

ENERGY – THREAT OR OPORTUNITY FOR EASTERN AND CENTRAL EUROPE’S ECONOMIC DEVELOPMENT

*Cosmin DUMITRESCU**

***Abstract:** The author briefly presents: Different national strategic approaches of energy security issues depending on the national security and economic interests of each European country; Effects of economic and political sanctions applied to Russian Federation by the democratic international community after violating the international law with its hybrid aggressive intervention in Ukraine; Alternative energy sources for the European Union. The role of Norway, Romania and the Western Balkan countries in the European energy security.*

***Key words:** energy, threat, opportunity, economic development, Eastern and Central Europe’s economic development.*

1.Introduction

It has become very difficult for any actor of the international community or specialized analyst of national or intergovernmental institutions to identify in the recent history a more tormented and complicated period than the one that the global society has been going through for the last five years. Global, regional and national military and social issues have been doubled by serious difficulties encountered by national states and regions in the energy security field.

As essential components of any economic activity, energy and energy capabilities become the most important arguments that partners, allies and adversaries use in the international peaceful negotiations, not only in commercial and finance areas, but also for determining occurrences, decisions and conclusions in chapters where the military used to have the

* "Mihai Viteazul" National Intelligence Academy, tresco1906@yahoo.com.

most important influence in the past. By looking carefully at the recent economic and energy security dynamics in Europe, it is easy to identify the main aspects that are to be considered as important issues, tackled in any serious analysis of economic and geostrategic tendencies, especially for the Central and Eastern Europe. Among many aspects that characterize the present economic, political, military, social and security situations in Europe we can find the following:

- different national strategic approaches of energy security issues depending on the national security and economic interests of each European country;
- effects of economic and political sanctions applied to Russian Federation by the democratic international community after violating the international law with its hybrid aggressive intervention in Ukraine;
- effects of economic sanctions relief for Iran that were imposed in the past mainly by the United States of America, European Union Member States and Japan;
- economic, military and political instability in the Eastern Neighborhood of the European Union and in the Western Balkans;
- low oil prices;
- new opportunities given to European states by discovering in the Nile Delta huge reserves of natural gas and oil added to the natural gas reserves from the Romanian continental plate in the Black Sea and the African and Norwegian capacity of supplying oil and natural gas to Europe.

The present paper will try to analyze briefly all the aspects mentioned above, in order to illustrate the special part played by strategic policies implemented by the international actors in energy management field for the purpose of increasing or decreasing international influence and economic and political power.

2. Different national strategic approaches of energy security issues depending on the national security and economic interests of each European country

It is well known, and generally accepted, that each European country has a different approach in implementing energy security strategies, depending on the needs for oil and natural gas, nuclear energy capabilities, economic influence, and, more than anything else, the geographical position

and distance from the Russian Federation frontier that imply the presence of security threats that exceed the boundaries of economy.

Because of the lack of natural resources such as oil, natural gas, coal and other basic raw materials, European countries with very powerful economies have found themselves in the position of having to partially accept bilateral relationships, conditions, positions and realities coming from the Russian Federation that otherwise would be absolutely unacceptable. The German, Dutch, Czech, Hungarian, Italian and even French economies depend more or less on the natural gas and oil imported from the Russian Federation.

In spite of their industrial needs for natural gas, that partially is imported from Russia, countries such as the Baltic countries, Romania, Ukraine and Turkey are much more concerned with their national security and management of security risks and military challenges caused by the recent Russian Federation attitude toward its neighbors and international law. Thus, these countries are much more intransigent in front of Russian strategic duplicity than other Eastern and Central European countries, both European Union and NATO Member States, and third states from the Western Balkans prove to be.

The Russian intention to use energy as one of its main instruments of imposing political and strategic influence within the European Union has been temporarily stopped by the plans of Ukraine that officially expressed its wish to get closer to the EU and NATO, as Ukraine is the co-owner of the main pipeline that transports gas from Russia to the EU. From that moment, the Russian Federation has striven to find partners and build other alternatives to get its natural gas to Western Europe, unfortunately not only by finding common diplomatic solutions, but also by using international military aggression against Ukraine by literally invading Crimea and the Eastern regions of Ukraine.

The Russian Federation had a very successful diplomatic campaign in the last ten years, closing economic deals and political treaties with Turkey, Bulgaria, Greece, Serbia and Italy for building the South Stream pipeline, causing the failure of the Nabucco pipeline, a project that could involve Romania in the Russian gas transport European network. That hypothesis was considered unacceptable for Gazprom. The Russian company also succeeded in closing a very important economic and political

deal with Azerbaijan for buying a huge quantity of its gas. The gas from Azerbaijan could have been transported to Europe across the Black Sea and Romania in the next years, consequently competing on the European market, reducing the prices and the demand for the Russian gas. The Russian strategy for the South Stream pipeline implementation proved to be a failure when the political crisis between Turkey and Russian Federation occurred after the downing of a Russian military airplane by the Turkish forces.

The South Stream was only the Southern component of the Russian strategy to bypass the Ukrainian and Romanian routes to Europe for the Russian natural gas, and it was meant to play a complementary part for the Nord Stream agreement that was closed by companies from the Russian Federation (PAO Gazprom 51%), Germany (E.ON SE 15,5% and Wintershall Holding GmbH – a BASF subsidiary 15,5%), Netherlands (N.V. Nederlandse Gasunie 9%), and France (GDF Suez 9%).

The Nord Stream project is an investment of 7.4 billion euros and consists in 1224 km twin pipelines crossing the Baltic Sea, that have been operational since 2011 and 2012 respectively, having a total transport capacity of more than 55 billion cubic meters a year. The pipelines are designed to operate for at least 50 years and to satisfy the energy demand for 26 million European households.¹

The Nord Stream has been considered a successful model, and taking into account the enormous need for natural gas for the Western European industry, the same countries decided in 2015 to start another similar initiative called Nord Stream 2. The shareholders' agreement for Nord Stream 2 was signed on 4th September 2015 forming a consortium of six major companies: PJSC Gazprom from Russia with 50%, E.ON SE and BASF SE/W Intershall Holding GmbH from Germany with 10%, the Anglo-Dutch Shell plc with 10%, OMV AG from Austria with 10% and ENGIE S.A. from France with 10%, keeping the headquarters in Zurich, Switzerland.

One can easily notice from a simple analysis of the shareholding structures of the two consortia why all the Western European states involved

¹ *** Part of a Long-Term Solution for the EU's Energy Security, <http://www.nord-stream2.com/our-mission/the-need-for-nord-stream-2/>

in the Nord Stream projects have strong national interests in keeping open all channels for economic cooperation with Russia, as their very powerful economies depend directly on the resources coming from Northern Russia.

At the same time, it is very difficult for the allies and partners of EU and NATO Member States that are associated and supporting the Nord Stream agreements, to accept the fact that the second agreement was concluded in 2015, after the unthinkable aggression of the Russian Federation over Ukraine that broke the international law regarding the national frontiers in Europe. Russia has a very troubled economy and could not afford major investments in military operation without selling gas and oil. Therefore, in the middle of a major process of economic and political sanctions applied by the democratic world to the Russian Federation, the same countries indirectly help Russia to find financial resources for its needs, everything being justified by the same old excuse “*raison d`état*”.

The Russian Federation showed that it still has the capacity to bear the enormous burden of the economic sanctions applied by the European Union and responded even more aggressively, raising the level of its combatant military presence in Mediterranean Sea and becoming a perpetual military and economic threat not only in the Eastern Neighborhood, but also on financial European and global market.

3. Effects of economic and political sanctions applied to Russian Federation by the democratic international community after violating the international law with its hybrid aggressive intervention in Ukraine

Most of the effects of economic and political sanctions imposed to Russian Federation by the democratic international community after violating the international law with its hybrid aggressive intervention in Ukraine have been foreseen. An increase of the visible activity of Russian intelligence agencies in Ukraine, Republic of Moldova and EU Member States has become obvious. The purpose is to maintain a highly unstable security climate in EU Eastern Neighborhood, to challenge the economic stability in EU and the trust between the Member States. Russia responded with similar measures and forbade the imports of goods from Ukraine or Republic of Moldova, Turkey and other European countries causing important damage to economies of ex-soviet countries and not only.

Some of Russian Federation movements have yet exceeded all expectations: the huge army troops and military logistics transfer to Syria and the high level of Russian war expenses in fighting against the rebels and DAESH were not expected from a country that was facing a very serious situation in its economy as a whole. Also, the fact that Gazprom practically owns Naftna Industrija Serbia (the Serbian national oil company) and tries to raise its participation in companies such as MOL in Hungary and to buy an important stock of share in OMV Austria shows the capacity of Russia to act aggressively on the stock market in the most important strategic economic field in Europe. We have to mention that OMV Austria is the company that controls the activity of the Romanian Petrom SA with all its capacities on ground and in the Black Sea. Even if OMV Austria did not confirm that there were negotiations for such transactions, it did not deny that such possibilities existed for the future.

The economic sanctions combined with the fall of oil and gas price at the global market level stroke the Russian economy and it is only a matter of time until Russia will have to make its move in order to find a common solution with the international community.

4. Alternative energy sources for the European Union. The role of Norway, Romania and the Western Balkan countries in the European energy security

The Russian dominant position on the European energy market as its main provider is becoming even weaker because of the removal of most of the economic sanctions applied by the European Union to Iran, opening the market for the Iranian oil. Step by step the European countries build opportunities that allow them to find alternative sources of energy for their internal needs. The recent discovery made by ENI, the Italian national oil company, in the Nile Delta in July 2015, allows Italy to increase its gas production only in the site to 70.000 barrels of oil equivalent per day. That important new source only comes to complete the resources supplied to Southern Europe by oil and gas wells from Africa and Mediterranean Sea and in the Northern Europe by Norwegian exploitations in the North Pole areas.

At the same time, all European countries secured, upgraded and developed their energy plants based on the use of coal and nuclear energy.

A quite important part in the energy strategic picture in Europe on a short and medium term is played by Norway, Romania and the Western Balkans countries.

In Norway, the state has powerful control over the strategic petroleum sector and hydroelectric energy production, establishing a fund that allowed the implementation of a very successful strategy of country development and for acquiring an important position on the European Energy market. Keeping a very special kind of tradition, the Norwegian people rejected by referendums in 1972 and 1994 the proposals to join the European Union, making a very wise choice to participate in the European Union's single market through the European Economic Area (EEA) agreement.

Exploiting the oil wells, from which 5085 were drilled in the North Sea between 2007 and 2013, the oil and gas exports provide almost 50% of total exports of Norwegian economy², representing 23% of the main external sources of oil and gas supply for the European Union, against 27% supplied by Russia and 8% Algeria, making Norway the fifth-largest oil exporter and third-largest gas exporter in the world.

Refusing to be a part of the European Union and OPEC, Norway chose to insure its territorial security by becoming a member of NATO. Thus, a 5-million-people country managed to be not only the most important competitor of the Russian Federation on the European Energy market (and consequently weakening its economic influence), but also an important strategic actor that keeps a good balance in the North Sea, by claiming a very important part of the oil and gas resource in the North Pole region where the Russian Federation is very present with economic and military capabilities.

Romania, on the other hand, is a very different country from Norway. If Norway is the second wealthiest country in Europe, Romania could not be categorized in a similar way. Romania is a member of the European Union and NATO, but the state has lost an important part of its control over the energy capabilities and resources by selling the national oil company PETROM to the Austrian OMV. At the same time, Romania is one of the fewest European countries that recently found oil and gas

² Secondary Industries. *This is Norway. Statistics Norway*. 15 March 2009. p. 40.

resources on its territory, i.e. on its Black Sea continental plate, and it produces electrical energy that exceeds its internal needs.

With a population of 20 million people, Romania proves to be an emergent economy characterized by autonomy from the energy point of view. With a more and more unfriendly Ukraine, the Russian Federation made huge efforts to take and keep Romania out of the energy power game in Europe. The fact that Romania will never accept the Russian strategic options, neither politically nor in the economic and military fields, puts Russia in the position to look for other solutions that could point to the extension of economic control of Romanian companies through Gazprom and Lukoil, by buying PETROM shares from OMV Austria or increasing their level of ownership in Romanian critical infrastructure. However, the part that Romania continues to play on the European Energy market is going to become more important within a comprehensive European strategic picture.

For the Western Balkans countries, energy security is a topic of growing concern because of their geographic position and the geo-strategic policies that have to include this region of the world in all the European Union plans built for supplying oil and gas from Eastern Europe, Middle East and southern European neighborhood. Albania, Montenegro, Macedonia, Croatia, Bosnia and Herzegovina and Serbia could have an important part in improving the European energy security and their own by supporting and making investments in liquefied natural gas terminals and gas pipelines. The access to the Mediterranean Sea and the geographic position are important incentives for making the Western Balkans an attractive prospect for energy investors.

Yet, Western Balkans countries and foreign investors have to face serious challenges for developing energy supplies in the region. The potential of Western Balkans countries has been affected in a very negative way by the slow progress of reforms, lack of investments, corruption and issues related to enforcing the rule of law. Nonetheless, the region is one of the most important transit area for gas supplies to the European Union, and its potential is increasingly higher provided it succeeds in developing its gas infrastructure.

The European demand-supply gap required more efforts from the European countries and their external partners in order to find out solutions

by implementing three main pipeline projects: the Nabucco had to bring gas to Europe from the Caspian Sea, the South Stream from the Russian Federation and the TAP from Azerbaijan. Nowadays only TAP is still being developed, as Nabucco lacked financing and the Russian Federation no longer supports South Stream. TAP is designed to bring natural gas from Azerbaijan via Trans-Anatolian Natural Gas Pipeline – TANAP, Greece, Albania, and across the Adriatic Sea to Italy.

Like many others energy-exporting countries, Azerbaijan has been recently hit by the low oil prices on global market. The effects are terrible for the country as its economy slowed down and the currency tumbled, causing an inflation that exceeded 100% at the end of 2015. There is no doubt that Azerbaijan is going to receive help from other countries, as it has become an essential component of the complex strategic economic relationships between the Russian Federation and the Western democracies. One can easily identify in Azerbaijan strategic interests of Russia, European Union, United States of America, Iran and Turkey. With a much weaker Azerbaijan, the TAP project is endangered together with all the economic interests of Western Balkans countries and European Union.

As liquefied natural gas is going to become more important for the European Union Member States that are far from becoming energy autonomous in the near future, the Western Balkans could take advantage of the potential demand, developing projects like building a liquefied natural gas terminal in Croatia, as there are already pipeline connections between Croatia and Hungary, and between Croatia and Slovenia. Interconnecting Italy and Austria with Slovenia and Hungary or increasing interconnectivity between them are operations much easier to accomplish, if there is a gas supply coming from a new Croatian terminal which the European Union has already decided to support.

It is a fact that the Western Balkan countries have to be faster in implementing such projects in order to become a steady partner of the European Union. If not, Israel and Cyprus could become new gas suppliers for the European countries in the future, and Russia and Turkey could find a way to solve their bilateral issues, thus changing in a significant way the European gas supply paradigm and consequently harming the Western Balkan countries interests and influence.

Having considered all of the above mentioned facts and realities we can conclude that the European countries remain very vulnerable to external economic shocks because of the lack of an effective energy internal market and limited interconnectivity of energy infrastructures in some regions, especially in Central, Eastern and South-eastern Europe. The national economies in that region are re-industrialized and emerging such as the Czech, Slovakian, Hungarian, Slovenian, Romanian and Bulgarian economies, and others are subject to important reforms as the states of the Western Balkans. The interdependence, as a basic feature of the energy market and energy security, could be a strong instrument for mutual benefit and economic development, but also it could cause gaps, economic recessions, financial crises and even internal and external national political turmoil because of the changing nature of the global actors.



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