

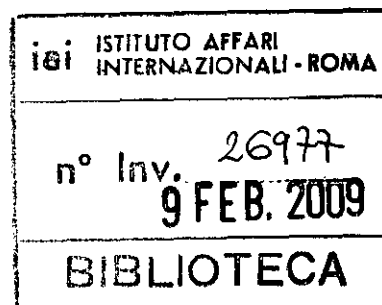
**THE CAUCASUS AND BLACK SEA REGION:  
EUROPEAN NEIGHBOURHOOD POLICY (ENP) AND BEYOND**

Istituto affari internazionali (IAI)

Bulgarian European Community Studies Association (BECSA)

Rome, 6-7/II/2009

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- b. List of participants
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- 2. Tidal waves upon a sea of no tides. The prospect for a regional approach to furthering security and economic development in the Black Sea area / Krassimir Y. Nikolov (6 p.)
- ③. Caucasus and Black Sea region cooperation: piecing together a regional "Euro-Eurasian" energy security link / Christof van Agt (6 p.)





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**WORK PACKAGE VII-TEAM 25**

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**The Caucasus and Black Sea region: European  
Neighbourhood Policy (ENP) and beyond**

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*working language: English*

An EU- CONSENT Conference  
organized by the Istituto Affari Internazionali (IAI), Rome,  
and the Bulgarian European Community Studies Association (BECSA), Sofia

*with the strategic partnership of the Compagnia di San Paolo*

**6-7 FEBRUARY 2009  
ROME**

**PALAZZO RONDININI  
Via del Corso, 518**

**PROGRAMME**

*We thank Antonveneta Immobiliare GruppoMontePaschi for kindly providing the conference room*

**Friday, February 6<sup>th</sup>**

14:00 – 14:30

Welcome coffee

14:30 – 14:45

Welcome address

**Gianni Bonvicini**, Executive Vice President, Istituto Affari Internazionali (IAI), Rome

**Krassimir Nikolov**, Secretary-General, BECSA, Sofia

14.45 – 15.00

Introductory note

**Giovanni Cremonini**, Policy Officer, ENP General Co-ordination Unit, DG Relex, European Commission, Brussels

15.00 – 16:45

First session

*What role for the EU in Southern Caucasus? Between the ENP and conflict resolution*

Chair:

**Geoffrey Edwards**, Reader in European Studies, Centre of International Studies, University of Cambridge

Paper giver:

**Burcu Gültekin-Punsmann**, Research Associate, Center for European Studies, Middle East Technical University, Ankara

Respondents:

- **Giorgio Aliberti**, European Correspondent, Head of Unit FSP/ESDP, Italian Ministry of Foreign Affairs, Rome
- **Nicu Popescu**, Research Fellow, European Council for Foreign Relations (ECFR), London
- **Gwendolyn Sasse**, University Reader in the Comparative Politics of Central and Eastern Europe, University of Oxford

16:45 – 17:00

*Coffee break*

17:00 – 18:30

Second session

*A Broader Regional Perspective: Promoting Security and Economic Development in the Southern Caucasus and Black Sea Region*

Chair:

**Paul Luif**, Permanent Fellow, OIHP, Vienna

Paper giver:

**Krassimir Nikolov**, Secretary General, BECSA, Sofia

Respondents:

- **Mustafa Aydin**, Professor of International Relations, Economy and Technology University of Ankara
- **Barbara Lippert**, Deputy Director, Institute für Europäische Politik, Berlin
- **Fabrizio Tassinari**, Senior Fellow, Danish Institute of International Studies, Copenhagen

20:00 Dinner with speech by **Peter Semneby**, EU Special Representative for the South Caucasus

Saturday, February 7<sup>th</sup>

10:00 – 12:00 **Third session/ meeting of the cross-cutting working group on “Widening: Enlargement/ENP/’Soft Power”**  
*The energy security challenge: the linkage between Southern Caucasus and Black Sea region*

**Chair:** **Maria Karasinksa Fendler**, Research Director, European Institute, Lodz

**Paper giver:** **Christof van Agt**, Senior Researcher, International Energy Programme, Clingendael, The Hague

**Respondents:**

- **Iain Begg**, Professorial Research Fellow, European Institute, London School of Economics
- **Serena Giusti**, Associate Research Fellow, Program on Russia and EU Eastern Neighbours, Institute for International Political Studies (ISPI), Milan
- **Stefano Silvestri**, President, Istituto Affari Internazionali (IAI), Rome
- **Lúcio Mauro Vinhas de Souza**, Head, Russia/Belarus Desk, DG-ECFIN, European Commission, Brussels

12:00 – 12:15 **Concluding remarks**

**Ettore Greco**, Director, Istituto Affari Internazionali (IAI), Rome  
**Michele Comelli**, Senior Fellow, Istituto Affari Internazionali (IAI), Rome  
**Krassimir Nikolov**, Secretary-General, BECSA, Sofia

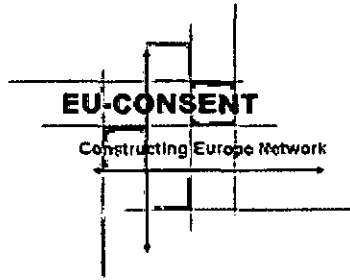
12:15 – 13.15 **Buffet Lunch**

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**LIST OF PARTICIPANTS**

*We thank Antonveneta Immobiliare GruppoMontePaschi for kindly providing the conference room*

<b>Christof van Agt</b>	Senior Researcher, International Energy Programme, Clingendael, The Hague
<b>Giorgio Aliberti</b>	European Correspondent, Head of Unit CFSP/ESDP, Italian Ministry of Foreign Affairs, Rome
<b>Roberto Aliboni</b>	Vice President, Istituto Affari Internazionali (IAI), Rome
<b>Mustafa Aydin</b>	Professor of international relations, Economy and Technology University of Ankara (TOBB-ETU), Ankara
<b>Iain Begg</b>	Professorial Research Fellow, European Institute, London School of Economics (LSE)
<b>Antonello Biagini</b>	Professor/Pro-Rector, "Sapienza" University of Rome
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<b>Serena Giusti</b>	Associate Research Fellow, Program on Russia and EU Eastern Neighbours, Institute for International Political Studies (ISPI), Milan

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<b>Gwendolyn Sasse</b>	University Reader in the Comparative Politics of Central and Eastern Europe, University of Oxford
<b>Peter Semneby</b>	EU Special Representative for the South Caucasus, Council of the European Union, Brussels
<b>Stefano Silvestri</b>	President, Istituto Affari Internazionali (IAI), Rome
<b>Fabrizio Tassinari</b>	Senior Fellow, Danish Institute of International Studies, Copenhagen, and Associate Research Fellow, CEPS, Brussels
<b>Lúcio Mauro Vinhas de Souza</b>	Head, Russia/Belarus Desk, DG-ECFIN, European Commission, Brussels
<b>Benedetta Voltolini</b>	Intern, Istituto Affari Internazionali (IAI), Rome



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**OUTLINE**

**WHAT ROLE FOR THE EU IN SOUTH CAUCASUS? BETWEEN  
ENP AND CONFLICT RESOLUTION**

By

**BURCU GÜLTEKIN PUNSMANN**

*Research Associate at METU-CES, Ankara, and  
partner of Caucasus Business & Development Network (International Alert)*

The conflict in Georgia in August 2008 confirmed how vulnerable they can be, and how the EU's security begins outside our borders. The war and its consequences are most likely not to remain within Georgia's boundaries. The role of the mediator has fallen to the EU, and the task to redesign the European order to include Russia has emerged. Successive EU enlargements have indeed brought these countries closer to the EU and their security, stability and prosperity increasingly impact on the EU's.

The European Council of 19/20 June 2008 invited the Commission to prepare a proposal for an "Eastern Partnership" (EaP), emphasising the need for a differentiated approach respecting the character of the ENP as a single and coherent policy framework. The Extraordinary European Council of 1st September 2008 asked for this work to be accelerated, responding to the need for a clearer signal of EU commitment following the conflict in Georgia and its broader repercussions.

### ***1. The Eastern Partnership and conflict resolution in South Caucasus***

The Georgian-Russian crisis served as a catalyst for the partnership proposal, which was initially presented by Poland and Sweden last May. The EU's vision for expanded cooperation was contained in a blueprint document distributed in early December by the European Commission. The report deals with the three Caucasus states, along with Ukraine, Belarus and Moldova. The so-called Eastern Partnership Proposal is expected to be formally adopted during a summit meeting of the EU and the partner countries in March 2009.

The issues of security and stability will be handled by the thematic platform on 'Democracy, good governance and stability'. The European Commission has proposed that efforts mainly focused on:

- Cooperation on specific CFSP and ESDP issues, including the participation of partner countries in ESDP missions and exercises, and coordination of diplomatic activities, the enhancement of security-related early-warning system with particular focus on conflict areas.
- Contacts among Civil Society Organisations to improve their capacity for advocacy and promote confidence building in areas of protracted conflict.

### ***2. The European Union Monitoring Mission (EUMM) in Georgia : tool for confidence-building and mediation***

The quick establishment of an autonomous civilian monitoring mission in Georgia allows the EU to be present on the field in Georgia. This represents a clear advantage in a context when the continuation of the OSCE mission put into question. In December 2008, Russia has blocked extension of the 16-year-old OSCE mission's mandate in Georgia, as a result the mission is currently undertaking formal procedures for closure. Russia wants not simply a separate field office of OSCE in Tskhinvali, but an independent OSCE mission in the breakaway region with initial duration of six months with possibility of further prolongation.

The mission was deployed on 1 October, in accordance with the arrangements set out in the Agreement of 8 September. The European Union Monitoring Mission (EUMM) in Georgia is an autonomous mission led by the EU under the European security and defence policy. EUMM's work goes beyond the mere implementation of the peace agreements. Its presence in Georgia is to help normalize and stabilize the situation on the ground. EUMM reports on the human rights situation, the respect of international humanitarian law, rule of law and security situation, as well as the return of internally displaced persons and refugees.

The EUMM should be used as a tool for confidence building among the people on both sides of the administrative boundaries. The monitors should be encouraged to get into relations with the local authorities and population. Specific local actions can help the EU to actively pursue its role as a mediator between the parties.

### ***3. The need to support the initiative generated within the region***

According to the EC communication the Eastern Partnership will draw on other regional and multilateral cooperation initiatives. The EU can best support efforts at conflict resolution by fostering the regional dimension of its initiatives. The European Union has the transformative power to treat these countries as a single region.

The Caucasus, once a hub of communications, became a cul-de-sac with the breakdown of traditional transportation routes. For the last 15 years the region has been characterized by conflicts, divides, blockades and trade restrictions. The south Caucasus is a delicate mechanism in which the malfunctioning of one part affects what is going on in the others. The August war has been a wake-up call for the countries of the region. Hopefully this will lead to regional accountability. Countries of the region have started assessing the costs of the conflicts.

The Caucasus Stability and Cooperation Platform announced in the context of increasing polarization and harsh rhetoric allowed to maintain the channels of communication open and dialogue with Russia. The announcement came in the context of intense Turkish shuttle diplomacy in the region. Although little has been known on the substance of the initiative, Turkey has started being perceived as a country promoting the need for reconciliation and a peacemaker. The explicit linkage between regional stability and conflict resolution is an innovation. The Caucasus Platform aims at developing a functional method of finding solutions to the problems within the region and is based on the acknowledgment that tensions stem from a profound lack of confidence among states of the region. It doesn't intend to become an alternative to any institution, mechanism or any international organization. It has the goal, basic and ambitious at once, to facilitate the communication and efforts at problem solving by the countries of the region. The regional responsibility and sense of ownership from insiders has been crucially missing in the past.

While developing its capacity in conflict resolution in South Caucasus, the EU should look at ways to coordinate its action with this intra-regional initiative. EU-funded cross-border programmes and projects aimed at resuming dialogue, building confidence between the parties and tackling regional problems can find a favorable ground within this new regional initiative.

More precisely, the EU pre-accession assistance to Turkey and the European Neighbourhood and Partnership Instrument for Armenia should devote significant attention to the rehabilitation of transport and tourist infrastructure in the Turkish-Armenian border area. EU funds could be channelled into joint collaborative projects involving Turkish and Armenian academic and scientific institutions, as well as projects researching the Turkish-Armenian common cultural heritage.

### ***4. Integration rather than isolation***

As of July 2008, the European Commission was providing substantial aid to both of Georgia's conflict regions. In South Ossetia, the EC has been the most significant donor, with different aspects of support totalling almost Euro 10 million over the past decade. The Georgian government has already asked the international donor's community to freeze all rehabilitation and

development programs in the area, offering to review any of them and jointly assess their future applicability. Humanitarian assistance to Abkhazia and South Ossetia, such as funded by ECHO, continues to be underway. A policy of isolation and a ban on international engagement would only lead to furthering the reality after Russia's recognition. It would mean that Abkhazia's and South Ossetia's populations will have no alternative choice.

It is important for the EU to continue with aid and conflict resolution engagement in Abkhazia and South Ossetia representatives from Sukhumi and Tskhinvali, in a neutral capacity, should be present at the donor's conference and Geneva consultations. Full bans on issuing visas to Abkhaz and Ossetian holders of Russian passports to Schengen countries and is counterproductive and further isolate them.

Contrary to the situation in Abkhazia, South Ossetia and Transnistria, the EU has not supported any projects in Nagorno-Karabakh. Through the Instrument for Stability the EU can support concrete efforts on the ground towards the peaceful settlement of the conflict. Some actions implemented with the joint participation of Armenians of Nagorno-Karabakh and Azerbaijanis could, if well explained, have the approval of Azerbaijan. These projects could focus on environmental issues.

***5. On a bilateral level, a more pronounced focus on the field on the Priority Area 1 of the ENP Action Plans will contribute to effort at conflict resolution and political integration***

The strengthening of the political conditionality would increase the relevance of the EU assistance in meeting the priorities of the ENP Action Plan. For EU conditions and conditionalities to be effective, there must be a degree of trust and dependable expectations between the EU and the partner country.

Democracy should be treated as a horizontal issue. Future assessments of the EC's interventions should be carried out in relation to democracy and their design should if necessary be adjusted so as to enhance their contribution in this respect. Regional (in the sense of sub-national) development projects could also make a contribution to democratic consolidation if they succeed in promoting a participatory approach to decision-making at regional level, and even more so if the decentralization policy leads to elected regional governments.

The strengthening of government institutions and their democratic functioning can lead to their further empowerment at the expense of civil society organisations. This is particularly worrisome in a context where the establishment of a constructive dialogue between the government, the opposition and the civil society is essential for the strengthening pluralism as the core element of democracy. A readjustment in favour of civil society organisations would increase the efficiency of the actions carried on in the field of human rights and the rule of law. The next annual programming document should target directly the Priority Area 1 and acknowledge the importance of the civil society organizations.

The establishment of mechanisms for civil society consultation, and the setting-up of a human rights sub-committee, would help to foster the culture of dialogue and consensus between political and civil society actors, with the inclusion of civil society on the agenda of political dialogue between the EU and the government and in domestic policy processes.

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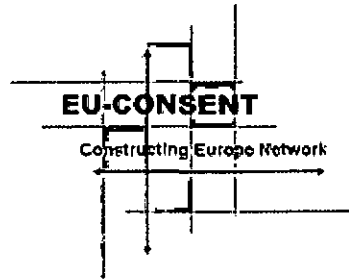
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**OUTLINE**

**TIDAL WAVES UPON A SEA OF NO TIDES  
(THE PROSPECT FOR A REGIONAL APPROACH  
TO FURTHERING SECURITY AND ECONOMIC DEVELOPMENT  
IN THE BLACK SEA AREA)**

By

**KRASSIMIR Y. NIKOLOV**

*Secretary General, BECSA, Sofia*

## 1. THE RECORD SO FAR

### **Bottom-up:**

After the fall of the Berlin wall – long but weak tradition of endogenous initiatives aimed at regional cooperation by means of the creation of the BSEC and a cluster of sectoral initiatives in the field of environment, transport, energy, disaster relief, etc. (the Black Sea Commission, Inogate / the Baku initiative, Traseca, Blackseafor, et al.)

Main achievements:

- **Institutions:** building up an institutional infrastructure in the region while “starting from scratch” – around the BSEC organisation (including a plethora of auxiliary and/or associated bodies), as well as along the lines of sectoral cooperation;
- **Policy scope:** expanding the policy coverage of regional cooperation to include the quasi-totality of policy fields (excluding hard security);
- **The assumption of cooperation:** generating and gradually strengthening the “habit” of cooperation among countries in the region and stakeholders therein, establishing communication channels and networks by promoting sectoral policy dialogues and political dialogue in a regional setting in a situation where bilateral communication channels might be blocked;
- **Opening up the region:** giving a positive response to globalisation and European unification, intensifying interaction of countries in the area with regional and global actors, placing the Black Sea area in broader contexts by bridging it to Europe / the EU, Central Asia, the Middle East and potentially creating a level playing field in IR.

Main shortcomings:

- **Hard security issues:** bilateral and multilateral cooperation in the area has been unable to fill-in the main policy caveat – dealing with hard security issues and coping with the “frozen conflicts” generated by the breakdown of the Soviet Union;
- **Low capacity to deliver:** in most policy fields across the board, regional cooperation efforts have failed to deliver concrete and tangible results on specific policy issues that would have the capacity of fostering the legitimacy of the institutional infrastructure; the expansion of BSEC’s portfolio in terms of policy fields has made it the “jack of all trade and master of none”; given the weak regional identity, such low effectiveness has missed the opportunity of having durable region-building effects;

### **Top-down:**

The significance of the Black Sea area has increased in the foreign policy strategies of major Western global players – the US and the EU.

- **USA:** the Wider Black Sea in the US foreign policy strategies in the 1990s, mainly in the context of democratisation programmes and in a geopolitical setting as a bridge between the Wider Middle East and Central Asia; de-prioritisation and relative US withdrawal from the region after the start of the Iraq war;
- **The EU:** the rise of importance of the region for the EU:
  - (i) due to its Eastern enlargement and the accession of Bulgaria and Romania and
  - (ii) due to the failure of its constitution-building process in 2005 after the negative French and Dutch referenda (ref.: Emerson / “The Black Sea as epicentre...”).

### **The role of local actors:**

The general analysis of the role of local actors can be placed in the search for (and the absence of) a “benevolent hegemon” (regimes concept) among the countries around the Black Sea, which would play a leadership role as a result of combining

- (i) capacities and motivation, and
- (ii) recognition / legitimation by other actors.



- **regional/traditional powers (Russia, Turkey):** characteristics of their role; the contrasting visions of regional and global/Western actors – closing versus opening the Black Sea area;
- **countries in transition from the former Soviet Union (UA, MD, GE, AM, AZ):** preoccupation with a loaded internal transformation agenda, limited capabilities; in the case of Ukraine, even though the existence of some capabilities can be taken into account, its leadership role is undermined by its own unwillingness to prioritize Black Sea regional cooperation higher than its national strategy of EU accession;
- **EU member states from the region (GR, RO, BG):** unique role as “go-betweens” both in the EU and in the region (in most regional cooperation formats and, most of all, in BSEC); however, they have no positive record of bilateral cooperation within Black Sea regional cooperation structures before 2007, nor in other frameworks – e.g. between the three countries on South East European issues, or between BG and RO in the context of the Eastern enlargement (exception: the symbolism of triangular BG-RO-BG presidential meetings); all three countries have attempted, one after the other, to play a certain leadership role in a Black Sea framework in the following sequence: GR (2004-2006), RO (2005-2006), BG (2007); the result of limited coalition-building efforts is that they chose to promote three different models of EU involvement in Black Sea regional cooperation:

model	promoter	supporter	Event	Timing
Inter-institutional relationship	Greece	Russia	EU-BSEC foreign ministers meeting	25 June 2007 / Istanbul (unsuccessful); 14 Feb. 2008 / Kiev
Political umbrella	Romania	USA	Black Sea forum	5 June 2006 / Bucharest (limited success)
Network of networks	Bulgaria	Germany	Sofia conference	18-19 November 2007 / Sofia

### **The Black Sea Synergy (BSS):**

The Commission’s eclecticism in terms of:

- policy scope: to include items from
  - (i) a transformational agenda focusing on economic and political reforms and a value-oriented discourse (importance of democracy, human rights, rule of law, good governance),
  - (ii) technical cooperation agenda selecting policy field capable of producing regional synergies (transport, environment, energy, soft-security, “human dimension”, etc.),
  - (iii) hard security agenda (although deprived of a realistic capacity to solve “frozen conflicts”),
  - (iv) political dialogue;
- overall format of relations and the EU’s involvement in the region – standing in-between the above three models: solidly rooted in a “network of networks”, adopting a very light and irregular political dialogue options, giving BSEC priority but not the role of an exclusive interlocutor;

The strategic meanings of the BSS:

- completing the mosaic of regional cooperation initiatives on the EU’s periphery – after the Euro-Med partnership / Barcelona Process, the Northern Dimension (I and II), the Stability Pact for South Eastern Europe;
- balancing the “concentric circles” of EU policy to its periphery (“hub-and-spoke” bilateral relations, structured by the ENP) with the “Olympic circles” of regional cooperation;
- distancing the prospects for EU accession for partners from the ENP-East by replacing a dynamic bilateral ENP relationship by a static regional cooperation framework.

### **Reaction to the BSS:**

- **optimists (BG, RO, GR):** aware of the potential opening for them to enhance their own role as both EU members and Black Sea players; eager to push forward the practical implementation of the synergy but disposing of an uneven (political, economic and technical) capacity to do so;
- **cautious optimists (MD, GE, AM, AZ):** clearly placed in the category of “policy takers”, they await a clearer relationship between the ENP and the Synergy;
- **cautious pessimists (TR, RU):** for different reasons, they lack enthusiasm for the Synergy but take part in it nonetheless; Turkey’s preoccupations of losing its pioneering role in its pet-project (the BSEC) and of being derailed from its EU accession strategy; Russia’s anxiety of “losing control” and the capacity to veto BSEC developments, if necessary, and the realisation of its inability to stop the EU’s expansive involvement in the region – hence its “Trotskyist” position in Kiev (14 Feb 2008);
- **sceptical pragmatist (UA):** since bilateral relations with the EU, and the goal of accession, still occupy a central place in its national foreign policy agenda, Ukraine maintains its scepticism towards Black Sea regional cooperation, but does not mind participation in specific initiatives/projects; such pragmatic approach was strengthened by circumstances (Ukraine’s BSEC chairmanship) when the country had to contribute (*noblesse oblige*) to a successful launch of the BSS in Kiev (14 Feb 2008).

## **2. FUTURE PROSPECTS**

### **“The Black Sea knows no tides.”**

Little dynamism, slow progress on the ground: Despite efforts to conceptualise Black Sea regional cooperation with the participation of the EU, which resulted in the BSS, and its political launch notwithstanding, the wave of enthusiasm seems to have subsided and its practical implementation is not marked by particular dynamism. Specific projects/initiatives (even those that had come from BSEC prior to the launch of BSS, such as the “ring road”) see a slow take-off. Therefore, the BSS has missed the chance of quickly producing success stories, has failed to combat its main “enemy” – time, and risks to go “out of fashion”.

Reasons:

- Insufficient leadership capacities even in the group of “optimists” (RO, BG): BSS implementation is no longer in the hands of diplomats who had worked on its design and political launch, but in the hands of policy makers and top administrators in line ministries who have to propose realistic projects for approval and application. Insufficient administrative capacity coupled with difficulties in effectively participating in internal EU policies (absorbing structural funds, applying the *acquis* and completing JHA reform) diminishes the capability of new EU member states to translate policy strategies into concrete programmes and projects.
- Insufficient commitment of the EU/Commission: modest input of the Commission in terms of administrative and financial resources in the implementation of the BSS; in the report on the first year of BSS (June 2008), the Commission calls for a leadership role to be played by countries from the region or regional organisations on a policy-by-policy basis but shies away from a leadership role for itself.
- Unfavourable political environment and competing political projects challenging the implementation and further development of BSS.

### **High tide / low tide: waves thrown upon the region:**

The BSS, as a major regional cooperation format involving the EU, as well as other formats, such as BSEC, have been subjected to the adverse effects of a negative political environment and the launch of competing political projects influencing future prospects for Black Sea regional cooperation.

### **High tide:**

- **The “de-freezing” of conflicts:** Years of EU neglect have resulted in the Georgian crisis of August 2008, which has emphasized the basic fact that the existence of unresolved conflicts makes the foundations of any attempt at regional cooperation weak and unstable; it demonstrated the limited credibility of reliance on “low politics” (cooperation in economic and other fields, including “soft security”) as a means of bypassing “high politics”.
- **The financial crisis:** While it is becoming more and more certain that the financial and economic crisis will loom large in 2009, it is likely to impact negatively on regional cooperation prospects by severely limiting financial resources available for developing regional projects in a situation where each country looks inwards and adopts a rigorous economic policy;
- **The Russo-Ukrainian gas conflict of January 2008:** Although it is still too early to judge, this gas crisis, having hit on south Eastern Europe with particular severity, might give rise to (i) concerted regional efforts to strengthening (or even establishing) dense networks securing gas supply, (ii) search for strategies aimed at overcoming / going beyond a competitive approach to energy supply routes (i.e. South Stream versus Nabucco), (iii) intensifying the general debate about finding regional solutions to energy problems.

### **Low tide:**

Competing political projects are likely to divert the EU’s political attention away from the Black Sea region:

- The Union for the Mediterranean as a main contender – a challenge in view of the significant resources it will require over a long time span;
- The new Polish-Swedish initiative of the Eastern Partnership;
- The Caucasus Stability and Cooperation Platform (Turkish initiative launched after the war in Georgia).

A weak response to the “ebb” of political attention is the initiative of 2 MEPs (M. Wiersma & H. Svoboda) to create a “Union for the Black Sea”, which has not yet taken off the ground.

### **The Eastern Partnership as a Challenge to BSS:**

- stronger promoters – EU member states standing behind the initiative (Poland, Sweden – forthcoming EU Council presidency in the second half of 2009), as well as those that trade their support for obtaining support for the Union for the Mediterranean;
- places bilateral relations with countries in Eastern Europe and Southern Caucasus centre-stage, at the expense of multilateral relationship frameworks; establishes a comprehensive and more ambitious bilateral agenda for each country, which is capable of displacing the ENP as the main external policy avenue;
- even if there is a modest multilateral component in the Eastern Partnership paper: (i) it is only verbally meant to be complementary to existing regional cooperation initiatives (BSS), while it seems likely to be subjected to the bilateral agenda (e.g. regional initiatives to support regulatory alignment, the same for the regional programmes in the ENPI); (ii) the EU will find it difficult to make it work because there is no region to apply it to – the single regional identity of the six target countries (UA, MD, GE, AM, AZ, possibly Belarus) lies in the past (Soviet Union).

### **A strategic challenge for the EU’s policy towards its Eastern partners:**

Black Sea regional cooperation initiatives (the BSS in particular) are a testing ground for the EU to demonstrate the coherence and consistency of its external policies towards its immediate neighbourhood in the East. Recent experience shows that the Union send diverging signals to its partners and to its citizens. **The oscillation of EU policy towards its Eastern partners** between

- bilateralism or multilateralism as a major cooperation format;

- pushing the membership perspective away from the political agenda or bringing it closer;
- hesitating between a technocratic sectoral approach based on common interests in the implementation of specific policy projects, on one hand, and a normative approach aiming to stimulate domestic economic and political transformation on the basis of shared values;

*seriously undermines the credibility of the EU as a regional and global player.*

#### **Modest hopes for a fresh breeze:**

The future of Black Sea regional cooperation (incl. BSS) will not be easy. The incumbent Czech EU presidency is committed to officially launching the Eastern Partnership at the highest political level. The next presidency, held by Sweden – co-sponsor of this initiative, is likely to further strengthen it as the main format of EU policy towards its Eastern neighbours. The Spanish presidency (first half of 2010) will understandably give priority to the EU's Southern neighbours. Nonetheless, there are some hopes for fresh dynamism to be injected in the BSS due to:

- ***a less skeptical Russia:*** Even though the BSS is Russia's second-best option of tackling regional problems (after direct EU-BSEC dialogue), it is still better than the Eastern Partnership where Russia is absent. Moscow's cautious (or, one might say "indecisive") position at the launch of BSS in Kiev is a positive indication of the potential for Russia's engagement in a regional framework. This country's complacent neglect of Black Sea regional cooperation in the name of settling direct EU-Russia relations first (i.e. negotiating a new "strategic partnership" agreement) might need to give way to a more serious and constructive engagement at regional level. By contrast, the EU approach of viewing Black Sea regional cooperation as a road towards improving bilateral strategic relations with Russia might bear fruit. The gravity of impact of the financial crisis on Russia's economy will inevitably influence Moscow's European and foreign policy by making it more cooperative, but also "neurotic". The EU has all the means of assisting the former and avoiding the latter.
- ***Bulgaria's BSEC chairmanship:*** The period from November 2009 till April 2010 will be the first time since the EU reached the Black Sea shore in 2007 when the chairmanship of BSEC will be carried out by an EU member state – Bulgaria. This lays a serious responsibility on the shoulders of the country's policy makers, diplomats and administrators – moreover that Bulgaria will take the driving seat of BSEC probably only a few weeks after the formation of a new government (parliamentary elections due in July 2009). The analysis above allows to foresee a 50:50 chance of success, so national energy and capabilities will have to be mobilized for tilting the balance to the positive side.

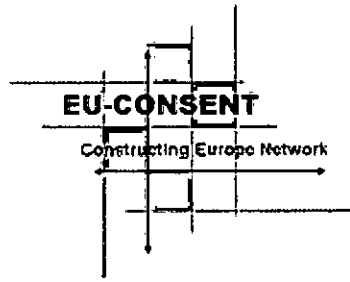
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**The Caucasus and Black Sea region: European  
Neighbourhood Policy (ENP) and beyond**

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**OUTLINE**

**CAUCASUS AND BLACK SEA REGION COOPERATION:  
PIECING TOGETHER A REGIONAL 'EURO – EURASIAN' ENERGY  
SECURITY LINK**

By

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## Introduction

The Caucasus and Black Sea region offers key investment opportunities and trade corridors for regional economic integration. The realization of these opportunities depends on sustained market reform and regional cooperation that is foremost to the economic benefit of the region itself. The Russian Ukrainian gas dispute again illustrates the region's own direct exposure to wider security of supply risks. This demonstrates how broader energy market dynamics and the geo-strategic position of the Caucasus and Black Sea region along new energy trade routes are linked to this regional economic integration process as is reflected in the 2005 Energy Community Treaty.

Important new oil and gas trade corridors have already successfully entered into operation (eg. CPC, BTC, SCP<sup>1</sup>). Recent gas supply upsets certainly mean that other projects such as Nabucco, the Turkey-Greece Italy inter-connector (TGI) and the Trans Adriatic Pipeline (TAP) are more actively considered. This however does not motivate the need for strengthening energy links between the South Caucasus the Black Sea region with new adjacent oil and gas production centers in the Caspian and Middle East. Self evident market rationale and the apparent fragility of regional market interconnections do. Bureaucratic and regulatory hurdles have been eased somewhat under the aegis of the Energy Charter Treaty and through EU enlargement. Still the present day market rationale is often turned in to a negotiating chip and obscured in wider foreign policy agenda's. This is even more common when regional players pursue different interests in the absence of a strong champion to marshal the case on transparent economic merit (eg. Policy initiatives by the US and UK government and heads of state of regional governments themselves in support of the BTC and SCP projects). In an economic down turn these merits will be revisited for various projects. The IEA finds that more needs to be done to achieve what is needed now:

*"integrate these goals into broad, coherent and robust energy strategies for each market, and to ensure a sustained commitment to their practical implementation. To date, progress in these areas has been patchy and uneven."*

Much like systemic similarities, described below, contribute to Asian Pacific players successful market entry into the Caspian, successful economic cooperation between the Caucasus and Black Sea is directly linked to energy security interests there and in the wider region. European Union engagement to enhance economic cooperation between the Black Sea and South Caucasus is therefore essential. Both the European neighborhood policy and an active consideration of options for further inclusion are important elements to clear road blocks and make this engagement more progressive.

Crisis in Georgia and Ukraine demonstrate that enlargement fatigue, institutional capacity problems and policy divergence among European Union Member States are to the detriment of energy and other security interest that affect stakeholders globally. The credibility with which the EU projects its 'soft power' in the region determines, among others, confidence in energy sector cooperation in a region that stands to gain considerably if a wide range of critical investment opportunities could be unlocked. Apart from economic recovery, development and growth, investment in energy infrastructure enhances regional security of supply and offers market diversity to Euro Atlantic as well as Caspian stakeholders. The European Union, that stands to gain most from robust and coherent policies in this domain sees its political stability and unity undermined and internal energy policies tested as a consequence of the recent gas supply cut off. New Member States that are most affected are tempted to reconsider national options (eg. Nuclear) to address these issues for themselves<sup>ii</sup>. Within the European Union this reflects a lack of solidarity among member states and fading confidence in the effectiveness of its policy instruments and institutions. Outside the European Union it indicates that dialogue with external energy export and trade partners is not always conducted in 'good faith'. Shared political will is needed

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<sup>1</sup> List of Abbreviations and References and Notes at end of this document

to adequately mitigate these risks in the context of international frameworks such as the European Union, the Energy Charter Conference or Energy Community Treaty provide.

For want of progress in economic policy arena's, efforts to expand NATO membership have moved to the forefront and now may be perceived as a 'de facto' alternative to further economic integration into the Euro-Atlantic system. Without prejudice to the merits of NATO's engagement with Ukraine, Georgia and Azerbaijan in particular<sup>iii</sup>, its sequence ahead of progress in European enlargement and its recent initiatives with regard to energy security, send out split policy signals into the wider region that dilute focus on what matters: broad economic integration and reform through inclusive government cooperation. This subverts policy dialogue to promote economically driven network interconnections in favor of much more costly strategic options that over time may fall redundant. The investment that energy chains desperately require to adapt to new circumstances and deal with the energy market challenges ahead risks being misdirected. Policy dialogue with strategic regional partners predominantly Russia, Turkey and now Caspian producers has moved from a cooperative to a more hard nosed stance<sup>2</sup>. To enable the wider energy security interests in South Caucasian and Black Sea, economic integration requires a reassessment among partners on how to make this operational. To enable rather than preempt a successful approach in dealing with Eurasia's wider economic and energy security challenges various external economic and security policies need to be re-synchronized and better calibrated. The economic down turn provides both the occasion and the motivation for public and private policy makers to focus minds.

### **The wider context**

The Caucasus and Black Sea region interconnects mature energy markets of the Euro Atlantic, foremost those of the European Union, with the new oil and gas producers states of the Caspian Sea. The Caspian offers relatively rapid supply growth and various options to diversify source and transport dependency<sup>iv</sup>. Unconstrained by monopoly control but subject to the complexities of a charged geopolitical landscape, Caspian supplies reach world markets through the South Caucasus, Black Sea and Turkey. As a newly emerging oil and gas producing region the Caspian region accounts for the highest output growth rates, but remains a marginal supply source compared to world oil and gas production. Therefore the region's role is to complement rather than displace globally rising dependency on dominant supply sources and transportation routes from both Russia and the Middle East.

In tightly balanced markets interest of both consumers and producers naturally moves to marginal plays that therefore have a strategic interest in new market outlets and interconnections. Rather counter-intuitively to what one can make of on one hand the complexities of cooperation among states in the region, the Caucasus and Black Sea provide a critical conduit for both the source and route diversification that energy markets need. Just like on the other hand Caspian oil and gas supplies are crucial to a sound performance of world energy markets because of their central location between Euro Atlantic and Asian Pacific demand markets that are short of marginal suppliers.

The current economic turmoil that has lead to a collapse in demand, oil prices and economic growth does provide for some respite but does not affect the energy market fundamentals at the root of this tight energy supply and demand balance. Investment that was already constrained due to geopolitical dynamics, cyclical cost increases and will be slow tracked even further as capital expenditure of oil and gas companies drops with oil prices. However, once demand recovers on the medium to long-term, brighter markets will be tighter still as a consequence of the slippage in oil and gas investment that

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<sup>2</sup> Prompting a senior diplomat to caution not to compare oil and gas pipelines with nuclear missile trajectories. Chatham House rules governed meeting on Eurasia at the Cambridge Judge Business School, Cambridge University, September 2005



markets experience presently'. Strategic energy sector investment such as in the Caucasus and Black Sea region should move forward and will produce reliable yields overtime<sup>vi</sup>.

A deteriorating investment climate and technical constraints of major field development in Russia and the Middle East also continue to argue in favor of strengthening energy security links in the region: While dominant players (incumbents on Eurasian oil and gas markets) try to fix the still shifting terms for investment and technology transfer to launch the next major investment cycle there, a Eurasian small field policy comes in play that favors Caspian investment, new market entrants and a more dense and robustly operating oil and gas pipeline system through the Caucasus and Black Sea region. Important elements to forge more reliable energy security linkages are yet to be uncovered more transparently and pieced together here. Apart of major cross boarder pipeline and network interconnections projects that may or may not happen, this means that smaller more incremental investments steps are yet be taken to increase reverse flow abilities, alleviate congestion and increase storage capacity.

To some the Georgian conflict challenges the reliability of Southern Corridors to others it are persistent doubts about the availability of resources. Other options offered by the Russian gas giant such as the pre-Caspian and South Stream systems may appear more reliable and certainly for Central Asian producers, more close at hand but not necessarily in their long-term interest to diversify market access. To others Russia's "proven unpredictability" is exactly what vindicates strengthening ties with newly emerging oil and gas producer states and move forward on southern corridors more expeditiously.

### **Options & approaches**

This desire is certainly also inspired by recent moves of oil and gas companies of ever more import dependent energy markets of the Asian Pacific. While Asian Pacific demand centers are geographically more distant from new Caspian supplies than those of Europe their national oil and gas companies depend less on:

1. Multilateral cooperation to foster reliable energy transit and trade
2. Fiscal, legal and regulatory stability to attract investment and maintain commercially viable operations

### **Government role models**

*Open, Legislate & Liberalize... Opt out?*

These are the preconditions that business in restructuring economies of the Caucasus and Black Sea have come to depend on as the region catches-up with liberal open market principles. This characterizes Euro-Atlantic economic governance that imposes anti-monopoly regulation more stringently overtime as markets mature and vertical state owned corporations are unbundled and privatized. At home these economic actors operate most economically efficient in accordance with the disciplines that their mature market economies set. Abroad however, they are increasingly challenged in competition with national oil and gas companies overseas investment; actors from diverging economic systems. In the energy sphere 'fate in market forces' and confusion between internal and external energy market interests breeds the perception that the Euro Atlantic is ill equipped if not in-capable of pursuing certain strategic energy interests in the wider world. Here the center of economic gravity is rapidly shifting from the Euro-Atlantic to the Asian Pacific.

## *Control, Structure & Size...Opt in?*

The governmental and economic system of certain Asian Pacific players corresponds well with the state structure of Caspian oil and gas producer states. Firstly, emerging economies, energy producers or consumers, share a state administered governance structure that, at least to date, characteristically is not governed by the open market principles that the Organization for Economic Cooperation and Development (OECD), and notably the European Union advocate, not only in their internal economic zone but also abroad along the entirety of cross border energy chains; from well-head to burner tip. Secondly, certain Asian Pacific economies combine sheer size with strong state control. This enables them to mobilize capital and other resources swiftly according to rates of return that would not be viable for Euro-Atlantic corporations, or, outside the realm of generally applicable economic standards, simply enables them to pursue strategic interests: subsidized energy prices at home and packaged deals with cash on the table abroad.

Strength and size accelerate the speed with which deals are made, limit lead-times and deliver often spectacular short-term results. Of course this may be attractive to serve urgent economic agenda's and development policies of emerging economies and resource owners with limited access to capital and technology. Yet while it can boost industry performance on the short-term this does not guarantee that it will make for a sustainable market configuration on the longer term. Momentum in the Asian Pacific perspective alone is not a guarantee for rational investment or sustainable industry performance according to established standards that mature open market economies of the wider Euro Atlantic apply.

### **Preliminary conclusion**

This however does not mean that stakeholders in the Euro Atlantic, Caucasus and Black Sea region should discard or fail to draw lessons from Asian Pacific players' ability to swiftly act upon what they perceive to be their strategic interest. Deeply routed and professed attachment to market economic rigor, wider governance standards and the need to build on established trade links with other partners such as Russia and the Middle East should not preclude tactical cooperation and coordination between governments in support of new market entrants and more robust and densely configured energy infrastructure in the Caucasus and Black Sea region. This holds true for Nabucco but not for Nabucco alone.

Other energy market interconnections in oil gas and electricity markets require more business oriented and operational stance on the part of governments as well to overcome systemic vulnerabilities. Government expenditure of public funds in such projects mobilizes sufficient 'soft power' to push urgently needed investments past the economic thresholds that unbundled companies can otherwise not pass. Provided it abides by certain non-discriminatory standards and other key transparent procedures and criteria.

Admittedly this remains a highly complex task from both institutional and diplomatic points of view. Enabling a transparent coordination of tactical effort marshaled by an appropriate dose of international political support is likely to be more virtues for sustainable and secure energy market performance in the long term. Moreover it may come to reflect a timely deepening of Euro-Atlantic relations with the Caucasus and Black Sea region and Caspian States themselves.

### **Abbreviations**

CPC: Caspian Pipeline Consortium  
BTC: Baku Tbilissi Ceyhan pipeline

SCP: South Caucasus Pipeline  
TAP: Trans Adriatic Pipeline  
TGI: Turkey Greece Italy inter-connector

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