

THE EUROPEAN PROJECT AND GEOPOLITICS OF ENERGY

Even though the European project is not “complete” yet, from a geopolitical point of view the EU has by and large been a success, particularly in the economic field. However, the Eurozone has been recently experiencing negative growth, also fuelled by an increase in energy prices. This outcome has been partially caused by Russia’s growing weight, as the EU’s main energy supplier, on the EU’s geopolitical and economic stability. In order to offset Russian power and influence on the EU, Turkey and Ukraine should be considered as important partners in the EU’s energy policy. This could also be an important step towards the finalization of the “European project” in general.

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The concept of European Community which came about almost 55 years ago included just a few chosen states. The current European Union (EU) went significantly beyond its initial concept, enabling us to consider a wider Europe not only in terms of “communization”, but as a European Project aimed to create a real Union of all European nations. So, if we look at the map of Europe and Eurasia now it is clear that the European Project has not been completed yet. In terms of GDP and overall economic growth though, it is an unquestionable success, despite the problems in some of the EU member states.

Some analysts claim that the current economic crisis in Europe is creating a “Berlin wall” in terms of future expansion (with the exception of the Balkans) and that the end of the European Project seems to be very close. But from a strategic point of view this approach is fatally wrong. The European Project was about economic and cultural integration, and was aimed at making good old Europe competitive in the contemporary world. A market of 500 million people, a common currency, free movement of goods, capital and people were designed to make Europe attractive for business and people and –simply put– globally competitive in the run with the U.S. and China. The disappearance of the issue of the “European identity” of the newcomers from the EU’s official agenda is a positive step forward. In fact, it is not an “identity” or language or religion that is important. The EU states have to focus on economic competitiveness if they want to overcome the current crisis.

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For the first time in 30 months the Eurozone has experienced negative growth. The Italian economy contracted by 0.7 percent in the last quarter of 2011 while Germany’s economy contracted by 0.2 in the same period. A record of recession by seven percent took place in Greece. Obviously, Europe needs those who are ready and willing to work, not (only) to consume. And it needs

a comprehensive and well-designed energy policy. Prices of energy resources contribute significantly to inflation and political mood in most European capitals and seriously affect the investors’ mood.

It is difficult to imagine how Europe is going to overcome the crisis and to compete with the U.S. economy if current prices for natural gas on the internal U.S. market have dropped down to 88 U.S. dollars per 1000 cubic meters, while European

consumers are paying five to six times more. No wonder that within a decade the issue of availability of energy resources and stable supply of both oil and gas has become more important than ever before. And the resurgence of Russia as a global player on the world energy markets has brought about new issues in the discussions among economists and in the traditional dialogue between East and West.

Nowadays Russia's energy policy can affect the economic and political stability of many European countries, including Russia's immediate neighbors, Eastern and Central European members of the EU and NATO. So far, the EU has failed to develop and pursue a real common energy policy, raising questions about whether the individual EU members would rather cherish common goals or pursue their selfish interests. Gazprom's games concerning "South Stream" –are becoming quite transparent when Bulgaria is being put in a competitive position *vis-à-vis* Romania as an entry point for this pipeline running underwater of the Black Sea from Russia through Turkish territorial waters. Candidate countries like Serbia and Croatia are negotiating individual agreements with the monopolistic Gazprom, establishing future dependence on Russian energy and foreign policy. Those negotiations serve as the best examples of a zero-sum approach. Unprecedented pressure from Gazprom on Ukraine to transfer its gas transportation system to the monopoly, and Gazprom's tough position on gas prices for Ukraine and Turkey completes the picture. In light of such actions, the pursuing of an effective energy policy in Europe is a challenge which should be taken very seriously.

The idea to use hydrocarbons as a foreign policy tool is neither new nor particularly genius. The last century featured a series of attempts to impose political and economic pressure through the disruption of oil flow to world markets. All such attempts failed to establish a "reign of producers", although they did create economic damage and conflicts – both political and military. Why such initiatives failed can be explained by several reasons. First, the U.S. and other major consumers were directly affected and therefore exerted considerable effort to cope with the oil crisis one way or another. Second, the Soviet Union did not participate in the oil blockage, at least not directly. Third, it was all about oil – a global commodity that could be delivered through diversified routes and means and stored onshore easily. At that time natural gas supply did not constitute an issue of concern since Liquefied Natural Gas (LNG) was largely non-existent, while land pipelines were safely running from not-so-politically motivated producers to well-paying consumers always situated in the same geographical terrains and markets. But times have dramatically changed since then.

The new century has brought a new reality. Gas, not oil, appears to be the main "energy weapon", affecting U.S. allies, though not the U.S. itself, and nowadays

Russia is the leading player in this game. Problems started with the rapid transformation of Russia into the major gas producer and supplier in Eurasia. The new leadership of the Russian Federation came to power and turned out to be very serious about taking the country back to the club of global powers. It is important to understand their reasons. It was not only because President Putin and his team regarded Russia as the successor to the Soviet Union, they also see Russia as a rightful and adequate successor of the Byzantine Empire, the next “Rome”. Hence, when dealing with Russia a Byzantine-like policy is to be expected when it comes to both domestic and foreign policy issues. Byzantine rulers were famous for solving their own problems at somebody else’s expenses, and when it comes to one of the major pillars of the modern Russian State –namely the energy resources– such a policy could be very painful.

In 2003 the “Energy Strategy of Russian Federation for the Period of up to 2020” was adopted. At its very beginning this document states that: “Russia possesses great energy resources [...] which is the basis of economic development and the instrument for carrying out internal and external policy.”¹ To support this statement, the Russian Ministry of Foreign Affairs and Gazprom agreed to help each other in promoting each other’s interests in the international arena. Such cooperation is desirable in every country and it is even necessary for Foreign Service officers to be involved in promoting particular national economic interests. It is much more impressive that in the Russian case it was not diplomats but Gazprom who was going to promote foreign policy goals.

The Russian leadership has repeatedly highlighted the importance of Russia’s raw materials in international affairs. More than once the leaders of Russia gave the message encapsulated in this quote:

“Russia enjoys vast energy and mineral resources which serve as a base to develop its economy, as an instrument to implement domestic and foreign policy. The role of the country on international energy markets determines, in many ways, its geopolitical influence.”²

If Russia can determine its geopolitical influence with its energy resources, this will be the first case in history. None of the major hydrocarbon producer states in the Persian Gulf or countries in Africa or South America has managed to become globally influential. European producers like Great Britain, the Netherlands and Norway are influential not because of their gas and oil deposits, but because of their technology-based economies and strong societies based on democratic values. Indeed, there has never been any prosperous democratic country in the world whose wealth and geopolitical stand were based on oil and gas only. Rather, quite

¹ The Decree of the Government of Russian Federation N 1234, “On the Energy Strategy of Russian Federation on the Period to 2020”, *Rossiskaya Gazeta*, 30 September 2003, <http://www.rg.ru/2003/09/30/energeticheskajastrategija.html>

² “The Jamestown Foundation”, *Eurasia Daily Monitor*, Vol. 6, No. 95, (May 2009), <http://www.jamestown.org/>

the opposite – the cheaper resources are, the more effort a nation has to make to achieve prosperity, and this is the only path that leads to a strong economy. Japan, Israel, and Turkey are among the countries that serve as an example of how to build geopolitical value without owning energy resources.

In recent years the Russian Federation has become hostage to its own energy policy. Gazprom has moved aggressively forward, buying every energy asset available in Europe and developing both realistic and surrealistic pipeline projects as it tries to cement its position as EU's main gas supplier. Backed by strong political support, Gazprom succeeded in many European countries. Those were among the first who felt Gazprom's inability to deliver its promises during the severe 2011/2012 winter: indeed, Gazprom simply stopped supplying the scheduled volumes of gas even to its ally, Italy. The reason for Gazprom not supplying the requested volumes of gas is very simple: the lack of capacity. Gazprom has not made any substantial new investments in new sources of gas for the past two decades.

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On 12 May 2009 President Medvedev approved the latest version of the “National Security Strategy of the Russian Federation up to 2020.”³ This document outlines the basic ideas of the current Russian leadership regarding the state of the world and Russia's place in it. It addresses these concerns within the context of Russian national interests, and by doing so it opens a window into the thinking of the political elite on such an important issue as the use of natural resources –above all hydrocarbon reserves– as a foreign policy tool.

The well-known views of the Russian leadership were incorporated into the security doctrine in a roundabout way, nonetheless clearly.⁴ Paragraph 9 of the document states: “The change from block confrontation to the principles of multi-vector diplomacy and the [natural] resources potential of Russia, along with the pragmatic policies of using them, has expanded the possibilities of the Russian Federation to strengthen its influence on the world arena.” In other words, Russia's energy resources were once again officially acknowledged to be tools of Russian foreign policy. There was apparently no further reason for denying the obvious.

³ The Security Council of Russian Federation, “The National Security Strategy of Russian Federation”, 12 May 2009, Decree of the RF President No. 537, <http://www.scrf.gov.ru/documents/99.html>

⁴ “The Jamestown Foundation”, *Eurasia Daily Monitor*, Vol. 6, No. 95, (May 2009), www.jamestown.org

Paragraph 11 lists the geopolitical battlegrounds where Russia believes the future conflicts over energy will arise – and where, by definition, its national interests lie: “The attention of international politics in the long-term will be concentrated on controlling the sources of energy resources in the Middle East, on the shelf of the Barents Sea and other parts of the Arctic, in the Caspian Basin and in Central Asia.”

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The document assumes a conflict-based scenario of future rivalry over energy resources. Paragraph 12 says: “In case of a competitive struggle for resources it is not impossible to discount that it might be resolved by a decision to use military might. The existing balance of forces on the borders of the Russian Federation and its allies can be changed.” But who will supposedly change the balance?

Paragraph 47 continues underlining the linkage between energy and Russian national security: “The sources of danger to national security could become such factors as the crisis of world and regional financial-banking systems, the intensification of the battle over natural resources, among them energy, water and consumer goods.”

Actually, as dramatic as the new Russian National Security Strategy appears, it does not differ substantially from the previous doctrine. Russian security policy was always betting heavily on natural resources as an instrument to strengthen Russia’s control of its neighborhood. In recent years the gas supplies throughout the Central and East European gas markets became its ultimate tool to maintain a “healthy” zone of interests in Europe. Unfortunately, some influential EU member states have apparently reconciled themselves to the possibility of long-term Russian control over their economic well-being in order to remain on good terms with Moscow – and maintain the access to its gas pipelines. The question is whether such a policy will help strengthen the competitiveness of Europe.

It should be mentioned also that the European Commission took some important steps in the past couple of years toward the right direction. The Third Energy package adopted by the European Commission on 19 September 2007 is very important in this regard, as is the EU-granted support to the Southern Energy Corridor (while turning a blind eye to the Russia-advocated South Stream).

The Netherlands, France, Poland, and Lithuania moved forward to create new Liquefied Natural Gas (LNG) facilities to ease dependence on Russian gas. Shale gas revolution in the U.S. helped to increase availability of LNG on the spot market, reducing the price of gas delivered by pipelines. Gazprom was forced to renegotiate prices embedded in the long-term contracts with major European consumers, which helped calm public and industrial concern in many European capitals.

Turkey, as well as Ukraine, is an indispensable part of the European Project as a whole and of the European energy policy in particular. The gas transportation system that carries a vast part of energy export of Russia to Europe is Ukrainian, and Turkey aims at becoming the main transit route for Caspian-born hydrocarbons from land-locked Turkmenistan and Azerbaijan to European consumers in the next few years. The Southern Corridor as well as the modernization of the Ukrainian transit system will seriously contribute to the future of the European Project. For the European Project to be completed, proper energy security and safety considerations are important, and the participation of Turkey and Ukraine is crucial.