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Europeanization of Gas Sector in Georgia: towards Integration?

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Abstract

The thesis explores the mechanisms and outcomes of the Europeanization process in Georgia's gas sector. The chosen approach treats Europeanization as a multi-level process where the extent of the changing capacity of the supranational institutional mechanisms varies according to the contextual setting and intervening domestic factors. Through qualitative document analysis of the Energy Community, AA/DCFTA and Georgian domestic legal and regulatory frameworks, first it shows that Europeanization mechanisms operate through complementing positive policy prescriptions with the means of adjustment to domestic opportunity structure. Second, when analyzing outcomes of Europeanization, it demonstrates how gas policy harmonization, being restricted by vertical contractual relationships, creates preconditions for the divergence in sectoral integration. Third, based on the research findings on mechanisms and outcomes, it places the given case study in the debates on the nature of the EU external energy governance, arguing that in its horizontal operative space, it resembles network governance.

Keywords: Georgia, gas sector, energy policy, Europeanization, positive integration, opportunity structure, external energy governance, network governance.

Abstrakt

Ta praca eksploruje mechanizmy i skutki procesu europeizacji gruzińskiego sektora gazowego. Wybrane podejście traktuje europeizację jako proces wielopoziomowy, w którym zakres zmieniających się zdolności ponadnarodowych mechanizmów instytucjonalnych różni się w zależności od kontekstu i interweniujących czynników krajowych. Przez jakościową analizę dokumentów Wspólnoty Energetycznej, AA/DCFTA i gruzińskich krajowych ram prawnych i regulacyjnych, po pierwsze, pokazuje, że mechanizmy europeizacji działają poprzez uzupełnianie pozytywnych zaleceń politycznych środkami dostosowania do krajowej struktury szans. Po drugie, analizując skutki europeizacji, pokazuje, w jaki sposób harmonizacja polityki gazowej, ograniczona wertykalnymi stosunkami umownymi, stwarza warunki wstępne dla rozbieżności w integracji sektorowej. Po trzecie, opierając się na wynikach badań dotyczących mechanizmów i wyników, umieszcza dane studium przypadku w debatach na temat charakteru zewnętrznego zarządzania energią UE, argumentując, że w swojej horyzontalnej przestrzeni operacyjnej przypomina ono zarządzanie siecią.

Słowa kluczowe: Gruzja, sektor gazowy, polityka energetyczna, europeizacja, pozytywna integracja, struktura szans, zewnętrzne zarządzanie energią, zarządzanie siecią.

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List of Abbreviations

AA	Association Agreement
ACER	Agency for the Cooperation of Energy Regulators
BOTAŞ	BOTAŞ Petroleum Pipeline Corporation
BTC	Baku–Tbilisi–Ceyhan
CEE	Central and Eastern Europe
CESEC	Central and South Eastern Europe energy connectivity
DCFTA	Deep and Comprehensive Free Trade Area
DSO	Distribution System Operator
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECRB	Energy Community Regulatory Board
EnC	Energy Community
ENP	European Neighborhood Policy
ENTSOG	European Network of Transmission System Operators for Gas
EU	European Union
GGTC	Georgian Gas Transportation Company
GNERC	Georgian National Energy and Water Regulatory Commission
GOGC	Georgian Oil and Gas Corporation
IEA	International Energy Agency
JSC	Joint-stock Company
IFI	International Financial Institution
IGA	Intergovernmental agreement
LLC	Limited Liability Company
LNG	Liquefied Natural Gas
ISO	Independent System Operator
MS	Member State
NRA	National Regulatory Authority
NSGP	North-South Gas Pipeline
OU	Ownership Unbundling
PCI	Projects of Common Interest
PECI	Projects of Energy Community Interest

PF	Public-private Fund
PMI	Projects of Mutual Interest
PSO	Public Service Obligation
SCP	South Caucasus Pipeline
SGC	Southern Gas Corridor
SME	Small and Medium Enterprises
SOCAR	The State Oil Company of the Republic of Azerbaijan
TANAP	Trans-Anatolian Pipeline
TAP	Trans-Adriatic Pipeline
TEU	Treaty of European Union
TEFU	Treaty on the Functioning of the European union
TSO	Transmission System Operator
TYNDP	Ten Years National Development Plan
UNM	United National Movement
US	United States
USAID	United States Agency for International Development
QCA	Qualitative Content Analysis

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Introduction

Energy as the basic unit for economic activities creates different structural effects at international, regional, and national levels. Currently, the prevalent presence of the state apparatus still determines the vertical integration of the value chains. But at the same time, governance of the energy field is inseparable from external environmental, social, political, and physical effects that lead to multi-faceted interdependence, making policies to cut across national boundaries and establish cooperation between states. This is why since the Schuman Plan, energy has been a salient matter of European integration. The current developments are part of the post-Lisbon process, which has been especially pronounced in the energy field (Vooren, 2011). The Lisbon Treaty laid preconditions for union-wide policies and significantly increased the external dimension of the internal market, including a provision on the promotion of interconnection networks and energy security, which inherently implied expanding the EU's footprint to external energy security and sectoral *acquis* to neighboring markets (Renssen, 2015). This led to the deepening and widening of the European Union (EU) within and beyond its borders. Accordingly, various perspectives ranging from security to liberal and intergovernmentalism theories were put forward to explain the new dynamics (Austvik, 2016; Andersen et al., 2017; Bocquillon & Maltby, 2020; Boersma & Goldthau, 2017; Knodt & Schoenefeld, 2020; Ringel & Knodt, 2018; Szulecki et al., 2016; Thaler & Pakalkaite, 2021).

What makes the EU sectoral integration in wider region significant, is its pronounced economic interest to bring the change to the natural monopoly. In the case of gas market, on the one hand, the EU Member States historically maintained monopolies. On the other hand, politics of the value chain of gas production and distribution also revealed deep interdependence. This is why the question on how the EU can govern gas markets that are complex, fragmented and evolve even slower than other networks persist.

The liberalization efforts at the end of the last century illustrated that even natural monopolies could be transformed from strategic good to market commodities. Stemming from interconnectedness, one of the emerging trends in energy markets has been supranationalization (Thaler & Pakalkaite, 2021). Responding to the challenges of energy security, in the 2000s the EU adopted multiple strategies that already delineated a vision in relation to accessible resources. The Second and Third Gas Directives prescribed integration in market rules. And these market prescriptions were extended to borders outside of the Union. One more step forward to creating single market in gas was establishing the European Regulator Group for Electricity and Gas (ERGEG) and later Agency

for the Cooperation of Energy Regulators (ACER) and European Network for Transmission System Operators for Gas (ENTSO-G) (European Commission, 2023).

While the framework for the EU's external energy policy remains limited (Herranz-Surrallés, 2015), the market tools that are granted to supranational actors show interesting patterns of how the EU operates in the neighborhood. The common approach built upon the Energy Charter Treaty was predicated on the extension of the European market rules eastward and southwards (Youngs, 2007). In the Eastern Partnership (EaP) framework, energy has been a central focus from the beginning of cooperation (Kleinschmitzer et al., 2022). The EU's engagement with the energy sector in the Eastern Neighborhood has been driven by its commitment to promoting energy security, reducing dependence on Russian gas, and integrating the energy markets. Unavoidably regional nature of energy supply could suggest that energy should have become consequential in relations between the EU and its neighbours "with players looking for price and energy regulation convergence" (Escribano Francés, 2011, p. 46).

Increased engagement in the Eastern Neighborhood also resulted in new sectoral developments in Georgia. The EU and Georgia signed Association Agreement in 2014, which established a comprehensive framework for political and economic integration. It could also be argued that the EU governance emerged as one of the most important elements of the association framework. As a following step, Georgia joined the Energy Community (EnC) in 2017. By accepting contracting party obligations, the country committed to compliance with the EU energy *acquis*, including the gas sector. However, market rules have not yet achieved goals for which they were created, namely, to dismantle the vertically integrated incumbents (Energy Community Secretariat, 2018, p. 8). As a consequence of which, the execution process was seen to function as a hybrid supranational and cooperative model, and the proliferation of the EU norms emanated from a horizontal form of contractual relationships (Samkharadze, 2018). Whether understood as a result of security concerns, stemming from the fact that Europe is one of the largest gas importers in the world, or a result of its normative commitment, the fact remains that the EU continues to exert influence on producer and transit countries. Namely, in the neighborhood since, despite emerging LNG technologies, interconnection remains constrained to regional systems.

Relevance and Contribution of the Research

Thus, the nature of European integration and the emergence of European governance in the energy field has become contentious matters in the past years. The growing research interests in energy governance clearly contribute to the literature on the process of Europeanization, which with an emphasis on complex interactions, can provide insights into both, ongoing vertical and horizontal

developments. As a matter of fact, looking at new dynamics in the energy field through the non-homogeneous process of Europeanization leaves a possibility to examine the complementarity of multi-level tracks in the process of shaping European governance within and outside of the EU.

This defines the choice to follow the theoretical footprint of Europeanization. First, the study is expected to contribute to theoretical debates on Europeanization in Eastern Neighborhood and network industries. Building on the findings, the aim is to provide contextualized framework for understanding how Europeanization process works on different levels and to draw initial qualitative conclusions regarding the EU external energy governance. Hence, the thesis will reflect upon the EU transformative capacity when it comes to specific sectors. Second, its purpose is to generate conceptualized knowledge regarding recent political and economic events. Georgia is an important transit country for gas transportation between the Caspian and Black Sea regions and Europe. As such, the developments in Georgia's gas market are increasingly relevant to the EU's economic and political considerations even though Georgia still does not have direct physical connection to the EU. It will also illustrate how the EU tries to adjust institutional architecture of gas sector in the neighborhood in relation to its geopolitical goals and decarbonization targets in the face of having gasification still central to the EU's existing agenda. What is important, it looks at transit states, which despite their vital role in supplying energy resources, received little attention as external dimension of the EU energy policy rather focused on relations with supplier countries. Third, the research also has implications on debates about the EU's normative power in energy transition and environmental policy in wider neighborhood, including states in the Caspian Sea basin. Furthermore, with Georgia pursuing closer integration within the Union, gas sector which encompasses market and security related concerns, can serve as an illustration of how and to what extent the EU exercises impact and alters the domestic constellations. By developing empirical research, it also helps policymakers and regulators to take stock on the gaps in the Europeanization process.

Research Question

In this context, the research will connect literature on Europeanization and external governance, thus, contributing to the Europeanization literature while also testing theoretical grounds that were applied in the study of European energy governance. The analysis is based on the gas sector where intrinsic linkages between external and internal dimensions generate new patterns in integration. Its point of departure is the new energy policy in the EU after the Third Energy Package, for which 1. it looks at *mechanisms* to analyze how these policy and institutional prescriptions are present in Europeanization process in one of the associated countries of the Eastern Neighborhood; 2. *what*

outcomes do Europeanization process tends to produce in the gas sector; 3. and *if* evidence supports the emergence of new energy governance in Georgia.

Therefore, this thesis builds on the literature on Knill & Lehmkuhl's (1999; 2002) mechanisms of Europeanization, which provide useful categories of *institutional compliance* and *domestic opportunity structure* to operationalize the Europeanization process. The aim of the research is to analyze how the EU through its regimes tries to exert the impact and whether this pressure offers a case for further integration or divergence in Georgia. The research question will be the following: *What are mechanisms and outcomes of Europeanization in the gas sector of Georgia from 2014 to 2023, and how does it illustrate the emergence of the new EU external energy governance?*

Chapter Outline

The thesis consists of four chapters. Chapter I turns back to literature on Europeanization to bring clarity to the concept, which might be applicable to use in the following research. It also attempts to explore how the Europeanization process interprets changes in the gas sector and the nature of transformation, as well as the external dimension of ongoing developments. This part will also establish existing literature on the Europeanization process and gas markets in Georgia. After establishing the theoretical footprint, Chapter II will present the methodology that could speak to theory to provide an analytical framework and methods to operationalize the process of Europeanization in gas sectors in the eastern neighborhood. Chapter III provides background on the gas sector of Georgia, regional pipeline politics, also in relation to the new project Southern Gas Corridor, and the preconditions before introducing European regimes of the multilateral framework of Energy Community, and bilateral framework of the Association Agreement/Deep and Comprehensive Free Trade Area. Chapter IV, based on document analysis, will provide empirical findings to examine mechanisms and outcomes of the Europeanization process, linking it to the current discussion of emerging EU external governance in energy.

Data is derived from the qualitative content analysis of primary documents. The time frame for analysis is from 2014 to 2023 as this period includes multiple events that are significant in terms of developments in the intra-EU energy field, including gas sector, as well as outside in eastern neighborhood. First, this time includes signing AA/DCFTA with Georgia, accession of Georgia to Energy Community as a contracting party and opening and starting operation of new gas project Southern Gas Corridor (SGC), that runs across the eastern borders. The end year is up-to-date and coincides with the timing of recently published documents that were examined.

Chapter I. Europeanization and External Energy Governance.

Literature Review

Defining the Concept of Europeanization

The primary aim of this chapter is to determine how the concept has been used in scholarly literature, and what constitutes the subject of our examination, as well as to identify the gap and means to be addressed in the following thesis. Respectively, the chapter proceeds as follows: first, it inquires into the literature to shed light on a different view of our *explanandum* (Radaelli, 2004, p. 6) and to demarcate attributes that will locate the term in European studies of energy. The second part brings an external dimension into focus and examines how external energy governance, and the Europeanization of the natural gas markets is to be understood in the Eastern Neighborhood context. Finally, it identifies the gap and outlines methodological underpinnings to use empirical evidence to put assumptions under scrutiny.

The term *Europeanization* has been widely adopted to describe various phenomena and the plurality of perspectives (Olsen, 2002). Although theoretical plurality enriches debates, Grünhut (2017) warns that this approach makes an ontological scope too broad which can only be defined through *negative knowledge* (p. 158). As a stretched concept, its utility has been questioned in academic circles. Yet Olsen (2002) is against rejecting the term. This corresponds to the key point made by Gerring (1999), suggesting that concept formation is a contextual undertaking – it is referential that makes sense within a certain perspective. Indeed, the concept, as understood in the following research, is rarely about the objective essence (“what is”) but rather how its semantic correspondence makes sense for theory and the empirical world.

In order to shed light on how to explain and understand Europeanization, it is important to emphasize the attributes on which the scholars agree. It certainly refers to a change in motion that takes place across different governance systems (Cowles *et al.*, 2001; Knill & Lehmkuhl, 2002) through pre-existing or emerging intermediary variables. This is why Europeanization has usually been understood as a process itself. But the trajectory of the process and the extent of exogenous pressure on domestic settings have been theorized differently. Radaelli (2004) distinguished Europeanization from European integration. The author identified that European integration led to subsequent post-ontological puzzles: the new governance model and complex relationship between an agency and domestic change was itself “something to be explained” (p. 2). This distinct conceptualization also paved the way to research on countries that are not EU member states. It is worth noting that neo-functionalists also considered multiple levels of integration and different mechanisms through which integration occurs. They suggested three types of functional, political

and cultivated spillovers that respectively explain the effects of interdependence, socialization and the powerful actor. But the theory was criticized for overestimation of the EU's transformative capacity, underestimation of the role of power (Moravcsik, 1993) and inconsistency in explaining the lagging integration in some areas, including the energy sector (Jupille, 2004). Contrary to the analytical power of supranational norms (Sandholtz & Stone Sweet, 1998), Moravicsk's (1993) liberal intergovernmentalism asserted that state institutions and practices determine the process of Europeanization.

Presumably, early theorists might have had a different point of departure. Their thinking shows similarities to the even earlier idea of complex interdependence (Keohane & Nye, 1973). But different case studies over time questioned the EU's "market power" that ran against the limits of particular sectors (such as telecommunications, energy). Further investigation of different integration patterns brought into focus the fragmented procedural and institutional decision-making environments (Jupille, 2004). The research in specific sectors demonstrated the shortcomings in the understanding of the homogenous process of market liberalization (Sitter & Andersen, 2009). Paying attention to vertical and horizontal impact, institutional reasoning was employed to analyze policy and institutional *misfit* that results in adaptational pressure (Börzel & Risse, 2003; Cowles et al., 2001). The first, policy misfit was understood as the difference between European and domestic content of rules and regulations and the latter, institutional misfit, referred to the structure and decision-making process. With the growing scope of research, *misfit*, the central concept of explaining the impact of the top-down EU pressure (Vuskane, 2019), was complemented by national and sub-national intervening factors. Further adding a reflective lens of negative integration was also useful to understand the broader impact of policies and events on national and subnational levels (Grünhut, 2017).

Considering the richness of debates, and the need to apply the concept to an undertheorized energy field, the research prefers to adhere to Radaelli's (2000) reasoning that Europeanization should be viewed as a multi-level, multi-dimensional theoretical framework that takes into account the various actors, institutions, and mechanisms and gives a distinct analytical explanation for changes in structure. It also avoids the previous fixation on the supranational process and pays attention to how Europeanization research largely addressed mechanisms, which could indicate how the governance operates on different (supranational and national) levels. This interest in the mechanism of change is also seen in EU energy studies, which is itself a complex setting for interaction for actors on different levels. The natural monopoly of networked industries such as gas demands significant weight to be attributed to the analysis of Europeanization on a national level and regional level, particularly because non-EU national and regional actors exert significant pressure.

Therefore, for the sake of limiting the scope of the subject of the examination, the following empirical study will choose the theoretical background, that *analyzes the mechanism through which change takes place on 1) international and national levels; 2) political and policy-making levels; and takes into account 3) agents for change and formal institutions that determine resources for the agents*. It will be elaborated in the following part in relation to Europeanization and external governance in the energy field where the EU as an outside pressure shapes the energy sectors beyond its borders. Despite the main theoretical point of departure being the Europeanization process, examining the phenomenon in the gas sector also puts forward concepts of the regulatory regime and external governance. Outlining them, the external scope of the process and the picture of the existing gap in literature becomes more nuanced.

Europeanization Research in Energy

Energy and similarly, the gas industry, have been important for integration theorists. With the advancement of European integration, the energy field became a subject of increased attention in European studies, where the EU's actorness was largely conceptualized on liberal and normative premises. Crisan and Kuhn (2017) emphasize that though energy was a leading driver in launching the European integration process, integration in energy stalled for three decades. Energy policy was initially characterized by limited and shallow integration (Lawrence, 1996). It took almost 40 years after the foundation of the the European Coal and Steel Community to take the first measures in the late 1980s, followed by an agreement on the first (1990), second (2003) and third (2009) legislative packages. Over the course of time, two opposite factors determined European integration in energy: first, the Member States which resisted transferring sovereignty to supernatural authority and second Commission, which defended the common approach (Thaler & Pakalkaite, 2021).

At the same time, there is substantial literature developed on Europeanization and the external influence of the EU policy, and both debates have been extended to how *Europeanization beyond Europe* takes place in the third countries in the neighborhood (Schimmelfennig, 2015). While before the external dimension of European energy policy lagged, recent years saw a growing focus on it (Samkharadze, 2018). One strand of literature follows Goldthau & Sitter's (2015) regulatory state when the Union uses a number of policy tools in order to achieve market integration and promote its policies, vis-a-vis external actors, hence establishing international institutions and frameworks. Adaptation of the Third Energy Package granted the EU more substantial regulatory capacities. The regulatory state makes reference to the understanding of energy, being it a private matter, as a matter of low politics. However, energy is also seen as a strategic good and thus, part of high politics that creates a grey area between economic and regulatory power (Weiner, 2018). Besides, because of its economic nature, energy policy transcends macroeconomic, mesoeconomic

and microeconomic realms. Europeanization, thus, can be seen to acquire different dimensions. According to Wach (2016), Europeanization has 12 dimensions - 7 non-economic and 5 economic and energy policies could also be placed at different intersections.

Levi-Faur's (2004) study examined how Europeanization impacted liberalization in telecoms and electricity. The author concludes that the liberalization process intrinsically includes diffusion logic of markets and Europeanization merely reflects the changes in policy outcomes. But this explanation overlooks the role of institutions and actors in shaping regulations. Contrary to these findings, Schmidt (2002) concluded that in sectors such as electricity, there was little direct pressure from globalization, which meant that Europeanization was the leading pressure for liberalization. Although the extent of the pressure differed according to the domestic circumstances.

In addition, the *EU external governance* introduced a theoretical framework to explore the EU's engagement with external actors after the Lisbon Treaty laid preconditions for the expansion of the rule to the neighborhood through the process of externalizing sectoral *acquis*. The EU governance in third countries was described as a sector-specific extension of *acquis* (Holzinger & Schimmelfennig, 2012). The prominent work to conceptualize the process is Lavenex and Schimmelfennig's (2009) theoretical framework on external governance that gives an institutional view of the functioning of the EU rules beyond its borders. The certain cross-boundary qualities of policies especially spurred the externalization of the EU's policies and rules. Lavenex (2004) defines external governance around three "soft security" issues: justice and home affairs, and environmental and energy policy. The work points out that the EU's expansion of energy governance is to have better access to the markets in transit and producing countries. In the subsequent study, the author argues that external governance follows the developments in sectors that produce externalities and interdependence (Lavenex et al., 2009). In due course, economic interests in networked utility sectors, such as the gas sector, lead to emerging positive integration which tries to *tame* the economic interdependence. And when identifying how it emerges, three sets of factors help explain external governance: institutions, power and domestic structure (Lavenex & Schimmelfennig, 2009). Moreover, in 2014, the EU adopted Energy Security Strategy to formulate priority on the external dimension of the EU's energy needs, and no longer on the external effects of the single market. It outlines specific and practical measures such as increasing the import of LNG, building storage capacity and infrastructure to better handle supply disruptions, and improving coordination among member states to promote a unified stance on energy matters (Boersma & Goldthau, 2017).

For the EU's sectoral engagement, the Energy Community serves as a clear example. In terms of governance instruments in non-Member States, established mechanisms in the Energy Community

Treaty, the founding document of the Energy Community, tend to show flexible integration patterns. The document includes the development of harmonized network codes, which specify the technical rules and procedures for the operation of energy networks and technical support for infrastructure and market design (*Treaty Establishing Energy Community*, 2005). Leuffen et al (2012), similar to Lavenex and Schimmelfennig, discuss this horizontal expansion of the EU model and label it as *External Differentiation*. However, Gstöhl (2015) argues that deep economic integration, being it more multifaceted than externalization, better captures the nature of the EU's engagement in the neighborhood. Considering the EU's still limited competencies, one of the useful tools is non-hierarchical soft laws or Knodt and Schoenefeld's (2020) *Hardening Soft Governance*, which aims to overcome dichotomy and study how the governance structure is being formed.

Overall, although some degree of attention was paid to policy expansion and the nature of governance mechanisms in the third states (Lavenax, 2004, 2009; Leuffen et al., 2012), further research is needed to examine the matter. As there is a growing integration in energy and new integration steps facilitated by the Lisbon Treaty and upgraded under Energy Union (Goldthau & Sitter, 2015; Kuzemko & Hadfield, 2016; Ringel & Knodt, 2018), so is the puzzle of the influence and relationship between the EU and external parties that have a stake in the EU energy supply chain. The gas sector and supply chains especially revealed intrinsic relations and linkages between external and internal dimensions of governance. Recent developments in the gas sector justify the need to return to the process of Europeanization. The time frame for the following research (2014-2023) saw changes in the geopolitical situation, evolving EU energy policy environment and operation of Project of Common Interest (Southern Gas Corridor) that runs through the Eastern Neighborhood. These changes could lead to challenges and opportunities in the energy sector that have the potential to deepen or weaken Europeanization in the neighboring states.

Europeanization of Energy Sector in the Eastern Neighborhood

In terms of the literature on the EU's neighboring states, transformations have had both rational and constructive explanations. Schimmelfennig (2017) suggested that Eastern Neighborhood countries represent the most-likely case for Europeanization beyond Europe. The EU's strategy has been to build markets and create guarantees that they function in the line of ideas underpinned by *acquis* (Boersma & Goldthau, 2017). It implies seeing the EU as an agency that promotes social, economic and political convergence with the Union. Besides, the EU through conditionality and financial incentives turns the neighboring states into active participants in the export of its governance.

The case for Europeanization for Georgia becomes more pronounced with advanced integration through AA/DCFTA. Two frameworks of the Energy Community and Association Agreements of

the EU with Ukraine, Moldova and Georgia, with participatory rules expansion, reinvigorated integration dynamics in respective countries. The new agreements and geopolitical challenges after Russia's annexation of Crimea changed the context of the EU's engagement (Delcour et al., 2015). It was followed by significant shifts after Russia's full-scale invasion of Ukraine, which is beyond the scope of this study.

The AAs cover the approximation mechanisms and procedures in various sectors. But interestingly, they are also seen not only as means to establish a common legal space but to provide *market access conditionality* (Gstöhl, 2015, p.11). Some endorsed the adaptation of *acquis* to be seen as *rewarding* for neighboring states (Delcour et al., 2015, p.25). This approach appears consistent with the previously theorized external incentives model regarding the Europeanization of CEE countries (Schimmelfennig & Sedelmeier, 2004). In fact, the AA/DCFTA might be seen as a means to shape *interest structures* through open trade provisions and financial assistance. It could guarantee a level playing field for the EU vis-a-vis Russia, other neighboring states, and domestic and international interest groups. As for the Energy Community, together with establishing policy and institutional tracks, it is also considered to be offering negative and positive incentives to contracting parties in Southeast Europe. Moreover, the EU as a key policy maker in energy in the whole of Europe drives markets to incentivize the production and consumption of non-traditional energy sources (Samkharadze, 2018). These explanations are very important to understand new cooperation between the EU and EaPs. But incentives might also lack sufficient analytical quality when overlooking the role of domestic structures and the alternatives from other actors, as well as the nature of independence on a broader regional level (beyond the EU), which determine the functional scope of open markets.

When it comes to the energy sector, some think that the EU's energy policy towards the Eastern Neighborhood needs to be analyzed in the context of the EU-Russia energy trade and is primarily shaped by its need to balance its energy dependence on Russia (Grigas, 2013; Goldthau & Sitter, 2015). The sectoral studies in Georgia and Caucasus also paid attention to the position of the actors in the European energy supply chain (Chomakhidze, 2016; Closson, 2009; German, 2009; Gilauri, 2017; Hetland & Gochitashvili, 2004; Lampietti et al., 2004; Strakes, 2014). But Empirical studies on the Eastern Neighborhood did not adequately utilize this flexible and tailored approach to observe how the energy sector is being transformed. Speaking about the gas sectors, scholars mainly addressed energy security-driven engagement (Abbasov, 2014; Austcick, 2016). This analysis was tailored to explain effects derived from asymmetry in power relations of Russo-European networks. In fact, interconnection in supplies requires a high degree of cooperation from

transit countries, especially from Ukraine which used to have a central role in the delivery of Russian fossil fuels to the EU.

This thinking aligns with the work of Abbasov (2014) about the EU's interest in the new south-eastern corridor. The author states that the aim of Europeanization is to integrate the players along the Southern Gas Corridor to pursue European interests in a *preferred-depoliticised* setting (p. 28). The Energy Community Treaty has played a central role in the EU's strategy to develop integrated energy markets in compliance with the Community legislation that is intended to mitigate risks for the value chain stakeholders. Following this reasoning, the EU envisages cooperation with third parties as an extension of its governance rather than building partnerships on energy interdependence. The EU's neighborhood relations range from narrow, bilateral, static models to broad, multilateral, dynamic models (Gstöhl, 2015). In addition, Abbasov (2014) stressed that community policy adoption takes place in three multilateral, bilateral and project-specific forms.

Samkharadze (2018) examines the energy rules approximation in Georgia. He identifies bilateral and multilateral regimes, AA/DCFTA and the legal obligations under the Energy Community, as two main mechanisms of Europeanization. By focusing on the harmonization of legal obligations, the author intends to assess the degree of the EU normative power in Georgia's energy sector (Samkharadze, 2018). He finds that the literature on the harmonization of the EU rules in the neighborhood stays underdeveloped (Samkharadze, 2019). The knowledge of the Europeanization mechanism, indeed, requires an update with new transformations in the EU taking place. The energy policy agenda has incorporated new actors and elements with new contracting parties in EnC which simultaneously became EU-associated states. It is important that associated countries such as Georgia also represent transit countries for the EU energy, and where the complex nature of the EU's actorness interplays with the different forms of inclusion through the Energy Community, AA/DCFTA and project-specific engagements in gas and electricity. However, what is even more important, Europeanization research even questions expectations of harmonization in the first place (Lehmkuhl, 2006), making a case for being cautious when drawing conclusions for this research. The degree of harmonization can be an indicator of Europeanization on one - polity level. Understanding the different frameworks that are in place through the concept of *compliance* or platform for rule transfer could be rather misleading to understand the process of Europeanization. And it requires further conjunction with other factors on the nature of the dependent variable as it does not address how the change is occurring considering the nature of outcomes and instruments (Börzel & Risse, 2003). Accordingly, the following theoretical approach was selected for the exploration of Europeanization process in gas sector of Georgia.

Adopted Theoretical Framework

The adaptation of networked industries, therefore, illustrates the complexity of the process mechanisms and outcomes, which Europeanization aims to address. The political framework of the transformative process of Europeanization in particular sectors was more vigorously addressed by some scholars who suggest combination of institutional compatibility and changes in opportunity structure (Knill & Lehmkuhl, 1999, 2002). The approach draws attention to economic and political interest structures and agents in the structure. Knill & Lehmkuhl differentiate among positive institutional compliance, adjustment of domestic opportunity structure and “framing” integration (1999, p. 4). While positive integration takes into account the institutional compatibility (fit/misfit) of European and domestic arrangements, the second mechanism finds indicators in the “paper world” to grasp power redistribution and interest constellations. The third mechanism is based on cognitive logic and stands for altering domestic beliefs and expectations.

Some degree of changes to the existing settings enables institutional compatibility. However, fulfillment of this first step does not mean that change really takes place (Knill & Lehmkuhl, 2002). It is important that the Europeanization process moves to the second step. While *ex ante* establishing potential for compliance, the second step requires to adjust domestic opportunity structure. In the latter *interest structure* is a crucial determinant for the extent of Europeanization and includes a response towards European pressure on the domestic level. The theory suggests that the potential for EU-induced change increases in policy areas where various interest coalitions hold relatively equal power and resources. In this case, the pressure of Europeanization adjusts the domestic opportunity structure for the benefit of pro-reform actors (Knill & Lehmkuhl, 2002). Alternatively, *dominant interest structures* will make Europeanization impact unlikely. It is also important the mechanisms are differentiated on an analytical rather than empirical basis (Knill & Lehmkuhl, 2002, p. 257), meaning that observed data will also inform this theoretical framework that guides the research. Further details on the adaptation of the framework during qualitative analysis will be elaborated in the methodology chapter.

Therefore, in this research, Europeanization is employed as a two-way process that includes positive integration by compliance with the EU rules, as well as second step where both EU and domestic actors are agents that alter the domestic structure. In this way, it takes phenomenon as a process that curves different pathways throughout the interaction with the domestic structures and its properties are not pre-determined. How Europeanization occurs in the gas sector of neighboring countries is expected to progress in its own logic and calls for an in-depth case study of the process itself. The assumption about the different mechanisms and impact of Europeanization, hence, defined the preference for the thesis design and qualitative research method for the case of Georgia.

After establishing the usage of the term in discipline and the approach chosen, the following thesis will proceed to a single case study to pin down the process in the textual output of legislations, policy documents and reports based on the formulated theoretical framework.

In order to answer *what are mechanisms and outcomes of Europeanization in the gas sector of Georgia from 2014 to 2023 and how does it illustrate the emergence of the new EU external energy governance?* - the thesis offers the following assumptions:

Assumption 1: *In the Europeanization process, positively prescribed policies will be complemented by mechanisms to adjust domestic opportunity structure, making impact of European pressure more likely.*

Assumption 2: *Positively prescribed policies will not be followed by effective mechanisms to adjust domestic opportunity structure, making impact of Europeanization pressure less likely.*

The aim of document analysis will be to observe the level of institutional compliance and policy outcomes in the externalization of acquis through EnC and AA/DCFTA. Indicators for positive integration will be the adoption of EU directives and regulations that lead to changes in Georgia in gas-related policy categories. In the second part, the study examines how Europeanization mechanisms affect *interest structures* and alter the strategic position of actors (political, regulatory and commercial stakeholders), indicating which actors are strengthened, not changed, or weakened, and how policy and institutional adjustments shift the redistribution of resources in the sector. This will reveal whether adaptation of the EU acquis, does or does not alter anti-integration structures, providing possibility to draw conclusions on outcomes of Europeanization. In this way, although aware of limitations, the study tries to bring power into governance analysis.

Chapter II. Research Design and Methodology

Research Epistemology and Single Policy Case Study

The following thesis is a qualitative single policy case study, which is principally based on textual analysis. To connect the empirical evidence to the phenomenon of Europeanization, it draws on theoretical knowledge in European studies. In the field, the methodology is known to be “a site of cleavages”, pertinent to an inquiry on the level of disciplines (Rosamond, 2015, p. 21). Similarly, in sub-fields research is also envisaged differently. Methodologies of Europeanization use pluralist strategies to address political, social and economic problems in the real world (Kronsell & Manners, 2015).

Considering the epistemological commitment to operationalizing the phenomenon through document data, the thesis reveals similarities to the positivist tradition. However, qualitative case study inquiry also presupposes conceptualizing and as a result, constructing the knowledge of the real world (Stake, 1995). This view better describes the impossibility of turning Europeanization into an analytical entity that can produce one interpretation. Corbin & Strauss (2008) remind us that the main purpose of qualitative research is (re)discovery rather than hypothesis testing. This idea from grounded theory could also resonate with this exploratory design.

Overall, theories in Europeanization across different generations make distinctions between top-down, bottom-up and mixed approaches in research design. The thesis shares the standpoint that the most comprehensive approach would embrace two-way analysis at the domestic and international levels. With its interest in Europeanization as a phenomenon, the following research prefers the tradition of mechanism-oriented research against variable testing. The mechanism research would seek to examine *how* the process unfolds and operates in practice taking into account the contextual factors and actors. Since the thesis explains the phenomenon of Europeanization to understand the underlying mechanisms that result in certain outcomes, it was necessary to move between observed data and possible theoretical explanations that would provide credible interpretations. Hence, it supports the perspective that most of the research in European studies is abductive in the sense that they generate knowledge of the empirical world (Manners et al., 2015). It entails returning to potential explanations based on available data and theory. Unlike quantitative methodologies, the qualitative approach allowed me to evolve and refine the initial question. As data was gathered, more nuanced and contextually informed main question was generated.

The methodological choice is based on the premise that we are able to gain knowledge on new phenomena through a context-sensitive study of particular cases. It is warranted on the assumption that the study findings have to be resistant to logical challenges (Yin, 2016). The case study design has been the most common in the EU studies, including Europeanization research, since it provides a possibility to have a closer look at the dynamic transformation process and determine variables (Kronsell & Manners, 2015). At the same time, through the case study design, the researcher can identify and understand nuanced mechanisms. This allows for a better empirical investigation of Europeanization. But the analysis will be conducted with the awareness of the limitations of generalization, replicability and subjective bias of case study research. Yet with the awareness of the multiplicity in interpretation, the case study helps to generate knowledge on relatively new political processes such as ongoing structural changes in the EU energy governance. Bryman (2012) suggests the value of qualitative case study design is to answer *why* and *how* questions. Yin (2009), who presents a guide to utilizing case study as a valid methodology, differentiates between various types of case studies, among them *critical case*, which reveals information about the phenomenon in relation to the research question.

Therefore, the selection of the case took into account the existing theoretical ground of Europeanization in the EU's Eastern Neighborhood (Schimmelfennig, 2015), as well as the association format where Georgia's declared willingness to join the Union is supposed to lead to sectoral integration and newly advanced energy interdependence between the country and the EU where Georgia represents a transit country. The last element is notable as the strategic importance of energy trade establishes a new extraterritorial element and could provide insights into the nature of the EU's engagement and regional integration (Weiner, 2018). This is why the gas sector can give an important picture of Europeanization tools and outcomes. Among other energy industries, gas also drives the inquiry to reevaluate the EU's market-based engagement since in this sector liberalization efforts face limitations imposed by gas market characteristics.

Unit of Analysis

According to Kronsell & Manners (2015), a policy study itself is a form of case study that creates a possibility for an in-depth examination of the process of making a policy in multi-level and multi-state settings of the EU. A single policy study can help to identify the specific mechanisms through which Europeanization occurs, but it also runs into the limits of determining a policy as a bounded entity. Only after drawing the boundaries, we are able to start to conduct analysis (Huberman, 2014 as cited in Yazan & Vasconcelos, 2016). Gas sectoral policy study also requires delimitations to know where the unit of analysis starts and where it ends. Energy policies are closely interrelated to other socio-political aspects of the market and therefore, it poses an intellectual challenge of

sectorization the *explanandum* under consideration. Thus, it is important to outline the boundaries of gas policies, that is the units creating the order of the process which is to be explored.

The method for this thesis will include the Qualitative Content Analysis (QCA) of primary sources. In QCA, each unit yields one text (Schreier, 2012). Considering the design, the documents that reveal components of gas policies and regulations in Georgia, as well as information on the actors, emerge as a unit of analysis for this research.

In order to understand the compliance with the EU acquis, the Commission's own classification of regulations that are a central part of regulations was taken into account. EC differentiates gas-related regulations on the security of supply, integrated market and gas transmission networks (European Commission, n.d.) Consequently, a large part of the policies could be grouped under the following themes: 1. Security of gas supply (upstream and downstream); 2. Integrated gas market; 3. Gas infrastructure/connectivity. These policies categorize the EU's priorities in the gas sector for which EC uses its enforcement power and regulatory capacities. Additionally, as the thesis builds on the Knill and Lehmkuhl's (1999, 2002) model, which pays sufficient attention to negative integration when actors create or respond to "pressure" for change, considerable attention was paid to the actors whose position was established and structured in the process of the adaptation of the EU acquis in Georgia.

Data Collection and Document Analysis

Document analysis is seen to be relevant for qualitative research and usually involves the adaptation of some form of content analysis. They enter human activity and pose questions about the actors who assembled them and which conceptual and technical inputs they involved in production (Prior, 2008, p. 231). Documents are "social facts" (Atkinson and Coffey, 1997, as cited in Bowen, 2009). They contain traces of social organization (Prior, 2008), which provides a rationale to use them in the study of mechanisms in governance formation. Documents also provide "means of tracking change and development" (Bowen, 2009, p. 30), which aligns with the purpose of this research on how the EU exerts the impact.

After narrowing the scope of data by deciding the unit of analysis, the raw textual data was collected. The primary documents analyzed are legislation, strategies, reports, and compliance notes that were published up to date. The documents were collected on the official websites of the Energy Community and Georgian legislative and government websites. The criteria for collection among EnC documents included whether the document contained information on the gas sector and Georgia since 2017 when it became a contracting party. But the coding was conducted only on Secretariat's publication and not of the Energy Community Regulation Board annual publications

on contracting parties. The Secretariat documents give general guidance and directions on compliance, while the latter focuses on more technical regulatory matters for the organization. The Georgian materials cover the span from 2019 to 2023, considering the main legislative piece the Law on Energy and Water Supply transposing *acquis* was adopted in 2019. In addition to document analysis, the thesis takes into consideration the political support of the Law on Energy and Water Supply legislation. The other EU regulations, directives, rules and older Georgian legislation and policy documents were also consulted throughout the study. The supplementary reports from relevant bodies such as the Ministry of Finance of Georgia were useful to evaluate outcomes to adopted *acquis*, as well as to analyze political and institutional factors.

The examined primary documents were divided into the following parts:

1. Bilateral agreement: The Association Agreement (AA)/Deep and Comprehensive Free Trade Area (DCFTA) between the European Union (EU) and Georgia, including 1) Title IV Trade and trade-related matters/Sub-Section 2/Chapter 11 on Trade-related Energy Provisions; Chapter 14 on Dispute Settlement; 2) Title VI Other Cooperation Policies/Chapter 2 on Energy Cooperation; 3) Title VIII Institutional, General, and Final Provisions/Chapter 1 Institutional Framework; 4) Sectoral Reservations under List of Reservations on Establishment (ANNEX XIV-A).
2. Sectoral framework: The Energy Community Secretariat annual publications on contracting parties from 2017-2022, as well as reports submitted by Georgia in 2021-2022. In the large reports, which involved chapters on every contracting party, I only coded general content addressing Georgia's gas sector, and the Gas and Infrastructure sections under chapters on Georgia.
3. Domestic framework: the Law on Energy and Water Supply, secondary legislation on gas market rules and competencies of national regulator, GNERC's recent reports since adaptation of the Law on Energy and Water Supply, which references legal pieces adopted in the process of harmonization with EU energy *acquis*. A further sample of secondary legislation was chosen based on themes that emerged in EnC documents and the Law on Energy and Water Supply.¹

Apart from the availability and accessibility, the documents also contained additional information about the actors, contexts created and references to the other textual material. Additionally, the content made references to secondary data, which shed light on the context of the Georgian energy

¹ The list of examined documents are presented under appendix 1.

sector. However, it is also notable that some of the materials were uneven, containing insufficient information on the gas sector and legal language was not sufficiently comprehensible.

Interpreting Data through Qualitative Content Analysis and Limitations of the Method

Qualitative Content Analysis allows for an in-depth examination of the process to address gaps in the study of Europeanization. Overall, it is achieved through qualitative analysis of the above-listed documents to establish patterns and meanings. The QCA is known to involve reducing large sums of data into organized and comprehensible datasets by the coding process (Schreier, 2012). However, it is also important that in QCA, concept-driven categories are common, providing a possibility to finalize the coding frame based on the part of the material (Schreier, 2012).

The collected documents were coded in MAXQDA software. The following analysis used Europeanization theory to generate preliminary concept-driven indicators for *units for coding* that could be interpreted in relation to research assumptions. Then coding was employed to reduce the data and link primary and secondary literature in relation to the research question. Hence, I am using the mixed strategy of concept and data-driven coding (Schreier, 2012). Segmentation through QCA of the documents helped to divide and pay attention to the different parts of the material, which avoided overlooking some concepts that were not provided by the preliminary review of the literature.

The process of interpreting data follows the next steps: coding, reviewing, categorizing and interpreting. First of all, the initial coding frames were designed around mechanisms and outcomes. Under both, I included categories derived from adopted theoretical approach - *institutional and policy compliance* and *domestic opportunity structure*. For the starting point, positive integration was observed in prescribing compliance with the above-listed policy categories: security of supply, integrated market and infrastructure/connectivity. But I took into consideration that these policy categories of compliance could be altered (and they did alter) according to the policies addressed in the text segments. Second, to trace pro-integration patterns in opportunity structure, I observed how the position of gas network stakeholders (state and non-state actors) were addressed in relevant segments. In the second phase after coding more than half of the documents, following the review of initial codes, I started to group them together based on shared themes and concepts that applied to the research question and assumptions derived from it. It either involved collapsing similar codes or redefining them to capture the pattern of how the process worked. In the next step, I coded remaining documents that helped to check whether developed categories reached the saturation point. For the contextualized thematization of disposed of data, the frequency of words will also be taken into account.

The methodological planning showed that qualitative design could be one of the feasible ways to examine the structural process of policy (and institutional) change (Grbich, 2012). The following qualitative analysis, in fact, yielded empirical insights into Europeanization theory beyond the EU and an understanding of the concept in relation to the energy sector. During its application in textual analysis, the researcher reflects upon the gaps, which also can direct future study endeavors.

Yet as the following thesis is a qualitative single case study, it implies bias from the researcher who interprets the data. One of the common criticisms of qualitative analysis refers to the role of subjectivity in interpretation. There is also some degree of limitation imposed by operationalization of Europeanization as I had to extend the concepts to observable indicators, giving subjective meaning to analytical quality of codes (Schreier, 2012). Researchers usually struggle to handle more than 40 categories (MacQueen et al., 2009 as cited in Schreier, 2012), and usually in the inductive process of merging codes, limiting numbers still leads to cutting down meanings. Furthermore, QCA was conducted on a small document sample, which involved legal pieces and reports. It is valid criticism that these documents are not sufficient to provide an in-depth look into phenomenon. Hence, a methodological advantage could be also to apply process tracing techniques (Radaelli, 2003) and see how Europeanization mechanisms are introduced, adapted and exerted to the context. This and additional limitations of absent data in relation to research findings will be further addressed in the conclusions.

Chapter III. The Contextual Background of Georgia's Energy Sector

The following part provides the contextual background of Georgia's energy policy environment and the gas sector, specifying the main governing institutions, stakeholders and power distribution. It is linked to the gas pipeline politics in the region, growing European interest and subsequent integration steps in the energy industries of the eastern neighboring states. The analytical choice for explaining actor and institutional level variations in the research represents an obvious prerequisite to providing context. The primary reason for including this chapter is to explain the empirical settings where the EU as an external pressure introduces change. This background is useful for the subsequent operationalization of the nature of the EU's governance mechanisms and outcomes in the gas sector of the non-Member State Georgia.

Transformation in the Gas Sector of Georgia

The observed trend in the post-Soviet states has been the fragility of the energy industries, regardless of whether they have been under public or private management (Closson, 2009). In the early years of independence, the crippled energy market in Georgia suffered significant losses. Prior to the Rose Revolution in 2003, the country's gas sector was dominated by Russian energy giant Gazprom, which controlled the supply and distribution of natural gas to Georgia. Regardless of the high import dependency, there was unruly consumption of energy resources. In the 1980-1990s, Georgia was one of the leaders in the world in the consumption of gas per capita (Hetland & Gochitashvili, 2004). Initially, the transition from a planned to a market organization led to economic failures that ended in persisting energy crisis (Chomakhidze, 2016). Problems were present on every level, including technical disruptions, economic losses, national debts, ineffective control over the largest power plants, widespread corruption and illicit activities (Gilauri, 2017).

In 1997, the Parliament of Georgia established the National Energy and Water Supply Regulatory Commission (GNERC) as the sole regulatory authority responsible for the regulation of energy and water supply. It was one of the first post-Soviet countries together with Russia and Ukraine to establish an independent commission, which represented a crucial part of the advancement of the energy transformation process (Chomakhidze et al., 2017). Because of the strategic location and as a part of socio-political development, the energy industry received significant funds. The US Agency of International Development (USAID) played a paramount role in developing GNERC. Yet Closson's (2009) rare research of the energy sector in Georgia illustrated that during the terms of the second and the third presidents Shevardnadze and Saakashvili, the influential networks led to

persistent state weakness, despite outside interests to strengthen the state control of the industry. According to the author, state was the operational element of the structure that sustained the dominant power of non-state stakeholders at the top of which were Georgian, Russian and Turkish elites. Closson's (2009) insights on why the high level of foreign assistance did not result in the strengthened state capacity are going to be relevant to the discussion of the research findings on the extent of the European impact on domestic political and economic structure.

Despite challenges, the gas market has undergone significant changes since the Rose Revolution. Developments in the energy sector were considered as one of the most visible outcomes of liberalization reforms (Gilauri, 2017). An undeniable fact that stands is that the political success of the new government largely depended on the energy reforms. To regain control over the collapsing energy system, the pro-liberalization ruling party the United National Movement, at a glance, chose the paradoxical path: centralize to decentralize (Gilauri, 2017). The reforms in electricity and gas networks, supported by the European Bank for Reconstruction and Development (EBRD), World Bank, USAID, and International Energy Agency (IEA), included unbundling provisions to encourage competition in the supply system, market pricing and the state regulatory control (Lampietti et al., 2004). In the process of privatization, the government was also active to attract investments. In 2010, it established Public-Private Fund (PF) to improve investment and management of state infrastructure but contrary to policymakers' expectations, it started to be perceived as a competitor by private businesses, largely determined by the absence of consultations to inform and establish a certain framework for the stakeholders (Gilauri, 2017). It shows that Georgian policy-making environment was still restricted in attracting multi-stakeholder cooperation which later took substantial place in bringing change by Energy Community mechanisms as we will see in the subsequent discussions.

Throughout reforms, the main impact was brought by improving accountability and central oversight of network participants by the Ministry of Energy (Gilauri, 2017). The privatization reforms carried out by the United National Movement delegated powers to the Ministry of Energy and reduced the Commission's independence. Tariff schemes and regulatory approvals remained in the hands of GNERC. But even in negotiations of tariffs with foreign stakeholders, the Georgian Oil and Gas Corporation took a stronger hold (Strakes, 2014). The subsequent step after concentration of power by the ministry was deregulation and partial deregulation of the gas supply. Later market-based pricing in electricity contributed to solving blackouts, which also influenced Georgian gas wholesale market. In the final stage of reform, the government offered a long-term development plan to create certainty in the energy market for the stakeholders and ensure investment opportunities (Gilauri, 2017). It is important that during the privatization reforms, the Georgian Oil

and Gas Corporation (GOGC) was one of the rare exceptions (with the Georgian Railways) whose assets remained entirely under state control. Privatization of assets was not possible due to geopolitical reasons such as the Azerbaijani-Armenian conflict and Russian foreign influence in the neighborhood (Gilauri, 2017).

Currently, the natural gas sector in Georgia is comprised of gas suppliers (such as producers, importers, traders and retail suppliers), the transportation licensee, distribution licensees, direct consumers (commercial actors), and retail consumers (*SoS Statement for Natural Gas*, 2021). The overall direction of the energy sector policy is determined by the Ministry of Economy and Sustainable Development (MoESD). The independent agency the National Energy and Water Supply Regulatory Commission (GNERC) is a central actor in the industry and is designing and enforcing regulations, excluding gas extraction-related activities. Its position in Georgian energy has changed with the adaptation of the new Law of Georgia on Energy and Water Supply in accordance with the European energy acquis (Law of Georgia on Energy and Water Supply, 2019). Currently, GNERC has different departments, including the Natural Gas Department. The ownership and operation of gas pipelines are managed by two state-owned entities: the Georgian Oil and Gas Corporation (GOGC), which owns, and the Georgian Gas Transportation Company (GGTC), which operates the pipelines (Sulakadze, 2017).

The Pipeline Politics and the Role of Georgia

Natural gas accounts for the largest part of Georgia's energy mix (Energy Community Secretariat, 2017). But almost the entire volume needs to be imported, which means high import dependency on neighbors, as well as frequent seasonal disbalance and more costs to be carried during wintertime. After the liberalization reforms of the 2000s, new players entered the market, among prominent players being Energo-Pro and Azeri SOCAR. Following the Baku-Tbilisi-Ceyhan oil pipeline (BTC), in 2007, the country signed an agreement with Türkiye to build the Baku-Tbilisi-Erzurum gas pipeline (also known as the South Caucasus Pipeline), which enabled the transportation of natural gas from Azerbaijan to Türkiye via Georgia. The US-backed project provided access to the regional actors to the Western market and strengthened the strategic independence of the participant countries. Georgia now continues to receive fees from the transit through South Caucasus Pipeline (SCP) that runs from Azerbaijan to Türkiye and through North-South Gas Pipeline (NSGP) that delivers gas from Russia to Armenia.

Supply from Azerbaijan is positively perceived to give a strategic position and bigger scope of independence in light of Russian alternatives. It is why even the negotiations with Gazprom were perceived as a threat to national security. In 2015, during attempts to negotiate a new deal, the

president of Georgia requested the government to discuss energy security (Civil.ge, 2015). Interestingly, the Clinton administration has invested one of the largest sums per capita in Georgia as a transit state to advance fossil export to the European market (Closson, 2009). Some arguments even emphasized Russia's strategic objective during the 2008 war to compromise the US-supported southern energy corridor and transportation systems (German, 2009). Moscow had the inclination to curtail the competition and to "harbor" control on natural gas export from Azerbaijan and the Caspian Sea basin (Hetland & Gochitashvili, 2004, p. 13). The time coincided with the European energy crisis due to Russo-Ukrainian gas disputes and the Russian foreign minister's criticism of European plans for the Southern Corridor, which then inferred the Nabucco gas pipeline. The events affected thinking on how to govern networks with producer and transit states and transport oil and gas to the European market (Babalı, 2009). Concurrently, there was an emerging energy diplomacy from the EU and Russia to take hold of Caspian hydrocarbon resources. Georgia and Caucasus region started to grow in importance. The Tannock Report on the European Neighbourhood Policy (ENP) underlined the centrality of energy and asserted that the weight of the neighborhood would increase in the EU supply chain (German, 2009).

Yet at the head start of the Union-wide governance of hydrocarbon networks, transit countries in the Eastern Neighborhood constituted a weak link (Babalı, 2009). In 2013, it was Azerbaijan state company SOCAR, which actively promoted and invested in building a new project, Southern Gas Corridor that could transport gas from Azerbaijan to Europe via Türkiye. The SGC consists of three separate pipeline projects: South Caucasus Pipeline (SCP), Trans-Anatolian Pipeline (TANAP), and Trans-Adriatic Pipeline (TAP). The corridor, similar to BTC in the early 2000s (German, 2009), could be seen to anchor Georgia into the European perspective. The infrastructural projects of TANAP and TAP received PCI labels and benefitted from rules derived from Third Energy Package (Crisan & Kuhn, 2017). At this time, one of the priorities of the EU and Member States has been directed to enhancing the security of supply through active engagement in infrastructure projects. On its end, Georgia is an important transit country for Azerbaijan. What is significant is that the Southern Gas Corridor is an exemplary case for European external relations because it included the new role of the Commission in energy diplomacy. Despite initial uncertainties in terms of pipeline capacity and funding, the European Commission (EC) actively called for its development. It acquired the mandate from the Council on the Trans-Caspian Pipeline, a central part of the project vision, to negotiate the legally binding agreement on behalf of the EU (Boersma & Goldthau, 2017; Maltby, 2013).

Overall, these studies provide extensive explanation on the political-economic context of energy dependency and recent developments stemming from it. But the analysis tended to be conducted

primarily through the lens of energy security and geopolitical divisions (Strakes, 2014). There is not enough investigation that links this dynamic to governance structure formation that manages and directs the gas system. It is why the following research on the Europeanization process brings in more nuanced analysis of the sector transformation and the role of market-oriented policies. These domestic organization arrangements together with the regional energy dynamics are to be accounted for the impact of Europeanization pressure on the relationship between the agent and domestic change.

The EU Regimes and New Foundations for Sectoral Change

The primary institutional setting for the transposition of the EU energy acquis to the third countries has been Energy Community. In Georgia harmonization of energy policy has taken place through two regimes of AA/DCFTA and Energy Community (Samkharadze, 2018). The latter unites the EU (represented by European Commission) and neighboring countries with the declared intent to extend energy market rules and establish regulatory frameworks. The EnC has nine contracting parties from Southeast Europe and the Black Sea region. Additionally, Armenia, Norway and Türkiye participate as the observers. In total, EnC normative framework facilitates the transposition and implementation of 15 Directives, 35 Regulations and 12 Recommendations (*The Energy Community Legal Framework, 2022*).

The framework illustrates that the EU favors engagement with neighbors through the multilateral platform. The organization consists of collaborative bodies of a Ministerial Council, a Regulatory Board (ECRB) and a Secretariat. The core activity of ECRB is market monitoring. With the right granted by the Treaty, the Secretariat monitors and reports on compliance with acquis among contracting parties (Energy Community, n.d.). Accordingly, it was Secretariats' reports that were chosen to trace Europeanization process in Georgia's gas sector.

Georgia was the last country to become a contracting party of EnC in 2017. This step for cooperation to align its energy sector to the obligation of Treaty Establishing the Energy Community and the EU Third Energy Package requirements from Georgian side represented political will of pro-European aspirations and economic considerations from both sides. The EnC Secretariat reports illustrate the willingness and regulatory capacity of the states to adopt the EU rules, underlining that by the time of accession to EnC, Georgia had already transformed the electricity sector from a monopoly to the liberalized one (Energy Community Secretariat, 2017). EnC Implementation Report 2020 underlines that as a new contracting party, Georgian side was particularly pro-active in energy market opening, making a "giant leap forward" (p. 14).

Following the accession to EnC, 2021 was designated as a year for gas reforms when most of the laws and regulations were to be adopted. Accession Protocol (2016) lists the documents that Georgia needed to transpose in 2018-2020. Here, compliance with *acquis communautaire* means substantive changes in the primary and secondary legislation with an intention to create, in the short-term, an open and competitive energy market by establishing stable principles. It will be followed by regional integration through improved interconnectivity and transportation. In the long-term perspective, the energy sector is seen to be transformed into a modern, diversified, and environmentally sustainable system based on renewable and efficient technologies.

Chapter IV. Research Findings

The following findings aim to answer the main research question *what are the mechanisms and outcomes of Europeanization in Georgia's gas sector* using the indicators of *institutional and policy compliance* and *domestic opportunity structure*. The first concept was useful to identify the prescribed policy. The second complements the positive model and sheds light on reality constructed across political actors, economic systems and regulatory settings. Hence, the findings delve into the European mechanisms and their observed outcomes. By employing the above-outlined theoretical framework, the findings convey how the EU energy governance framework is designed to shape power exercised in the gas sector.

I. Mechanisms of Europeanization

Foundation for Cross-Border Trade and Sectoral Integration through AA/DCFTA

Association Agreement contains two separate chapters on energy: Chapter 11 under Title IV concerning trade-related energy relations in the scope of the DCFTA and Chapter 2 under Title VI on broader cooperation in energy policy. Both parts refer to the Energy Community Treaty (Association Agreement between the EU and Georgia, 2014). The provisions aim to bring regulatory approximation with the Union acquis. DCFTA, as an important component of the agreement, is not thought to create a homogeneous dynamic but rather is based on market access conditionality and incorporates a shift from soft law to an institutional legal framework to structure relations between the Union and its neighbors (Gestoh, 2015). Nonetheless, these relations remain asymmetrical in nature because the signing country does not have any impact over the creation of EU rules.

The AA regime could be considered the first crucial positive integration step prescribing institutional models in multiple sectors. As a comprehensive bilateral agreement, it also laid down the ground for Georgia's accession to the Energy Community. In the process of analysis, the coded data corresponded to the assumptions and revealed trends of top-down positive integration along the institutional track of EnC. The Chapters refer to Energy Community Treaty obligations to ensure security of supply and transit in mutually beneficial manner (Association Agreement between the EU and Georgia, 2014, p.82/108). In terms of policy directions, the agreement provisions on energy mostly addressed the cross-border energy trade, security and access to energy infrastructure, alluding to *desire* underlined in treaty to enhance the security of supply of the single regulatory space in the neighborhood, including Caspian region (Treaty on the Establishment of the Energy

Community, 2005). Obviously, with the aim to liberalize trade, the transit and transportation of energy goods stand out in the energy chapters. Building upon the foundation of the agreement, in accordance to Directive 2009/73/EC and Directive 2004/67/EC Georgian party is also obliged to prepare ten-year gas network development plan (TYNDP). TYNDP in Georgia is prepared by Transmission System Operator GOGC, unlike the EU, where ENTSOG takes responsibility to develop the union-wide network. Nevertheless, the commitment to long-term market and infrastructure planning first, illustrates that EU's aim to embed Georgia in its institutional framework, and second, that it pushes these boundaries for the sake of security of supply and non-discriminatory trade. Therefore, transit and interconnectivity appear to be prominent in declared objectives. The priorities in the governance of the gas sector, thus, prioritize gradual progress in these dimensions. It makes a case for the Energy Security Strategy of 2014, where the central element of the external dimension of the EU's energy policy is energy security. For energy security, which is to be defined on regional level, connectivity within the EU, as well as transit neighboring states is a decisive factor (Escribano Francés, 2011), especially in light of developing new transport corridors from Southeastern dimension. Southeastern corridor also creates a new foundation for the export of the EU rules and norms with the development of a new PCI White Stream (dated by EnC to be commissioned by 2024) and possibly Trans-Caspian Pipeline that will bring new volumes from Central Asia to the EU market. However, it is also worth paying attention that environment-related energy provisions are not present in this picture as they were addressed in Chapter 4 on Climate Action, which is beyond the spotlight of this research.

But apart from prescribing an institutional framework, Chapters do not sufficiently address functioning mechanisms in relation to positive integration and interest structure, thus not allowing more nuanced view of Europeanization process in Georgia's energy (and gas) sector, limiting the analysis of energy-related chapters to the main direction of cooperation.

Compliance with EnC Sectoral Acquis

The first Energy Community Report (2017/2018) that was subject of analysis focuses on three premises of Treaty in energy sectors of contracting parties: 1. deregulation in internal market; 2. improved connectivity in infrastructure; 3. security of supply, thus, providing priorities for subsequent market liberalization, gasification, and diversification in energy mix (Energy Secretariat, 2018, p. 7). It is also supposed to establish conditions for the second energy transition (after post-socialist market reforms), where market liberalization will lead to decarbonization. For the purpose of achieving the stated goals in the gas sector, obligations for contracting parties stem from the Third Natural Gas Directive (Directive 2009/73/EC), a crucial part of the Third Energy

Package. To liberalize the European market, the directive prescribed requirements for unbundling Transmission System Operators, protecting consumers and strengthening independence of national regulatory authorities (NRAs). In addition to the Third Natural Gas Directive, in 2018, EnC High Level Group adopted two network codes in gas that provide technical rules that complement the existing acquis, followed by the series of meetings and workshops to support contracting parties in transposition.

The following table includes the gas directives and regulations transposed in the adopted legislation in Georgia and provide key points for the subsequent empirical analysis. It is worth noting that on top of them, EnC gas acquis covers the recent Commission Regulation (EU) 2017/459, Commission Regulation (EU) 2017/460 and Regulation (EU) 2017/1938 of 25 October 2017 Concerning Measures to Safeguard the Security of Gas Supply.

Regulatory documents	Key data for the research
Directive 2004/67/EC concerning measures to safeguard the security of natural gas supply	Security of gas supply and improved interconnectivity
Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC	Competition and non-discriminatory access to infrastructure and supply networks, obligatory TYNDP.
Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005	Third-party access, liberalization of trade, competition, and investment vis-a-vis incumbent (national and regional) actors.

Table 1: Gas Acquis Transposed in the 2019 Law on Energy and Water Supply (Own Compilation)

As previously noted, Implementation report 2020 underlines that the newest member was particularly active on market opening and integration. Through transposing acquis, the new domestic legal ground was established by the Law on Energy and Water Supply, adopted by the Parliament of Georgia. The Secretariat concluded that the provisions deferred to energy acquis (Energy Community Secretariat, 2020). It was seen as the main progress in reforming the energy industry (Energy Community Secretariat, 2021) and laid the basis for gas policy harmonization in subsequent years. The law transposed the provisions of the Third Energy Package into Georgia's

secondary legislation. In line with the Third Natural Gas Directive, it primarily 1) granted additional competencies to GNERC through tariff monitoring and reducing barriers for cross-border trade, guaranteeing the third-party access; 2) set conditions for unbundling of the vertically integrated market participants. These provisions constitute the main difference between the Second and the Third Natural Gas Directives. Considering the monopolistic nature of the gas industry, unbundling is supposed to dismantle the power of the vertically integrated companies by separating network ownership from upstream and downstream business activities. In subsequent steps to laws, donors and IFIs helped Georgia in drafting secondary legislation according to 3 main tracks: 1. Prospects for thermal power plants, gas storage facilities, liquefied natural gas; 2. unbundling gas markets; 3. developing gas exchange market (*SoS Statement for Natural Gas*, 2021). Subsequently, new market rules were formulated in the Ordinance N447 on Approval of Natural Gas Market Concept Design (2021), preparing ground for the attractive investment environment and liberalized competitive markets on retail and consumer levels, functioning of which, in accordance with Energy Community rules, takes place through supervision of the independent national regulator.

Policy Compliance in Competition

The analysis of policy compliance with *acquis* uncovered that competition has a significantly larger share among policies referred in AA and EnC, which principally applies to the transposition of *acquis* on unbundling by Georgian authorities to guarantee adherence to market rules to wholesale market. Unbundling of the vertical gas companies has been formulated as a key priority of the Georgian energy sector transformation (Energy Community Secretariat, 2018). Following the Third Energy Package, the Georgian Law on Energy and Water Supply specifies two models of regulation: Ownership Unbundling (OU) and Independent System Operator (ISO). The government decided to follow the ISO model since two state companies GOGC and GGTC already have the similar ownership and operation practice (Tsurtsunia & Janelidze, n.d.). Following this model, Transmission System Operator (TSO) should function in a non-discriminatory and transparent way. The supply company still owns shares but independently appointed operator will decide on operation and control of the decisions. Distribution System Operator (DSO) is exempted from legal conditions and only implies functional unbundling (2021 GNERC Report, 2022).

However, this prescription does not seem reflective of the political and economic conditions that exist on the gas market and lack the capacity to alter the domestic structure. Enforcing competition remains the biggest challenge in the Georgian gas market (*SoS Statement for Natural Gas*, 2021), typical for countries that are not sufficiently connected to markets. When there is a significantly high concentration of vertically integrated companies, the implementation of competition policy on the wholesale market becomes unattainable without adopting special measures. Despite measures

listed in the above-listed two tracks, the competition policy paradigm does not give solutions how to deal with exemption from liberalization rules legally granted to suppliers and intermediary companies that constitute the crucial part of the pipeline chain.

In the first phase of liberalization, producers benefit because artificially lowered energy prices increase. Some time later after the liberalization reform, consumers benefit from the new market prices. However, this economic logic has different determinants in the gas sector. Deregulated prices lead to disconnection of some of the consumers. A concentrated market and absence of competition determines high prices for consumers but since gas should also be an accessible public good, the EU acquis promotes Public Service Obligations (PSOs), which protects part of the society but at the same time, creates a case of derogation from market rules. As it is shown in outcomes, this exclusion, enabling temporary derogation from the market, allows state to regulate price in transitory period, which negatively influences competition. What follows this temporary derogation is not clearly addressed by established mechanisms. Concerns regarding these challenges in monopolistic industry stand out in the last Secretariat report (2022).

Domestic Opportunity Structure

Dominant Market Position

In Georgia, comparatively high concentration is observed both in the wholesale (large-scale sales to retailers) and retail (sales to individual consumers) markets, which is common to countries not well interconnected to neighboring markets (*SoS Statement for Natural Gas*, 2021). As a major player in national and international gas supply, the State Oil Company of the Republic of Azerbaijan (SOCAR) emerged as a dominant player on Georgian market. As a result of early developments, the Azerbaijan state company acquired a monopoly in the transportation of gas to rural areas. The affiliated distributors even engaged in discriminatory practices in pricing (Strakes, 2014). Furthermore, in Georgia, the supplier is not separate from the distributor, which limits the number of market players. Three biggest suppliers provided 94% of gas to the wholesale market and three of these biggest licensees, SOCAR Georgia Gas LLC, Tbilisi-Energy LLC and JSC SakOrgGas, distributed 90% of gas (2021 GNERC Report, 2022, p. 21-22). Despite the fact that the regulatory commission issued 25 licenses (2020 GNERC Report, 2021) and end-users at the retail market are granted the right to freely choose the distributor, in practice, the consumers continue to depend on a very limited number of distributor companies. What is more, in 2021, GNERC modified licenses, broadening scope of operation of SOCAR Georgia Gas LLC and JSC SakOrgGas (2021 GNERC Report, 2022). The last EnC report underlines that SOCAR affiliated companies continue to

maintain high concentration on wholesale and retail markets (Energy Community Secretariat, 2022, p. 57).

Consequently, there is a clear dominance of one actor interest, leading to uneven distribution in resources. But this does not necessarily equate to a *dominant actor coalition* in the sector. Georgian domestic arrangements encompass regulatory control and political power distribution, which assemble opportunity structure of pro-integration and pro-status quo players, *ex ante* informing the direction of Europeanization process and areas where EU uses mechanisms of change. This is why the following table groups actors on different levels to specify what is their role in power structure and what was their observed roles in the process of Europeanization and compliance with gas acquis. Although this classification is derived from document analysis, additionally consulting secondary sources, the reason is not to give a detailed picture of interest constellations but rather put forward the structural institutional affiliation and roles of actors on different levels. Besides, information about some of the stakeholders such as small retailers, consumers and donor organizations was not accessible in the documents.

Actor	Type of actor	The role of actor	Position related to Compliance with acquis
Political level			
Government/Ministry of Economy and Sustainable Development	Executive power	<p>Exercises power over state-owned enterprises that own and operate pipelines and transmission on wholesale market.</p> <p>Defines overall direction of gas policy and is responsible for consumer protection obligations.</p>	One of the initiators and supporters of the Law on Energy and Water Supply that transposed European energy acquis.

Georgian Parliament	Legislative power	Approves the legal framework for gas sector.	Since 2012, majority held by Eurosceptic centrist Georgian Dream party. In 2019, adopted the Law on Electricity and Water Supply by an overwhelming majority. None of the Parliament Members of the ruling Georgian Dream or members of the opposition parties opposed.
European/international level			
EnC Secretariat	European actor	Monitors compliance with acquis.	Provides assistance to policy and institutional developments and conducts monitoring activities. Uses capacity building measures and financial tools to ensure compliance.
The European Energy Community Regulatory Board (ECRB) (NRAs from contracting parties)	European actor	Technical assistance and market monitoring.	Assists in developing and monitoring market rules and regulatory environment to ensure market functioning.
European Commission	European actor	Representative of the EU contracting party in Energy Community.	Strong supporter of SGC project, which was the major step to connect Georgia to European gas market.
National sectoral level			

<p>Georgian National Energy and Water Regulatory Commission (GNERC)</p>	<p>Regulatory body</p>	<p>Single authority with nation-wide competences in gas. Commission is separated from other state bodies and is independent from state control. Accountable to the parliament and has notification obligations to Energy Community.</p> <p>In accordance with the Law on Energy and Water Supply, approves gas market design and TYNDP, and monitors the whole sale and retail market rules.</p>	<p>Uses granted competencies to enable market rules and monitor compliance with adopted acquis, especially in regard to competition obligations. Supports special measures to reduce market concentration.</p>
<p>Competition Agency</p>	<p>Regulatory body</p>	<p>Monitors and enforces rules regarding competition and state aid law.</p>	<p>Cooperates with the regulator to ensure compliance with competition acquis.</p>
<p>SOCAR</p>	<p>State-owned vertically integrated gas corporation</p>	<p>Holds a dominant position on Georgian gas market.</p> <p>A major player in gasification and party of long-term contracts that serve as a source for</p>	<p>Market concentration determines high price for commercial costumers, making gas expensive for deregulated costumers and impeding competition measures</p>

		cheaper gas for public costumers but leave Georgian market illiquid and foreclosed.	prescribed under Third Energy Package.
Georgian Oil and Gas Corporation (GOGC)	State-owned vertically integrated gas corporation	<p>Owner of the main pipeline system. As a Georgian state-owned entity, represents political interests of Georgia in contracts formed with investors.</p> <p>Since 2013, with high losses in revenues provides subsidies to regulate prices for household costumers.</p> <p>Supplies supplemental gas from SCP through SOCAR Export-Import (and small amount of Russian gas).</p>	<p>Its role to guarantee security of supply could be reinforced by TYNDP, which underscores importance of interconnectivity with European markets to ensure security of supply.</p> <p>The Government of Georgia in 2021 approved unbundling plan for GOGC.</p>
Georgian Gas Transportation Company (GGTC)	State-owned vertically integrated gas corporation	<p>The transportation licensee, according to the lease formed with GOGC which owns the pipeline infrastructure. As a Georgian state-owned entity, represents political interests.</p> <p>Ensures transportation of</p>	<p>Non-compliance with unbundling of transmission systems as a result of which the EnC Secretariat issued a dispute settlement procedure against Georgia for failure to unbundle GGTC.</p>

		gas to distribution network and direct customers.	
Gas consumers	Commercial costumers	Despite unregulated prices, dependent on limited number of distributors and operate under non-transparent (high) price formation.	Not clear
	Household costumers	Have freedom to choose but suppliers remain limited and big segment of population supplied by subsidized social gas.	Not clear

Table 2: Interest Structure in Gas Sector of Georgia (Own Compilation)

Establishing the general picture, the following analysis focuses on how European policies exert domestic impact on *interest constellations*. One of the tools to adjust the opportunity structure is to strengthen market supervision (“correcting”) by national regulator, especially regarding compliance with competition acquis. This path is accompanied by capacity-related activities for multi-stakeholder coordination to advance governance procedures. In absence of physical connections with the EU and EnC contracting parties, the other obvious long-term measures against market concentration are improved connectivity and diversification in gas trade, as well as developing gas balancing mechanisms such as storage facilities, power exchange markets, LNG facilities.

Adjusting Domestic Opportunity Structure

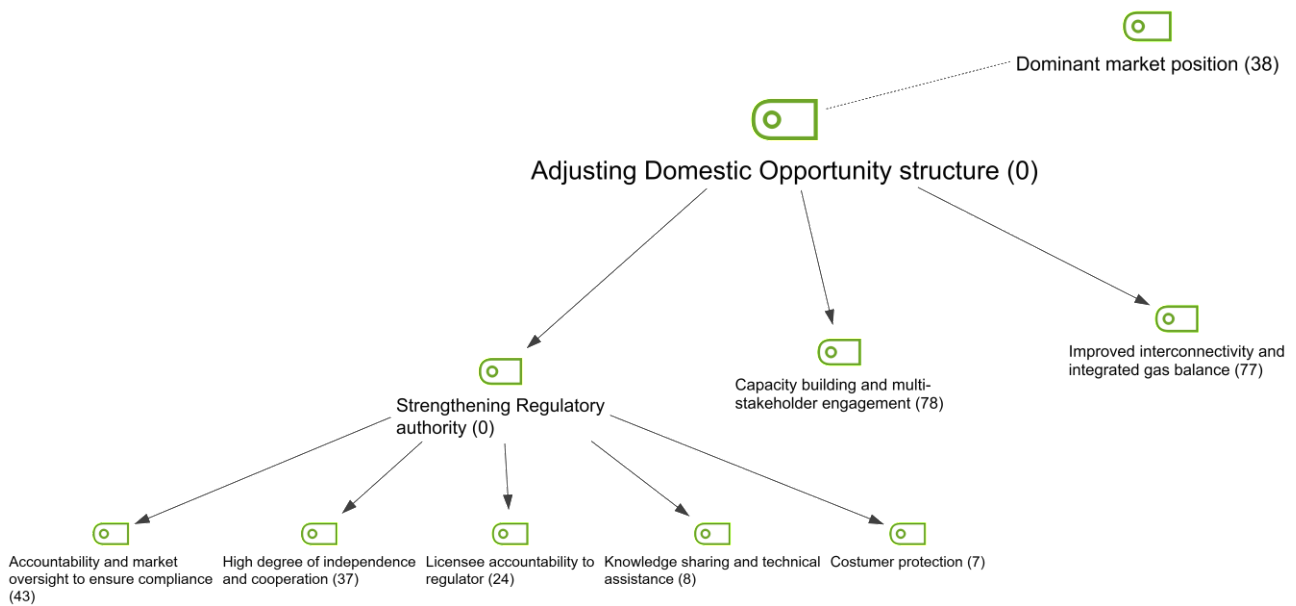


Figure 1: *Categories and Sub-categories Explaining Europeanization mechanisms to Adjust Domestic Opportunity Structure (Own Compilation from MAXQDA)*

1. *Adjusting Domestic Opportunity Structure: Strengthening National Regulatory Authority*

The Third Energy Package establishes an independent and powerful regulatory body that corrects the rules of the monopoly and supervises the market players (Tsurtsunia & Janelidze, n.d.) One of the important mechanisms for Europeanization intends to establish the Georgian regulatory commission (GNERC) as a strengthened new institutional unit with high degree of independence. What is significant is that in the identified mechanisms, one can observe how the EU is trying to monitor market participants through the NRA. The Gas Directives explicitly use the term *approval* in relation to regulators' competencies. Similar to ECRB, the regulator's main function is to monitor market activities and ensure transparency. Accountability and transparency of the regulator encompass several directions: within-institutional accountability, accountability for the network participants, accountability to the state and accountability to EnC Secretariat. Putting on the new institutional tack, regulatory commission becomes accountable not only to the government of Georgia and parliament but also to the Energy Community through notification mechanisms. But if the regulator's decision differs from the decision of the Secretariat, it has a right to adopt its own resolution. But even if the regulator concludes that the licensee does not fulfill obligations, it still maintains temporary authorization only after which it may withdraw licenses and decide on financial sanction (The Ordinance on Approval GNERC Regulations, 2020).

Important market correcting tool include licenses that are an important governance mechanism to own a commodity and establish the system of authorization for private enterprises that have broad

social impact. Licenses and certificates serve the purpose of fostering competition through unbundling of TSOs and DSOs, providing better access to the market, balancing private and public interests and improving planning and oversight of the network. The 2019 law sets new rules for license authorization for natural gas transportation and distribution (Law on Energy and Water Supply, 2019). As a result, GNERC changed licensing rules, increasing from two types of licenses to five types (2021 GNERC Report, 2022) to align the role of market participants to broader policy objectives. Interestingly, currently, license approval has also become a powerful European tool to make decarbonization possible in the energy transition.

In fact, apart from enabling market conditions through licenses, NRA's competencies encompass enforcement scope. The new legal framework fosters the enforcement power through increasing financial sanctions imposed on breach of the market rules. But GNERC also continues to have limited tools to ensure competition. The EnC acknowledges that without an appropriate penalty system, contracting parties continue to breach *acquis* (Energy Community Secretariat, 2021). Regulators are seen to fall short of ensuring compliance with *acquis* on competition and state aid law. The latter is aimed at regulating the state activities and guarantee the level playing field in the sector.

NRA in Georgia is responsible for fixing and adjusting the access to cross-trade infrastructure and monitoring investments in the context of network tariffs (Compliance Note, 2020). These provisions indicate that the strong GNERC also contributes to creating a favorable cross-trade in regional energy projects. However, government of Georgia has been vigilant to affect the commission decision in regard to the companies that make gas accessible to the citizens. SOCAR invests in gasification of new areas in Georgian regions, amounting to 61% of total investments in gas distribution network investments (2020 GNERC Report, 2021, p. 93), affecting the regulator's influence over ensuring market correcting measures. This political influence seems to have a visible impact on outcomes of Europeanization.

2. Adjusting Domestic Opportunity Structure: Capacity-building and Multi-Stakeholder Coordination

Document analysis revealed that the prescribed model includes *ex ante* approach to prevent negative outcomes on the gas market. Achieved not only through the strengthening of the NRA via legal rights of issuing licenses and enforcing rules but also with the technical assistance in capacity building and creating certainty for market participants. One important aspect of market design is that you cannot calculate all costs and acquire all the dispersed information. But in case of energy market, first, price does not carry the information value as in the other market would and second,

energy system requires bigger certainty for capital investments and infrastructure development, which makes coordination vital component to maintain supervision over it. Coordination measures are important as far as allowing the market “correcting” by regularly examining and refining the market design to exert oversight against abuse of the market power. In the same manner, ECRB design is also based on regional coordination of regulators.

Aware of limitations, the Energy community uses capacity building and strong collaboration to harmonize governance procedures. Governance mechanism shows preference for multi-stakeholder dialogue and regular consultations, creating certainty in network and enabling capacity allocation (Energy Community Secretariat, 2022). In this manner, European tools assemble the space and documentations for public information exchange for the private stakeholders (TYNDP). EU4Energy programme, held in regional format to unite Ukraine, Moldova, Georgia is based on this principle. It helps stakeholders to draft, transpose and implement energy reforms and to exchange best practices and experience (Energy Community Secretariat, 2021).

Another important aspect of European coordination mechanism is to liaison with financial institutions and assist to meet donor requirements (Energy Community Secretariat, 2018, p. 7). PECEI label speeds up and streamlines financial support to the parties (Energy Community Secretariat, 2020, p. 4) and gives additional value to transit function. In 2020, during financial difficulties, state-owned GOGC received a 217 million EUR loan from EBRD to refinance Eurobond on the London Stock Exchange. It was intended to mitigate financial risks stemming from COVID-19 and avoid reducing volume of gas supplied from Azerbaijan through Georgia (European Bank for Reconstruction and Development, 2020). This clearly shows how internal functioning is intertwined with supply security through transit states.

3. Adjusting Domestic Opportunity Structure: Improving Regional Interconnectivity and Gas Balancing Instruments

It has been known that energy infrastructure has a significant influence on Member States’ decision-making and their will to cooperate with other states (Franza et al., 2021). Together with its essential role for liberalized market, it is why enhancing interconnectivity has become a European endeavor. In July 2015, the European Commission took a significant step toward enhancing energy security in Southeastern Europe by establishing a new high-level group on Gas Connectivity in Central Eastern and Southeast European Gas (CESEC) (Crisan & Kuhn, 2017), which was very important step to strengthen interconnection in southern and eastern Europe. Accession protocol (2016) starts with gas transmission infrastructure, recognizing the role of regional infrastructure to affect regional energy dependency and make European impact more likely. But unlike other EnC members,

Georgia has no infrastructure connectivity with any of the MS or EnC contracting parties. Georgia is more integrated in regional infrastructure with neighbors while being detached from European energy systems (excluding the recent Black Sea electric cable project that will link Georgia to Romania). This is why the Law on Energy and Water supply presupposes improved interconnectivity with EnC parties, leading to increased integration. No physical interconnections and lack of gas balancing mechanisms such as absence of virtual trading points, lack of liquidity and storage facilities also contribute to high market concentration, leaving Georgian market dependent of long-term contracts with the major supplier. Another element contributing to market concentration is increasing consumption in the face of high supply dependency (National Statistics Office of Georgia, 2022).

In the face of these challenges, the long-term priority dimension of European coordination becomes the development of gas balancing mechanisms for the wholesale market such as gas storage facilities, power exchange on the principle of liquidity. They increase supply security and reliability, foster competition and re-arrange investment flows in the system. The TYNDP (2019) underlines the priority to influence gas prices by creating gas storage facilities, allowing Georgia's energy sector to be more resistant to shocks from spot prices and diminish uncertainty (*SoS Statement for Natural Gas*, 2021, p. 35). The Secretariat signed memorandum with Georgian state enterprises, as a result of which Georgian Gas Exchange LLC as a subsidiary of GOGC and GGTC was established (Energy Community Secretariat, 2021). The gas exchange market makes *gas release* possible by selling imported resources on the gas exchange. It is notable that European market does not have a clear model of power exchange and Georgia should design one that coincides with its demands and challenges. But in the end, despite these measures, gas balancing mechanisms are closely interlinked with the issue of interconnectivity. The biggest obstacle remains to be the geographical isolation from EnC and normative isolation in the region where all the neighbors have the distinct domestic framework for energy.

II. Outcomes of Europeanization: Exemption, Non-compliance and Dominant Interest Structures

The gas sector represents an interesting area for Europeanization research. Here the EU keeps promoting market rules while also granting exemptions and creating ambiguity, leading to non-homogeneous space facilitating divergence rather than policy convergence. Directive 2009/72/EC concerning common rules for the internal market in natural gas leaves the choice on how to implement *acquis* to national decision-makers (Energy Community Secretariat, 2020). In accordance with Toshkov's (2019) findings, the effect of compliance is only partly limited by the institutional capacity for change. Non-compliance becomes a result of structural economic barriers

as much as voluntary non-compliance by the political actors who have a large degree of independence in adapting *acquis* at a national level. Traditional institutional argument that existing framework is resistant to change does not uphold without paying attention to power of political will. Political considerations of Georgian policymakers influence the compliance to the EU market and regulatory rules. These are country-specific findings, but they can also be linked to other contexts. The study found that the main market-related and political factors that determine non-compliance with the EU *acquis* in Georgia's gas sector are: 1. Project-specific derogation; 2. EU limited influence over the public-private nexus and bilateral contractual agreements; 3. Social function of gas for Georgian electorate, influencing NRA's decisions and enforcement capacities.

As it was already underlined, protocol on accession (2016) clarifies that Georgia has no infrastructural interconnection with any of the Member States, which limits application of rules. Despite Georgia's full-fledged membership to the Energy Community, the SCP and NSGP are granted derogations to be exempted from the *acquis* till 2026 (Energy Community Secretariat, 2017). Additionally, exemption applies to Georgia-Azerbaijani IGAs in the SCP. The PCI status allows SCP and NSGP projects to be exempted from certain provisions of the above-mentioned directives, as long as they comply with the PCI criteria, which includes contributing to market integration, enhancing competition, and promoting security of supply and environmental sustainability. Accordingly, 2019 law on new gas rules do not extend to the legal rights generated from bilateral agreements with Azerbaijan. The possibility granted to stakeholders to opt out from energy *acquis* illustrates that the EU adaptational pressure is irrelevant to the pipeline bringing gas to the European market.

As cross-border gas exchange is exempt from the adopted rules on gas, it means that cross-border trade does not fall under the Georgian regulatory scope and non-regulated trade is influenced by IGAs and becomes subject to the contractual limitations that exist between Georgia and neighboring states. One of the priorities in energy cooperation underlined in DCFTA is the development of transit infrastructure and integrated market for mutual trade. In the long term, trade with Europe leads us to foresee the potentially increased competition in Georgia. Yet this transit function without additional measures can also work against the EU normative framework. Contractual negotiations and pricing arrangements pose a risk of spiraling dependency on the neighboring supplier. For Georgia, bilateral cross-border capacity allocation with Türkiye, which is the only corridor to the European energy market, can be more feasible. Türkiye is already an attractive place for electricity energy export due to high retail prices (Energy Community Secretariat, 2017). Therefore, it is also unclear whether open cross-border trade is itself a path towards regional integration with Europe.

The social gas (regulated tariff) purchased from the pipeline is significantly lower than the commercially traded gas (non-regulated). GNERC delivers gas with lower tariffs to households thanks to cheap natural gas received from SCP and NSGP (2020 GNERC Report, 2021). Supply at the lower price is a result of the memorandum between Georgia and SOCAR (valid till 2069). The agreement between Georgia and SOCAR grants the Georgian side the right to purchase 5% of the SGC transited gas (Tsurtssumia & Janelidze, n.d.). Azerbaijani gas is even known to be cheaper than Iranian, Russian, Algerian or Norwegian gas (Security of Supply Statement for Natural Gas, 2022, p. 6). Respectively, natural gas is now one of the most rapidly developing segments in the energy industry (GGTC, 2018). Therefore, even though *acquis* provides freedom of choice to the end consumers, due to regulated prices, consumers will be reluctant to enter the free market. Following this reasoning, the compliance to *acquis* in market prices does not seem to change regulated pricing practice for consumers. Consequently, even in other contracting parties, pro-active regulatory authorities could only guarantee the superficial implementation of the Third Energy Package unbundling, which does not disrupt the power of incumbents (Energy Community Secretariat, 2018, p. 9).

It is added to the fact that the country will need to obtain additional supplies to meet increased demand in social sector (GGOC, 2018). During the initial years of the Georgian Dream government, the consumption of the natural gas spiked (Davtyan, 2016). In 2021, the volume of social gas has increased leading to growing subsidies and high losses to GOGC. The fiscal assessments by the Ministry of Finance of Georgia gives the clear evidence that the state company spends hundreds of millions in subsidies to regulate household prices (Ministry of Finance of Georgia, 2021). Through increased access to larger volume of transited gas from Azerbaijan, Georgian leadership has an option to meet increased household demands through cheap social gas. Easy access to the energy resource allows the government to achieve one of the biggest gasification rates in Europe by 2024 (*SoS Statement for Natural Gas*, 2021).

Although bilateral agreements with Azerbaijan are not available for public, all the above-mentioned signifies the limited EU influence over public-private interests in the gas sector structure. A similar *dominant interest structure* would prevent Europeanization mechanisms to facilitate the change. In this manner, what follows to exemption is the high risk of adjusting *acquis* requirement to national and provisional political interests. Abbasov (2014) points out that the EU's external governance comes in contrast with the SOCAR's market interests, controlling most of the distribution systems. Although Georgia is an important transit country for Azerbaijan to access the European market, country is hugely dependent on its energy in light of the conflict with Russia. One of the main alternatives remains Gazprom gas that is seen as a much bigger hazard to the country's energy and

economic independence. Assessing the extent of the gas market concentration, the government highlights that developing competition requires special measures (*SoS Statement for Natural Gas*, 2021, p. 12) but these measures refer to long-term solutions. And what is more, the political level does not show significant signs of shifting from traditional practice.

Over the course of the years, the EnC Secretariat reports switch from applauding to a pro-active new party to stern tone regarding Georgia's failure to comply to the Treaty obligations. The last three reports of Energy Community Secretariat urge Georgian party to accelerate the adaptation of *acquis* in relation to competition and regional connectivity. Transposition of *acquis* is seen to facilitate realization of PMI projects (Energy Community Secretariat, 2021, p. 73). Simultaneously, *ex post* approach is integrated into the governance framework, including monitoring and remedial actions that take place in case of non-compliance. The Energy Community Secretariat, as expected in case of non-compliance, issued an infringement procedure to influence the delayed unbundling process of GGTC (Lesjak, 2023).

All the evidence indicates that competition cannot be achieved only through empowering regulators to promote competition rules. Furthermore, as an independent body, GNERC's institutional function is rather responding to deficiencies in the market and it lacks the capacity to overcome structural barriers and alter domestic opportunity structure. The new legislative framework did not ensure the effective competition mechanisms of NRA. Despite GNERC being responsible for enforcement in gas sector, it never pursued infringement cases based on Georgian competition law (Energy Community Secretariat, 2021), while the non-compliance in competition seems to be one of the concerns of the regulator. The most evident reasons for explanations seem to be political considerations, lack of coordination and limited capacity of the regulator to ensure the enforcement of *acquis*. Interestingly, GNERC, while being the responsible for enforcement, does not have the same enforcement tools as Competition Agency (Energy Community Secretariat, 2019).

These findings provide evidence that Europeanization had led to modest changes in shifting the position of the regulatory authority. Therefore, if one looks at what Europeanization mechanisms model suggests (Knill & Lehmkuhl, 2002), even if strengthening the role of regulator could have made European impact likely, the direction of policy implementation in recent years does not show further strengthening of regulator supporting realization of European gas *acquis*. In this respect, we see how enforcement and not adaptation illustrates the EU's tangible effect on Georgia's domestic gas structure (Samkharadze, 2018). Unlike Member States, when it comes to the neighboring states of Energy Community, should a country decide to not abide by the EnC *acquis*, the EU has no means in its disposal to coerce the third country into compliance. Where EnC's assistance does not

lead to desired outcomes, the body relies on infringement procedure for those who fail to unbundle gas transmission and distribution systems. The Secretariat is granted authority to initiate infringement procedures but as a matter of fact, the compliance has been subjected to political judgment, and the Secretariat always showed its preference towards diplomatic resolution of the matter (Samkharadze, 2019). Even in the case of the long-lasting breaches of *acquis*, the Ministerial Council failed to impose measures for contracting parties (Energy Community Secretariat, 2020). Yet there is an acknowledgment that without sanctioning the contracting parties will continue to breach energy *acquis* (Energy Community Secretariat, 2021). The lack of enforcement procedures continues to hinder exporting the European governance to the neighborhood.

In the course of the analysis, the findings indicated a significantly slow pace of Europeanization in the gas sector. The main progress in Europeanization of the gas sector was the Law on Energy and Water Supply (EnC Secretariat, 2021, P. 62). But the adopted rules were not accompanied by enforcement tools and have not brought substantial change to the real market structure. It is no surprise, considering suppliers maintain a large market share and resist changes. But what is worth an attention is that the problems persist not only in the implementation dimension. In the long-term, an adaptation of *acquis* could provide the legal foundation for the gas market in case Georgia manages to diversify the source of gas. However, it is evident that in the gas sector integration continues in fragmented and complex procedural spaces. What is more, the sectoral adaptation shows signs of incomplete integration regarding the substantive scope and quality. It can support the thinking that an incomplete integration process may lead to different evolutions in regional economic and political situations, making predictions on the future of the new framework difficult. All considered, due to the above-mentioned three factors, empirical evidence supports the idea that non-compliance is more substantial than usually understood in the work on harmonization of the EU policies with the associated countries. One might question the substance of the positive transposition of rules in the gas sector if these rules do not merit sufficient consideration to the derogation that is derived from state-business vertical contractual relationships.

III. Discussion on Findings: EU External Energy Governance and Factors Beyond Europeanization

The research findings tend to support the idea of applicability of Europeanization theory. But it brings us to the crux of the concept when utilized in the study of sectoral integration that extends beyond the EU borders. When it comes to European governance and Europeanization beyond Europe, characteristics of specific sectors might determine what will be policy and institutional outcomes and the extent of the exogenous pressure. The nature of the EU's engagement cannot be

adequately characterized by encompassing notions that do not pay sufficient attention to particular areas. Even the Energy Community Treaty does not offer a comprehensive framework - it cannot be reciprocally applied by neighboring states and requires continuous re-negotiations (Energy Community Secretariat, 2021, p. 9).

As the Georgian domestic settings illustrate, European impact is facilitated through domestic factors. As it was observed, Europeanization should pass two stages on institutional and actor level (Knill & Lehmkuhl, 2002 as cited in Brendler & Thomann, 2023). Domestic changes by institutional and policy compliance are complemented by steps that explain the adjustments in domestic opportunity structure. It determines what power and resources the domestic actors must have to ensure pro-integration measures. Linking the mechanisms and outcomes of Europeanization to the Georgian context provided in the previous chapter show the evidence of Knill & Lehmkuhl's (2002) reasoning that the positive effect of the EU pressure should have been expected from compatibility of Georgian bureaucratic apparatus, which supported and promoted liberalization reforms since the early 2000s. In light of liberalization reforms, institutional environment of Georgia already put certain structures in place facilitating compliance with the EU norms.

The regulatory body was supported to introduce some modifications to this context. Research supports the idea of the EU as a regulatory power in the neighborhood by demonstrating the extent to which EU policies and regulations have been promoted beyond its borders. The new model which includes growth of regulations on national and European levels attempts to re-regulate on different level of governance (Majone, 1997), which is what could be witnessed in Georgia's energy field. The changes to competencies of the independent regulatory authorities on the basis of the Law on Energy and Water Supply are to be seen as the main instrument to delegate powers to an independent agency, equipped with technical expertise and knowledge. It is designed to correct market failures while operating in the depoliticized environment. At the same time, regulatory authority is not only seen to intervene in correcting the market in economy but to establish regulatory standards for consumers. What is interesting is that the government stood behind the changes that show commitment to efficiency-enhancing delegation of tasks (Majone, 1997). The government's role to ensure market functioning in the neoliberal market economy also has an impact on natural monopolies, especially when it comes to the small trade dependent states such as Georgia. Strong intervention is preferred to be supplemented by the new model, which trespasses and transforms regional and international networks that facilitate cross-border market activities. But apart from market enabling instruments that require transparent monitoring and accountability, its market correcting capacities are not enough to ensure compliance when it comes to vertically integrated companies. Therefore, even though domestic actors were in favor of establishing legal

foundation for liberalized approach, the clear dominance of actor coalition consisting of market operators and state-owned companies made the European impact unlikely (Knill & Lehmkuhl, 2002), illustrated by subsequent non-compliance with gas acquis.

As for the nature of the EU governance, the analysis showed that one of the main characteristics of European governance in gas is promotion of policy paradigm on competition. It shows that the EU external governance tends to mirror internal solutions based on the principles of single market (Lavenex 2004 as cited in Schimmelfening 2010). The EU's efforts concentrate on positively promoting competition with the transit countries whose primary function is trading energy with the EU. Knowledge sharing and technical assistance platforms, as well as regular dialogue format presupposes existence of the policy answers that are externalized in neighboring states. Respectively, Europeanization is aimed at incorporating the competition policy paradigm in formal institutions and informal interactions. It completes earlier studies on the shift in government-energy industry relations from vertical national monopoly to "regulate for competition" (Cameron & Brothwood, 2002, p. 8), reducing the hazards to anti-competitive practices stemming from economic interdependence across borders. The EU exhibits traits to encourage trading partners to align market access and competition regime with their own (Doleys, 2012). But in the absence of the demand and supply substitution, stemming from the inefficiently developed infrastructure and high market concentration due to energy import dependency, the functioning scope of competition policies become challenged. Thus, the case of the Georgian gas sector evokes Knill & Lehmkuhl's (2002) thinking that when some degree of arrangements are required in the domestic market, domestic change becomes possible. However, the top-down pressure falls short of making an impact when opportunity structures are unfavorable. SOCAR's dominant position on the gas market and its power over horizontal expansion of market rules illustrates extensive role of a producer to confine the competition (Hulshof et al., 2016) and confine power redistribution prescribed by policies. The reason for the supplier's dominant position in Georgia largely relies the same logic according to which companies that are interested in operating on the European market lead to the EU's high dependence on energy producers, hindering market liberalization in the gas sector for the MS and non-MS alike.

It brings as to the second substantial finding regarding the EU's emerging external energy governance, that brings us back to earlier theorized patterns of *network governance* (Coen & Thatcher, 2008; Mills, 2017). The exogenous normative pressure tries to dismantle domestic opportunity structure, shaped by vertical intergovernmental agreements. Accordingly, the EU's creeping competencies continue to be revisited (Garben, 2019; Maltby, 2013) when it comes to breaking up the top-down system in gas sector even in the neighborhood. The study brings to

spotlight opinions that these relations in gas sector resemble the dispersed dynamic model (Gstöhl, 2015) and horizontal contractual relationships (Samkharadze, 2018). This mode of governance acquires market characteristics itself (Koliba et al., 2017). First, multi-stakeholder transnational cooperation between regulators, public and private stakeholders function similar to a regular dialogue platform through a European-facilitated coordination mechanism (Radaelli, 2004). Second, network governance links national, international and EU levels under one platform and shows the trait of horizontal mechanisms that are substantially the same but applied selectively. Third, Georgia's case study backs up the notion of change in mechanisms and outcomes from hierarchical to soft approaches and constant (re)negotiation (Coen & Thatcher, 2008). By engaging with multiple stakeholders, the decision-makers strive to make well-informed decisions. Private stakeholders get better assurance of what to expect in the system. All of the above is supposed to lead to more nuanced long-term planning from both sides. Additionally, the bottom-up approach to facilitate change through practice sharing can drive the market forward. It is revealing how the networked links extend further in the neighborhood, indicating the expanding of the Union scope. Hence, it can be argued here that the EnC and AA frameworks, in fact, facilitate functioning and spread of networked governance in the policies which use the same model in the Union (Schimmelfennig, 2010).

At the same time, under this coordination and network-based process, we witness *parallel integration* within the energy, where the EU applies non-binding measures and leaves the decision on domestic level (Garben, 2019) unevenly exerting influence on industries. Therefore, the sectoral regulators remain under the shadow of the state (Heritier & Lehmkuhl, 2008) and structure of the gas industry. Resource dependency, undeveloped infrastructure and long-term contracts impose significant limits on the redistribution of power and resources. Bearing in mind trade and regional economic system, Georgia, being more embedded in the regional economic system along the Azeri-Turkish axes, could be less receptive to the EU-induced pressure. Hence, despite the EU's normative framework in place, the positively assigning rules for compliance do not have the needed capacity to restructure the supply chain in gas. In this sense, the gas sector potentially leads to anti-integration. Even previous efforts to attract investments and foster regional cooperation in gas sector also resulted in monopolizing the market by the major suppliers (Strakes, 2014). Following this reasoning, the future regulatory developments in the eastern neighborhood and more specifically in the Caucasus could be illustrated by the historic example of the EU's efforts to promote competition rules in Türkiye, including as part of the EU accession process, which faced a number of challenges and limitations. It is why EnC Annual Implementation Report (2019) highlights that the development of market rules in Türkiye can potentially lead to increased trading

on an onshore route through Georgia. One of the main hindrances in cooperation between the EU and Türkiye was the sector-specific compliance in telecommunications and energy. Despite some progress to harmonize the energy rules, Europeanization did not tip the balance against the dominant interests structures. For instance, in Türkiye state-owned company BOTAŞ (Petroleum Pipeline Corporation) holds a monopoly on natural gas imports and transmission, contrary to what the Natural Gas Market Law (adopted in 2001) prescribed (Demirkan & Mercan, 2018). It becomes additionally important for the EU as the company holds a dominant position over the supply of gas through TANAP to the European market. Concerns have been raised about the independence and capacity of the Competition Authority, as well as the consistency and transparency of its decision-making processes. This could serve as useful historical insights regarding developments in Georgia's energy. What is more, currently, some even argue that middle regional powers such as Türkiye, have on their own become the rule promoters in the neighborhood (Aydin, 2021). Existing interconnection between Georgia and its neighbors is asymmetrical, creating differences in capabilities and power in the regional context. This asymmetry also has the potential to negatively influence the extent of Europeanization in the country. Considering the deep bilateral relations in the gas trade, Georgia has economic incentives to align their policy enforcement practices with it, leading to divergence in integration outcomes.

Conclusion

Theoretical Implications for the Studies in Energy Governance

This research has examined the ongoing Europeanization process in the energy sector of the EU's eastern neighboring country Georgia. The theory of Europeanization has introduced concepts of *compliance*, *positive integration*, *opportunity structure* to analyze the nature and the extent of the European impact on the domestic legislative, institutional and regulatory environment. Additionally, theories of *external energy governance* and *regulatory power* provided useful frameworks for the analysis. With it, the thesis contributed to the understanding of the sectoral integration process in third countries that are participants of the EU governance regimes of the Energy Community and Association Agreements.

Overall, the evidence suggests a mix of top-down and bottom-up approaches to Europeanization in the gas sector of Georgia, with the EU institutions leading the way in promoting a more liberalized and diversified gas market, while also responding to the energy security concerns of its member states and neighboring countries. The main finding has been in line with those who put significant emphasis on the dominant players in market structure limiting the pressure of Europeanization. In any economic field, more in the industry where gas becomes the necessary resource to everyday of Georgian citizens, the way the relation is realized within industry is itself political in nature, determining the structure where European pressure intervenes. In this case, it has limited scope to alter the position of actors who are already in dominant position (Knill and Lehmkuhl, 2002).

Thus, referring to the research question and subsequent two assumptions, the following could be concluded:

EU mechanisms try to exert an impact on re-structuring of primary and secondary markets to promote competition, cross-border trade and regional interconnection. However, this positive integration process accounts for the incremental change in status quo of Georgia's gas sector, which remains fragmented even with the legal foundation for compliance, the Law of Energy and Water Supply. Additionally, divergence from *acquis*, allowed in positive models, leads to incompleteness as a consequence of which positive integration steps appear less substantial in the Europeanization process in the gas sector. Even though pro-integration actors may support a new normative framework, anti-integration actor coalition has capacity to reshape the process of compliance.

To conclude, when entering the domestic and regional economic context positive rules need to pass the second stage to adjust domestic opportunity structure, where unfavorable interest constellations and structural economic barriers make the Europeanization impact unlikely. Thus, in terms of integration outcomes, regulatory adjustments in the short-term and mid-term future do not afford to detach the gas sector from political considerations and regional market structure. Identified Europeanization mechanisms in Georgia's gas sector appear to be less effective to dismantle power structure. But it is also important that in the long term, the effect of horizontal governance mechanisms are hard to assess. Even in the gas sector one may see how the EU external governance undergoes the transformation that corresponds to earlier thesis on the EU *transformative governance* (Kohler-Koch, 1996) – the change is not about shift in power relation but rather about practicing governance, contributing to growth of public-private networks. The multi-stakeholder horizontal mechanisms are widely employed to accumulate and disperse the support for European objectives. The way the mechanisms are designed and applied to govern the gas market leads us to assume that the fundamental category of examined Europeanization process is market inclusion. First, building inclusive networks appears as one of the traits of sectoral engagement in energy. European authority depends on persuading actors across the network, within and outside of the Union, not only of the importance of prescribed policies but also feasibility of making policy claims real. While the European bodies lack enforcement tools, the enforcement power is trusted to the market but not to its unleashed forces but the market which is being under constant scrutiny through regulatory power. Which brings us to the second point which is that this inclusion also stands for including the members of the sovereign power in its metastructure. As a monopoly, where the state maintains control over the gas system, persists to change, the independent regulatory authority is included in sovereign power but albeit as an external entity to monitor the blurred boundaries of public and private spheres.

Limitations and Prospects for Future Research

In this research, it was recognized that exploration of Europeanization process should be based on two-way process. But the document analysis was able to provide only limited sight of the bottom-up processes, indicating shortcomings in several ways: first is the lack of data on complex decision-making environment on a domestic level and the role of the actors in the process. The findings bring us back to the common debates regarding Börzel and Risse's (2003) *goodness of fit* and overall methodological challenges to measure Europeanization. Thus, despite the awareness of the two-way course of Europeanization, the thesis could not sufficiently grasp the process of proactive adjustment through the domestic policy actors who actively participate in shaping the policies (Schmidt, 2002). The overview of the domestic political support was based on voting for legislation

and secondary literature on Georgia's energy sector but it could not provide nuanced information of bottom-up pressure from status quo and pro-change interest groups. In light of liberalization reforms, institutional environment of Georgia already put certain structures in place facilitating compliance with the EU norms. This introduces the diminished role of Europeanization adaptational pressure in domestic change. Interestingly, it also illustrates the difficulty of trace causality in the Europeanization process. One of the solutions to use the control group (taking the country outside of the EU) does not seem to solve this problem either (Saurugger, 2005; Levi-Faur, 2004, as cited in Exadaktylos & Radaelli, 2015). This is because there is no universal political and economic context and there is no similar exposure to the EU's impact. Georgia is an example of being a state which is outside of the EU but is still exposed to the Europeanization pressure. One of the future contributions could be comparisons to other associated countries in Eastern Neighborhood or individual EnC contracting parties.

Second limitation is the common challenge to study state-business relations since economic sectors tend to be characterized by behind-scene arrangements that are not publicly accessible. Thus, power distribution among sectoral actors beyond their structural position in economic, political and administrative systems is not explicit. Furthermore, although the document analysis provided some degree of knowledge on informal mechanism utilized by the EU, it still does not allow to capture the operational scope of transnational networks in practice, as well as financial means used in system transformation.

Another limitation concerns the time frame. It might be sufficient to examine EnC mechanisms that were place for 5 years (2017-2023) and capture the nature of energy governance but not extensive enough to draw credible conclusions on outcomes of Europeanization. Especially, taking into account that the earlier reports do not provide picture on non-compliance as the deadlines set by the accession protocol was yet to expire. However, in this manner, it could also serve as an advantage: the study can be utilized in future endeavors to identify upcoming developments and offer arguments on the EU's (non)transformative power.

Considering all the above-mentioned, the findings from the case of Georgia's gas sector contributed to the study of Europeanization mechanisms and outcomes and to the growing literature on the Europeanization of energy policy and European governance in the neighborhood. It brought forward the empirical utility of nuanced analysis of the Europeanization process in producing domestic change and its interconnection with the multi-layered sectoral governance mechanisms. For future research, the identified mechanisms and outcomes of Europeanization could possibly be utilized in other networked industries, including other sectors of energy such as electricity where the impact of Europeanization is expected to be more present. It can give additional perspective into

how the EU shapes and manages the formal and informal governance structure to exert the influence. However, the aim to establish apolitical technocratic rules in the neighborhood is itself a political undertaking. The EU's power and its instruments that operate within its own limited capacity create a complex dynamic that can benefit from expanding the theoretical scopes beyond Europeanization and pay more attention to political considerations.

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Appendices

1. Chronological List of Primary Sources Including Data Retrieved

Document/Document Name in System	Author/Date	Type	The Most Important Data Retrieved
Agreement between the EU and Georgia			
Association Agreement between the European Union and Georgia/Deep and Comprehensive Free Trade Area (AA)	The EU & Georgia, 2014	Association Agreement	The basis for the subsequent institutional track in sectoral integration of energy; establishes mutual objectives in energy trade.
Protocol Concerning the Accession of Georgia to the Treaty Establishing the Energy Community (Protocol Geo)	Energy Community & Georgia, 2016	Protocol	Provides acquis for the security of supply, gas connectivity, integrated market; introduces derogation from acquis on gas trade in accordance with state control over the sector and absence of direct interconnection with the rest of

			the EnC.	
Energy Community				
Energy Governance in Georgia (GEOGOV17)	EnC 2017	Secretariat,	Report	Governance of gas market by the time Georgia joins EnC; underscores that the Georgian normative framework sets gas as an important accessible public good, which is tied to state control and transit function.
PECI/PMI Project Realization and Monitoring Strategy (ECS_PECI)	EnC 2017	Secretariat,	Project Monitoring Strategy	Responsibilities and role division of gas system stakeholders in Peci/PMI.
Annual Implementation Report 2018 (AIR18)	EnC 2018	Secretariat,	Annual report	The compliance scope for Georgia as the new contracting party; EnC activities to ensure compliance.
Annual Report on the Activities of Energy Community (AR18)	EnC 2018	Secretariat,	Annual report	General provisions for Georgia's accession.
Report to the Ministerial Council on the Implementation of Projects of Energy Community Interest (RMS19)	EnC 2019	Secretariat,	Report	Implementation status of Projects of Energy Community Interest (PECI): TAP, TANAP, SCP, TCP.
Annual Implementation	EnC	Secretariat,	Annual report	Outcomes of policy

Report 2019 (AIR19)	2019			compliance process after the first year since joining EnC.
Annual Report 2019 (AR19)	EnC Secretariat, 2019		Annual report	Provides information about the EnC governance characteristics; Focus on capacity building measures.
Annual Implementation Report 2020 (AIR20)	EnC Secretariat, 2020		Annual report	Mechanisms related to capacity building and improved interconnectivity; outcomes of compliance after adaptation of the Law on Energy and Water Supply.
Annual Report (AR20)	EnC Secretariat, 2020		Annual report	European mechanisms vis-a-vis network stakeholders; responsibilities of stakeholders; transposition of the Third Energy Package.
Compliance Note No 2/2020 (COMP20)	EnC Secretariat, 2020		Compliance Note	References to EnC governance mechanisms; strengthening the independence of the National Regulatory Authority; establishing certainty on the gas market through TYNDP.
Annual Implementation Report 2021 (AIR21)	EnC Secretariat, 2021		Annual report	Compliance on the integrated market, competition, gas connectivity, security of supply; mechanisms vis-a-vis network stakeholders.
Annual Report (AR21)	EnC Secretariat,		Annual report	EnC mechanisms vis-a-vis

	2021		network stakeholders; responsibilities of stakeholders; regional market integration; compliance in gas connectivity and competition.
Annual Implementation Report 2022 (AIR22)	EnC Secretariat, 2022	Annual report	Underlines non-compliance with the acquis on competition in light of state vertical integration on the gas market.
Georgia			
Ten-Year Development Plan for Georgian Gas Transmission Network 2019-2028 (TYNDP)	Georgian Oil and Gas Corporation approved by Ministry of Economy and Sustainable Development, 2018	Ten-Year Network Development Plan (TYNDP)	References to existing domestic structure in gas sector and upcoming adjusting mechanisms; stresses gas transit infrastructure development, interconnectivity, and market balancing instruments.
The Ordinance N22 on Approval of Natural Gas Network Rules (N22)	Georgian National Energy and Water Supply Regulatory Commission, 2018	Ordinance of the Government of Georgia	Establishes competition rules, regulatory control, and improved interconnectivity.
The Law of Georgia on Energy and Water Supply (The Law 2019)	The Parliament of Georgia, 2019	Law	The main legal foundation for transposition of gas provisions of the Third Energy Package.
The Ordinance N39 on Approval of unbundling of Transmission System Operator (N39)	Georgian National Energy and Water Supply Regulatory Commission, 2020	Ordinance of GNERC	Competition rules and market accountability of the regulator.

Security of Supply Statement for Natural Gas 2021 (SOS21)	Ministry of Economy and Sustainable Development of Georgia	Government report	References to domestic and regional market conditions, lack of interconnection and established domestic structure.
GNERC Report 2020 (20GNERC)	Georgian National Energy and Water Supply Regulatory Commission, 2021	Annual report	Activities of national regulator and pricing practices to supply social gas.
The Ordinance N447 on Approval of Natural Gas Market Concept Design (N447)	The Government of Georgia, 2021	Ordinance of the Government of Georgia	Competition and gas exchange markets.
The Ordinance N79 on Approval of Georgian National Energy and Water Regulatory Commission regulations (N79)	Georgian National Energy and Water Supply Regulatory Commission, 2021	Ordinance of GNERC	Strengthening independence and ensuring transparency and accountability on market rules.
Security of Supply Statement for Natural Gas 2022 (SOS22)	Ministry of Economy and Sustainable Development of Georgia	Government report	Georgia's market conditions, established domestic structure, interconnectivity, and gas balancing
GNERC Report 2021 (21GNERC)	Georgian National Energy and Water Supply Regulatory Commission, 2022	Annual report	Internal market structure, including high market concentration and the regulator monitoring instruments.

2. Coding Table: Main Categories and Sub-categories

Code System	642
Mechanisms	0
AA/DCFTA	0
Prescribing EnC institutional track	6
Independent Regulatory Authority	1
Financial assistance	0
European financial institutions	1
Complementarity with donors	1
Monitoring and regular consultations	6
Aims	0
Trade, transit, non-discriminatory access to infrastructure	14
Transparent and integrated regulatory environment	4
Environment (focus on hydropower)	5
Energy security	6
Foster investements	1
Efficiency	4
Competition	2
Adjusting Domestic Opportunity structure	0
Dominant market position	35
Capacity building and multi-stakeholder engagement	77
Improved interconnectivity and integrated gas balance	77
Strengthening Regulatory authority	0
Accountability and market oversight to ensure compliance	38
Costumer protection	7
High degree of independence and cooperation	37
Knowledge sharing and technical assistance	8
Licensee accountability to regulator	23
Prescribed Institutional and policy integration	0
Security of supply	32
Consumer protection	15
Foster envistements	13
Competition and non-discriminatory access	70
Open trade and integrated market	21
Outcomes	0
Exceeding deadline on security of supply and infrastructure	4
Delayed adaptation of Law on Energy and Water Supply	1
Non-compliance with competition acquis	11
Established domestic normative framework	12
Lack of enforcement capacities on competition and state aid	20
Social gas impact on market liberalization	42
Exemption from market rules	30
Agreement limitations on market	18
Sets	0

3. Code Matrix Browser

Code System	SOS21	SOS22	ECS_P...	AIR18	AR20	AR21	COMP...	GEOG...	RMS19	AIR22	AR18	AR19	AIR19	AIR20	AIR21	Protoc...	N22	20GNE...	21GNE...	N79 G...	N39 U...	N447	The La...	TYNDP	AA
Mechanisms																									
AA/DCFTA																									
Prescribing EnC institutional tra																									6
Independent Regulatory Author																									1
Financial assistance																									
European financial institutio																									1
Complementarity with dono																									1
Monitoring and regular consu																									6
Aims																									
Trade, transit, non discrimin																									14
Transparent and integrated i																									4
Environment (focus on hydr																									5
Energy security																									6
Foster investements																									1
Efficiency																									4
Competition																									2
Adjusting Domestic Opportunity str																									
Dominant market position	11					1			2		1	1	2	1	4	4			3	2				3	
Capacity building and multi-sta						7	13	12	9		1	1	14	10							1			7	
Improved interconnectivity and	5	11			2	2	3	1	6	1	1	5	2	1	4	5	3	5				9	2	9	
Strengthening Regulatory autho																									
Accountability and market o				3			2	7	1						3		2		3	8	1	2	6		
Costumer protection																			1	1	5				
High degree of independev				1			6			1		1		1	1					9			17		
Knowledge sharing and tech																				8					
Licensee accountability to re				3			1							1	1		5			4	8				
Prescribed Institutional and policy ii																									
Security of supply	1			1			1	1		2	1			2	1	2					1	9	9	1	
Consumer protection							2			1	1			1	1						2	5	2		
Foster envistements							4			1		1		1						1	1	4			
Competition and non-discrimin	1			3	1	3		6		5	1	1	2	1	2					4	4		8	11	17
Open trade and integrated mar																	2						8	11	
Outcomes																									
Exceeding deadline on security of s										1	1			1	1										
Delayed adaptation of Law on Ener														1											
Non-compliance with competition	1													1	5										
Established domestic normative fra	1																								
Lack of enforcement capacities on c										5	1			3										11	
Social gas impact on market liberal	7	1								11				3						1	2			4	
Exemption from market rules										2	1	2								5	7	4		7	
Agreement limitations on market	1									4														1	3