membership and it is not at all clear whether the IEA can provide sufficient incentives to make membership attractive to these countries. Less formal and non-binding relationships with non-IEA members are likely to be a more feasible way to coordinate with China and India, although this approach likely limits the scope of cooperation. Given the rapid rise in energy demand in developing countries outside of the OECD, any collective action to strengthen IEA's emergency response system, to increase energy policy coordination and to reduce the environmental impact of global oil demand, has to include inputs and cooperation from all major oil-consuming countries.

A second challenge and opportunity for the IEA is to ensure that its policy activities during the long periods without energy supply crises are consistent with its core mission of managing crises if and when they do arrive. Currently, the IEA conducts some highly valuable policy and technical reporting activities

and there is no reason that all of these should be eliminated. However, the scope of its work has grown ultimately and more coincides with other organizations such as the International Renewable Energy Agency (IRENA). The IEA needs to confront the tradeoffs inherent in its agenda and be disciplined about taking on policy issues that fall within a well-defined mandate while avoiding mission creep.<sup>73</sup>

#### **3.3.1.2 The Energy Charter Treaty:**

By the end of the Cold War international society had the opportunity to strengthen energy markets and thus energy security by incorporating Russia – into the global legal governance. In 1991, with the Dutch Prime Minister Ruud Lubbers’ proposal for an European Energy Community, several European countries concluded the Energy Charter political declaration. Three years later, this led to the Energy Charter Treaty (ECT), signed in Lisbon in December 1994, with entry into force in April 1998 upon the ratification of thirty members<sup>74</sup>

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<sup>73</sup> Jeff Colgan, “GPPi Policy Paper No. 6: The International Energy Agency”, *Global Public Policy Institute* 2009, p. 3

<sup>74</sup> Energy Charter Treaty, available at <http://www.encharter.org/index.php?id=7>.

Membership now stand at 51 countries plus the European Community and EURATOM, including a number of non-European parties such as Australia, Japan, and central Asia. Russia, Australia, Norway, Iceland and Belarus has not ratified yet. Countries and organizations with observer status include China, the US, Venezuela, Iran, Kuwait, ASEAN, the World Bank, the OECD, the IEA, and the CIS Electric Power Council, among others.

Although the ECT includes attention to energy efficiency as one of its five pillars, overwhelmingly the ECT's purpose, as its website makes clear, is to stabilize markets and thus enhance energy security:

In a world of increasing interdependence between net exporters of energy and net importers, it is widely recognized that multilateral rules can provide a more balanced and efficient framework for international cooperation than is offered by bilateral agreements alone or by non-legislative instruments. The Energy Charter Treaty therefore plays an important role as part of an international effort to build a legal foundation for energy security, based on the principles of open, competitive markets and sustainable development.<sup>75</sup>

The ECT's other main concerns are foreign energy investment, energy trade, freedom of transit through pipelines and grids, along with a dispute resolution

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<sup>75</sup> Energy Charter Treaty, Transit Protocol available at <http://www.encharter.org/index.php?id=37>

procedure. Treaty secures investments since it is an obligation for its members to extend most favored nation status to nationals of other member nationals and private entities that have invested in its energy sector. This replaces the need for a network of bilateral investment protection treaties. On trade, the ECT accepts WTO rules and standards. The dispute resolution procedure relies on arbitration.

The transit issue, which is a problematic factor, mainly for Russia. In accordance with the need for a political, technical, financial and legal framework for commercial pipeline projects to be initiated an attractive commercial environment necessitates intergovernmental agreement. The G8 Energy Ministerial Meeting that year agreed, and established a Transit Working Group. Negotiations on a Transit Protocol began under ECT auspices in early 2000.<sup>76</sup>

Russia who is unwilling to agree with the provisions of this protocol did not ratify the treaty. The Treaty would require Russia to let non Russian companies to transit gas from Central Asia to Europe without selling it to Russia. Russia prefers to convey itself. In late 2006, Russia made clear that it does not intend to give up control of its pipelines and will not ratify the Energy Charter unless

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<sup>76</sup> Ibid.



those provisions are renegotiated.<sup>77</sup> It also seems likely that Russia does not wish to submit to the ECT's arbitration procedures for price disputes and its ban on cutting off supplies.<sup>78</sup>

The difficulties over the ECT are only a part of global governance failure. The attempt to integrate Russia into a normative energy market system is failing dramatically. As the next chapter will emphasize despite the fact that there is a considerable amount of interdependence among states due to energy, the integration of those relations is highly difficult. In accordance with the weight of national interests policies for global governance are hard to define.

### **3.3.2. International Regimes—Case Of G8**

The IEA is not the sole global governance mechanism which arose from the first oil price shock. The most economically powerful countries of the world was also encouraged to cooperate in terms of their economic policies.

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<sup>77</sup> Judy Dempsey, "Russia gets tough on energy sales to Europe," *International Herald Tribune*, December 12, 2006  
<http://www.iht.com/articles/2006/12/12/news/energy.php> accessed 11 Feb 2007]

<sup>78</sup> Novosti Russian News and Information Agency, "Russia would ratify amended Energy Charter Treaty - Kremlin Aide," 26 April 2006, <http://en.rian.ru/russia/20060426/46936292-print.html>. Quoted in Ann Florini, "Global Energy Governance", CAG Working Group, 2008

The first summit which ultimately became the Group of Eight, or G8, established in 1975 with the participation of Germany, France, Italy, the UK Japan and the US, and enlarged with the inclusion of Canada as a member to form the G7 (it should not be confused with the still-existing G7, which consists of the finance ministers of those countries). Those were originally aimed at small and informal gatherings of likeminded government leaders (all cold war allies) to deal with the coordination of macro- economic policies. By the end of 1970s, the character of these meetings had changed and it started to include political and security issues. The G8 was created when Russia joined as a full member in 1997.<sup>79</sup>

In terms of their structure, summit processes are in between of the formal International organizations and the usual diplomacy among governments. For instance, the G8 is not an official organization, since it does not have a charter, a permanent secretariat; it does not have a fixed membership, or formal criteria for admission. On the other hand, every year the leaders of the most powerful states have come together in order to make it likely to overcome the bureaucratic divisions within each country's foreign policy and bargain across issue areas, as well as coordinate policies more quickly and flexibly.<sup>80</sup>

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<sup>79</sup> Paul Lewis, "Blood and Oil", The New York Times, February 13, 1996, Quoted in Ann Florini, "Global Energy Governance", CAG Working Group, 2008

<sup>80</sup> Ann Florini, "Who governs energy?"(2009),p.5243

It is questionable to accept G8 as a significant and effective global governance mechanism. Energy security that stimulates foundation of G-8, was later masked as macroeconomic management. On the other hand, the members of the Group cannot be recognized to have a long-term common energy strategy, or even to have implemented to their commitments about energy policy that they have given during those meetings. With the increasing attention to environment, climate change and pollution and growing political volatility in energy-strategic regions the significance of such concerns appeared.<sup>81</sup>

Despite the fact that not all commitments agreed during the summits were kept, G8 constitutes a major source of global energy governance. In 2008 Summit<sup>82</sup>, G8 leaders make commitments on energy issues, with specific reference to the adoption of the goal of achieving at least 50% reduction of global emissions by 2050 at UNFCCC.<sup>83</sup> Moreover, they also committed to increase investment in new energy technologies, and through special funds to support those

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<sup>81</sup> Robert M. Cutler, "Current Problems of Global Energy Security in Light of the Caspian Sea Region's Recent Experience," *Oil, Gas, and Energy Law* vol. 4, no.1 (May 2006), p1 available at <http://www.robertcutler.org/CES/ar06ogel.pdf>

<sup>82</sup> *G8 Hokkaido Toyako Summit Leaders Declaration* Hokkaido (Toyako, 8 July 2008) available at [http://www.mofa.go.jp/policy/economy/summit/2008/doc/doc080714\\_\\_en.html](http://www.mofa.go.jp/policy/economy/summit/2008/doc/doc080714__en.html)

<sup>83</sup> Patrick Wintour and Larry Elliot, "Bush signs G8 deal to halve greenhouse gas emissions by 2050" available from <http://www.guardian.co.uk/world/2008/jul/08/g8>

investments. China, India and South Korea were invited to join them in establishing an International Partnership for Energy Efficiency Cooperation. Moreover, G8 leaders agreed to implement 25 domestic policies recommended by the IEA that aimed to improve energy efficiency and reduce energy use although to date it appears that none of the G8 countries have fully followed through on policy implementation.<sup>84</sup>

### **3.3.3. Multilateral Development Banks- World Bank**

Most of the funding for energy development comes from private sector channels, however various agencies of the UN system and the multilateral development banks, and in particular the World Bank, play a key role in setting the terms of the debate and in providing funding.<sup>85</sup>

For years, the World Bank has helped open developing countries' fossil fuel sectors in order to satisfy the growing energy needs of Northern industrialized countries. In 1981, under pressure from the Ronald Reagan administration a U.S. Treasury Department review of the Bank's energy lending program urged the Bank to play a lead role in the "expansion and diversification of global energy supplies to enhance security of supplies and reduce OPEC market

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<sup>84</sup> Ann Florini, "Who governs energy?"(2009),p.5244

<sup>85</sup> Ann Florini, Global Governance and Energy, CAG Working Paper Series(2008) p.13

power over oil prices.” The Bank has implemented these directives with great success over the past two decades.<sup>86</sup>

At the Gleneagles Summit in 2005, the G8 asked the World Bank to prepare an investment framework on clean energy for developing countries.<sup>87</sup> At the 2006 annual meeting of the IMF/World Bank Board of Governors, held in Singapore that year, the Bank released its strategy.<sup>88</sup>

The report was not welcomed among developing countries because of its source the G8 and the northern-dominated World Bank. The developing countries are were extremely suspicious of the plan. The environmental and development research and activist groups argued that the strategy failed both in serving the interests of the poor and making serious progress toward limiting greenhouse gas emissions.<sup>89</sup>

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<sup>86</sup> World Banks Energy Policy available at <http://www.docstoc.com/docs/17907308/WORLD-BANKS-ENERGY-FRAMEWORK>

<sup>87</sup> Gleneagles Communique on Climate Change, Clean Energy, and Sustainable Development, G8 Summit, July 2005.

<sup>88</sup> The World Bank, “An Investment Framework for Clean Energy and Development: A ProgressReport,” DC2006-0012, September 5, 2006, available at [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/21046509/DC2006-0012\(E\)-CleanEnergy.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/21046509/DC2006-0012(E)-CleanEnergy.pdf) .

<sup>89</sup> Ann Florini, “Global Energy Governance”, *CAG Working Group Series* (2008)

Both the Bank and the International Finance Corporation dedicated very slight portion of their loan portfolios to renewables. The Bank, for its part, argued that renewables are not sufficient to meet the world's increasing demands and that continued investment in fossil fuel projects in poor countries is essential.

In October 2009, the approach paper by World Bank, which forms the basis for the preparation of the new WORLD BANK Energy sector Strategy was declared. The new strategy will planned to be declared by 2011.

#### **3.3.4. Public Private Partnerships**

The problems faced by actors of international energy governance deliberately approach those faced by business executives over the last decade: the mixture of the quickly changing business environment, information overload and constant constraints upon resource availability stretching them ever thinner. On the other hand, despite the great complexity and uncertainty of the energy environment, international energy consortia have successfully defined pipeline projects, received funding and completed the construction projects along with the rapidly development of the newly available energy resources in the region. How do they manage this?<sup>90</sup>

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<sup>90</sup> Robert M. Cutler, "Current Problems of Global Energy Security in Light of the Caspian Sea Region's Recent Experience," *Oil, Gas, and Energy Law* vol. 4, no.1 (May 2006), p2 available at <http://www.robertcutler.org/CES/ar06ogel.pdf>

Governments and the inter-governmental organizations they create are not the only major actors in global governance. There are several other entities, which involve both governments and non- governmental actors. Much attention has been recently given, in debate over these issues, to so-called “public-private partnership.” Such a partnership, it is argued, could not only assist the development of existing and new crude oil resources but also, in view of the exhaustion of such resources in coming decades, manage political pressures for long-run transition to gas and alternatives/renewables while investigating their potential and also determine under what conditions alternative/renewable energy sources are a wise long-term investment.<sup>91</sup>

Here I would like to emphasize REEP and its significance. The Renewable Energy and Energy Efficiency Partnership (REEEP), launched by the UK in August 2003 as a multi-stakeholder partnership, promotes renewable and energy efficiency systems. It works on policy and regulatory initiatives for clean energy, and facilitates financing for energy projects, with the backing of more than 200 national governments, businesses, development banks and NGOs. It has eight regional secretariats around the world, in addition to the international secretariat.<sup>92</sup>

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<sup>91</sup> *ibid*

<sup>92</sup> REEEP available at <http://www.reeep.org/48/about-reeep.htm>

REEP's mission focuses on three key areas: reducing gas emissions, improving access to reliable and clean forms of energy in developing countries and promoting energy efficiency. Unlike Inter-governmental Organizations, REEP is funded mainly by voluntary donations and there is no restricted membership. It is funded by governments, banks, other non-governmental organizations and private companies. REEP attempts only to fund those projects that could have the potential to be widely copied in many different frameworks and various countries and energy markets. One essential component of its mission is to influence the legal and political barriers to clean energy by utilizing lawyers and technical experts. Another important component is financing projects that have the capacity to attract investors and financiers that can develop and deploy more sustainable technologies in other markets.

Its distinct structure, mission and approach to funding formulate REEP primarily different the rest of the global energy consortia. On the other hand, the organization functions on a much smaller scale than inter governmental organizations or development banks since it focuses on facilitation and capacity building. Moreover, on the one hand other global actors mainly work together with governments, on the other hand the majority of REEEP's partners are bankers, financiers, and NGO managers. The operational flexibility and efficiency is one of the advantages in this system due to the small-scale of the organization and it can deal with actors on a much smaller scale, it can often hold these actors more accountable for their decisions. A



second advantage is the relationship between REEEP and its partners, which has a dynamic nature. Regular contact creates an inclusive and transparent process that brings rapid feedback about REEEP projects among partners. Partners have a direct chance to have a weight over the activities of REEEP through meetings and consultations, and REEEP also prefer to let most partners micromanage their own projects. REEEP managers believe that this is likely to improve the efficiency of implementation since it does not impose a top-down “one-size-fits-all” approach to renewable energy and energy efficiency.<sup>93</sup>

The downside is that because REEEP tends to implement small-scale and distributed projects; it must manage hundreds of individual projects in order to make significant contributions. In addition to that these partnerships unlike intergovernmental and developmental organizations lack annual contributions from its sponsors and partners. Thus these projects are in general short term.

### **3.3.5. Private Enterprises**

There is multiple independent actors, each of which has its own objectives and priorities, with its organizational culture, with its specialized focus.<sup>94</sup>

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<sup>93</sup> “From Words to Action: accelerating measures to improve energy efficiency in buildings,” Report of the REEEP/EURIMA/EuroACE Workshop roundtable discussions 6th April, Diplomatische Akademie Wien, Vienna.

<sup>94</sup> James M. Boughton and Colin I. Bradford, Jr. “Global Governance: New Players, New Rules” *Finance & Development A quarterly magazine of the IMF*

It is necessary to have a strong leadership and coordination for energy governance. A global energy market exists in which global institutions that monitor markets and represent different parties are recognized. However, since most energy investment, whether in oil, natural gas, biomass, or in any other area, is governed mainly by private companies or parastatal enterprises, and therefore private sector and national interests are more strongly represented than global public interests.<sup>95</sup>

Private companies, i.e. international energy firms, financial institutions and others interact through market-based transactions, and thus determine outcomes in global energy. The behavior of transnational corporations in developing countries grew as an important factor in globalization debate since 1990s. Many in the public view multinational corporations and oil companies, as economic and political heavyweights. The 200 largest corporations account for a quarter of the world's gross domestic product. Many of them- specifically oil companies- were seen as engaging in irresponsible acts in developing countries, leading to calls for rules for global players which they cannot ignore.

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(December 2007) available at  
<http://www.imf.org/external/pubs/ft/fandd/2007/12/pdf/boughton.pdf>

<sup>95</sup> *ibid*

“Particularly venal acts such as the execution of Nigerian activist Ken Saro-Wiwa in 1995 put the public spotlight on the dismal conditions in the Niger Delta and forced Royal Dutch/ Shell to confront its own role and involvement. This made it increasingly clear that the traditional “the business of business” approach was no longer tenable for brand-sensitive Western-based multinational corporations.”<sup>96</sup>

The negligence is not an option anymore. In accordance with the global structure of interdependency in the world, every issue is interrelated and sensitive for any other issue. This factor is essential for private actors in determining their actions in a global context where their policy outcomes might have severe reactions from different levels- public and private.

It is the private sector, which organize the exploration, trading and consumption of energy despite the fact that the actions are highly politicized. In other words, it is not states extracting, trading oil and gas, but it is companies although not all of them are fully private; it is primarily markets that choose allocation of capital, technology and manpower, not. In the case of oil, these markets are truly global; in the case of natural gas, they remain regional but still international in nature.

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<sup>96</sup> Andreas Goldthau and Jan Martin Witte, *Global Governance of Energy* .(Global Public Policy Institute, Berlin 2010) p,292

Nevertheless, market-based interactions are controlled by institutions, which can put forth encouragements or restrictions on actors. In that way, energy markets are similar to any other market. The institutions which organize energy markets are definitely political both nationally and internationally. In other words, it is not possible to avoid the state and the role of the governments in energy. However, states are critical in defining whether supply of energy is at reasonable rates; whether there is sufficient investment and capital for the projects; and whether the prerequisites for a transition to low carbon economy are met through governing externalities.

Since 1990s, privatization advocates have strongly promoted privatization and believing that privatization would bring greater efficiencies at low rates. However, in many countries the lack of appropriate regulation and enforcement left them with badly governed and extremely corrupt energy sectors in general.<sup>97</sup> In accordance with this fact transparency in global arena increasingly receives demand. The dynamism in this field is associated with the new initiatives such as Extractive Industry Transparency Initiative (EITI). These initiatives are promoted by numerous major international contributors (such as the World Bank) as well as European governments.<sup>98</sup>

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<sup>97</sup> Ann Florini, "We Need New Energy Governance", *Guardian*, 12.01.2010

<sup>98</sup> Andrey S. Makarychev, "Russia's Energy Policy- Between Security and Transparency" available at [http://csis.org/files/media/csis/pubs/pm\\_0425.pdf](http://csis.org/files/media/csis/pubs/pm_0425.pdf) accessed on 03.03.2010

In practice, multinational corporations control the drilling, refining, trading, of energy commodities and therefore they are the ones who govern the energy sector. On the contrary, without clear, multi-stakeholder and universal governance mechanisms in global energy – every step from extraction to end user –so-called corrupted energy sectors would continue.<sup>99</sup>

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<sup>99</sup> Andrew Schrumm, “Locating ‘Energy Security’” available at [governingenergy.wordpress.com/](http://governingenergy.wordpress.com/) accessed on 23.11.2009

#### **4. INTERDEPENDENCE, ASSYMETRIES, CHANGE AND THEIR IMPLICATIONS ON ENERGY GOVERNANCE**

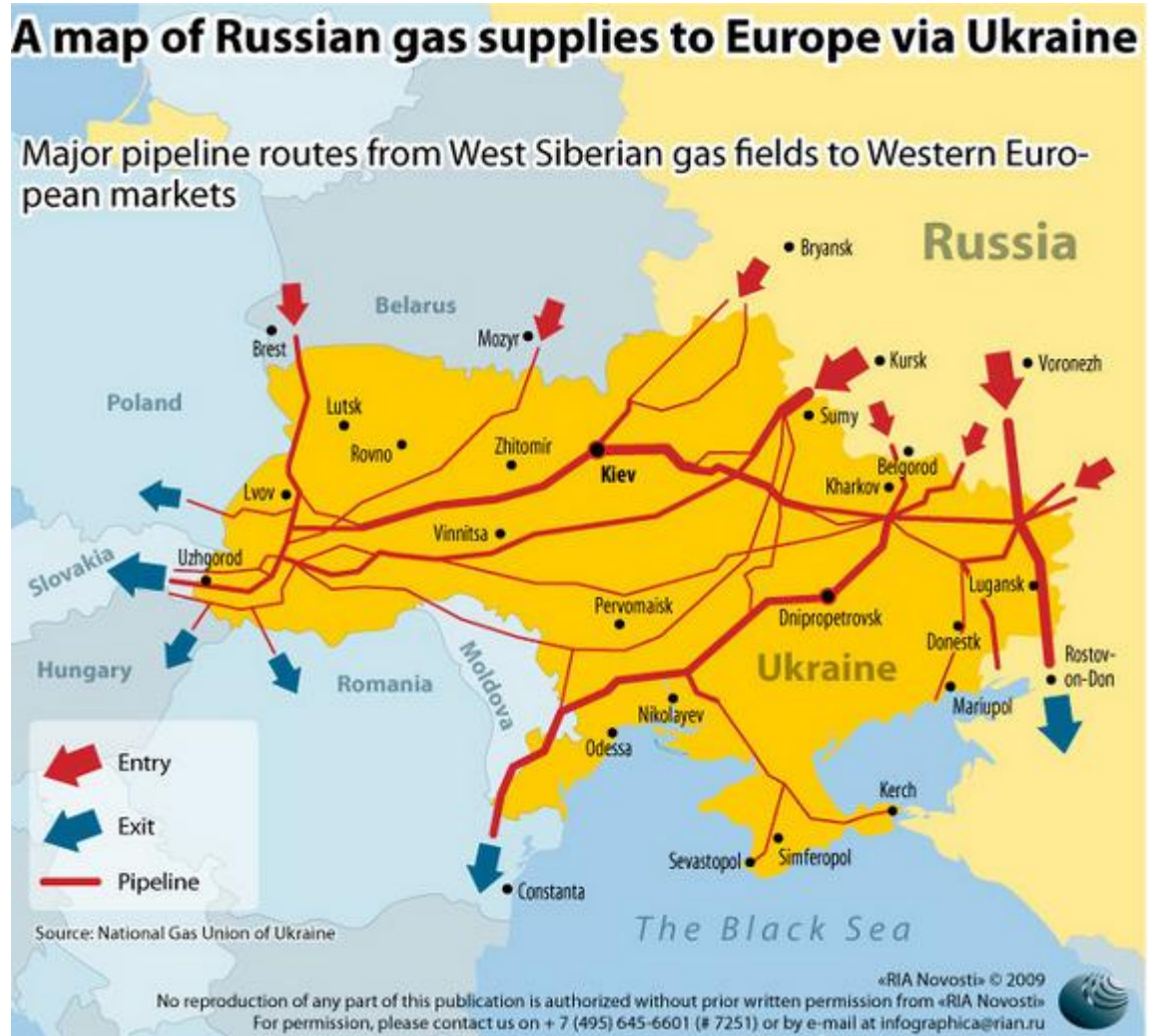
An Asymmetrical relation among countries considering energy relations constitutes another factor to be discussed. It would be wise to handle RUSSIAN –UKRAINIAN- EU energy relations to understand how asymmetrical relations of these countries affect governance of energy among countries.

##### **4.1. Background**

Disputes between Russia and Ukraine originated from disputes between Naftohaz Ukrainy and Gazprom of Russia due to issues with regards to supplies, prices and debts. Political concerns of both countries have threatened natural gas supplies in numerous European counties that depend on Russian natural gas, which is transported via Ukraine. Russia supplies 25% of gas demand of Europe. Ukraine transports about 80% of Russian gas going to EU.<sup>100</sup>

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<sup>100</sup> BBC, “Monitors key to Russian Gas Deal” available at <http://news.bbc.co.uk/2/hi/7817043.stm>



**MAP 1. Russian Gas Supplies to Europe via Ukraine, available at**

<http://en.rian.ru/infographics/20090609/155206402.html>

In 2005 a serious dispute broke out over natural gas and prices for transit. Russia argued that Ukraine was not paying for gas and diverting gas exported to EU from the pipelines. This argument was denied by Ukraine at first but later it Naftohaz Ukrainy admitted some Russian gas was used for domestic needs instead of transporting to Europe. Once this originated, Russia cuts off gas supplies through Ukrainian Territory. 4 days later an agreement was

reached and the supply was restored. In October 2007 due to Ukrainian debts another dispute arose and which ended with another gas supply reduction in March 2008. During the last months of 2008 relations between Russia and Ukraine got worsened and in the beginning of 2009 the dispute resulted in 18 EU countries reporting about major drops of gas supply from Russia transported through Ukraine. Once Russia and Ukraine came to an agreement, the two sides finally signed a 10-year contract on January 19. Over the whole of 2009, Gazprom has committed to supplying up to 120bn cubic meters (bcm) to Europe through Ukraine, plus a further 40bcm for Ukraine's domestic use. The price that Gazprom charged Ukraine was US\$360 per thousand cubic metres (mcm), which was almost exactly double the US\$179.50/mcm Ukraine paid in 2008.<sup>101</sup> It is based on the 'European price' of US\$450/mcm minus a 20% discount. In return for the discounts Ukraine agreed to keep its transit fee for Russian gas unchanged in 2009.<sup>102</sup>

On April 21, 2010, Russian President Dmitry Medvedev and Ukrainian President Viktor Yanukovich signed an agreement in which Russia agreed to a 30 percent drop in the price of natural gas sold to Ukraine. Russia agreed to this in exchange for permission to extend Russia's lease of a major naval

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<sup>101</sup> "Russia to open gas flow to Europe", CNN available at <http://edition.cnn.com/2009/WORLD/europe/01/19/gas.row/index.html> accessed on 03.01.2010

<sup>102</sup> "January Thaw: Gazprom Resumes Gas Exports To Europe", Business Monitor International accessed on 27.12.2009



base in the Ukrainian Black Sea port of Sevastopol for an additional 25 years with an additional five-year renewal option (to 2042-47).<sup>103</sup> Ukrainian Opposition severely criticized this as “sell of national interest”

#### **4.2. Interdependence and Power**

Power can be thought of as the ability of an actor to get others to do something they otherwise would not do (and at an acceptable cost to the actor). . . . When we say that asymmetrical interdependence can be a source of power, we are thinking of power as control over resources, or the potential to affect outcomes. A less dependent actor in a relationship often has a significant political resource, because changes in the relationship (which the actor may be able to initiate or threaten) will be less costly to that actor than to its partners. This advantage does not guarantee, however, that the political resources provided by favorable asymmetries in interdependence will lead to similar patterns of control over outcomes.<sup>104</sup>

In order to understand the dynamics of power in an interdependent relationship, Koehane and Nye distinguish two useful concepts: sensitivity and

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<sup>103</sup> Ivan Watson, “Russia, Ukraine agree on naval base for gas deal”, *CNN* available from <http://edition.cnn.com/2010/WORLD/europe/04/21/russia.ukraine/index.html>

<sup>104</sup> Robert O. Koehane and Joseph S. Nye, *Power and Interdependence* (3d. ed.; New York: Addison-Wesley Publishing, 2000)p.10

vulnerability. Sensitivity interdependence, involves degrees of responsiveness within a policy framework. How quickly do changes in one country bring costly changes in another, and how great are the costly effects? It is measured not merely by the volume of flows across borders but also by the costly effects of changes in transactions on societies or governments. The authors characterize vulnerability interdependence as the cost to, and the capabilities of, a state to offset or change any unwanted impacts caused by the actions of its foreign partner.<sup>105</sup> For instance, two countries may be equally sensitive to change in a gas cut but one might be less vulnerable than the other because it has a wider variety of alternatives available to it. In order to prevent their vulnerability with respect to gas cuts from Russia, respective countries in Europe pass through a learning process and changed their policy and increased the intensity of new projects with respect to the diversification of Energy as well as alternative routes.

#### **4.3. Interdependence and Implications**

When economic interdependence is arrived at through international agreements, there are often political structures and ties created to manage this interdependence. In this case, it is believed that states that are highly politically and economically interdependent, as in the case of the European Union,

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<sup>105</sup>ibid ,12-15

interdependence is likely to decrease conflict among states with this peace being rather stable, at least in the short term. This is due to the high economic costs of ending the relationship, the fact that this relationship is more likely to be mutually beneficial and the high levels of political interdependence allow for transparency of actions and channels for negotiations.

When Soviet Union collapsed, the need to establish sovereignty in these new states and Russia's desire to pursue a leading role in CIS create a resistance for integration. The inequalities among the states inherited by the Soviet Union are a major cause of the hesitation of these states to further integrate. This is because there are concerns that Russia would attempt to dominate these states through the CIS structure, therefore re-creating a Soviet-like structure.<sup>106</sup>

Economic Interdependence is when a state is both sensitive and vulnerable to changes in economic policy or the economy of another state. For example, if state A's energy production were to decrease, state B's economy will feel the shock through price increases for energy and goods whose production relies on the energy.

Where states are highly economically interdependent, but have low levels of political interdependence their relationship is likely to be characterized by

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<sup>106</sup> Justin Burke, "Amid Political Tumult in Moscow, Yeltsin Forges CIS Economic Union," *Christian Science Monitor* (Boston), International section, September 27, 1993.

unstable peace. This relationship is more likely to see high levels of asymmetries between the state's dependencies on one another due to a lack of political management of the relationship. For this reason these states are more likely to have countervailing political and/or economic interests because of a lack of close political cooperation, however there are also high economic costs to resorting to international conflict.

When Ukraine declared independence in 1991 the relationship between Russia and Ukraine was highly economically interdependent. The Soviet system was such that these states were inextricably tied, especially in the area of energy. Despite efforts on both sides to decrease their dependence on one another in the energy sector their relationship in this area is still characterized by mutual dependence. According to the Naftogaz of Ukraine website, Ukraine is the third largest consumer of natural gas in the world after the United States and Russia. Ukraine's natural gas consumption accounts for 60 percent of their total energy consumption.<sup>107</sup> Ukrainian energy imports from Russia, in natural gas as well as oil, account to the majority of the energy used in Ukrainian industrial and consumer markets. A lack of alternative suppliers combined with Ukraine's high levels of energy intensity intensifies this dependence on Russian energy. This makes Ukraine highly sensitive to changes in supply agreements between

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<sup>107</sup> Naftogaz Website available at <http://www.naftogaz.com/www/2/nakweben.nsf/> accessed 05.12.2009

Russia and Ukraine and leaves them unable to insulate the country from those changes.

The price increases that Ukraine faced in 2006 could have had similar effects had Ukraine had not continued to take energy from the pipelines. This action brought the energy war to an end quickly by bringing European interests into the equation. This brings us to Russian dependence on Ukraine.

In addition to the economic problems with being dependent on Russian energy, energy dependence is also seen as one of Ukraine's biggest security threats, since Russian has been willing to link energy security to political issues. Russia's dependence on Ukraine is in transportation of energy, which is the biggest contributor to Russian GDP growth and revenue stream today. Russia's major importers are in Western Europe, with 80 percent of this energy transiting Ukraine. This is a dilemma for Russia in multiple ways. First, the existence of this middleman increases the costs of exportation, through transit fees, which could affect their competitiveness in European markets. Second, Ukraine can use this dependence as a negotiating tool, any. The cases above show us that Ukraine is willing to use the transit system to help them in energy disputes with Russia. The above shows that the relationship between Russia and Ukraine is one of interdependence, or mutual dependence, as they are both sensitive and vulnerable to changes in the other state. However, this is an asymmetrical relationship due to the degree to which each is vulnerable, or

able to insulate themselves from the changes in other states. Ukraine has no direct way to insulate itself from changes in Russian prices, with no other options for importation and limited domestic supplies. Their limited financial resources make funding projects to diversify their supplies difficult, especially since their biggest investor has historically been Russia.

Ukraine failed to conclude energy trade deals with other states. Russia, on the other hand, has a large global market share in the energy sector and, as one of the biggest companies in the world, Gazprom has many resources, customers and a growing market in Asia. Their resources allow them to find the development of alternative transit routes and their ability to diversify their exports. Additionally, the effect of Ukrainian usage of their pipelines against Russia has not been transparent and seems to have had little direct affect on the Russian economy. Ukraine's use of the pipelines indirectly effected Russian policy, by harming Russia's reputation in Western Europe.

Russian policy changed towards Ukraine because Europe sided with Ukraine on the dispute and therefore questioned the intentions of the Russian energy cuts and their reliability as an energy partner. As a major segment of their trading partners in energy, their opinion of Russian political and economic policies is important and politically sensitive. Since the effect of Ukrainian usage of the pipeline system is indirect, it becomes obvious that Ukraine is

more vulnerable to Russia than Russia is to Ukraine, although there is no way to tell what may have happened if Europe had not intervened.

There is one looming problem with this interdependence scheme that must be addressed. That is, when does interdependence end and dependence begin in a mutually dependent relationship? Since Ukraine seems to be much more dependent on Russia for economic prosperity, one could argue this is a case where Ukraine is dependent on Russia, and Russia is not dependent on Ukraine. If this is the case interdependence theory do not apply to this relationship and it should not be used to confirm nor deny the validity of liberal or realist views on interdependence. In order to reconcile this problem there must be an agreement on how to measure interdependence between states. Additionally there must be a qualification for asymmetrical relationships between states in order to find when interdependence ends and dependence begins.

#### **4.4. Dependency- Interdependency – Conflict and Asymmetries**

Here I will analyze the effect of asymmetries in the relationship on conflict between the states. This has to do with the willingness and ability of these states to use their dependencies against one another. Although Russia has claimed economic reasons for their energy policies throughout time, their

willingness to link energy policy to political issues, like pipelines, makes the argument that economic power can be used as political power relevant.

Ukrainian attempts to negotiate a more advantageous energy agreement in 2005 can be seen as using Russian dependence as power against them, albeit unsuccessfully. Although there was no direct political linkage in this case, there is an understanding in Ukraine that Russia needs them for energy transit to Europe.

Although Russia has convincing and legitimate economic arguments for increasing Ukrainian gas prices and for cutting gas supplies, their initial persistence and unwillingness to negotiate with Ukraine as well as their linking payments to political issues makes their motives questionable at the very least.

Most cases of interdependence are asymmetrical and it is this asymmetry that distributes the relative bargaining powers of members in an interdependent relationship. As Keohane and Nye put it: "It is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another."<sup>108</sup>

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<sup>108</sup> Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (3d. ed.; New York: Addison-Wesley Publishing, 2000), pp. 10-11.



The failure in concluding negotiations on energy agreements and the continuing energy disputes between these states proves that they are in a state of permanent conflict. In addition to that the agreements, which are concluded were more or less always excessively to Russia's advantage, whether directly or indirectly. For example, the fixing of transit rates in a long-term agreement with gas prices being renegotiated every year obviously benefits Russia, since they can anticipate their transit costs remains the same. On the contrary, Ukraine can only anticipate the rise in the prices and there is no guarantee about how much an increase may occur.

In accordance with transnational structure of multilevel interaction among actors of global governance, we should also notice that asymmetrical relations may evolve between actors belonging to different level of analysis. In that respect, international society has another responsibility to create international norms where those asymmetries will be eliminated.

#### **4.5. Lack Of Political Interdependence and Conflicts**

Although Russia and Ukraine have a high level of economic interdependence cooperation and peace have not resulted as complex interdependence theory suggests. This persistent conflict is a result of the lack of political interdependence between the states. This political interdependence, through common regimes, is essential to increase cooperation among states due to its

functions of maintaining and negotiating interdependencies among the states. The inherent asymmetries between Russia and Ukraine due to the lack of political interdependence allow these states to use dependence as power, causing conflict.

At this point the international society and tools for governance have a special role in generating international norms. While the lack of political integration between states create conflict, the growing global approach with multiple tools would force states to comply with the international standards and norms. Although Russia still has not ratified the Energy Charter Treaty, values and principles accepted and promoted are important for the sustainable development, energy security, human rights and environmental considerations.

In addition to that, each tool and platform, with its specific agenda, seeks to create universally accepted values, principles and practices in order to promote above-mentioned issues in a global scale. For that matter, although states may conflict with each other and those conflicts may create tension in other regions, these conflicts would highly be constrained by global norms accepted and implemented in a multi-level scale with a transnational dimension. States creating conflict would highly be criticized and their international reputation might be deteriorated unless they became a true integrated member of the global society. Once European interests were at stake, Russia was pressured to end its decision about cut-offs. It was a question of humanitarian welfare.

Many of the households threatened. In other words, it was a threat to human welfare which is an obligation of international society and its multilevel bodies( national, international, sub national) to protect human rights.

#### **4.6. Interdependency and Change**

There are two dimensions that the Russia-Ukrainian dispute and European energy security should be examined: the problem between Russia and Ukraine, and the problem between Russia-Ukraine and Europe.

With respect to the latter, from the European point of view not only the reliability of Russia as a supplier but also of Ukraine as a transit country was seriously questioned. Therefore, Europe move forward to promote policy options, which include

- Constructing a Pipeline which bypass Ukraine
- Securing gas supply sources other than Russia
- Promoting alternative energies such as Nuclear Energy and Renewable Energy.

Although it is clear that interdependence between Europe and Russia can not be changed, various strategies and policies will be drawn up both in Europe for reinforcing energy security and in Russia for reinforcing energy demand security.

The strategic significance of rich oil and gas resources of the Central Asia has increased. The process, path and transit country through which these resources are exported, receives great attention for political considerations, economic security concerns and energy geopolitics. On the one hand, Russia needs to meet supply commitment as well as to control competition both in Europe and in Asia. In order to do that, Russia force oil and gas from Central Asia to be exported through Russian infrastructure. For Europe, to increase imports from Central Asia is among the best alternatives for import diversification. Indeed, the growth of production and export of oil and gas in Central Asia, and to which regions and by which routes oil and gas are exported, will seriously manipulate the supply/demand equilibrium and stability of the global energy market.<sup>109</sup>

*What do we learn from this case?*

- Excessive dependency on a single route or supplier is dangerous.
- A country, which is not a party to a dispute, can also be affected by a disagreement originated between a supplier and a customer, which is a transit country as well.

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<sup>109</sup> Dr. Ken Koyama, “Energy Geopolitics of Russia”, Institute of Energy and Economics, July 2009, available at [www.eaber.org/intranet/documents/96/.../IEEJ\\_Koyama\\_2009.pdf](http://www.eaber.org/intranet/documents/96/.../IEEJ_Koyama_2009.pdf)

- There should be an international dispute resolution procedure which is similar to one that is provided by the Energy Charter Treaty and its draft Transit protocol.<sup>110</sup>

*What should be done ?*

- There are some useful actions that should be evaluated, in order to encourage transparency and give some comfort to European Countries in case of another related event. The European Union should foresee future troubles in transit relations between Russia and Ukraine (or any other member of CIS) through better transparency in the agreements and gas transfers. These tasks could be put on the agenda of the EU-Russia Energy Dialogue and future EU dialogue with Ukraine.<sup>111</sup> This transparency would only be guaranteed within an international body with specific reference to the Energy Charter. Within normative understanding it is necessary to put international bodies into the equation in the dispute resolution process.
- Through the diversification of energy sources as well as their geographic origin it is possible to enhance EU energy security. It is

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<sup>110</sup> Jonathan Stern, “The Russian-Ukrainian gas crisis of January 2006” available at [www.oxfordenergy.org/pdfs/comment\\_0106.pdf](http://www.oxfordenergy.org/pdfs/comment_0106.pdf)

<sup>111</sup> *ibid*

necessary to facilitate the maintenance and improvement of current energy infrastructure in neighboring countries for the EU. It is also necessary to guarantee the development of new infrastructure. There are several new projects, which have either been determined or are in an advanced stage of planning (North Africa, Middle East, Caspian region, Russia and Norway). If completed, they are considered to have potential to create new energy corridors which will bring new import capacity amounting to a significant share of the EU's current gas consumption. The development of major international pipelines to deliver oil from the Caspian region and Central Asia to the EU is also vital.<sup>112</sup>

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<sup>112</sup> An External Policy To Serve Europe's Energy Interests Paper from Commission/SG/HR for the European Council available at <http://www.consilium.europa.eu/uedocs/cmsUpload/st09971.en06.pdf>



MAP 2. NABUCCO Pipeline Project

As it was indicated by the council of foreign relations many experts forecasted that during Russia's chairmanship of the G8, energy security would be at the top of the agenda, and this would lead to establish better energy-security relations but their forecasts were not true. "The low point in the relationship came during Russia's price spat with Ukraine when gas supplies to some European countries were temporarily disrupted, prompting some to seek out more reliable energy sources in the form of gas supplies from northern Africa and Norway as well as nuclear power."<sup>113</sup>

However, as the *Financial Times* states, Gazprom has sought to improve its access to European customers by signing long-term deals with a number of EU

<sup>113</sup> "Russia's Energy Disputes" on CFR website available at <http://www.cfr.org/publication/12327/>

nations. Europe remains the gas behemoth's largest customer, accounting for 65 percent of its overall revenues, and analysts expect that figure to grow<sup>114</sup>

In order to prevent energy disruptions experienced by European countries and to exclude Ukraine Russia sought alternatives in order to bypass Ukraine. The South Stream pipeline is one of them which , projected to run Russian energy resources under the Black Sea to Austria and Italy is aiming this.

*South Stream to Cross the Continental Shelf of Ukraine and Romania*



Sources: United Nations; Black Sea Commission.

MAP 3: South Stream Pipeline Project.

<sup>114</sup> Financial Times available at <http://www.ft.com/cms/s/0/7b79e384-35be-11df-963f-00144feabdc0.html>



#### 4. CONCLUSIONS

Energy stands at the center of the critical global challenges. However both globally and nationally, it is weakly administered. It is necessary to take a set of multilateral governance approaches considering the problems and challenges.

“The key role of energy in global problems is clear. Some two-thirds of the greenhouse gas emissions causing climate change trace back to fossil fuel use. A renewed scramble for oil is raising fears of a new generation of geopolitical conflicts. Global economic instability correlates strongly with energy-price volatility. Economic development is in significant part defined by the process of overcoming energy poverty, yet 1.6 billion people still lack access to even the most basic energy services.”<sup>115</sup>

Existing structure of global energy framework can be characterized to have a transnational dimension which involves multilevel actors. The *transnational dimension* is thus conceptualized to consist of both inter-organizational and inter-state relations both of which are seen to be grounded in uneven social relations). But also in the domestic national realm, i.e. the *national dimension*, the state and the corporation cannot be considered independent entities. Whereas this is evident in the case of state-owned corporations, also in the case

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<sup>115</sup> Ann Florini, “We Need New Energy Governance”, *Guardian*, 12.01.2010

of ‘private’ corporations there is an interdependent relation to the state<sup>116</sup>, in terms of regulations, revenue flows (subsidies, taxes), and social relations (elite cooperation, employment etc).<sup>117</sup>

This thesis, emphasizing the multi-level complexity of governing structure, elaborates the issues of global energy governance which shape the framework of its transnational dimension. In such an analysis, I figured out important to mention issues ranging from development to human rights, environmental considerations to investments and energy security in defining key components of the governing framework. This brought an understanding for the dynamics of respective issues in relation with the actors of global energy governance.

There are many actors in defining the dynamics of global governance each of which have their own motivations stemming from their field of interest with respect to energy issues.

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<sup>116</sup> The state, in this perspective, is not conceptualised as a unitary, rational actor in a structural void (black box), but as ‘state-society complexes’ .

<sup>117</sup> Graaff, Nana. "Non-Triad State-Owned Energy Multinational Companies and the Transnational Dimension of Geopolitical Contestation over Energy Resources" Paper presented at the annual meeting of the ISA's 50th ANNUAL CONVENTION "EXPLORING THE PAST, ANTICIPATING THE FUTURE", New York Marriott Marquis, NEW YORK CITY, NY, USA p.5

Under such a consideration tools for governance or in other words platforms for governance have play a significant role in drawing the framework of governance. Each of those tools, as above explained in detail, have their own advantages and disadvantages.

“Created by oil consumers in the 1970s in response to the OPEC price shocks and embargoes by Arab oil exporters, the IEA has succeeded in establishing and supervising a system of national oil stockpiles, which has helped to prevent a recurrence. But it is nowhere near the truly international organisation that its name implies. Its membership remains restricted to OECD countries, even though surging demand from non-member countries like China and India is rapidly undermining the IEA's ability to speak for, and co-ordinate responses among, oil importers as a group. Although the IEA's mandate has expanded beyond oil since the early 1990s to include broader energy policy, several of its own member governments, led by Germany, found its record on renewables so unsatisfactory that they recently established the International Renewable Energy Agency, whose membership is open to all.”<sup>118</sup>

Other key intergovernmental organizations face their own limits. The Energy Charter treaty has failed to bring Russia into a rule-based framework for international transit via oil and gas pipelines. The World Bank's energy financing remains overwhelmingly dedicated to fossil fuels, despite limited

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<sup>118</sup> Ann Florini, “We Need New Energy Governance”, *Guardian*, 12.01.2010

efforts to establish funding for low-carbon energy. Numerous networks and partnerships have emerged in response to the gaps in global energy governance. For example, the Renewable Energy and Energy Efficiency Partnership, founded in the UK, has grown into a multi-stakeholder body supporting renewables and efficiency in numerous countries. So far, however, such initiatives remain quite small. They will not, in the foreseeable future, operate on a scale that can foster a rapid transition away from fossil fuels or provide energy services to billions of new consumers.

In such a consideration none of them is sufficient alone for an integrated governance. Instead there should be multi-dimensional approach with multiple tools of governance in order to guarantee the participation of all relevant actors in the governing process and in order to deal with each relevant issue accordingly. Multilateral frameworks of intergovernmental cooperation, programmes, and initiatives can also have an impact on risk management. Successful energy policies require inter-sectoral co-operation, supervision, and long-term public policies concerning employment, the environment, and investment.

“Market forces alone are unable to cope with major externalities such as greenhouse gas emissions, with overwhelming government control over major energy sources

such as oil, and with huge numbers of people too poor to constitute a market.”<sup>119</sup>

This paper also focuses on how those relevant actors act interdependently and how each of them is affected from one other. In a globalised world, energy independence cannot be achieved. As it was in the case of Russia-Ukraine and EU, a conflict between two states may create spill over effect in other regions. Such spill over effects, which threatened the human welfare in Europe, questioned the reputability of Russia as a reliable partner. Once the reputation of Russia was in danger, it retreated. This proves the weight of international society once it acts coherently with specific reference to a value universally accepted. I don't mean that this was a case in which solely a humanitarian value was at stake. Rather, in addition to what we call commercial factors and domestic factors (reactions from public stemming from indignation occurred in respective European States which forced governments to take necessary actions) the main threat was to the security and welfare of the European citizens.

This reality would motivate states; to alter their energy policies domestically with new investment projects; to find alternative ways for energy supply including new routes and development of renewable energy field; and finally to step forward on issues of collective action in establishing a common energy

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<sup>119</sup> *ibid.*

policy which would create norms of conduct in the field of energy with specific reference to conflicts, renewable, energy efficiency which would contribute to the human welfare in the end. This was another dimension of this thesis: in such a complex structure **change is constant** and policies may alter accordingly.

To sum up, despite the fact that there is an internal trend towards liberalization in the big consumer markets, there is a growing tendency of relinking energy supply security to traditional foreign and security policy, if not traditional geopolitics and power politics. In accordance with growing disputes to energy in trade and consumption, the trend towards power politics and competitive access to energy would be a problematic approach with risks.<sup>120</sup> What is needed more than the prevailing approaches which are combining risk reduction, crises management and geopolitics is **multilateral cooperative governance** to reduce the physical, economic, environmental and social risks related to energy consumption and external dependencies on energy.

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<sup>120</sup> Kristen Westpal, “Energy Policy between Multilateral Governance and Geopolitics: Whiter Europe?” available at <http://library.fes.de/pdf-files/id/ipg/03931.pdf>

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