

New Geopolitics of Energy in the Black Sea Region

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Abstract: In this paper, it is argued that security of energy supply in Europe and the Black Sea region can be secured by a multidisciplinary and all-inclusive approach with flexibility and openness in an interactive world. This approach rejects one-sided public policies or political rhetoric without considering economic and business realities. Energy policies should be based on global cooperation among suppliers, consumers, businesses and policy makers in an independent world.

The recent developments in the Black Sea region posed contradictions, both within the EU and with the energy suppliers in the post-Soviet sphere. After the disintegration of the USSR, the interdependence within the former union was replaced by national priorities and aspirations of individual countries. On the other side of the coin, achieving energy security for the European Union is becoming synonymous with energy sufficiency and is leading to protectionism and market distortion. This finds itself in conflict with EU objectives such as free trade, liberalization, globalization, and free markets - the objectives long portrayed as the solution to most world problems. The present deterioration into protectionism, nationalism and politicization of energy security engenders instabilities in the Black Sea region. A viable strategy for energy security should aim to connect the EU with the transit and producer countries in the Black Sea and Caspian Basins. The only way forward for an energy secure future for both Europe and the Black Sea region is through putting greater effort in market reform and competition as Eurasian markets become more and more integrated.

After the disintegration of the Soviet Union, the Black Sea region became a significant factor for the European Union's (EU) long term strategic interests. Existing EU policies for the Black Sea region were developed during the first half of 1990s. The dramatic political changes in Europe over the last 15 years along with the striking increases in the energy prices have necessitated a new vision for the EU in the Black Sea area. Moreover, the EU enlargement increased the strategic importance of the Black Sea region for the EU. After the accession of Bulgaria and Romania to the EU in 2007, the Union will become a Black Sea riparian power and regional player. The integration of Turkey will augment EU's role in this region. (Aydin 2005: 257-258) From the perspective of global energy market, the Black Sea region is emerging as a key player. Chronic instability in the Middle East, soaring oil prices and uncertainties about the reliability of the EU's long-established sources of energy supplies have raised the energy security to the category of critical strategic concern for the European Union. Economically, the Black Sea countries control the oil and gas transit networks that are vital for the European economy. From the geopolitical point of view, many Black Sea countries have to balance their domestic energy security with their present or future roles in providing regional or continental energy security. On the other hand, the importance of these economic and geopolitical factors changes according to the countries' interests. The main challenge for the European energy security including the wider Black Sea region is to balance these various interests and to promote the common benefit for all the parts of the energy chain; namely for suppliers, transit countries and consumers.

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At the root of the energy security urgency lies the EU's dependency on imported energy. It will rise from 50 per cent in 2000 to over 70 per cent in 2030 (90 per cent for oil, 80 per cent for gas, and 66 per cent for coal). According to the predictions of the EU, about half of the supply to Europe will come from the Black Sea region or cross it on its way westward from the producers in the Caspian region and the Middle East (EurActiv 2005). The rising energy prices over the last three years together with the decreasing gas exports from Russia to the EU in early 2006 revealed the vulnerability of the current energy supply model. It is obvious that the concerns about energy security in terms of guaranteed use of resources for consumers and access to rich markets for the producers will remain an important factor of national and international strategic planning. Securing future energy supplies has become a common term in the rhetoric of the decision makers in the EU and its neighborhood.

Energy Security in the 21st Century

After the fall of the Berlin Wall, a new world order emerged and since then it has been shaped by further liberalization and globalization of the international economy. Today the uncertainty about the appropriate geopolitical model that will explain the global economic relations is more significant than ever. In recent years, the energy security of the European Union has been formed by the expectation of the continuing globalization. According to the supporters of globalization, further liberalization would assist the access to oil and gas resources for European countries and diminish the restrictive power of governments in the energy supplier countries. However, the anticipated development of the international order took an unanticipated turn when some fast developing Asian countries joined the global competition. These new countries are remarkably active in all commodity markets, as well as crude oil and natural gas market. The increasing demand for energy and raw materials from Asian countries such as India and China can not be supplied easily, as oil gas production does not grow as fast as with the rising demand (van der Linde 2005: 7-9).

On the flip side of the coin, most oil and gas producing countries have autocratic regimes and in the past two decades they have had to discover ways to co-exist with a global competitive energy market. With the active participation of China and India in the world energy markets, the producing countries realized that they are in a powerful situation as demand for their oil and gas is growing very fast. These energy suppliers are very interested in the opportunities offered by China and India to secure the long term demand by signing bilateral agreements and building processing plants in energy hungry countries. This strategy is in parallel with the search for a balance between the domestic economic growth and the continuation of their autocratic regimes. Additionally, long term stability of the energy revenue is easier to achieve with a combination of sellers' market and long term supply agreements than a competitive and unpredictable international market (van der Linde 2005: 12-16).

What are the consequences of these transformations in the global energy market to the European Union? The main argument of this article is that EU's energy supply security can not be achieved by one sided public policies or political rhetoric without considering economic and business realities. Above all, the policies should be centered on global competition among suppliers, consumers, business and policy makers in an interdependent world. The European Union should reconsider its strategic position in the global energy competition in order to increase the chances of directing oil and gas

flows into Europe. If the EU can not manage the restructuring of the European energy market to adapt the changing global transformations, reactions from the individual member states will emerge to protect their own national interests under the pressure of geopolitical transformations. For instance, Germany started to construct a new direct gas pipeline from Russia through the Baltic Sea to bypass the Central European countries, whereas the EU is still struggling to determine Russia's role in the European energy security.

“The Next Prize:” Natural Gas

Daniel Yergin labeled natural gas as “the Next Prize” after oil and he argued that “a new global energy business – natural gas – is emerging. The United States needs it to keep the lights on; Europe to rejuvenate its industry; and developing countries to boost growth” (Yergin and Stoppard 2003). As natural gas is emerging as “the Next Prize” with growing global demand, it has to be underlined that there is an important division between the security of oil supplies and security of natural gas supplies, as these two commodities reveal totally different security concerns globally, and especially for the EU.

Crude oil is a global commodity. Conditions in oil markets in the Persian Gulf, South East Asia, Mexican Gulf and Western Europe change concurrently and in the same direction. In 2000, 45 per cent of the global oil supply was supplied from the outside of the region in which it was consumed; by 2030 this figure is expected to increase to 60 per cent. Quite the opposite, natural gas is not a global commodity and this is due to the physical characteristics of it: enormous gas resources in many parts of the world are stranded as natural gas can not be shipped as easily as crude oil. Natural gas markets do not balance each other and therefore it is possible to have a natural gas shortage in Europe without any disruption in Japan.

Under these circumstances, no country or region can protect itself single handedly from oil price fluctuations or from the consequences of a major crisis in oil production regions. However the global oil market has established well developed safety structures and systems that reduce the vulnerability of consumers against the oil crisis. Instability in global oil markets is inevitable, but diversification of the supply sources secures stability in the markets. On the contrary, natural gas markets are much more vulnerable to shortages and disruptions in natural gas supplies. The economic costs of this vulnerability are enormous (Zakoyan 2003). From the European perspective, the increasing demand for natural gas in the EU, the decreasing European natural gas production and prices poses a greater danger to European energy security and to the economy than the increasing cost of crude oil.

The forces behind the firm increase in European gas demand are various and complicated: 1) enormous investments during the 1990's have to take the advantage of low-cost natural gas; 2) increasing number of high efficient natural gas based power plants; 3) superior environmental advantages of natural gas. Yet it is becoming impossible to maintain European natural gas production at the current levels. The North Sea basin exhaustion is a fact and the number of drillings is declining in mature fields. Mature North Sea gas production areas are passing their peak production and will see declines in the years ahead.

The Challenging Energy Frontier: The Black Sea Region

Natural gas is the fastest growing source of energy in Europe and its share will increase from 21 per cent in 2001 to 27 per cent in 2020 for EU-25. In 2000, EU-25 consumed 418 bcm/y (billion cubic meters per year) gas and this figure will be around 575 bcm/y in 2030 (see Table-1). In terms of percentages, EU-25's import dependency of natural gas will rise from 49.6 per cent in 2000 to 84.6 per cent in 2030 (see Table-2). The European Commission expects that the European gas imports will triple from 207 bcm/y in 2000 and to 570 bcm/y in 2030 and the International Energy Agency (IEA) anticipates that almost half of this additional gas will come from the Central Asia and the Middle East (see Table-3).

Table-1: EU-25 Natural Gas Demand (bcm per year)

	2000	2010	2020	2030
EU-25	418	513	588	575

Source: European Commission (2005)

Table-2: EU-25 Natural Gas Import Dependence (%)

	1990	2000	2010	2020	2030
EU-25	47.5	49.6	62.8	81.4	84.6

Source: European Commission (2005)

Table-3: EU Additional Gas Supplies 2000-2030 (bcm per year)

Middle East	157
West and North Africa	136
Russia	79
Central Asia	51
Americas (mainly Trinidad Tobago)	18

Source: IEA (2004)

A key question is whether enough gas will be secured to meet the increased demand. The security of European natural gas supply, in a Black Sea context, depends on the development of new gas supplies from the Caspian region and the Middle East to reduce the Russian hegemony. Development of alternative supply networks from Iran, Iraq, Azerbaijan and Turkmenistan through the Black Sea region is being seriously examined by the EU. According to the EU Green Paper; "as long as the European Union's external supply of gas depends on 41 per cent of imports from Russia and almost 30 per cent from Algeria, geographical diversification of our supplies would be desirable" (European Commission 2000). From a European perspective, the energy puzzle will be solved in and around the Black Sea.

Caspian and Middle Eastern countries are alternatives to Russian domination in the EU gas market and under these circumstances the Black Sea region is the key transit corridor for the EU's energy security. Azerbaijan, Iran, Kazakhstan and Egypt are currently making arrangements to export their natural gas resources to Europe. Turkmenistan, Uzbekistan, Iraq, Qatar, Syria and Saudi Arabia are the other potential candidates. Totally the 10 countries have 55.34 tcm (trillion cubic meters) according to IEA estimation in 2002 which is 35 per cent of the total world natural gas reserves. There are two potential projects that offer serious prospects for delivering Caspian and Middle Eastern gas to Europe across the Black Sea region.

-Nabucco Project: This is the primary pipeline that will enable the Black Sea region to become the main transit corridor for natural gas to Europe. Nabucco will be a 3400 km pipeline from eastern Turkey to the European gas hub at Baumgarten in Austria through Bulgaria, Romania and Hungary. Nabucco project will carry 20 to 30 bcm per year to the European markets at a cost of approximately 4.4 billion euros. The transit countries will take around 8 to 10 bcm per year gas for themselves and deliveries to Baumgarten will be approximately 20 bcm per year. The project partners agreed to meet at least part of their own domestic demand from Nabucco pipeline. The construction is expected to start in 2006 and end in 2009.

-South European Gas Ring: This project is also known as the Turkey-Greece-Italy Interconnector and will be one of the important routes for the European gas supply diversification by carrying the Caspian and Iranian gas to Europe. The first part of this project comprises of the construction of a 286 km pipeline from Karacabey (Turkey) to Komotini (Greece). It will have the capacity of 0.75 bcm per year and its potential will reach to 11 bcm per year with the completion of the 280 km pipeline that will deliver gas from Stavrilimenas-Greece to Otranto-Italy.

These two projects clearly reveal the importance of the Black Sea region as a transit corridor for the Middle Eastern and Caspian natural gas suppliers, as well as the European energy markets. The Black Sea region is becoming the fourth artery after Russian, Algeria and Norway for the European natural gas network and the main route that links the landlocked Azerbaijan and Turkmenistan with the global markets.

Russian Hegemony in the European Gas Markets

Russia, with the world's largest gas reserves, lies next door to the EU, the world's second largest natural gas consumer. Hence it is highly important for the two parties to agree on how they can best serve each other's interests. Being world's largest gas producer and exporter offers Russia substantial economic and political leverage over the countries that are dependent on Russian gas (Roberts 2006a: 217-220). According to the IEA and British Petroleum (BP), Gazprom is the only gas supplier to Estonia, Latvia, Finland and Slovakia, and provides 89 per cent of Hungary's gas, 86 per cent of Poland's, 75 per cent of the Czech Republic's, 39 per cent of Germany's gas, 30 percent of Italy's, 26 per cent of France's, 63 per cent of Turkey's, and 74 per cent of Austria's (see Table-4).

Table-4: Gas Dependence on Russia (%)

Estonia	100
Latvia	100
Slovakia	100
Finland	100
Bulgaria	94
Hungary	89
Poland	86
Lithuania	84
Greece	81
Ukraine	77
Czech Republic	75
Austria	74
Turkey	63
Germany	39
Italy	30
France	26
<i>Source: IEA (2004) and BP Statistical Review of World Energy (2005)</i>	

Russia is the predominant supplier of the European gas markets. Additionally it owns and controls the pipeline networks that carry the Russian and Caspian gas to Europe. Therefore, Caspian gas producers and European gas consumers were dependent on those pipelines as Russia is the only link between these two. Moscow's hesitancy, whether acting as a cooperative or a hegemonic player in the European energy game, rings alarm bells in the EU.

In January 2006, when Gazprom reduced its gas supplies to Ukraine for two days, countries as far as France, Germany, and Italy were severely disturbed. This damaged Moscow's reputation as a reliable supplier of gas to Europe. At the core of the crisis lies Russia's position as a transit country transporting third country gas from the Caspian region to customers in Europe. A major cause of the Russia-Ukraine gas crisis was that Turkmenistan, as the largest gas supplier to Ukraine, delivers four times the volume of the gas supplied by Russia to Ukraine through Russian pipeline system (Roberts 2006b). When Moscow stopped sending gas to Ukraine on January 01, 2006, Gazprom cut off the deliveries from both Russia and Turkmenistan. As Gazprom can not control the pipeline system in Ukraine, it was impossible to guarantee the gas delivery to European customers beyond Ukraine. Just three days before this conflict, Ukraine's Naftogaz had agreed to purchase 40 bcm of gas during 2006 and had continued to withdraw large amount of gas from the pipeline assuming that its withdrawals were Turkmen, rather than Russian gas (International Gas Report 2006). The EU is trying to persuade Russia to open its pipeline network to Caspian gas producers on a transparent and non-discriminatory basis. However, Russia rejects to make its pipeline network available for Caspian producers at commercial rates; as Gazprom maximizes its own export potential by buying Caspian gas at low prices around \$65 per tcm and selling it to European gas markets as high as \$245 tcm. Gazprom dominates most of the European gas markets and especially the Black Sea countries and able to eliminate any potential competitor in this region.

The overall outcome of these above mentioned facts is that Russia is already well placed to use wholly amortized pipeline infrastructure to prevent the access of other gas supplier to European gas markets.

Conclusion

The consequences of the increasing international competition for energy, which is led by China, India, Russia and the US, are being evaluated by the EU member states. The national interests do not match with the European interests, as the risks of securing of supplies are different. In order to participate in the global energy competition, member states, such as Germany, France, Italy and Britain, have to seek to strengthen domestic energy companies that can accomplish partnerships with the energy producing countries. These partnerships produce “well to pump” energy chains, giving producer countries influence in consumer markets. In the coming years, Gazprom and Qatar Petroleum will join to Q-8 in the western energy markets. In April 2006, Alexei Miller, head of Gazprom, met with ambassadors of 12 EU members and threatened them that the Russian gas would be shipped elsewhere if Gazprom’s European expansion plans were blocked.

Russia-Ukraine conflict revealed that both Russia and the EU are in a dilemma and future energy security of Europe and the Black Sea region will depend on the outcome of this puzzle. The EU has urged Russia to ratify the Energy Charter treaty, which would require Russia to open its export gas pipelines to independent producers and to third countries. Russia is indecisive between opening its pipeline networks and protecting its hegemonic position on major gas pipelines from Caspian countries to Europe. Black Sea countries are in the middle of this battle between Russia’s historical hegemonic influence and the EU which is the main consumer of the gas. Europe will pay a very high price, if it makes the wrong strategic decision in the global energy game. In a more politicized world of globalization, the EU should transform itself into a solid block in order to take a prominent position. In the case of the Black Sea region, the alternative natural gas pipeline projects, which cross the Black Sea region and bypass the Russian territory, will contribute significantly to EU’s diversification efforts of its energy supplies and help Brussels to position itself strategically in the changing geopolitics of global energy market.

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