

## Energy and Integration in the Black Sea Region

Energy ties in the Black Sea region have been greatly affected by the current conflict between Russia and the West. While energy flows have for the most part not been directly affected by the conflict, it has a profound impact on the planning of future energy projects and on the position of the players. As will be argued by the articles of this volume, Russia is an active force that is driving the integration and disintegration of energy ties in the Black Sea region. The Black Sea region is currently experiencing two main trends: Russia's drive to isolate Ukraine from existing energy ties and resources, and the EU's quest for diversification of natural gas sources to the Caspian. These prevalent long-term trends have been accelerated and deepened lately by Russia's annexation of Crimea and the on-going military conflict in Ukraine. This volume of *Euxeinos* intends to take stock of these developments.

With the acute standoff between Russia and the West going on for more than 18 months now, it is possible to draw some first preliminary conclusions. In general, it is difficult to avoid the conclusion that, as a result, Europe is greatly losing as a power center in the world. This is also true for Russia: energy revenues are dwindling and the profit of Russia's largest company, Gazprom, has been less than one seventh in 2014 compared with 2013. Yet as Russia has retained its nuclear second-strike capability equivalent to that of the US, is honing its military skills, and possesses vast energy resources, its cooperation is crucial in resolving many crises. The EU's energy future, meanwhile, is compromised by its resource scarcity and by its policies. Resource extraction, as well as nuclear energy, is politically opposed in most places. Instead, the EU pursues ambitious renewable energy policies. Due to the state's support of

renewables they draw increasing investment, while there are no feasible technical solutions for many problems, the largest of them being energy storage. Even so, the road to a more ambitious "energy union" is also blocked politically in the EU. Therefore, Europe's energy future will be increasingly dependent on foreign supplies, and Russia is likely to stay the largest supplier.

The Black Sea region will get a key importance as an energy transit region as a result, albeit with widely varying results for the different countries. Thus, the current tensions are reflected in the region and particularly in the energy field and strengthen some actors over others. In the current situation, the strengthening of Turkey is particularly noticeable.

In the Black Sea region, Ukraine has been the party most heavily affected in a negative way, as laid out in detail in Julia Nanay's article. The country's plans to become a significant gas player on its own right are looking bleak, not least due to the on-going war in the Donbas, while the transit of natural gas from Russia to the EU and Turkey might not continue beyond the current decade. This is all the more true as Gazprom has just signed another memorandum with EU gas companies, envisaging the doubling of capacity of the existing Nord Stream pipeline in the Baltic Sea. This move might be a mere bargaining chip. But in any case, if Ukraine is to keep its independence from Russia, it will need a strong energy commitment from the EU.

However, Russia's moves are increasing stress on other actors as well, such as the parties involved in the Southern Gas Corridor that is intended to tie Azerbaijan to the EU gas market. While work on the pipelines of this corridor has started, Russia's new gas pipeline "Turkish Stream" might yet result in rendering

Azerbaijani gas unprofitable, as argued by John Roberts in his article. One might add that Russia's increasing military profile in Georgia's breakaway republics Abkhazia and South Ossetia, as well as the brewing conflict around Nagorno Karabakh will also increase the geopolitical premium on the Southern Gas Corridor further.

A winner of the current standoff is Turkey, as argued in particular by Ayla Gürel and Harry Tzimitras in this volume. Turkey not only gains in terms of infrastructure connections and gas price discounts from Russia. The stronger Turkish-Russian relationship is also reverberating in the Mediterranean: traditional Russian support for Greek Cypriots has been strongly muted by the new geopolitical situation, as Gürel and Tzimitras write. In general, the higher dependence of Russia on Turkey to realize its energy plans in the Black Sea region might also enable the country to emerge as a stronger regional leader. Taking into account Turkey's strong criticism of Russia's annexation and its policies on Crimea, Turkey might well be able to strengthen its position as an effective mediator in the region. Meanwhile, the EU seems to be losing out from Russia's current rapprochement with China as well: last year already saw the signing of a contract for gas deliveries to China from Eastern Siberian fields with a value of USD 400 Billion over 30 years. Since the gas will come from faraway fields in Eastern Siberia, this particular deal need not be of concern for European consumers. Yet in January 2015 Russia also signed a memorandum to deliver gas to China via a Western route that would enable it to swing supplies between China and European customers. There is still no deal on pricing yet, but it is likely to be quite favorable to China.

The current lose-lose situation is bound to

prevail on the continent, as there seems to be no easy way out. While it is clear that the situation is not beneficial for the EU and Russia alike, the stakes are very high. A solution would presuppose a transformation of the identities of at least one of the actors. Meeting Russia's request for a Europe of great powers would go against the EU and its achievements of the past 25 years. At the same time, the EU is going through perhaps its worst crisis in history and is not a highly popular model amongst its own population. There are rarely any pro-European movements left in society. Russia's chauvinist identity of a great power that has to assert itself against a "soft Versailles" and constant threats flowing from the US, instead, is currently highly popular amongst the population. The continuation of this success is not guaranteed, but "patriotism" has so far ironed out the economic wrinkles. The best to be hoped for currently is that the continuation of the current confrontation will be relatively peaceful and not spiral out of control militarily, while an adjustment of identities and policies will occur in the medium term. In the meantime, energy flows will most likely continue as before, but the uncertainties will grow.

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