



edited by Adam Balcer

The Eastern Partnership in the Black Sea Region: towards a New Synergy

edited by Adam Balcer

The Eastern Partnership in the Black Sea Region: towards a New Synergy

Warsaw 2011

The report was published within the framework of the program titled "The Promotion of Knowledge about Poland 2010" with the financial support of the Polish Ministry of Foreign Affairs. The other sponsor of this publication is the Austrian Cultural Forum.



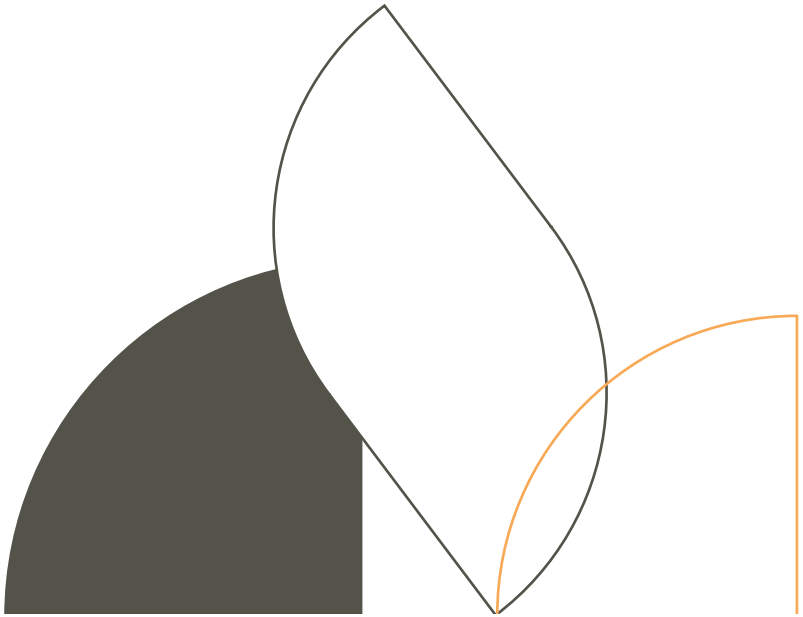
Ministerstwo Spraw Zagranicznych
Rzeczypospolitej Polskiej
www.poland.gov.pl

| austriackie | forum | kultury | waw |



Contents

Introduction	5
1 Mustafa Aydın-Sinem A. Açıkmeşe, EU Engagement in the Black Sea: The Views from the Region	7
2 Panayotis Gavras, Partners Far Apart: Economic Development in the Eastern Partnership's States of the Black Sea Region	29
3 Frank Umbach, The Black Sea Region and the Great Energy Game in Eurasia	55
4 Adam Balcer, In Search of the Philosopher's Stone: The Prospects of the Eastern Partnership	89



4

Introduction

The Big Bang, namely the enlargement in 2004 „created” the Eastern Neighbourhood by moving the EU’s borders towards the post-Soviet area. On the other hand, since Romania and Bulgaria’s accession in 2007, the Black Sea region has become a direct neighborhood of the EU. In consequence, the EU has launched in the recent years or is preparing to launch in the nearest future new initiatives fully or partially aimed at the region (The Black Sea Synergy, the Eastern Partnership, Strategy for the Danube Region). Moreover, a discussion about development of an EU Strategy for the Black Sea has started in the recent months. The multitude of the EU’s initiatives directed to the East and the Black Sea region creates an impression of lack of coherence, unnecessary overlapping and tensions between the EU member states. This trend has negative impact on the EU’s performance and credibility in the region which indeed poses a crucial importance for the EU in political and economic dimensions. Politically, the EU is keen to limit instability, promote democratic governance and the rule of law, economically the region is crucial as a transit corridor for energy and goods. The EU’s three biggest direct neighbors, Russia, Turkey and Ukraine have Black Sea presence and are to various degree key stakeholders in its further development.

The most ambitious modernization and Europeanization agenda directed to the East and the Black Sea region, though it needs upgrading, provides currently the Eastern Partnership. The main driv-

ing force behind the Eastern Partnership is Poland. In the second half of 2011 Poland will hold the presidency in the Council of the European Union and the EaP will be the key priority on the Polish agenda. Taking into consideration all these factors, we decided to publish the report entitled "The Eastern Partnership in the Black Sea Region towards a New Synergy" which is supposed to identify key problems of the region and define the most efficient EU agenda and the optimal instruments for its implementations. The report was published within the framework of the program titled "The Promotion of Knowledge about Poland 2010" with the financial support of the Polish Ministry of Foreign Affairs. The other sponsor of this publication is the Austrian Cultural Forum. The report is composed of four contributions. In the first contribution "EU Engagement in the Black Sea: The Views from the Region" Mustafa Aydın and Sinem A. Açıkmeşe assess the EU initiatives directed to the region and Black Sea countries' reactions to them. The authors tackle also an issue of their expectations and ways to engage them in the EU initiatives. The second contribution "Partners Far Apart: Economic Development in the Eastern Partnership' States of the Black Sea Region" by Panayotis Gavras address the main questions related to macroeconomic stability and strategy for growth in the region. The article assess the reform processes in the region. It tries to evaluate the main barriers to the cooperation in the economic field between the EU and the Eastern Neighbors and possible opportunities for its improvement. The third contribution "The Black Sea region and the great energy game in Eurasia" focuses on the crucial importance of the Black Sea region for the energy security of the EU, with regard, in particular, to transit routes and the possible diversification of energy supplies. Frank Umbach also tries to evaluate key challenges standing in front of countries of the region in the energy sector (energy mix, production, transit, supply, transparency, diversification and management). In the last contribution „In Search of the Philosopher's Stone: The Prospects of the Eastern Partnership" Adam Balcer evaluates the EaP achievements since its launch in May 2009. The contribution assesses main challenges and opportunities standing in front of the EaP. It discusses also how to maximize the EaP's impact through prioritization of objectives and inclusion of the long-term accession perspective to its agenda.



EU Engagement in the Black Sea: The Views from the Region

Mustafa Aydın-Sinem A. Açıkmeşe*

Abstract

- The EU's approach towards the region is threefold: First, it offers certain incentives such as cooperation or integration, thereby Europeanizing the countries of the region through democratic reforms, strengthening institutional capacities, reconstruction of economies and building strong civil societies as well as directly intervenes in the region's protracted conflicts. Second, the EU mostly deals with the region on a bilateral basis, with limited recourse to dynamics of regionalism. Finally, the EU adopts a differentiated strategy towards Russia, Turkey and the ENP partner countries.
- The EU has devised a compartmentalized strategy towards the countries of the Black Sea comprising Russia, Turkey and Eastern partners and these three compartments have formed their own differentiated expectations and resentments from EU's gradual engagement in the region in return.

- As long as the policies of the EU create the ways in which the Black Sea economies are tied up to the global system, its interests with regards to relations with Russia are not jeopardized and the EU does not intervene “unilaterally” in security problems of the region, Turkey is supportive of the EU initiatives in the Black Sea area.
- Targeting the region as its own sphere of influence, Russia is wary of EU initiatives in the Black Sea, and believes that policies such as the Eastern Partnership are an extension of the EU’s sphere of influence in the region.
- EU’s direct and indirect initiatives for the Black Sea region are subject to the resentment from the partner countries of the Black Sea due to the issues of consistency, clarity and credibility of EU’s projects.

EU engagement in the Black Sea region: general overview

The 2004 and 2007 enlargements have brought the EU closer to a neighborhood encircled with domestic and inter-state conflicts, ecological risks, illegal trafficking of various kinds, energy security issues, and weak state systems as well as non recognized entities. All these threats are intertwined, insofar as weak statehood is associated with threats such as organized crime and/or terrorism in a situation where regional conflicts may lead to state failure and terrorism can fuel the demand for weapons of mass destruction, all of which are articulated as sources of concern for the EU in the European Security Strategy of 2003.¹

Dealing with new and problematic neighbors is not a new phenomenon for the EU. Since each enlargement of the Union so far has exposed the EU to various challenges and opportunities, the Union had devised strategies and created institutional linkages with neighboring countries in such a way to ensure their cooperation and continual transformation closer to EU norms.²

Euro-Mediterranean Cooperation in the form of the Barcelona Process, the Northern Dimension and the Stability Pact for Southeast Europe were results of this policy. They created instruments for outsiders to participate in and benefit from the European project. In return, outsiders were required to reform their political systems, open up their economies and generally comply with various norms, rules and regulations of the EU. This clearly showed that those left outside could still benefit from the close cooperation with the EU.³

The latest round of enlargement, however, comprising the Central and Eastern European Countries (CEECs) has become a test-case for the effectiveness of such EU strategies in tackling the problems of the neighborhood and providing security for Europe. As the EU implemented policies of stabilization and accession towards CEECs after the dissolution of the Soviet Union, the benefits of the Balladur Plan, the allocation of PHARE funds and the implementation of Europe Agreements were all linked to the transformation of these countries according to an EU model.⁴ The dynamics of accession conditionality and the magnetism of EU membership triggered the conditions for stabilization, democratization and modernization in the CEEC's. As in the previous round of enlargement, by employing the merged model of accession and stabilisation, the "EU-as-a-framework" model suggests that the EU is able to export its internal model to its immediate external periphery which is surrounded by conflicts (post Soviet area and the Western Balkans). Moreover, "the EU-as-an-actor" has been contributing to peace and stability also in the Western Balkans, the Eastern Europe and the South Caucasus with various instruments ranging from diplomatic tools to acting as mediators or conducting civilian missions, and even military options via the 2010 Headline Goal. As a result, out of the eleven Special Representatives tasked with promoting "EU policies and interests in troubled regions and countries", seven have portfolios for the EU's immediate periphery, namely the European Neighbourhood area.⁵ Out of the ongoing fourteen Common Security and Defense Policy (CSDP) operations, eight are based in the EU's neighboring geography.⁶ Nevertheless, it should be underlined, that the EU due to the enlargement proc-

ess and the CSDP missions is substantially more engaged in the Western Balkans than in the Black Sea region.

Since the 2004-2007 enlargements brought the EU on the shores of the Black Sea, it has actively engaged in developing its vision towards the region through number of tools, such as Common Foreign and Security Policy (CFSP), European Neighborhood Policy (ENP), Black Sea Synergy, Eastern Partnership and few other foreign policy instruments. Rather than creating a coherent perspective for the region, this complexity of instruments culminate in a lack of holistic vision towards the Black Sea, since the EU has to deal with multi-faceted groupings of countries that require different types of EU engagement. In this context, the EU has been in a troubled relationship of accession with Turkey since 1987, has formulated a strategic partnership with Russia, and initiated “closer integration without accession in the foreseeable future” towards the eastern ENP partners. These tiers have created a paper-tiger in the Black Sea area, reflected in many EU plans, reports, and strategies. These initiatives can be best grasped through the lexicon of “EU framework” and “EU actor” models. As the EU has devised this compartmentalized strategy towards the countries of the Black Sea, these three compartments have also formed their own differentiated expectations and resentments from EU’s gradual engagement in the region.

EU’s engagement in the Black Sea through ‘framework’ initiatives

Since the end of the Cold War, the EU’s relations with its neighbors were grouped under the Northern Dimension for the Baltic States, Barcelona Process for the Mediterranean countries and the Stability Pact for Southeast Europe for the Balkans. The missing piece in this picture has been the Black Sea region. It is surprising to see that the EU had not targeted the Black Sea, with its home-grown regional projects; even more so because all the Black Sea countries have expressed their willingness to cooperate more closely with the EU.

The Black Sea region has in the past played a major role in shaping European history. The diversity of people living in the region side by side for centuries has been both a source of potential conflict and of cultural enrichment. Since the end of the Cold War, however, two of its distinctive characteristics have moved to the forefront. First, located at the crossroads between Europe and Asia, the region has become a site of conflicts and confrontations. Although most of the open conflicts have ebbed since then, none of them has been solved. Contested borders, mixed ethnic groups, enforced migration, economic deprivation, widespread unemployment, authoritarian regimes and bad governance still pose risks for regional security. Second, although the region since Antiquity has always been the 'backyard' of one power or another, and witnessed their competition to dominate it, the geopolitical changes since the end of the Cold War have led to an entirely new setting in the Black Sea area, with a possibility of establishing a pluralist international existence for the first time.⁷

The cornerstone of EU's engagement in the immediate aftermath of the Cold War was the Partnership and Cooperation Agreements (PCA) strategy that encompassed the characteristics of the "framework" model. The EU included some countries of the Black Sea (Armenia, Azerbaijan, Georgia, Ukraine, Moldova, Russia) in its PCAs in order to support their efforts towards democratization and market transition, to promote trade and investment, and also to provide a basis for cultural, scientific, technological and other forms of cooperation. Individually signed with each state in the region, these agreements created Cooperation Councils, Cooperation Committees and Parliamentary Cooperation Committees as institutional mechanisms of bilateral relations with the EU. As apparent in the PCAs, the EU did not perceive the Black Sea as a region in itself, but rather approached the region with an all-in-one-basket model that included all the former Soviet Republics.⁸

Moreover, for the EU, the Black Sea region included number of different group of states: alongside six new independent states, the former Soviet Republics, Greece was a member country, Bulgaria

and Romania signed association agreements in 1992 and 1993 towards EU accession Turkey was an applicant state since 1987 having an association agreement signed in 1963. These different types of status meant different operating policies and programs, legal bases and financial instruments. The differentiated strategy coupled with a preference for bilateral relations marked the characteristics of the framework model throughout the nineties. Nevertheless, the Black Sea countries benefited from EU's regional assistance programs, funded through TACIS, TRACECA and INOGATE.⁹

However, in 1997 the EU launched a genuine regional approach designed for the Black Sea by adopting Communication on Regional Cooperation in the Black Sea Region, which was defined as 'Greece, Bulgaria, Romania and Moldova in the west; Ukraine and Russia in the north; Georgia, Armenia and Azerbaijan in the east and Turkey in the south'. Acknowledging the 'growing strategic importance to the European Union of the Black Sea region', the Commission expressed 'its intention to develop a new regional cooperation strategy'. It further listed the areas the cooperation could be promoted as transport, energy and telecommunications networks, trade, ecologically sustainable development, and justice and home affairs.¹⁰ In its report entitled Agenda 2000: For a Stronger and Wider Union, the Commission also listed the Organization of the Black Sea Economic Cooperation (BSEC)¹¹ among the regional initiatives it 'welcomed and supported' in northern, central and southeastern Europe.¹² However, while the other initiatives found advocates within the EU and were actively supported in connection with the EU's enlargement process, the regional approach towards the Black Sea was in time relegated into a lower priority level.

This aloofness continued when the EU initiated the ENP framework to "avoid new dividing lines in Europe and promote stability, security and development in the new neighborhood".¹³ The Commission's proposal of "forming a ring of well-governed friends with whom the Union enjoys close, peaceful and cooperative relations pointed at Southern neighbors (Algeria, Egypt, Israel, Jordan, Lebanon, Palestinian Authority, Syria, Tunisia, Morocco and Libya) and Eastern neighbors (Russia, Belarus, Moldova, Ukraine,

Georgia, Armenia and Azerbaijan) as the targets of this new policy. Russia rejected an invitation because it preferred to establish a bilateral relation with the EU. Thus the EU-Russia strategic partnership was formed in St. Petersburg in May 2003. The EU did not have contractual relations with Libya and Belarus either.

The ENP mechanism which also includes the Black Sea countries, works on the principle of conditionality. In return for greater integration with the EU, the partners accept precise commitments to strengthen the rule of law, democracy and respect for human rights as well as promote economic reforms. The Action Plans, designed under the ENP to promote political dialogue and reform, economic and social cooperation, and market reforms, however, have not succeed so far in creating a regional vision for the Black Sea.

Finally, the 2007 enlargement had a domino-effect for developing a regional approach towards the Black Sea. With its many problems, the region has been one of the most important challenges that the enlarged EU faced since the accession of Bulgaria and Romania. Thus, the EU has devised the Black Sea Synergy (BSS) as a mechanism for focusing political attention at the regional level and invigorating ongoing cooperation processes in the region.¹⁴ The key elements of cooperation between the BSS targets (Turkey, Russia, Moldova and Ukraine, alongside the South Caucasus) and the EU were identified in a number of sectors ranging from energy to maritime management, from democracy promotion to cultural cooperation. It became a device for further deepening relations between the EU and the Black Sea as complementary to the ENP and its Action Plans.

The Eastern Partnership (EaP) launched in May 2009 (as the eastern dimension of the ENP framework) took this task of the ENP/Action Plans and the BSS one step further and aimed at deepening bilateral relations with the six partners (Moldova, Belarus and Ukraine alongside the South Caucasus) through more political and economic integration including the offer of various privileges.¹⁵ The EaP comprises a multilateral track and included four thematic platforms (democracy, good govern-

ance and stability; economic integration and convergence with EU policies; energy security and contacts between people), six flagship initiatives (integrated border management; small and medium-sized enterprises; regional electricity markets, energy efficiency and renewable energy; diversification of energy supply; prevention of, preparedness for, and response to natural and man-made disasters; environmental governance) and non-governmental initiatives (Civil Society Forum, Parliamentary Dimension-EURONEST, Local and Regional Assembly).

Four of the Black Sea countries (Ukraine, Moldova, Bulgaria and Romania) have also been targets of the EU Strategy for the Danube launched in 2010. When fully implemented in April 2011, the fourteen targets of the Danube region will benefit from the projects on transport and energy connections, a better environment, socio-economic development, improvements in the tourism sector as well as security around this region.¹⁶

All of these above initiatives are clear signs of the importance of the Black Sea for the EU, yet a fragmented approach in EU's framework policies towards the region. This fragmentation coupled with the limited action being taken in the specific fields of regional cooperation as described in the Black Sea Synergy led the European Parliament to pass a resolution on the EU Strategy for the Black Sea in January 2011. This resolution stressed the fact that the new Strategy shall ensure an integrated EU policy towards the region coupled with clear guidelines and effective monitoring mechanisms.¹⁷

EU's modes of actorness in the Black Sea region

A key challenge for the EU in the Black Sea region is the non-resolution of the separatist conflicts of Nagorno-Karabakh, South Ossetia, Abkhazia and Transnistria. The EU's early conflict-resolution strategy was to support international settlement efforts and its role was mostly limited to support for the OSCE Mission to Georgia,¹⁸ as well as participating to discussion of economic

issues at the Joint Control Commission (JCC) in the case of South Ossetia.¹⁹ Also of importance were its backing of UN mediation efforts in the case of Abkhazia,²⁰ and its support for the Minsk process and for the multinational peacekeeping force decided at the OSCE Budapest Summit as regards Nagorno-Karabakh²¹ as well as the OSCE mission in Moldova since 1993.

The hesitancy of the EU to take up the role as a direct actor is mainly associated with regional dynamics and the EU's priorities and capabilities. Firstly, the presence of many actors in the region left little room for EU involvement. The division of labor between OSCE and the UN in leading peace-building efforts as well as the interests and policies of other global (the US) and regional (Russia, Turkey and Iran) actors hindered the EU in forging a direct role for itself in conflict resolution mechanisms. The EU's own internal agenda and the extent of its capabilities for acting as a power in negotiating mechanisms also constrained its active engagement. Finally, the EU's agenda in this period was completely shaped by the CEECs' integration into EU structures and the crisis in the Balkans. In this context, the Black Sea was distant enough for the EU to stay away from conflict resolution efforts.

By 2003, the EU began conducting civilian and military crisis management operations worldwide with recourse to the Rapid Reaction Force and further enhancements through the Civilian and Military Headline Goals of 2008 and 2010. The Black Sea became a test-case where the EU could prove its credentials in civilian and military crisis management. The Balkan experience and the EU's impotence in dealing with this crisis in its own backyard was another complementary motive that affected the transformation of EU thinking. The failure in the Balkans during the 1990s showed the EU that it could not risk being inactive in its periphery surrounded by frozen conflicts. This attention towards the region was further intensified with the August 2008 war between Russia and Georgia.

The first sign of the EU's growing interest was the appointment of Heikki Talvitie in July 2003, later replaced by Peter Semneby in March 2006, as the Special Representative for the South Cauca-

sus.²² The Special Representative is tasked with forging dialogue with the parties involved, encouraging regional cooperation, and contributing to the prevention of conflicts as well as their settlement through close collaboration with the UN Secretary General and the UN Mobile Team, OSCE and its Minsk Group.²³ The EU also appointed a special representative to Transnistria in 2005, launched the EU Border Assistance Mission (EUBAM) in November 2005 with the mandate of enhancing border management capacities of both Ukraine and Moldova as well as contributing to the peaceful resolution of the Transnistrian conflict and has gained the status of an observer in the 5+2 talks.

In the specific case of Georgia, the EU has already been present with its border monitoring and rule of law missions. After the August 2008 war, it became a significant security actor in the region through the French Presidency's mediation efforts for a ceasefire agreement as well as its active participation in the Geneva talks.²⁴ The political profile of the EU was mostly strengthened after the August war with the start of the EU Monitoring Mission (EUMM) in October 2008. Moreover, the appointment of Pierre Morel as the Special Representative for the Crisis in Georgia marked a further step in forging a direct role for the EU in conflict zones.²⁵

Although the EU is modestly increasing its leverage in the resolution of the conflicts in South Ossetia and Abkhazia, the Union's policy in the Nagorno-Karabakh conflict is still shaped by its hesitancy to be actively engaged in conflict resolution efforts. Instead, the EU prefers to support the activities of the OSCE Minsk Group for the political settlement of the conflict, as stated in the mandate of the EU Special Representative to South Caucasus in 2006 and reiterated by the Union at the OSCE Permanent Council on 14 May 2009.²⁶

The views from the Black Sea towards EU engagement

The EU's approach towards the region is threefold: First, it offers certain incentives such as cooperation or integration, thereby

Europeanizing the countries of the region through democratic reforms, strengthening institutional capacities, reconstruction of economies and building strong civil societies as well as directly intervenes in the region's protracted conflicts. Second, the EU mostly deals with the region on a bilateral basis, with limited recourse to dynamics of regionalism. Finally, the EU adopts a differentiated strategy towards Russia, Turkey and the ENP partner countries. This differentiated approach is reflected in those countries' reactions towards the initiatives of the EU.

View from Turkey

Turkey's attitudes towards the EU's policies in the Black Sea are both shaped by its bilateral relations with the EU as the only accession country of the region and the EU's initiatives towards the eastern partners. In the first case, the EU accession process for Turkey has lost momentum since it started negotiations in late 2005. The lowest moment came when the EU leaders decided in December 2006 to suspend negotiations on the eight of the 35 chapters until Turkey implements the Additional Protocol that extends the application of Turkey-EU Customs-Union fully by also admitting Greek-Cypriot aircrafts and ships to its ports.

EU's enlargement fatigue and the constitutional treaty discussions were the main reasons why the EU was engaged with issues other than Turkey's accession. EU's lack of commitment was also coupled with the changing attitudes of the member states, mainly in Germany, Austria and France, towards Turkish membership. These led to resentments about the EU process in Turkey, thereby raising concerns over the credibility of the EU.

Apart from its own accession process, Turkey's approach to EU's role in the region is also shaped by the EU's policies towards the eastern partners. As suggested by the Commission on the Black Sea, Turkey "has supported or initiated a number of regional cooperation schemes including BSEC, BlackSeaFor, Black Sea Harmony and the Caucasian Stability and Cooperation Platform. Turkey's overriding aim with these is the creation

of a region where, as they and the Russians say, extra-regional powers would not be needed in the security sphere.”²⁷ In other words, while supporting intra-regional efforts, Turkey is against an excessive overlay of external powers, even though it tries to become part of the EU.

However, as long as the EU addresses Turkey’s objective of increasing economic cooperation and intraregional trade, with a view to achieving steady GDP growth for the BSEC countries, Turkey supports policies of the EU towards the Black Sea. Turkey also opposes any initiative that would antagonize Russia, since it “carries interest in cooperating with Russia at all levels, the most important of which is keeping the Montreux Convention in force and enhancing mutual economic relations”.²⁸ Thus, as long as the policies of the EU create the ways in which the Black Sea economies are tied up to the global system, its interests with regards to relations with Russia are not jeopardized and the EU does not intervene “unilaterally” in security problems of the region, Turkey is supportive of the EU initiatives in the Black Sea area.

View from Russia

Although the Black Sea attracts much attention at the moment due to interrelated geo-economic and geopolitical factors, it did not attract such outside interest in the early post-Cold War years, when the Euro-Atlantic community was occupied with conflicts in the former Yugoslavia and trying to integrate the CEE countries. It was a low priority on the Euro-Atlantic agenda, while the ‘Russia first’ strategy of the US aimed to tame Russia and the EU overwhelmingly engaged with the wars in the Balkans. By contrast, Russia, chose to limit its sphere of influence to its ‘near abroad’, specifically the South Caucasus, Ukraine and Moldova. It also tried to tighten its control by signing the Collective Security Treaty in 1992 with Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Belarus, as well as Azerbaijan and Georgia, which later dropped out. Named as Near Abroad Policy (NAP), it referred to those states in the non-Russian post-Soviet

space, which until 1991 was part of the USSR. It implies that these countries are not as 'foreign' as others, and therefore may be subject to different rules or treatment. Russian leaders from across the political and military spectrums have regularly asserted that Russia has 'special rights' and responsibilities for maintaining security within this region.²⁹

Targeting the region as its own sphere of influence, Russia is wary of EU initiatives in the Black Sea. Some Russian strategists even "believe that such initiatives had the secret goal of undermining Russia's geopolitical positions in its traditional sphere of influence".³⁰ Thus Russia declined to be included in the ENP, since it was regarded as "patronizing because of the unilateral action by the European Commission", as well as its equal treatment with all the ENP targets was perceived as downgrading its status as a regional power in the region.³¹ Accordingly, in May 2003 EU and Russia created four common spaces (economy, freedom, security and justice, external security, research and education) within the context of their strategic partnership built in 1999. As a follow-up, the EU and Russia have launched a Partnership for Modernization in June 2010, aimed at cooperating on several issues such as investment in key sectors, socio-economic development, fight against corruption, enhancing dialogue with civil society and etc. Russia has a very skeptical tone on the EaP, expressed clearly by Sergei Lavrov, the Minister for Foreign Affairs: "We are accused of having spheres of influence. But what is the Eastern Partnership, if not an attempt to extend the EU's sphere of influence, including to Belarus".³²

Views from Eastern Partners

EU's direct and indirect initiatives for the Black Sea region are also subject to the resentment from the partner countries due to the issues of consistency, clarity and credibility. The issue of consistency is apparent in the application of conditionality in the comparative cases of Azerbaijan and Belarus. In the case of EaP, "democratic reforms are a clear precondition for deepening relations with Belarus, while Brussels has a more hesitant ap-

proach towards democratization in its relations with energy-rich Azerbaijan".³³ Moreover, the EU is alleged to have a differentiated and contradictory approach in its action plans. For example, a peaceful solution of the Nagorno-Karabakh conflict has been set as the first and seventh priority areas respectively in Azerbaijani's and Armenia's Action Plans. Both point out specific actions to "increase diplomatic efforts, including through the EUSR, and continue to support a peaceful solution of the Nagorno-Karabakh conflict", "encourage people-to-people contacts" as well as to "intensify the EU dialogue with the states concerned with a view to acceleration of the negotiations towards a political settlement".³⁴ Both also converge in their statements on "political support to OSCE Minsk Group conflict settlement efforts", but diverge in the basis of these efforts. According to the Azerbaijani Action Plan, the basis of OSCE's efforts is the "relevant UN Security Council resolutions and OSCE documents and decisions" The Azerbaijani document supports "the sovereignty, territorial integrity and inviolability of internationally recognized borders". In contrast, the Armenian Action Plan mentions "international norms and principles including the self-determination of peoples." The "self-determination of peoples" clause for Armenia and the "respect for territorial integrity" clause for Azerbaijan clearly reflect the contradictory and differentiated approach of the EU in the Nagorno-Karabakh issue.³⁵

The issue of clarity is another problem that disappoints the Eastern partners. The Black Sea Synergy suggests 13 fields of cooperation that would presuppose greater EU involvement in the region, and in the issues such as transport, energy and environment, it overlaps the various dimension of EaP. Thus, there are blurred lines between EaP and Black Sea Synergy, even though the Commission argues that those policies are complementary.

The Eastern partners' resentments also derive from the fact that EU is not a very credible actor in dealing with the problems of the region. Although the Union formulated various strategies through hundreds of pages, with ambitious objectives, the Union's plausibility in performing the assigned tasks is not perceived as satisfactory by the partners. For example, a report from the European

Parliament on the progress on Black Sea Synergy suggests that while the EU has done well in the environment, research or education sectors, it did not perform satisfactorily in the sectors of stability, democracy and good governance.³⁶ Moreover, the EU's track record in the resolution of the region's protracted conflicts is far from being satisfactory. For instance for Georgia, threat of military aggression from Russia is still a major concern, and the fact that the EU is almost invisible in resolving this issue downgrades the credibility of the Union as one of the great power players of the region. Lack of membership prospects in any of the EU initiatives directed to the region is also a cause of concern for the Eastern partners. Finally, the EU's credibility is jeopardized by its ambitious commitments and modest performance. For example, EU promises visa-liberalization in the long term, while in practice it can only offer visa-facilitation on a conditionality basis. Even Ukraine, "the first EaP country to have visa dialogue with the EU, has not been offered a road map" towards visa liberalization until November 2010. "This sends wrong message to partners, especially in the context of a visa regime lift for the Balkan states".³⁷

Conclusion and recommendations

The Black Sea region has been subject to the very problem of belonging. In the past, the region was either perceived as the Ottoman-Turkish lake, was dominated by Tsarist Russia or mostly under communist rule during the Cold War years. Now, it stands at the intersection where Turkey claims its status as a regional power, Russia considers it as a zone of Russian influence, and the EU has been formulating its own policies of transformation for creating a secure ring around its borders. The EU's policies in the region are comprised of its enlargement strategy towards Turkey, stabilization/integration approach towards the Eastern partners as well as a strategic relationship with Russia. Since the EU has compartmentalized its initiatives directed towards Black Sea, the target countries/or group of countries have diversified reactions towards the EU's vision in the region. In this context, a successful EU's engagement in the Black Sea area necessitates that the EU covers the expectations of the stake-

holders' from the region up to a considerable extent. Equally important for the successful functioning of the EU initiatives is the constructive partners' approach towards EU policies. Thus, this paper highlights the following recommendations:

For the EU

1. The EU should eliminate the blurred lines between its various Black Sea instruments, namely the Black Sea Synergy and Eastern Partnership. The overlapping areas of cooperation should be reconsidered, and the EU should clarify the different tasks assigned to those policies.
2. The EU should focus more on tangible offers, such as visa-liberalization and act in more credible manners in meeting its promises on paper.
3. Since most of the partners' desire EU membership, the EU should refrain from any action that would have the effect of creating concrete dividing lines between EU members and non-EU member countries of the Black Sea. In other words, doors of enlargement should not be closed.
4. Turkey and Russia's more inclusion in the EU initiatives contribute to the spirit of regional cooperation. EU's positive signals towards Turkey's progress to accession, as well as towards more deepened relations with Russia through concrete implementation of the proposals envisaged in the Partnership for Modernization as well as progress towards the conclusion of EU-Russia Partnership and Cooperation agreement.

For EaP Countries

1. Since neighbors' progress in democratization is a precondition for deepening bilateral relations, the EaP countries should attach utmost priority to their democratic reform process, so as to benefit more from the EU's initiatives.

2. For the EaP partners seeking EU membership, EU initiatives should be seen as a stepping stone for more EU integration in the region that might culminate in EU membership in future. EU policies in CEE as well as Balkans should be taken as strategic examples and these countries should get as much as they could from the EU initiatives in the Black Sea.
3. The EaP partners engaged in protracted conflicts should seek and lobby for more, effective and coherent EU involvement in conflict-resolution, so that they would have more constructive relationship with the EU either as partners or aspirants for membership.

For Turkey and Russia

1. Both countries should see that more involvement of the EU to the Black Sea issues would benefit both the region and their individual interests, rather than undermine them. As the EU has developed extensive expertise on issues ranging from environmental problems to managing ethnic conflicts, having more EU presence in the region might expand alternatives and ease some of the bottlenecks.
2. Turkey and EU should cooperate more and especially make an effort to better align their sub-regional policies, especially in the South Caucasus, where sometimes one's presence and initiatives undermines the other's efforts.
3. Russia should stop seeing EU as an actor bent on undermining its national policies in the region. Instead, making an effort towards more cooperation might bring benefits to both sides.

* Mustafa Aydın is a professor of International Relations at Kadir Has University, Istanbul; Sinem A. Açıkmese is Assistant Professor of International Relations at University of Economics and Technology, Ankara, Turkey.

¹ A Secure Europe in a Better World: European Security Strategy, 12 December 2003. Available at: <http://ue.eu.int/uedocs/cmsUpload/78367.pdf>.

² H. Haukkala, "A Hole in the Wall? Dimensionalism and the EU's New Neighbourhood Policy", UPI Working Papers, Vol. 41 (2003), p. 7-8.

³ The literature is quite prolific on how the EU deals with the border-changing effects of each enlargement. For an analysis and summary of the relevant literature as well as the "framework" and "actor" models, see Sinem A. Açıkmeşe, "European Union's Role in the South Caucasus", M. Aydin (der.), *Non-Traditional Security Threats and Regional Cooperation in the Southern Caucasus* (Amsterdam: IOS Press-NATO Science for Peace and Security Series Vol. 77, 2011), p. 163-183. Also, among others, see A. Missiroli, "The EU and its Changing Neighborhoods: Stabilization, Integration and Partnership" in J. Batt et al. (eds.), *Partners and Neighbors: A CFSP for a Wider Europe*, EU-ISS, Paris, 2003; O. Wæver, "EU as a Security Actor: Reflections from a Pessimist Constructivist on Post-Sovereign Security Orders" in M. Kelstrup and M. C. Williams (eds.), *International Relations Theory and the Politics of European Integration: Power, Security and Community*, New York: Routledge, 2000; H. Grabbe, *How the EU Should Help its Neighbors*, Centre for European Reform, London, 2004. Available at: www.cer.org.uk/pdf/policybrief_eu_neighbors.pdf; N. Tocci, "The EU and Conflict Resolution in Turkey and Georgia: Hindering EU Potential through the Political Management of Contractual Relations", *Journal of Common Market Studies*, Vol. 6 (2008) and *Conflict Resolution in the European Neighbourhood: The Role of the EU as a Framework and as an Actor*, Florence: EUI, 2004; and C. Hill, "The EU's Capacity for Conflict Prevention", *European Foreign Affairs Review*, Vol. 6 (2001).

⁴ For a detailed account on the transformation of CEEC's triggered by EU dynamics see, F. Schimmelfennig and U. Sedelmeier, *Europeanization of Central and Eastern Europe*, New York: Cornell University Press, 2005.

⁵ These Special Representatives are appointed to tasks in Kosovo, Macedonia, Bosnia-Herzegovina, Moldova, Georgia, the South Caucasus., and the Middle East Peace Process. For more information on Special Representatives visit <http://www.consilium.europa.eu/showpage.aspx?id=263&lang=EN>.

⁶ For a detailed account of the EU's ongoing and completed civilian and military missions, visit <http://www.consilium.europa.eu/showPage.aspx?id=268&lang=en>.

⁷ This part on the importance of the region after the end of the Cold War has been extracted from M. Aydin, "Europe's New Region: The Black Sea in the Wider Europe Neighborhood", *Southeast European and Black Sea Studies*, Vol. 5 (2005), p. 261.

⁸ The PCAs initially even used "the 'former Soviet Union' as the regional category of reference". See D. Lynch, "The EU: towards a Strategy" in D. Lynch (ed.), *The South Caucasus: A Challenge for the EU*, Paris, EU-ISS, 2003, p. 180.

⁹ TACIS (Technical Assistance to the Commonwealth of Independent States) was launched in 1991 by the Commission to sustain economic reform and development process in CIS and support their integration into the world economy. TRACECA (Transport Corridor for Europe-Caucasus-Asia), initiated under the

TACIS program, was launched in 1993 in order to develop alternative routes other than Moscow-centered trade and transport. INOGATE (Interstate Oil and Gas Transportation) initiated under the TACIS program, was launched in 1995 to attract private investment in the field of oil and gas and facilitate their transport.

¹⁰ European Commission, Regional Cooperation in the Black Sea Area: State of Play, Perspectives for EU Action Encouraging Its Development, Communication from the Commission to the Council, Brussels, 14.11.1997, COM(97) 597 final.

¹¹ Established in 1992, the BSEC officially became a regional economic organization with an international legal identity on 1 May 1999 with the entry into force of its Charter. It is the only organization that includes all six countries on the Black Sea (Bulgaria, Georgia, Romania, Russia, Turkey and Ukraine) as well as five neighboring countries (Albania, Armenia, Azerbaijan, Greece, Moldova and Serbia). For further information see <http://www.bsec-organization.org/Pages/homepage.aspx>

¹² European Commission, Agenda 2000: For a Stronger and Wider Union, Commission communication to the Council, Brussels, December 1997, COM(97), 659 final.

¹³ Wider Europe Neighbourhood: A New Framework for Relations with Our Eastern and Southern Neighbours, Communication from the Commission to the Council and the European Parliament, COM(2003) 104 final, Brussels, 11 March 2003, p. 4.

¹⁴ Commission of the European Communities, Communication From The Commission to the Council and the European Parliament: Black Sea Synergy – A New Regional Cooperation Initiative, COM (2007) 160 final, 11.04.2007.

¹⁵ Commission of the European Communities, Communication from the Commission to the European Parliament and the Council: Eastern Partnership, COM (2008) 823 final, 3.12.2008.

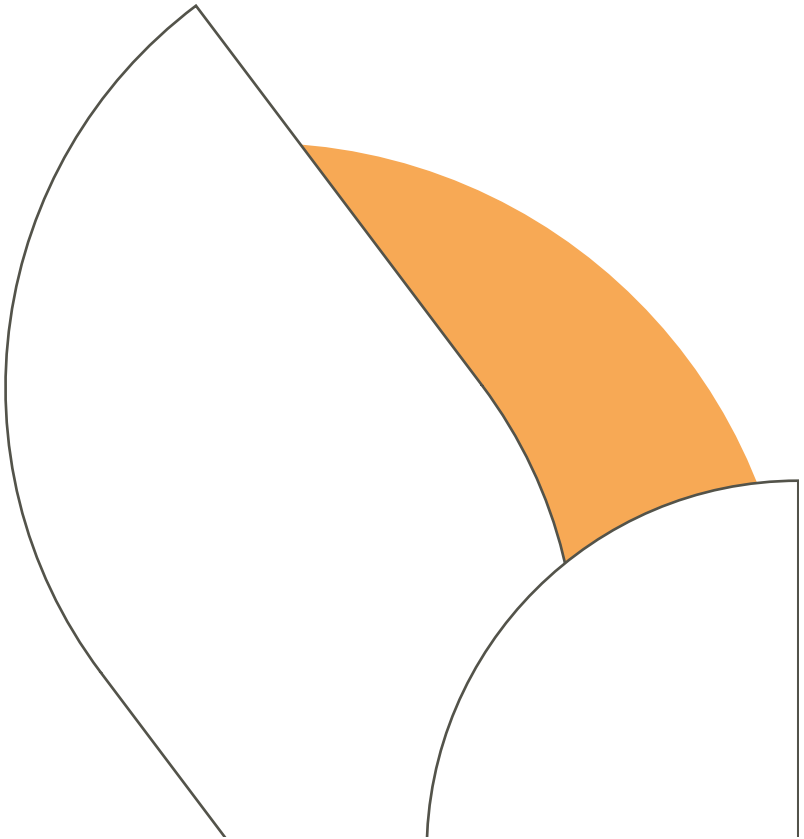
¹⁶ For detailed information see European Commission, European Union Strategy For Danube Region, Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and The Committee of the Regions, COM 2010 (715 final), 8.12.2010

¹⁷ For the Motion for Resolution see, Report on an EU Strategy for the Black Sea (2010/2087 (INI), 16.12.2010, available at <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2010-0378&language=EN>

¹⁸ The CSCE (now OSCE) Mission in Georgia was established in November 1992 with the objective of bringing a peaceful political settlement between the conflicting parties in Georgia. For the official text mandating the Mission, see CSCE, Establishment of the Personal Representative of the Chairman-in-Office for Georgia, 6 November 1992, Journal No 2, Annex 2. Available at: http://www.osce.org/documents/mg/1992/11/21953_en.pdf.

- ¹⁹ The Joint Control Commission with representatives from Georgia, South Ossetia, Russia and North Ossetia and with the participation of OSCE was established with the "Sochi Agreement on Resolving the Georgian-Ossetian Conflict" on 24 June 1992 in order to monitor the implementation of the Agreement which also created Joint Peacekeeping Forces (JPKF) comprised of Georgian, Russian and Ossetian units with the mandate of restoring peace in the conflict zones. For more information on JCC and JPKF, see International Crisis Group, Georgia: Avoiding War in South Ossetia, 26 November 2004. Available at: http://www.crisisgroup.org/~media/Files/europe/159_georgia_avoiding_war_in_south_ossetia.ashx.
- ²⁰ For detailed information on the UN's presence in the Georgian-Abkhaz conflict, see Susan Stewart, "Role of the United Nations in the Georgian-Abkhazian Conflict," *Journal on Ethnopolitics and Minority Issues in Europe* Vol. 2 (2003), p. 1-32.
- ²¹ The OSCE Minsk Group founded in 1992 co-chaired by Russia, U.S. and France lead negotiations on Nagorno-Karabakh.
- ²² Council Joint Action 2003/496/CFSP of 7 July 2003 Concerning the Appointment of an EU Special Representative for the South Caucasus, *Official Journal of the European Union*, L169/74, 8.7.2003; and Council Joint Action 2006/121/CFSP of February 2006 Appointing the European Union Special Representative for the South Caucasus, *Official Journal of the European Union*, L499/14, 21.2.2006. These Joint Actions on the EUSR have been revised since 2006 in order to extend and diversify the mandate of the EUSR.
- ²³ Council Decision 2010/109/CFSP of 22 February 2010 Extending the Mandate of the European Union Special Representative for the South Caucasus, *Official Journal of the European Union*, L46/16, 23.2.2010.
- ²⁴ Geneva talks between Russia and Georgia after the August War began in October 2008, with the UN, USA, Finland and the EU Presidency represented by France as observers.
- ²⁵ Council Joint Action 2008/760/CFSP of 25 September 2008 Appointing the European Union Special Representative for the Crisis in Georgia, *Official Journal of the European Union*, L259/16, 27.9.2008.
- ²⁶ For the provision of supporting OSCE Minsk Group activities of the Mandate see Article 3/d of Council Joint Action 2006/121/CFSP of 20 February 2006 Appointing the European Union Special Representative for the South Caucasus, *Official Journal of the European Union*, L 49/14, 21.2.2006. See also the Statement by the European Union at the 761st Meeting of the OSCE Permanent Council Regarding Nagorno-Karabakh, PC.DEL/349/09, 14 May 2009. Available at: [http://www.delvie.ec.europa.eu/en/eu_osce/eu_statements/2009/May/PC%20no.761%20-%20EU%20on%20Nagorno-Karabakh%20\[EN\].pdf](http://www.delvie.ec.europa.eu/en/eu_osce/eu_statements/2009/May/PC%20no.761%20-%20EU%20on%20Nagorno-Karabakh%20[EN].pdf).
- ²⁷ Commission on the Black Sea, A 2020 Vision for the Black Sea Region: A Report by the Commission on the Black Sea, available at www.blackseacom.eu

- ²⁸ C. Romila, "EU Security Involvement in the Greater Black Sea Area: A Romanian Perspective" in B. Balamir Coşkun and B. Demirtaş Coşkun (eds.), *Neighborhood Challenge: The European Union and its Neighbors*, Boca Raton: Universal Publishers, 2009, p. 300.
- ²⁹ For the NAP, see M. Emerson, *The elephant and the bear: The European Union, Russia and their near abroads*. Brussels: CEPS, 2001.
- ³⁰ A. Sergunin, "EU and Russia: An Eastern Partnership Muddling on?", available at www.opendemocracy.net/print/50014. For a similar argument see Sebastian Schaffer, "Russia and the Eastern Partnership: From Zero-Sum to Positive-Sum", www.opendemocracy.net/print/50035. Also see D. Triantaphyllou, "The Security Paradoxes of the Black Sea Region", *Southeast European and Black Sea Studies*, Vol. 9, 2009, p. 235.
- ³¹ G. Bosse, "European Union's Neighborhood Relations with Eastern Europe and Russia: Values, Interests and Future Challenges for EU Foreign Policy," in B. Balamir Coşkun and B. Demirtaş Coşkun (eds.), *Neighborhood Challenge: The European Union and its Neighbors*, Boca Raton: Universal Publishers, 2009, p. 317.
- ³² Quoted from Triantaphyllou and Tsantoulis, "The EU's Policies towards its New Eastern Neighbors", p. 15.
- ³³ *The Future of the Eastern Partnership: Challenges and Opportunities*, Conference Report, FRIDE, 27-28 January 2010.
- ³⁴ European Commission, *European Neighbourhood and Partnership Instrument: Azerbaijan Country Strategy Paper 2007-2013*. Available at: http://ec.europa.eu/world/enp/pdf/country/enpi_csp_azerbaijan_en.pdf.
- ³⁵ T. C. German, "Visibly Invisible: EU Engagement in Conflict Resolution in the South Caucasus", *European Security* Vol. 16 (2007), p. 367.
- ³⁶ European Parliament, *Report on an EU Strategy for the Black Sea*, 2010/2087(INI), 16.12.2010.
- ³⁷ *The Future of the Eastern Partnership: Challenges and Opportunities*, Conference Report, FRIDE, 27-28 January 2010.



2

Partners Far Apart: Economic Development in the Eastern Partnership's States of the Black Sea Region

Panayotis Gavras*

Introduction

- Since independence in 1991, the Eastern Partners have undergone significant transformations, chief among them the shift from a centrally planned to a market based economic system
- Despite significant structural differences, Eastern Partners' share common geopolitical characteristics, and these have tended to play a predominant role in the evolution of their political and economic situations
- Over the years, the Eastern Partners have broadly followed similar patterns of economic performance, albeit at differing rates of growth
- All remain relatively poor and vulnerable to external shocks and influences. They can (i) improve their resilience by focus-

ing on reforms to improve fiscal strength, governance and business environment, and (ii) diversify their growth base and competitiveness by enhancing regional economic activity and cooperation

- Reducing geopolitical isolation is crucial for the greater integration of the Eastern Partners into the broader European political and economic context
- The priority policy for all Eastern Partners needs to be the achievement of high rates of balanced and sustained economic growth
- The EU, as the most influential multilateral grouping, has a key role to play in helping the Eastern Partners achieve their development objectives

Overview of the Eastern Partners¹

The five countries covered in this paper- Armenia, Azerbaijan, Georgia, Moldova, Ukraine, collectively referred to as the Eastern Partners- exhibit considerable diversity in terms of demography, geography, and politics. Their economic structures are also differentiated. Azerbaijan possesses rich energy resource endowments and is dependent on energy exports, something which has resulted in more rapid economic growth than the others, but at the expense of the lack of development of other sectors of the economy. Ukraine possesses an extensive industrial base that engages in low value added productions and is vulnerable to terms of trade shifts, but due to its size it also possesses relatively more diversified agricultural and service sectors. Armenia, Georgia and Moldova experienced significant post-Soviet de-industrialization and consequently have larger agricultural and service sectors. They remain relatively poorer, with emigration levels in excess of the population and a high dependence upon continued inflow of remittances and the foreign aid to boost domestic demand and help alleviate poverty. Economic interaction among these states ranges from non-existent to low. Collectively, the European Union (EU) has emerged as their main

trading partner and is also the principal source of foreign direct investment and financing. Russia, however, remains the largest individual trade partner for most and is the most significant source of remittances, with Turkey emerging as a growing regional economic partner in recent years.

Despite the differences, the Eastern Partners share considerable geopolitical similarities. These geopolitical characteristics have generally defined prevailing perceptions for these states, and have tended to play a more significant role than their political and economic differences. First, the five Partners emerged as newly established independent states from the dissolution of the former Soviet Union in 1991, having developed the necessary institutions for sovereignty, even if outreach and capacity remain weak and governance is often problematic.

A second element common to all of them is that they have experienced significant transformations over the past two decades. As constituent republics within the former Soviet Union, they were provinces of a centralized political entity in which economic activity was based upon central planning and economic entities (firms, banks, farms, etc.) were either state owned or collectivized under state control. There was little meaningful legal private sector activity. Upon becoming independent, each state began a shift towards a market based economic system. The state relinquished ownership of many assets and withdrew from operation in most sectors of the economy, while the private sector expanded rapidly, filling in the vacuum and also branching into entirely new areas- particularly in the services sector. Economic institutions were overhauled, prices and exchange rates were broadly liberalized, and there was greater freedom of activity. All Eastern Partners now have market oriented systems and focus to varying degrees on so-called 'second generation' reforms, those which seek to preserve prospects for sustained growth and to strengthen the institutions of the state, the market, and civil society².

A third area is with respect to multilateral economic configurations. While a part of the Soviet Union, there existed no regional

economic institutions for the Black Sea Region (save perhaps for COMECON). Today, there are numerous multilateral organizations seeking to promote regional cooperation and economic integration. This proliferation of initiatives testifies to the widespread acknowledgement of the importance of multilateral regional cooperation, although thus far it mostly manifests in form rather than in substance. Of all the multilateral groupings, the European Union (EU) is by far the most significant, even though no Eastern Partner is a member, nor even enjoys prospects of membership in the EU. This significance is mainly political, but also economic, in terms of the flow of goods, services, capital and people (including but not limited to labor). Underscoring this is that the term 'Eastern Partners'- the one applied to the five countries reviewed here- is an EU concoction, derived from the countries being classified unilaterally by the EU as the targets of its Eastern Partnership policy. With the accession of Bulgaria and Romania in 2007, the EU has extended to the Black Sea and is a direct bordering neighbor of Moldova and the Ukraine, and far more proximate to the Caucasus countries, which border with an EU accession candidate (Turkey). However, while the EU has developed a number (and sometimes conflicting) policies to guide its relations with the Eastern Partners, its overall level of engagement with the Eastern Partners remains relatively limited, especially if compared to the Western Balkans.

This leads to a fourth significant geopolitical commonality at present: because the Eastern Partners are small, poor and an arena of geopolitical rivalry, they are insufficiently attractive for EU countries- and EU banks and enterprises. The degrees of isolation vary - Ukraine is large in size and contains an industrial base and domestic market that leaves it less isolated than others. It is the most geographically proximate, sharing borders with three EU members, and it is not involved in any armed conflicts. Moldova is proximate and borders one EU member, but is frequently overlooked since it is the poorest state in Europe and is further burdened by the persistence of the Transdnistria conflict. Azerbaijan is the most remote Eastern Partner geographically, and is burdened by the Nagorno-Karabakh issue, but attracts some attention thanks to its energy resources

which appeal to the EU and its objective to diversify its suppliers of energy. Armenia and Georgia are remote geographically, small, poor, and further isolated by ongoing geopolitical conflicts that bring them into confrontation with much larger, wealthier neighbors who blockade them, thus exacerbating their isolation and increasing prevailing perceptions of country risk.

Table 1: Estimated Economic Decline in Eastern Partners in the 1990s³

Transition State or Group of States	Cumulative GDP output decline to lowest level (1989=100)	Year in which output was lowest	Est. GDP Output in 2010 (1989=100)
Armenia	-65.1	1993	110.3
Azerbaijan	-63.1	1995	207.5
Georgia	-76.6	1994	57.7
Moldova	-69.2	1999	49.7
Ukraine	-64.5	1999	56.7
Russia	-53.5	1998	100.1
Central and E. Europe (CEE)	-27.9	1992	N/A
Baltics	-43.4	1994	N/A
Ex-USSR (except Baltics)	-54.2	1995	N/A

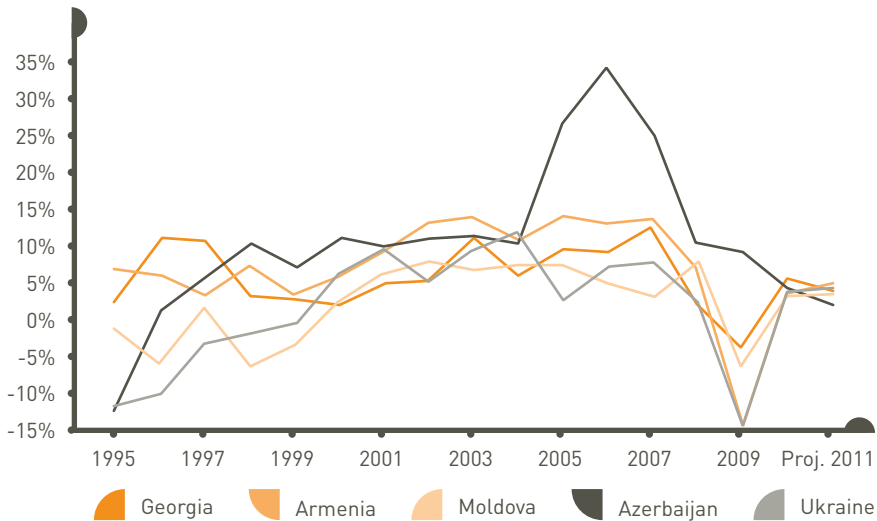
Economic development in the Eastern Partners 1989-2008

In broad terms, the economic performance in the Eastern Partners in the period 1989-2008 may be divided into three stages. The first stage lasted until roughly 1995, representing the initial phase of economic transition for these states from centrally planned to market based economic systems.

For the five Partner states, this period was marked by sharp economic decline including (i) the collapse of old systems of production and distribution, (ii) weak or non-existent legal frameworks, (iii) non-functioning financial sectors, (iv) radical, but either misunderstood or inconsistently implemented, structural reforms, (v) macroeconomic instability highlighted by high inflation (even hyperinflation) and lack of fiscal control, and (vi) the challenge of needing to establish the apparatus and institutions of newly sovereign states. As Table 1 shows, the decline in the Eastern Partner states was more severe than the average declines observed for other transition states, with the contractions reaching 65-75%. This led to an increase in poverty levels, emigration, and substantial worsening of numerous other macroeconomic indicators (government deficit, debt, etc.). In the Caucasus, the contraction was sharp but relatively swift, with recovery underway by 1995. By way of contrast, the contraction was more protracted in Moldova and Ukraine, which bottomed out in the aftermath of the 1998 Russian financial crisis.

The second stage, covering the latter half of the 1990s, was generally characterized by stabilization and consolidation. Security and political stability improved, the initial phase of market oriented structural reforms was consolidated and began to have a positive impact, and macroeconomic situations improved and by 1999 had stabilized in every country (see Figure 1). Economic performance was better- the Caucasus states posted positive economic growth, while economic decline continued in Moldova and Ukraine, but at a slower pace, bottoming out in 1999. The countries had to contend with a number of shocks during the period, chiefly the 1998 Russian financial crisis which impacted them via contagion (especially Ukraine which suffered its own debt crisis) but also by a slowdown in economic activity since Russia was the principal trading partner and/ or source of remittances for every country. Despite the adverse immediate impacts of these crises, they also brought benefits, as the economies demonstrated resilience under trying circumstances. Moreover, the crises (i) spurred new structural economic reforms and (ii) forced a consolidation of fiscal accounts that paved the way for macroeconomic stabilization.

Figure 1: Eastern Partners' Growth Trends 1995-2011



The third stage dates from 2000 and continued up through the third quarter of 2008 (see Table 2). This was a period of high and sustained growth based upon a series of factors including:

- Improved adaptation to a market oriented system by the population at large, including improvements in legal frameworks and in their implementation;
- Previously undertaken reforms- often socially painful or costly- began to pay dividends and have a positive impact, and there was a strong output response from industries which benefited from declining interest rates and earlier currency devaluations;
- Greatly improved macroeconomic stability and enhanced credibility of governments, resulting in declining inflation, fiscal deficits and external debt and debt-servicing ratios;
- Benign global economic conditions and enhanced trade and investment linkages with the wealthy proximate markets of western and central Europe.

Real GDP growth from 2000-2008 averaged 5.9% per annum in the Black Sea Region, equal to a cumulative real economic expansion of nearly 68% (see Table 2). The Eastern Partner countries for the most part fared even better. On the strength of energy resource income, Azerbaijan averaged growth of 16.6% and nearly quadrupled the size of its economy in real terms. Armenia also enjoyed double digit growth on average, on the strength of strong inflows of remittances, diaspora capital, investment, and foreign assistance, and a benign environment which permitted it to increase exports substantially. Georgia and Ukraine also enjoyed growth above the average for the Black Sea Region, albeit with some year to year volatility. Georgia benefited from strong inflows of remittances, foreign direct investment and foreign assistance, as well as transit revenues from energy pipelines traveling from Azerbaijan to Turkey and the West. Ukraine's growth was based on recovery of heavy industries such as steel, which benefited from rising global prices. Inflows of capital became increasingly important over the period, and while some was due to higher investment levels, Ukrainian firms and banks also borrowed increasingly in foreign currencies. Moldova's growth was a bit lower and in line with regional averages. Remittances, which exceeded one quarter of annual GDP, played the most significant role in fueling the growth, as other external inflows were more limited.

Table 2: Growth Trends During the Boom 2000-2008 Period

	Average Annual Real GDP Growth Rate 2000-08	Cumulative Increase in GDP 2000-2008 (1999=100)	GDP Per Capita US\$ in 1999	Proj Nominal GDP Per Capita US\$ in 2010
Armenia	11.2%	259.4	US\$ 571	US\$ 2,587
Azerbaijan	16.6%	389.6	US\$ 576	US\$ 5,595
Georgia	7.0%	182.4	US\$ 626	US\$ 2,432
Moldova	5.9%	167.2	US\$ 321	US\$ 1,430
Ukraine	6.9%	181.8	US\$ 633	US\$ 3,101
Black Sea Region Avg	5.9%	167.7	US\$ 2,100	US\$ 9,382

During this period living standards rose, poverty rates dropped, trade and investment picked up, and there was increased integration in the broader global economic context. The improvements are most dramatically underscored by the rise in per capita income levels (see Table 2). While these figures (i) hide significant inequalities in income distribution, and (ii) are inflated by the decline of the relative value of the dollar, the overall changes are robust for a period of less than a decade. For Azerbaijan it was especially impressive, as it moved from a lower income country to a middle income country.

Impact and implications of the 2008 global crisis on the Eastern Partners⁴

The virulence with which the financial crisis of September 2008 impacted all of Eastern Europe- Black Sea Region included- resulted in a sharp halt to growth. The global financial crisis quickly turned into a regional economic downturn, especially hitting those economies viewed as most vulnerable, with vulnerability determined by the apparent dependence upon continued inflows of foreign capital. External financing suddenly became either difficult or impossible to obtain for governments, banks and firms. International trade flows dropped, slowing exports, and the ensuing economic contraction in Western Europe entrenched reduced demand for goods and resources from Eastern Europe- the latter exacerbated by declines in commodity prices. An additional factor for Armenia, Georgia, and Moldova was the decline in remittances from migrants and co-nationals abroad which reduced domestic demand.

As a result, Armenia and Ukraine suffered vicious contractions in real GDP of -14.2% and -15.1% respectively, while Georgia and Moldova suffered less severe declines of -3.9% and -6.5% respectively, with part of Georgia's decline being an effect of the war with Russia in the summer of 2008. Azerbaijan was an outlier, experiencing a decline to its high rate of growth to +9.3%, as rising receipts from oil gas projects coming online

helped it to maintain growth and ensured continued inflow of foreign exchange.

Although the contraction came after years of successive growth and was manageable at the macroeconomic level, many businesses failed, unemployment jumped after years of steady decline, and poverty rates began to rise once again, with isolated areas or 'single company towns' most at risk. To be sure, the contraction also brought a reduction in inflation levels, a symptom of the overheating, as well as a correction to current account imbalances. While this represents a positive step since some economies were overheating and imbalances had grown to worrying levels, it was not the result of a rebalancing of rising trade flows or improved export performance by deficit countries, but rather the result of declines in trade caused by the economic downturn. It was a case of painful collapse, rather than managed adjustment.

One consequence of the downturn with potentially serious long term implications is the observed fiscal deterioration which risks becoming structural in nature, and thus extremely difficult to ameliorate. Tax receipts declined, reducing revenues, while there was upward pressure on expenditures resulting from the rise in unemployment and the jump in social safety net payments that usually rise when recessions begin. A further deterioration took place in the government finances of countries with high foreign reserve levels such as Azerbaijan (although the picture has improved in 2010 due to improved receipts), which undertook fiscal stimulus measures with its reserves in order to counteract the decline in private sector activity.

Azerbaijan's high foreign exchange revenues from energy sources kept it immune to shortages of access to foreign exchange. However, this option was not available to the other Eastern Partners, nor did they enjoy access to capital markets in order to undertake some form of stimulus program. Instead, the sole policy route left for these countries to follow in response to the economic downturn was the restoration of external balances (primarily), and fiscal balances, via austerity, despite its negative contractionary effects.

The four energy importing Eastern Partners have been unable to take measures sufficient to re-open lending, nor could they access risk averse international capital markets at reasonable cost. As a result, official sources such as international financial institutions (IFIs) and donors, particularly the EU, were left as the only primary option for external financing. IFIs, in turn, increased significantly their commitments to Eastern Europe to record levels, and the International Monetary Fund (IMF) quadrupled its available resources early in 2009, and concluded agreements worth tens of billions of dollars in Eastern Europe, including with the Eastern Partners (See Table 3).

The situation was even more difficult for private firms, as they were off cover for most international lenders- upon whom many

Table 3: IMF Support for Eastern Partners Due to 2008 Economic Crisis

	Date	Type of Program	Approximate Amount
Armenia	March & June 2009	Stand-By Arrangement (Cancelled June 2010)	US\$ 800 million (US\$ 525 million disbursed)
Armenia	June 2010	Extended Credit Facility/Extended Fund Facility	US\$ 395 million
Georgia	September 2008	Stand-By Arrangement	US\$ 750 million
Georgia	July 2009	SBA Extension	US\$ 420 million
Moldova	January 2010	Extended Credit Facility/Extended Fund Facility	US\$ 574 million (SDR 370 million)
Ukraine	November 2008	Stand-By Arrangement (Cancelled July 2010)	US\$ 16.9 billion (US\$ 10.5 billion disbursed)
Ukraine	July 2010	Stand-By Arrangement	US\$ 15.2 billion

had relied prior to the crisis. For small and medium enterprises (SMEs) the situation was especially dire, and their heavy reliance on SME schemes by donors and IFIs for financing closely mirrored that of the early years of transition.

Regional financial institutions found themselves similarly cut off from international capital markets. Furthermore, they faced the risk of a run on their capital due to general uncertainty, thus creating risks for the entire financial system, as well as fears that their capital position might deteriorate further as losses were realized on loans provided to firms that faltered due to the recession. With the exception of Ukraine, however, the Eastern Partners- and indeed most of the Black Sea Region- avoided financial crises. A key reason for this is that the size of the financial sector in the Eastern Partners is small relative to the size of the domestic economy. Given that the economies are small to begin with, the absolute levels appear very small. The size of the financial sector, as measured by the level of domestic credit as a share of GDP, stood at 7.4% in Armenia at end 2009, 23.1% in Azerbaijan, 33.2% in Georgia, and 41.6% in Moldova. These figures are very modest in comparison to other European countries. Indeed, the relative underdevelopment of the financial sector and the lack of effective intermediation in the economy is one reason for which economic development is lower in these countries, and in the past development of the financial sector was seen as (and remains) an important tool to help mobilize resources for increased growth. Thus, even though there had been rapid growth in these countries in the years preceding the crisis, less damage was done to their financial sectors, which were smaller to begin with and thus had a smaller impact on the overall economy.

Despite the constrained economic setting in which they operated, governments adopted measures that succeeded in restoring financial stability. Banks remained adequately capitalized, and they avoided the worst effects of the liquidity crisis and dangerous levels of impairment to their loan portfolios. With the return of economic growth in late 2009 and into 2010, the threat of further deterioration in banks' capital position has receded. Private credit growth in these countries has begun to grow again, albeit at a more gradual rate than prior to the crisis.

Ukraine differs from the other Eastern Partners, and from most of Eastern Europe, in that it suffered a financial crisis along with an economic crisis. Ukrainian banks and enterprises had borrowed heavily in foreign currencies during the boom period, resulting in an overheating of the economy and rising imbalances (current account deficit, privately owed external debt, inflation, etc.). The freezing of markets in late 2008 and subsequent reversal of capital inflows and collapse in output left Ukrainian banks highly exposed, with large mismatches of foreign exchange funding and high reliance on wholesale financing from abroad (and low foreign exchange deposits). Deposit withdrawals and capital flight put banks under pressure, a situation exacerbated by a depreciation of the hryvnia in late 2008.

Against a background of collapsing economic output- and rising non-performing loans also- the government was forced to address the impending financial collapse by implementing an emergency program with the central bank intervening to support a number of banks and to guarantee liabilities of the largest banks. Under the IMF Stand-by Agreement (SBA), an amount equal to nearly 5% of GDP was set aside to recapitalize banks (the total cost of recapitalization is estimated at 15% of GDP), with the central bank committing (i) to strengthen the supervision system and enforce new higher capital requirements rigorously and (ii) to take over the most troubled banks and either re-privatize them, once nursed back to health, or else close them. Prior to the Greek program in early 2010, the US\$25.7 billion SBAs (plus an additional US\$ 6.8 billion from other official financiers) represented a record amount for the IMF and were used to support Ukraine's balance of payments as well as the financial system.

Ukrainian banks realized substantial losses in 2009 as they restructured, increased provisions, tried to clean up their balance sheets and attempted to improve their capital and liquidity situations. One implication of this was a sharp drop in new lending, which worsened the economic downturn. As of late 2010, the situation appears to have stabilized and bank liquidity has improved. However, it is still fragile, as bank credit remains limited due to pressure from nonperforming loans and heightened risk

aversion. Moreover, the lack of access to credit is constraining growth as enterprises lack financing in order to increase their output, and a large number of non-performing loans remains a 'time bomb' that will require attention.

Returning to growth-challenges for the Eastern Partners

For the Eastern Partners, the worst of the crisis appears to have passed (See Table 4). While there remains uncertainty, as well as the danger that new external shocks may set back recovery, growth for 2010 is positive, with expected real GDP growth rates for the year between 3.0-5.5%. This fits nicely with the expected real GDP growth rate of 3.5-4.0% for the Black Sea Region as a whole. For most states, such growth represents only the beginning of a recovery from the much larger contraction experienced in 2009, but the trend has picked up momentum and the solid performance of most countries also generates guarded optimism about prospects for the 2011-2014 period.

Table 4: Summary Real GDP Growth 2009-2011

	2009 Actual	2010 Estimate	2011 Projection
Armenia	-14.2%	4.0%	4.6%
Azerbaijan	9.3%	4.3%	1.8%
Georgia	-3.9%	5.5%	4.0%
Moldova	-6.5%	3.2%	3.5%
Ukraine	-15.1%	3.7%	4.5%
Russia	-7.9%	4.0%	4.3%
Turkey	-4.7%	7.8%	3.6%
Black Sea Region Avg	-6.2%	3.7%	3.3%

The growth has been restored in part due to base case effects following the 2009 contraction. But the recovery has been larger than initially expected due to strong export growth in Armenia, Georgia, and Ukraine as global prices for base metals, steel, and other commodities have rebounded in 2010, and domestic consumption in all countries has begun to bounce back after a sharp drop in 2009. Russia's recovery in particular has buoyed Armenia, Moldova and Ukraine, all of which maintain close trade and investment ties, and it has led to a recovery in remittance levels, which are significant for domestic consumption (and poverty alleviation) in Armenia, Georgia, and Moldova. Similarly, Turkey's strong performance in 2010 has provided a boost to Azerbaijan and Georgia.

With the global economic environment fluid and volatile, predictions beyond 2010 are fraught with uncertainty. The possibility of new exogenous shocks that set back economic growth is always present and impossible to predict in terms of timing and impact. With this sizeable caveat, in 2011 real GDP growth appears likely to continue in the Eastern Partner states at a rate of 3.5-4.5%, a pace which is clearly lower than the high rates achieved during the 2000-2008 boom period, but likely a bit higher than the rate of growth for the Black Sea Region overall, and certainly higher than that for the EU. This suggests that the process of convergence to the levels of high income countries of the EU has been restored, albeit at a slower pace than before and with an extremely long road still ahead.

Eastern Partners' per capita income levels are a mere fraction of the average EU level (approximately US\$ 33,000), which suggests that they are decades away from convergence to the EU, even under the most optimistic forecasts. It also underscores that the priority policy for the foreseeable future for all of the Eastern Partners needs to be achieving high rates of balanced and sustained economic growth. Other important challenges- demographic, environmental, geopolitical, etc.- need to be considered in the context of this overriding policy imperative.

Sustained economic growth is also essential for the Eastern Partners to address- or at least mitigate- the other common problem

they face: their relative geopolitical isolation. This peculiar geopolitical position has origins that lie beyond the control of the Eastern Partner countries and, as with exogenous economic shocks, they are vulnerable to changing political moods among the greater powers that surround them. For example, the EU's relationship with Russia has political and economic ramifications that spill over to the Eastern Partners. Good relations between the EU and Russia would facilitate closer relations with the EU for the Eastern Partners, while poor EU-Russia relations and political and economic distancing would affect not just Russia, but would also create competing sources of influence over the Eastern Partners.

Sustained and balanced economic growth of the Eastern Partners will not solve all overriding issues, but in addition to improving living standards domestically and increasing engagement in the global economic context, it will improve the countries' attractiveness as economic partners for outsiders (including for the EU), and it will help them to increase their political and economic 'weight'. The economic prospects of a country may be improved by political reforms that help to reduce its perceived country risk levels. These measures may include resolving the frozen conflicts, improving the quality and capacity of governance, and expanding and consolidating democratic reforms.

Moreover, there are economic issues over which countries have control and measures which they can take to improve their situation, as well as to increase their attractiveness for trade partners, potential investors, and external financiers in a global setting where competition for available resources is high. Countries have it well within their power to help themselves by ensuring domestic laws and frameworks exist (i) to improve the business environment, including the ease of creation and operation of firms, (ii) to upgrade the quality and effectiveness of regulatory activities, (iii) to improve the transparency and operation of their legal systems, including issues such as arbitration, facilitating rapid restructuring of private debt and corporate reorganization, and bankruptcy, (iv) to establish targeted social safety nets, within the fiscal means available, to assist unemployed workers and disadvantaged groups to mitigate some of the worst effects of the crisis, and (v) to institute mechanisms to support the smooth

operation of domestic financial systems – including measures such as ensuring health of banks and ensuring capital adequacy, improving regulation and enforcing rules fairly and objectively, establishing or improving credit and collateral registries, etc.

With lending from foreign sources down and unlikely to return to pre-crisis levels, the economies of the Black Sea Region will need to tap into their own (domestic) resource bases to a greater degree. Capital flight, a problem which returned perniciously during the financial crisis, is one area to target and the return of capital from abroad and increased confidence in local financial systems will help mobilize resources. Beyond that, local banks (and financial regulators) need to ensure that in addition to shoring up their capital base, the lending activity of banks does not deviate unviably from their deposit base, and that growth results ‘organically’ with reference to available resources, rather than in speculative form. Attracting more remittances into the formal banking system would help in this regard. More generally, governments need to take measures to increase productivity and efficiency, as well as policies that may facilitate higher investment. This should include structural reforms in key sectors such as agriculture and energy, and should extend to creating open, competitive- and where necessary well regulated- environments throughout the economy.

Table 5: Trade Patterns Among Eastern Partners 2008-2009

	Intra EaP Trade 2008		Intra EaP Trade 2009		BSEC Trade %GDP		Total Trade % GDP	
	US\$m	%GDP	US\$m	%GDP	2008	2009	2008	2009
ARM	470.9	4.0%	311.4	3.6%	18.2%	19.2%	41.9%	41.4%
AZE	1,288.0	2.6%	1,157.3	2.7%	11.0%	10.2%	78.1%	64.2%
GEO	1,803.6	14.1%	1,180.2	11.0%	30.2%	27.4%	67.9%	56.7%
MOL	1,000.1	16.5%	555.2	10.3%	54.5%	39.0%	107.6%	85.3%
UKR	3,464.4	1.9%	2,265.0	1.9%	27.6%	24.6%	84.2%	72.5%

Note: Figures based on total trade turnover (exports plus imports) as reported by National Statistical Agencies

An additional potential 'motor' for greater growth lies in the economic interaction of neighboring countries; that is, greater emphasis upon the development of regional economic relations and cooperation. Although this is partly predicated on conflict resolution, it represents an area of huge untapped potential, with much scope for growth in order for countries to achieve sustainable mutual political and economic gains, and to increase competitiveness, efficiency, and prosperity. Indeed, economic interaction among the Eastern Partners is low- only Georgia and Moldova have trade levels with other Eastern Partners that are worth noting- and while the countries have some stronger links to other regional trade partners, even within the Black Sea Region the numbers are very modest in both relative and absolute terms (See Table 5).

Even in the current environment of constrained resource availability and low appetite for new initiatives, there is much that countries can do at very low cost to coordinate with neighboring states in order to facilitate increased cross-border trade, financing, and investment by improving the business climate, facilitating exchanges within the business and financial communities, and removing non-tariff barriers and other institutional obstacles which hinder economic activity. Furthermore, given prevailing perceptions of high country risk, success in demonstrating cooperation would improve the image of the countries, and their attractiveness, conferring political benefits above and beyond the economic gains.

Institutional frameworks within which to work exist. For example, the Eastern Partners, in partnership with neighboring states, could coalesce around the sole wholly inclusive and indigenously developed initiative- the Organizations of Black Sea Economic Cooperation (BSEC). This could begin with policy dialogue and information exchanges, and continue with institutional cooperation or policy coordination. As it develops, it could evolve into (i) institutional harmonization measures, (ii) the establishment of institutional structures, and (iii) the commitment and/or pooling of resources for projects and other activities. To date, however, there has been little action at regional level, other than

some sector dialogue within the forum of BSEC. Nor does there appear to be discernible political will of any significance in this direction at the present time.

The role of the European Union

From an economic point of view, the EU is a very important center of gravity for the Eastern Partners. However, the Eastern Partners are integrated economically with the EU to a lesser degree than other EU 'Neighbors' such as those from the Maghreb. The EU is a significant trade partner for all the Eastern Partners, and for Moldova and Azerbaijan it is the largest, accounting for around 45% and 40% of their trade volume, respectively. For the other Eastern Partners it accounts for less than 30% of their trade volume. The EU is the largest investor in the Eastern Partners, with the exception of Armenia. However, it is worth noting that for the largest country, Ukraine, investments from Cyprus account for a significant part of EU based FDI even though much of that financing represents holdings of Ukrainian or Russian entities. Thus, the EU is a "minority shareholder" in the cumulative FDIs in the Eastern Partners, playing a significant role only in the case of Moldova and Azerbaijan and Georgia (for energy). With regard to remittances, although a large number of expatriate workers from the Eastern Partners works in the EU, the main emigration destination as a country remains Russia – by far- for all of the Eastern Partners. In the area of financial assistance, the EU is the main source of financial aid for Georgia and Moldova, providing amounts which have enormous importance for their economies.

The question of a European country's relationship vis a vis the EU has also significant economic ramifications as a function of both (i) whether the country seeks membership or closer association with the EU, and (ii) to what extent the EU (and its existing members) opts to engage and deal with the country. In the case of the Eastern Partners, the latter is far more important than the former, and their relations with the EU are defined by the EU's European Neighborhood Policy (ENP) and within the framework

of ENP (i) the Eastern Partnership and (ii) the Black Sea Synergy. A key element of ENP involves deepening economic cooperation according to EU rules and standards, and increasing trade and investment flows between the EU and the ENP countries. Though much maligned, ENP nevertheless represents the most extensive degree of engagement by the EU with the Eastern Partners. And, to some degree, the ENP countries have drawn closer to the EU—albeit short of the prospect of membership, and far short of the attention paid by the EU to the Western Balkans.

At the risk of oversimplifying, the dilemma of the Eastern Partners may be summarized as follows – the countries are too poor and isolated to be attractive, and remote enough that the EU (and the West) have the luxury to ignore them or engage them selectively when an issue of interest to them arises, irrespective of whether or not this represents a priority for the Eastern Partners (energy, migration, organized crime). The EU has also deferred indefinitely the question of potential eligibility for membership, even though Georgia, Moldova and Ukraine have expressed their interest in joining the EU, and all the Eastern Partners have a European orientation, being members of European forums such as the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE). This is in sharp contrast to the Western Balkans, which are just as poor and conflicted, but are surrounded by EU members on all sides and thus too centrally situated to be ignored. As a result, the western Balkans benefit from a far greater degree of attention from the EU (in terms of amounts of financing, inclusion, and favorable policies), and they enjoy an ‘EU membership perspective’, that is the prospect of accession to the EU at a future- if undetermined and distant- date.

For the foreseeable future, a ‘muddling through’ approach to the Eastern Partners is the likeliest scenario, with some low level or cosmetic set of additional measures, as the EU focuses on other priorities and remains internally divided concerning policy towards the Eastern Partners. Although, as with so many other things concerning the Eastern Partners, this too is characterized by a high level of uncertainty and lack of clarity.

Nevertheless, the EU will remain a significant long term point of reference and driver of change, although key questions are 'in what direction', 'at what pace', and 'on what terms'. At one end of the spectrum, it could provide a membership perspective as it has done with the western Balkans, and support locally developed and owned regional cooperation efforts in order to bring EU members and neighbors together in the Black Sea Region. In short, the EU could make a low cost, low commitment effort to engage the Eastern Partners by making them feel welcome in the 'European family', to help increase their attractiveness and above all to reduce their sense of isolation. At the other end of the spectrum, the EU may continue to refuse to provide a membership perspective -or more extremely, explicitly declare that there is none as it has done with non European countries like Morocco. After a tentative drawing closer under ENP and the bilateral aspects of the Eastern Partnership, it could freeze further initiatives, or possibly even reverse the current ones, thus pushing the Partner countries away and intensifying their isolation and vulnerability.

Concluding remarks

For the Eastern Partners, economic prospects are favorable in the strict sense that they are well positioned to experience real GDP growth on the order of 4% or so in coming years. While such a rate would be higher than that for the EU, and likely for most other Eastern European states the Eastern Partners have a very long and difficult way to go if they hope to reach EU living standards- several decades at a minimum.

In addition, the growth is likely to be more volatile than that in more developed countries since the Eastern Partners are considerably more vulnerable to exogenous shocks (positive as well as negative), and tend to be dependent for their growth on a more limited range of activities than more developed economies which are generally more diversified, enjoy easier access to financial markets, or have developed more effective social protection schemes, and are thus better positioned to absorb unexpected events, sharp changes

in terms of trade, geopolitical shifts, and other shocks. While the Eastern Partners have demonstrated admirable resilience over the past two decades, and an ability to bounce back from adversity, the social and economic costs have been high.

Reducing their geopolitical isolation is key for the greater integration of the Eastern Partners into the broader European political and economic context, and for achieving higher, sustained growth. The Eastern Partners have it within their power to take some measures to improve their image, to increase levels of regional cooperation and integration, and to reduce their isolation, but by and large the question is out of their hands, and depends far more on questions such as EU-Russia relations, or on the EU's own ability to overcome its internal conflicts as to how to engage its 'Eastern Neighborhood'.

Recommendations for economic development of the Eastern Partners

A. Recommendations for domestic measures

1. Financial System Recommendations- Goal is to have a healthy, adequately capitalized system in which banks operate in a transparent, competitive environment.
 - Strengthen regulatory capabilities to reduce the risk of systemic crises in the future.
 - Establish guidelines which are transparent but flexible to maintain the flow of liquidity, by ensuring payment systems are operating properly
 - Consider policies (which may be temporary) to promote lending such as expanding deposit insurance, temporarily reducing reserve requirements, offering selective guarantees for loans.

- Establish stricter (higher) requirements on capital and liquidity,
 - Determine those banks which are viable and those which are not, and deal with them transparently, promptly and consistently.
2. Fiscal & Structural Recommendations- Key target needs to be credibility of long term fiscal policy, so that markets will tolerate temporary deviations which may be required by need to mitigate negative effects of the economic crisis.
- Government expenditure priorities should be clearly articulated and ordered.
 - Simplify and broaden the revenue base. In a crisis, during which previous sources of revenue come under pressure and often shrink, this is particularly critical so as to maintain long term fiscal sustainability, and to improve fairness in the tax system.
 - For countries with an image problem on deficit control and debt sustainability , consider committing (and achieving) sizeable annual surpluses in the primary budget (before interest and debt repayments)
 - Consider creation of independent non-partisan fiscal review council to conduct objective reviews and assessments of budget policy and execution.
 - Avoid excessive reliance on contingent liabilities- promises which are free today but create expensive hard to remove costs in the future. Measuring and reporting contingent liabilities transparently and openly is essential, when they are provided.
 - Improve the business environment so as to spur business activity by (i) easing the creation and operation of firms, (ii) removing excess bureaucracy and improving the transparency and consistency of the application of rules and regulations, and (iii) facilitating exit of non-viable firms by creating legal framework for rapid debt restructuring and corporate reorganization- including bankruptcy

- Establish targeted social safety nets, within the fiscal means available, to assist unemployed workers and disadvantaged groups.

B. Recommendations to promote economic development through regional cooperation

- Identify sectors for which regional cooperation is desirable and feasible. Selection criteria should include country development priorities, need and opportunity for cooperation with other states, and cost-effectiveness. Promising areas include, although are not limited to, finance, telecommunications, transport, energy, and the environment.
- Since trade, investment, and financing flows are relatively low among Eastern Partners- and indeed within the Black Sea Region- considerable potential exists to achieve mutual gains among regional economies. Although free trade agreements may not be possible (given EU commitments of some, and WTO issues), trade facilitation activities, investment agreements, dual taxation elimination, and visa elimination/ easing efforts may be implemented to remove obstacles that hinder expansion intra-Regional economic activity.
- Identify and commit appropriate personnel and officials to participate in cooperation initiative as a part of their normal work duties.
- All cooperation begins with dialogue in order to exchange information on participants' priorities, needs, challenges. As appropriate and desirable, it can continue with (i) institutional cooperation or policy coordination, (ii) institutional harmonization measures, (iii) policy coordination, (iv) the establishment of institutional entities for a specific purpose/ purposes and/ or (v) the commitment or pooling of resources to achieve the stated objectives.
- In periods of high risk aversion, which tends to be unfavorable for regional cooperation, consider initiatives which may

credibly offer participants collective insurance or other forms of protection against the risk of shocks, contagion and other negative circumstances.

C. Recommendations for the European Union towards the Eastern Partners

- Provision of an EU membership perspective would be the best case scenario, for those states which are interested, and it would generate goodwill for the EU at no immediate costs. If such a perspective remains 'off the table', then seek to mimic key membership benefits with reference to the four freedoms of movement of goods, services, capital and people. The EU should certainly put its priority issues on the agenda for dialogue, but it can also do a better job of listening to the needs and priorities of the Eastern Partner countries.
- Clarify the areas of institutional confusion between the Black Sea Synergy and the multilateral components of the Eastern Partnership. Where approaches are irreconcilable, prefer the maximally inclusive approach.
- Because of the strong externality impact of EU policy decisions (both positively and negatively), seek to systematize inclusive policy dialogue in the key sectors for cooperation. For example, in the financial sector this could involve regular dialogue of the European Central Bank and interested Eurozone central banks together with central banks of Eastern Partner countries. A similar forum for Ministry of Finance discussions could also be useful (i.e. have annual meetings of ECOFIN with Finance Ministry officials of Eastern Partner countries to discuss issues of relevance and seek cooperation).
- Support regional cooperation initiatives, especially where local ownership exists, even if the initiative is not initiated or controlled by the EU or one of its member countries.

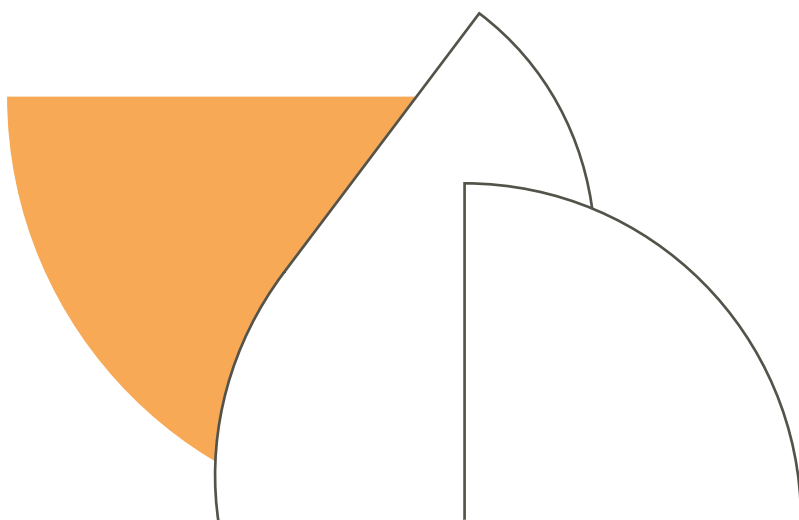
* Head, Policy and Strategy, Black Sea Trade and Development Bank, Thessaloniki, Greece. This paper represents an adaptation of a more general article on the Black Sea Region published in the September 2010 issue of the *Journal of Southeast European and Black Sea Studies*. The views expressed in this article are personal and do not necessarily reflect the policies or views of BSTDB.

¹ Note on Sources: Data is based upon calculations from National Statistical Agencies of countries and the IMF IFS Database. Additional sources include *Global Economic Prospects 2010* of the World Bank (and earlier GEPs), the IMF's *World Economic Outlook* publications and the Economist Intelligence Unit.

² On the transition process and the undertaking of 'first' and 'second' generation reforms, see: 1) Tanzi, V. and Tsibouris, G. (2000): *Fiscal reform over ten years of transition*. IMF, Working Paper No. 00/113, and 2) *Conference on Second Generation Reforms*, Washington, D.C. 8-9 November, 1999 at <http://www.imf.org/external/pubs/ft/seminar/1999/reforms/index.htm>.

³ From Stanley Fischer and Ratna Sahay, "The Transition Taking Stock", *Finance & Development Magazine* 37, no. 3 (September 2000). CEE refers to Albania, Bulgaria, Croatia, Czech Republic, Hungary, FYROM, Poland, Romania, Slovak Republic, and Slovenia. 2010 GDP Estimates from own calculations.

⁴ See IMF's *Regional Economic Outlook : Europe : Building Confidence*, Washington DC, October 2010, and *Regional Economic Outlook : Middle East and Central Asia*, Washington DC, October 2010.



3

The Black Sea Region and the Great Energy Game in Eurasia¹

Frank Umbach*

Abstract

Given the scarcity of conventional oil and gas resources in the world, its growing concentration in ever less and equally more unstable countries and the projected rapid rise of global oil and gas demand, Central Asia and the Caspian region (CACR) with its proven oil and gas resources can contribute to ensuring global energy security by increasing the diversity of oil and gas supplies through the Black Sea region as a strategically important transit route. However, Russia, China, the EU and the region states have very different strategic interest and agendas, which complicate or even hindering regional-wide cooperation.

- Russia: it is facing very serious threats to its future energy and in particular gas export policies because of the EU's both objectives to reduce its domestic energy demand as well as to diversify its gas imports, the rising share and de-

clining price of LNG vis-à-vis its pipeline gas, the potential for unconventional gas production even in Europe and the de-coupling of the international gas prices from the oil price. In the Black Sea region, it has already lost not just its oil export monopoly from CACR, but also its gas export monopoly from the region due to Turkmenistan's newly-built gas pipeline to China. Moreover, it is confronted with the regional states' interests to diversify their own oil and gas exports, including to the EU.

- China: Its rising energy demand has already transformed global energy markets that have long-term geoeconomic and geopolitical implications for the U.S., Russia, Europe and the rest of the world. Given the potential vulnerability of shipping routes through the Indian Ocean to the U.S. Navy, CACR has gained particular importance for Beijing as a strategic land-bridge between the Middle East and the Persian Gulf and the PRC and its energy supply security. China's expanding ties to CACR and since 2010 also in the Black Sea region (i.e. Ukraine) are take place increasingly at the expense of Russia's monopolistic energy and wider geopolitical interests in the region.
- Ukraine: Although the newly-elected President Yanukovych initiated a close pro-Russian economic and foreign policy (Kharkiv Accords of April 2010) , he also seeks to follow a "multi-vector foreign policy" by playing a balancing act of Ukraine between Russia and the EU and by using the differences as well as rivalries between them to strengthen its own positions and leverage. Despite Ukraine's signing of the EU-sponsored energy community treaty in November 2010 for a growing energy cooperation with the EU, Ukraine's related energy commitments to liberalize its energy market and implement key EU legal energy acts as a pre-condition of a common European energy market, based on the principles of solidarity and transparency, seems hardly realistic in the near future.
- Turkey: Due to its geographic location, the EU's intention to diversify its oil and in particular gas imports and of the

neighbouring region's interest also to diversify their oil and gas exports to Europe and the world market, Turkey's position in the Black Sea region and CACR has been increased despite new conflicts with the U.S., the EU and Azerbaijan. But Turkey's geopolitical ambitions and its future strategic status as a major hub for European oil and gas imports from CACR and the Middle East will depend both on its own prudent good governance as well as the future policies of other and often competing actors in the Black Sea region and CACR.

- The EU: It is confronted with the need to implement its March 2007 decisions and its 2nd Strategic Energy Review Package of November 2008 by 2020 that will decrease its total energy consumption and gas import demand in contrast to previous forecasts. As part of its energy action strategy and its "Southern Corridor plan", it also needs to build the Nabucco-pipeline and new LNG projects in order to diversify the EU's gas imports as well as to create a common and liberalized energy and gas markets. With this perspective, the energy cooperation within the Black Sea region and CACR can significantly been enhanced and may also offer new perspectives of regional energy cooperation beyond oil and gas pipeline projects.

Introduction

The Strategic Dimensions of the Black Sea Region and the Caspian Region are the result of the present worldwide economic crisis, and the twin challenges of climate change and global energy security. Due the huge energy demand of Asia and in particular China and India, the world is confronted with "unprecedented uncertainty", as the last "World Energy Outlook" of the International Energy Agency (IEA) in November 2010 has warned.² According to the IEA's central scenario, the so-called "New Policies Scenario"³, world primary energy demand will increase by 36% between 2008 and 2035.

Given the scarcity of conventional oil resources in the world, its growing concentration in ever less and equally more unstable countries (that will increase the vulnerability of consuming countries and supply disruptions and may lead to growing interregional energy cooperation as well as geopolitical competition and conflicts alike⁴) and the projected rapid rise of the worldwide gas demand and trade, Central Asia and the Caspian region (CACR)⁵ can make a “significant contribution to ensuring energy security in the rest of the world, by increasing the diversity of oil and gas supplies” through the Black Sea region as one of crucial transit routes.⁶ But at the same time, the Black Sea region and CACR themselves have become increasingly fractured because the regional states have developed their national energy, economic and foreign policies in very different directions – often with contrasting as well as competing perspectives. The CACR in particular has become increasingly just a geographic, but an ever less coherent political-economic entity and common or united political-economic actor.⁷

The proven oil and gas reserves in CACR have been estimated at up to 3.8% (more than Libya, Qatar or the entire Asia-Pacific region) and 6.8% respectively of the world total. Regional oil production of 2009 already exceeded Venezuela’s 2005 capacity—South America’s largest oil producer and its highest production rate during the last 10 years.⁸ The CACR’s proven gas reserves (even by excluding Iran and Russia) are more important than those of Saudi Arabia. In 2009, the region’s natural gas production amounted to 147.8 bcm (4.9% of the world gas production), almost comparable to the combined production of South America and Central America.⁹ Kazakhstan’s proven oil reserves are anticipated to triple from 38.8 billion barrel to 100-110 billion barrels in the years ahead, making the country to the fourth largest one behind Saudi Arabia, Iran and Iraq and ahead of Kuwait, Russia and Venezuela.¹⁰ While Kazakhstan and Azerbaijan are leading in oil production (which together account for 92% of the region’s total proven oil reserves), Turkmenistan (with 60% of the region’s proven natural gas) and Uzbekistan (13% of proven natural gas reserves) are the major natural gas producer in the region. But Uzbekistan consumes 80% of its production, while Turkmenistan will account for less than 15% of total Caspian energy



Source: IEA, WEO 2010, p. 462.

use by 2035.¹¹ Moreover, Turkmenistan's gas reserves have been significantly increased by BP and independent estimates between 2008 and 2009. During his timeframe, Turkmenistan climbed up from the rank of having the 12th largest gas reserves in the world to the rank of the 4th largest one and the second largest in the former Soviet Union after Russia.¹²

Table 2:

Country	Proven Oil Reserves (Thousand million barrels)/ Share of global reserves (in percentage)	Proven Natural Gas Reserves (tcm)/Share of global reserves (in percentage)
CACR		
Azerbaijan	7.0 (0.6%)	1.20 (0.6%)
Kazakhstan	39.8 (3.2%)	1.82 (1.0%)
Turkmenistan	0.6 (>0.05%)	7.94 (4.3%)
Uzbekistan	0.6 (>0.05%)	1.58 (0.9%)
Total	48.0 (>3.82%)	12.54 (6.8%)
Iran	137.6 (10.9%)	29.61 (16.0%)
Russia	79.0 (6.3%)	43.3 (23.4%)
EU-27	6.3 (0.5%)	2.87 (1.6%)
US	30.5 (2.4%)	6.73 (3.6%)
Total Middle East (incl. Iran)	754.1 (59.9%)	75.91 (41.0%)

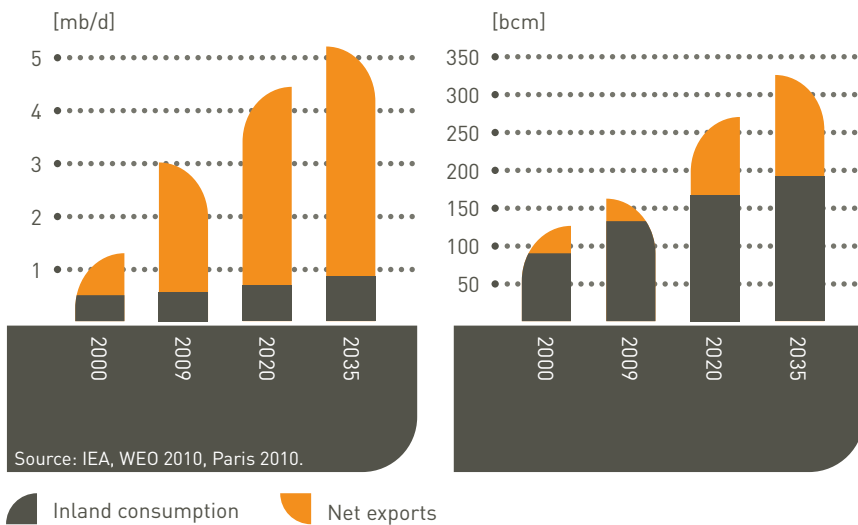
Source: British Petroleum, BP Statistical Review of World Energy 2009, June 2009.

Like Russia, Ukraine and all other Black Sea regional states, the CACR countries have also a huge potential to improve their energy efficiency to offset their own demand growth and freeing more fossil fuel resources for their future exports. According to the IEA's New Policy Scenario, the CACR gas production is expected to rise from 159 bcm in 2009 to around 260 bcm by 2020 and more than 310 bcm by 2035. Accordingly,

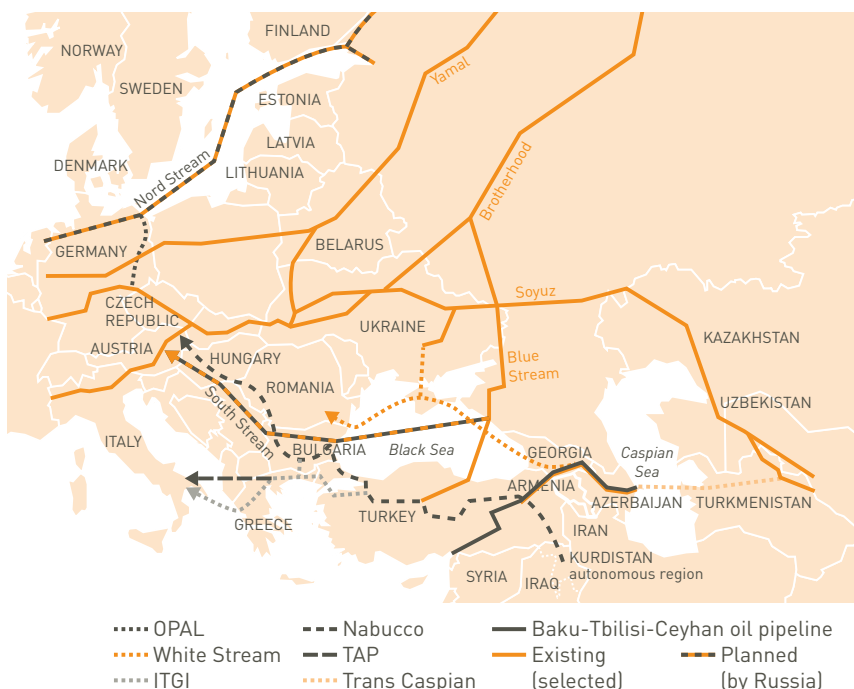
gas exports are forecasted to grow rapidly from 63 bcm in 2008 to 100 bcm in 2020 and 130 bcm by 2035.¹³ Although for Europe, the CACR cannot replace Russia as its most important energy partner, it could be an important supplementary supplier and an alternative diversification source for oil and especially gas supplies to the EU and strengthening the EU's future bargaining power in its relationship with Moscow.

In regard to the perspectives of political (in)stability, the Islamic extremism has no comparable strong support in the Central Asia as many other Arab states such as Algeria, Iraq and the Persian Gulf states. In Kazakhstan and Turkmenistan, ones of the most secular Muslim states in the world, interest in Islamic extremism even seems to be declining with improving economic conditions. Although the region is ranking in the lowest quarter of the Transparency International's "Corruption Perception Index", the level of the FDI from the West in the energy sector is very high in some countries (Kazakhstan, Azerbaijan) and could increase in the future in case of the others (Turkmenistan).

Table 3: Caspian oil and gas outlook in the New Policies Scenario



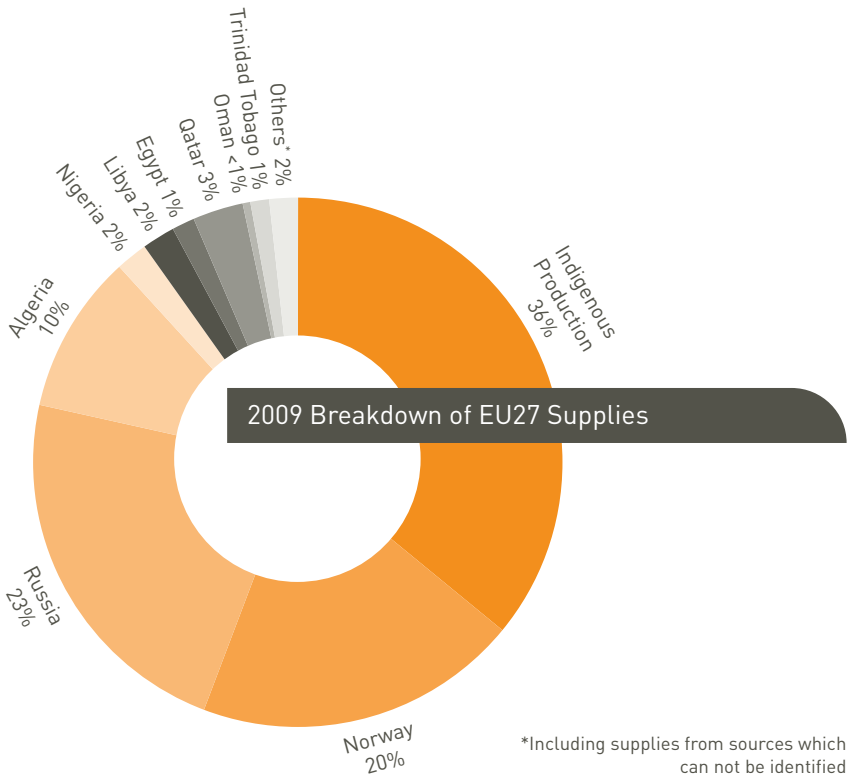
Some regional states of the Black Sea are already an important transit state for European oil and gas imports. With Russia being the EU's main import source of natural gas, Ukraine transits around 80% of Russia's Europe-bound gas. Given its geographic location, it could also become a major transit state for Caspian oil and gas exports to Europe. Turkey has already become a major transit state for oil and gas exports from the Caspian region by building the Baku-Tbilissi-Ceyhan (BTC) oil pipeline and the South Caucasus or Baku-Tbilissi Erzurum gas pipeline (SCP) as the only energy infrastructures for bringing the Caspian energy to the European markets. If some of the presently planned gas pipelines from CACR or the Middle East (i.e. Iraq and Iran in the future) will be built such as Nabucco, Turkey's strategic role as a transit state and energy hub will greatly be enhanced for the EU and others. In addition, also other Black Sea regional states will greatly benefit from these newly built gas pipeline to Europe and increase the prospects for its regional and inter-regional energy cooperation.



Source: <http://media.economist.com/images/20090718/CEU9083.gif>

The EU's evolving Black Sea and CACR energy strategy

The EU's dependence on the import of natural gas is widely seen as the "Achilles heel" of Europe's energy security because its growing reliance on the more environmentally friendly natural gas resource that has created an increasing dependency on a few and problematic suppliers.¹⁴ Since November 2000, the European Commission has already warned in its first 'Green Paper' that in the next 20-30 years up to 70% cent of the Union's energy demand (presently 50%) will have to be imported. In re-



Source: Eurogas Statistical Report 2010
(http://www.eurogas.org/uploaded/Eurogas%20Statistical%20Report%202010_Final%20291110.pdf)

gard to oil, EU's dependence could reach for oil even 90%, for gas 70%, and for coal 100%. At present, 54% of Europe's energy is imported. The EU's own energy production is forecast to fall from 46% today to 36% by 2020. Around 85% of gas is imported from just from three countries: Russia (more than 40%), Norway (almost 25%), Algeria (almost 20%). Moreover Sweden, Ireland, Finland and many of the new EU-member states are dependent on just one monopoly supplier Gazprom, the Russian energy giant, while Greece, Hungary and Austria are more than 80% dependent on this company r.¹⁵

To strengthen its future energy security, the European Commission's energy demand management strategy has emphasized the broadest possible energy mix, diversification of energy supply and imports, promotion of renewable energies, and a neutral policy toward the nuclear option. The Commission's policy is based on maintaining the balance of the three objectives aiming on (1) economic competitiveness, markets and efficiency, (2) environmental and climate policies, and on (3) securing the EU's energy supply. Although balancing the three objectives is not necessarily irreconcilable, it has remained very difficult in practice because the political and public discussions for mitigating climate change have been determined the EU's entire energy policies and thereby, very often at the expense of energy supply security.¹⁶

With its 20-20-20 percent formula in its "Energy Action Plan" (EAP) of March 2007, the EU aims to reduce Green House Gas Emissions (GHGE), to raise the share of renewables as well as to improve energy efficiency and conservation.¹⁷ Although the EU's common energy policies moved forward faster than many other policy fields, its member states often still prefer to foster national concepts and solutions to global threats and challenges. As the result, the common EU energy policy has become often fragmented as it is the case also with the EU's CFSP and energy foreign policies. The EU's common energy policies are still too much focused on the internal market challenges, its controversies and "the market liberalisation process, which is viewed almost as an end in itself".¹⁸ But this overall believe in market forces as a cure-all energy policy and strategy is not

shared by the other major strategic actors on both the supply (i.e. Russia, Iran, Venezuela etc.) and demand side (i.e. China, India and Turkey).

While the EU is striving towards a liberalization of its energy markets, Russia has moved in the opposite direction. These opposing policies have complicated and hindered any substantial progress of the declared “strategic energy partnership” between both sides since 2000. The Black Sea region and CACR have become one of the most important fields of competing interests between the EU and Russia.

Europe as the main potential consumer of Caspian energy has been sliding into a dual dependence on Russia supplies as well as Russian-controlled supplies from CACR. Almost a third of the EU’s total gas imports is already coming de facto from this region – but via Russian gas pipelines and as a result of Russia’s gas swap deals with countries of CACR.

The EU has recently engaged more vigorously in the energy cooperation with the Black Sea Region and CACR by promoting its Baku process of 2004, the Eastern Partnership, the creation of the Energy Community in Southeastern Europe, its Central Asian strategy of 2007¹⁹ and “Southern Corridor” project. The strategic objective of the “southern corridor” is to establish a new supply source to the Caspian and the Middle East basin as the largest gas deposit in the world with a capacity of 10-20 per cent of EU gas demand by 2020, equivalent to 45-90 bcm of annual EU gas imports.

The “Baku Initiative” of November 2004, in which the European Commission and the Black Sea and the Caspian Littoral States and their neighbours (Azerbaijan, Armenia, Bulgaria, Georgia, Iran (observer), Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation (observer), Romania, Tajikistan, Turkey, Ukraine and Uzbekistan) participate „agreed on the gradual development of regional energy markets, enhancing the attraction of funding for new infrastructures, embarking on energy efficiency policies and programmes and making progress towards a gradual

integration between the respective energy markets and the EU market.” The Initiative seeks to facilitate the integration of the energy markets of this region into the EU market as well as the transportation of the extensive Caspian oil and gas resources towards Europe for increasing the diversification of the EU’s energy imports.²⁰

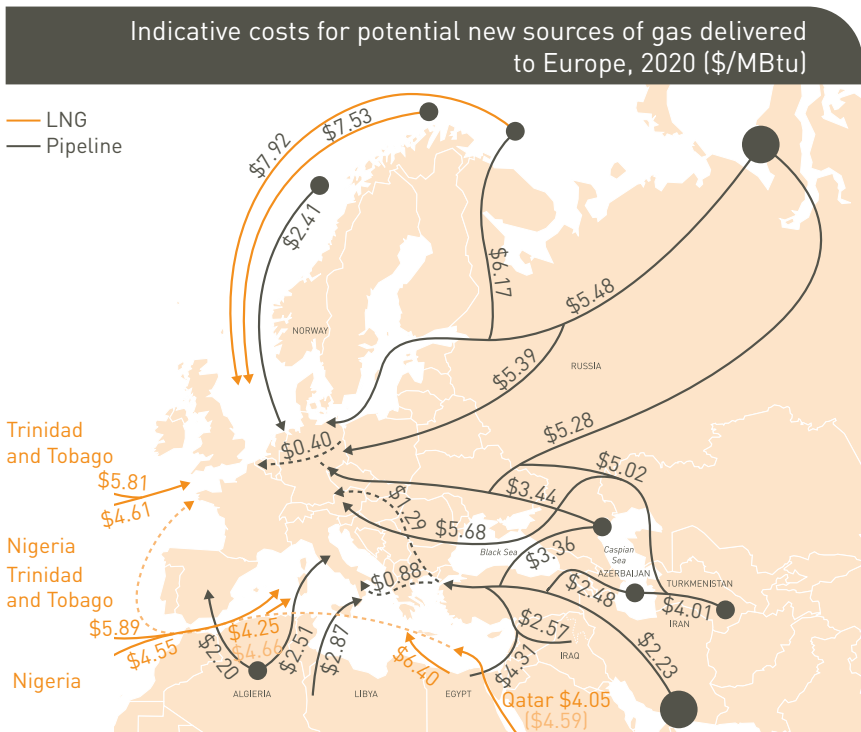
But the EU’s engagement remained too hesitant and ambivalent towards CACR until 2007. Its policies have been criticized as being too fragmented, project-driven, focusing mostly on technical assistance and being moralistic instead of seeking a more strategic and long-term perspective of cooperation with the CACR and Black Sea regional states.²¹ In June 2007, the European Council during the German Presidency declared its new Central Asia strategy that envisaged to intensify the energy cooperation with CACR.²² The strategy seeks to balance its four strategic interests of energy security, the fight of extremism and terrorism, economy and trade, and human rights and democratisation. Furthermore, connecting the EU’s energy ties with CACR also includes to export its economic, political, and technological norms and standards to the region as part of its developmental approach that is based on democratic values, principles of a market economy and legal regimes. Although some progress has been made, it has been still insufficient in the view of the CACR states.

However, Russia’s and China’s policies in CACR have shown repeatedly that the EU-policies are often too slow, incoherent, uncoordinated, with a limited diplomatic presence in the region and lacks a strategic vision on the ground beyond its declarations. Its preferred principled approach (i.e. in regard to human rights) needs to be redefined in ways “that are realistically operational in this difficult political environment.”²³

In this light, a successful Nabucco project would demonstrate that the EU has a serious strategic interest at both regions and for closer energy cooperation with these regions for the benefit of all sides.²⁴ With a capacity of 31 bcm annually (10% of all EU-27 gas imports in 2005) and with the possibility of doubling that amount, the 3,300 km long and 7.9 bn Euro expensive gas pipeline would

bypass Russian territory by running from Azerbaijan via Georgia to Turkey and from there to Austria traversing Bulgaria, Romania and Hungary. Hence in contrast to the Russian Nord and South Stream gas pipelines, Nabucco offers a real diversification of supply sources and not just one of transit routes.

The main rival of Nabucco is South Stream. This project was announced by Gazprom and the Italian company ENI in June 2007. South Stream gas pipeline is planned to stretch from Russia across the Black Sea bed to Bulgaria, where it would split into two, with the southern pipe going to Greece and Italy, and the northern one going through the Balkans to Hungary and Austria. The pipeline is planned to carry 63 billion cubic meters (bcm) of natural gas per year. The completion is due by 2015



Source, IEA, WEO 2009, Parius 2009.

In this context, it has been argued that the EU need both pipelines (Nabucco and South Stream) because of its rapidly rising gas import demand. However, this seems a political-diplomatic response rather than based on economic realities (i.e. new forecasts of the EU's future gas demand). Furthermore, it is for the South Stream pipeline (even more than for the Nabucco pipeline) still uncertain where the sufficient gas resources should come from, nothing to speak about where the gas will be found for both pipelines and who will pay for the most expensive gas pipeline from the Caspian region, when cheaper options are available – particularly during times of a global gas glut and rapidly declining LNG prices.²⁵ Besides Nabucco, other projects foreseeing diversification of supplies and transit routes within the framework of “southern corridor” such as:

- ITGI (Interconnector Turkey-Greece-Italy). A section of this pipeline between Turkey and Greece already exists, with a capacity of approximately 12 bcm of gas per year. Its planned capacity is 8 bcm.
- The TAP (Trans-Adriatic Pipeline) assumes the construction of a pipeline from Greece through Albania to Italy. The capacity of the route is planned to be 10 bcm, with the possibility of doubling this figure in the future. The TAP's gas is to be provided by using an existing connector between Turkey and Greece (the ITG).
- The White Stream project is based on the construction of a pipeline from the Georgian coast via the Black Sea to Romania, with a potential branch-off in Ukraine. It is not known who the investors behind the project are.
- AGRI (Interconnector Azerbaijan-Georgia-Romania) assumes the construction of a terminal for the liquefaction of natural gas on the Georgian coast of the Black Sea and a terminal for LNG in Romania. The project's capacity is estimated in three variants from 2, 5 up to 8 bcm of gas. Currently a feasibility study is being developed.

- CNG to Bulgaria. This project envisages that Bulgaria will import up to 3 bcm of gas per year in the form of compressed natural gas (CNG). The project does not require the construction of infrastructure on the coast, but only investments in vessels capable of transporting CNG. The project involves Bulgaria, Azerbaijan and Georgia. It is being discussed on the basis of a memorandum of understanding from November 2009.

Nevertheless, in contrast to those projects, the Nabucco pipeline remains the most cost effective direct gas pipeline from CACR. For instance, the Interconnector Turkey-Greece-Italy (ITGI) gas pipeline and the Trans-Adriatic Pipeline (TAP) lack a uniform transit regime across the countries involved, face the same problems in regard to Turkey's demand like Nabucco, has no EU financial backing of construction work and may rather find their *raison d'être* as Southern Corridor components, only once Nabucco has implemented for bringing Central Asian and Middle Eastern gas to Europe.²⁶

Russia's strategic interests and its energy foreign strategy

Russia has often used energy dependencies and its gas export policy as an instrument of its foreign, security policies and geopolitical interests. Russia mostly lacks closer political allies and more benign effective instruments of influence as soft power, leaving rather assertive means and following aggressive policies in the view of others. Whereas its understanding of energy security seems often perceived in Moscow as defensive and reactive by nature, its outcome of instrumentalising energy policies and dependencies can only be considered by its neighbours in Europe and Central Asia as offensive by threatening their own energy security as well as economic and foreign policy sovereignty.²⁷ Viewing CACR as its "hinterhof" and "special sphere of influence" where Russian interests need to be respected by the West, the Kremlin has regarded the EU's new Central Asia strategy of June 2007 as a threat to its own

geopolitical and energy interests in the region. Hardly surprising, Russia has intensified its own energy cooperation and pipeline projects with individual EU and CACR states. This, in turn has threatened EU's strategy for diversification and cooperation with Central Asia.

The Russian-Georgian war in the late summer of 2008 has raised new questions to the EU's ambition for a closer energy cooperation with CACR and Black Sea states by highlighting the vulnerability of Western-funded and built Caspian export pipelines, which are avoiding both Russia and Iranian territory. The often overlooked intention of the Kremlin in the war was to discredit Georgia's role as an important transit state and a lasting competitor for European and Western oil and in particular gas supplies from CACR in order to maintain the Russian pipeline and supply monopolies. Although Russian President Medvedev claimed a "privileged sphere of influence" in the Black Sea region and CACR, the overall negative effect of Russia's military intervention on any future Western investments, pipeline plans or the "multi-vector" foreign (energy) policies of Azerbaijan, Kazakhstan, Turkmenistan or Turkey's for crossing Georgia as an increasingly important transit state was largely short-lived. Like the European energy crisis before since 2006 as the declared price conflicts between Russia and Ukraine as well as between Russia and Belarus, the Russian-Georgian war has rather pushed forward the EU's declared common energy and energy foreign policy. Furthermore, the regional states of Black Sea and CACR did not declare their official support for Russia's military intervention and recognized the independence of Abkhazia and South Ossetia or resigned from the efforts to develop relationships with the other actors than Russia. At the end, Russia was largely isolated diplomatically. The only remaining key potential allies have been the big European companies with their large stakes in the expanding consumer markets in Russia.²⁸

Although Russia has the largest gas reserves in the world and is geographically close to Europe, Russia is facing very serious challenges at its energy front in addition to the EU's efforts for diversifying its gas imports:

- Russia is facing not just to lose its gas export monopoly from CACR, but also a growing competition with CACR gas exporters. While in 2008, more than 80% of the CACR gas exports was still destined for Russia, those exports already declined to just 55% in 2010.²⁹
- Russian gas exports to the OECD-Europe decreased even disproportionately by more than 30% in the first half of 2009 in comparison with the previous year.
- Russia's overall gas production fell by more than 20% in the first half of 2009 – the sharpest production fall since the decline of the Soviet Union.³⁰
- Intra-FSU gas trade fell 9.2% to 80.4 bcm in 2009. But these drastic production and export cuts have at least “solved” the problem of previous fears of a looming Russian gas crisis after 2010.
- Although the new Russian-Ukrainian rapprochement and bilateral energy cooperation (gas deal) since the summer of 2010 has strengthened Moscow's position, the new relatively pro-Russian Ukrainian government has still no interest to sell its pipeline system to Russia or let the Kremlin control the majority share of it.
- The “silent revolution” of new drilling technologies for the unconventional gas resources in the US had a global impact by creating an oversupply of gas and in particular on the LNG prices as well as led to a de-coupling of the gas from the oil prices. For the very first time on record, the US became the world's largest gas producer in 2009 ahead of Russia due to the expansion of unconventional gas production. Europe has also huge reserves of unconventional gas resources, though they might be more expensive to drill, and not all of them appear realistic for real future production in the light of local opposition and environmental objectives. But even if a fraction of those unconventional gas resources become available for the European gas market, they might still be cheaper than the very high prices of the new Siberian gas fields of the Yamal Penin-

sula or Russia's Arctic offshore gas resources (like Shtokman) and offer another diversification source for its gas demand.

- New mid- and long-term forecasts of EU-27 gas consumption and import demands indicate a decreasing European demand in contrast to previous forecasts on which most current policy discussions and energy policies are still based.³¹
- The United Arab Emirates (UAE) have recently negotiated huge investments in Turkmenistan to gain access to – and positioning itself to exploit – to its vast gas reserves. In helping to develop the reserves of the fourth-largest gas reserves in the world, UAE has also supported the EU's Nabucco pipeline rather than Gazprom's planned South Stream Pipeline. Therewith, the UAE and Turkmenistan may soon be competing with Russia to gas to Europe.³²

The ever-growing share of LNG in the international gas trade in combination with the present gas glut as the result of the declining worldwide and European gas demand and the unconventional gas production in the U.S. has made Russian and Norwegian pipeline gas at the gas spot markets (like in Great Britain) for the very first time more expensive than LNG. It has de-coupled international gas prices from the worldwide oil price and thus has undermined the long-term contract basis of Russia's gas export strategy. Consequently of, not all of the discussed pipeline and LNG projects within the Black Sea region as well as between Europe and CACR are realistic any longer. The present result is an ever growing competition and strategic rivalry between those projects and their supporters, but ultimately could also force more cooperation for a "smaller cake".

For Russia, being rightly and understandably concerned about demand security for its investment and energy foreign policy decisions, meanwhile, the very fundamentals of its gas policies (based on intransparent long-term contracts) are at stake and more uncertain for the future. In this light, it will be forced to look much more for other growing gas markets such as in China, India and other Asian countries in order to

diversify its future gas exports. At the same time, Russia is not only intending to develop closer energy cooperation with China and increase its gas exports to the Chinese market but is also increasingly concerned about China's presence and geoeconomic as well as political influence in CACR that will increasingly also extend to the Black Sea region in the future.

China's increasing role and influence in the CACR and the Black Sea

Meanwhile China has not only passed Germany as the world largest export nation, but also Japan as the second largest economy in the world and even the U.S. as the world's largest energy consumer. Its surging energy demand has already transformed global energy markets, in particular oil and coal, with long-term geopolitical and geoeconomic implications for the U.S., Russia and Europe as well as the global energy and other resource markets.³³

During the last years, China has continuously intensified its energy foreign policies as the result of a rapidly growing demand for energy, deteriorating prospects for major new energy discoveries³⁴ in their own country and rising oil and gas imports as a consequence of these ongoing developments. For China, CACR has played an increasing role for both economic and security reasons since the 90's. Both interests are closely interlinked in its energy security nexus. Given the global energy demand and the potential vulnerability of shipping routes through the Indian Ocean to the U.S. Navy, the Central Asian region with its eight successor states of the former Soviet Union has gained particular importance for Beijing as a strategic land-bridge between the Middle East and the Persian Gulf and the PRC not only in general security policy terms, but in particular for energy policy reasons. 95% of China's seaborne oil imports are coming from the Middle East and Africa. This land-bridge offers China the prospect of becoming not too

much dependent on the oil and gas imports from the Middle East via vulnerable Sea-lanes of Communications (SLOCS) as well as from Russia.³⁵

Economically, China has expanded its energy cooperation with CACR countries by building new oil and gas pipelines (i.e. Kazakhstan, Turkmenistan and Uzbekistan)³⁶, From the point of view of CACR countries, China not only offers another diversification source for its energy exports and the concrete prospect to decrease their dependence from Russia. It also refrains from criticizing the internal politics of their countries (in contrast to the EU and its member states). Furthermore, due to China's strong economy without being heavily affected by the global economic crisis, Beijing has used its deep pockets to finance expensive energy projects within shortest time frames.

China's expanding ties to CACR are take place often at the expense of Russia's declared strategic interests, in particular to its monopolistic energy and wider foreign as well as security policy interests in the region. Sooner or later, it will even more complicate the Russian-Chinese relationship as long as both sides recognize and perceive the policies of the other side in a prism of zero-sum games of short-term unilateral interests. But given the 25% Russian diaspora in Kazakhstan, Astana's entering into a customs union with Russia and Russia's regional military presence, China needs to act carefully and, therefore, take a cooperative approach towards Russia in the CACR – at least for the time being. As more independent Russian analysts often conclude and confirm and contrary to Russia's officially declared policy of re-strengthening its geopolitical influence in CACR, its real influence is declining, whereas China's is rising and penetrating the region and moving beyond towards the Black Sea. Thus China's most recent investments on the oil and gas industry in Ukraine for joint developments in its Black Sea oil and gas shelf³⁷ indicates a new willingness to expand its economic and energy interests to the Black Sea region and taking the risk of offending Russian primary interests.

Ukraine's energy future and the EU

Given its size, geographic position, its almost 45 million population and being the main transit state for Russian oil and gas exports to Europe, Ukraine has always been a critical strategic factor for the European and Eurasian energy security. After a narrow victory in the presidential elections in February 2010 of the pro-Russian candidate Mr. Yanukovich and his Party of Regions, he improved quickly Ukraine's relationship with Moscow, suppressed the political opposition and reduced the political freedoms, including a tougher scrutiny of mass media. But instead of becoming too dependent on Russia, President Yanukovich seeks to follow a "multi-vector foreign policy" by playing a balancing act of Ukraine between Russia and the EU and by using the differences and rivalries between them to strengthen its own positions and leverage.³⁸ Nevertheless, his hitherto foreign and energy policy pushed Ukraine significantly in the direction of increasing dependency on Russia.

With the Kharkiv Accords between Russia and Ukraine in April 2010 President Viktor Yanukovich has gained 30% discount for the Russian gas by granting Russia to prolong the lease of the Black Sea Fleet in Crimea (from 2017 to 2042).³⁹ However, the gas with its 30% discount price is still higher than the gas price Belgium and Germany pay presently to Russia. Furthermore, the discount price is not fixed in contracts, but granted in discretion of the Russian side each month. Moreover, Ukraine needs to import more (36,5 bcm in 2010 and 40 bcm in 2011) than its present domestic demand is (around 33 bcm), whilst it is not allowed to re-export any of the Russian imported gas

In 2010 Ukraine has signed agreements with Russia to build two nuclear reactors, and to deliver only Russian fuel to all Ukrainian reactors until they cease operation. Latter, Ukraine's government endorsed the result of a contest, according to which a plant producing nuclear fuel will be constructed on the basis of Russian technology. In this way, the Ukrainian government gave up the option of receiving alternative deliveries of American fuel and technology. These decisions mean that Ukraine has

withdrawn from the energy strategy provisions which concerned diversifying its deliveries of nuclear fuel, as well as the technologies. They will result in Russia's complete domination of cooperation with Ukraine in the nuclear energy field.

The agreements concerning the energy will not only make Ukraine more dependent on Russia, but will also threaten its declared more urgent reform policies. Although it seems understandable in the light of the fact that the financial crisis cost the Ukraine 15% of its GDP in 2009, Yanukoych's declared strategic interest to maintain its objective to become an EU member has become irrelevant and impossible for the time being. On the other hand, Ukraine's signing of the EU-sponsored energy community treaty in November 2010 was an important step for a growing energy cooperation with the EU. But given Yanukovych domestic power base and close ties to the Ukrainian oligarchs, the energy community parties' commitment to liberalize their energy markets and implement key EU legal acts in the area of gas, electricity, environment and renewable energy and offering a "pan-European market, based on the principles of solidarity and transparency" (so the European Commissioner for Energy, Günther Oettinger)⁴⁰ seems hardly realistic in the near future.

Nevertheless, even Yanukovych and his government are very dissatisfied with the present long-term gas supply agreement with Russia. Russia's demands for overtaking the Ukrainian oil and in particular gas pipelines as well as majority shares of other strategically important companies and infrastructures have also threatened Yanukovych's party business interests. Furthermore, Ukraine has learned from the most recent energy conflict between Russia and Belarus in June 2010 that even a pro-Russian government and once the Kremlin's staunchest ally, may face energy supply cuts from Moscow. Besides the price conflict and Gazprom's understandable refusal to accept payment for debt in pies, butter, cheese and other means of payment, the conflict was also been caused by Russia's political pressure on Belarus to sign the agreement for the creation of a custom's union with Russia and Kazakhstan and Belarus unwillingness to sign it unless Moscow lifts custom duties on oil to Belarus. Another

reason were Russia's goals regarding Belarus, including first of all taking over its strategic energy assets. Against this background, it becomes understandable that also the Yanukovich government looks to increase domestic gas production (which only meets 30% of its domestic demand) and studies ways of diversification of gas imports such as building two LNG terminals with a total capacity of 10 bcm a year on the Black Sea. Within the framework of these plans, in January 2011 Ukraine and Azerbaijan signed a memorandum of understanding on the organization of LNG supplies from Azerbaijan to Ukraine. The memorandum assumes that in 2015 Azerbaijan will supply 5 billion cubic metres of liquefied gas to Ukraine. Moreover, both sides signed also an agreement on measures aimed at the development of cooperation in the area of oil transportation across the Ukrainian territory. According to this agreement, in 2011 between 8 and 12 million tons of Azerbaijani oil will be transported via the Odessa-Brody pipeline (first to Belarus and possibly to other European countries). Above-mentioned background also explains the fact that the EU-Ukrainian energy cooperation in the fields of nuclear safety, the integration of electricity and gas markets, security of energy supplies and the transit of hydrocarbons and the coal sector has continued throughout 2010.⁴¹ The recent Russian-Ukrainian agreement to guarantee gas transits through Ukrainian territory of 112 bcm of gas annually over the next five years is certainly an important step forward to make any future gas disputes between Moscow and Kiev impossible and as such being welcomed by the EU. But the EU should also follow very close any Russian efforts to buy and control Ukraine's gas pipeline network infrastructure. Although Yanukovich and his government have blocked all efforts of Russian Prime Minister Vladimir Putin to overtake Ukraine's gas pipeline network for the time being, even Ukraine's newly adopted law on its gas sector does not prevent foreign monopolies, such as Russia's Gazprom, from operating in the Ukrainian market. It is the more important as long as Russia benefits from the intransparent, uncompetitive and corrupt market in Ukraine. In this regard it is irritating not just for Ukraine, but for the EU's own future energy security, if EU officials declare that a takeover of Ukraine's transit gas system would be a purely bilateral mat-

ter between Russia and Ukraine. This position of the previous EU Commissioner of Energy not only contradicts the EU policy towards Ukraine, but also lacks a deeper understanding and any strategic thinking of the EU's future energy security. If those Russian efforts are successful, the EU's dependence on Russia will not only increase further but also deprive the EU of its soft power in its neighbourhood policy and thus having wider foreign policy implications even beyond Ukraine.⁴²

While anti-democratic tendencies, and the deterioration of human rights in Ukraine should be noticed, the country is too important for the EU's future energy security to be left alone. While Ukraine's NATO ambitions are now being blocked by itself due to Russia's pressure, Kiev's aspiration for an EU membership has not been cancelled. Giving the economic crisis, its own rapprochement with Russia and because of the Ukraine's own lack of consistency toward the EU with regard to its domestic policies and because of the EU's own ambiguity and strategic thinking with regard to Ukraine (a clear long-term vision for an EU membership), Yanukovich has limited options for its foreign and economic policies. In consequence, Ukraine's energy cooperation with the EU could even become much more important for Kiev. Ukraine can benefit from this cooperation by expanding its renewable energy resources and increasing energy efficiency as one of the most less energy efficient countries in the world in order to reduce its dependence on Russian gas and oil. Thus it has excellent wind resources at its Black Sea coast (in particular on Crimea and the eastern shores of the Black Sea, with a country side that is sparsely populated and ideal for larger wind farm installations) and possess a declared large potential of unconventional (shale) gas deposits.

Given its present weak economic and political position towards Russia, Ukraine needs to be offered new economic and political incentives from the EU and the US to avoid a further deterioration of the European-Ukrainian relationship as the lack of alternative options in its energy and foreign policies. In this context, new regional initiatives for a closer Black Sea energy cooperation would be most welcome – and are certainly not just

in Ukraine's interests. Those new regional efforts for energy cooperation in the Black Sea region, however, are also dependent on the future developments of the EU's energy import policies, the CACR's oil and gas exports to Europe and the world as well as by Turkey's pivotal role in the wider region.

Turkey's rising status as a the major transit state and energy hub

Turkey's position in the Black Sea region and the neighbouring CACR has been increased as the result due to its geographic location, the EU's intention to diversify its oil and in particular gas imports and of the neighbouring region's interest also to diversify their oil and gas exports to Europe and the world market. Accordingly, it has followed its own multi-vector foreign policies between Europe and the USA, Russia, CACR and the Middle East. It sees itself as the major energy transit state and hub for oil and gas deliveries to Europe and the world market through its ports at the Mediterranean Sea or the Black Sea coast and then further through the narrow straits of the Bosphorus. Given the European lukewarm sentiment about the prospects of a Turkey accession to the EU in the years to come and Prime Minister Erdogan's policies for the domestic audience, Turkey's foreign policies are favouring to become also more independent from the EU. While the West has always considered Turkey's role in the region as a bridge or a barrier between the Middle East and the West, the Turkish strengthened geopolitical role has led to a growing nationalism and self-confidence. Nowadays it views itself as playing the major catalyst to transform the Middle East and CACR in a similar way that once the US has played after the end of WWII to transform Europe from a hotbed of war and conflicts into a region of peace and stability or like Germany played after the end of the Cold War by promoting the integration of its neighbouring East European countries into a wider EU.⁴³

But this Turkey version of a Greater Middle East policy has also led to new conflicts with the U.S. and the EU because of Ankara's

unwillingness to support or to follow any policy of harder sanctions towards Iran because of its suspicious nuclear weapons ambitions. Turkey has even increased its energy cooperation with Iran, whilst its once close foreign policy and military cooperation with Israel have deteriorated radically during the last two years. In November 2008, for instance, it signed a new agreement with Iran on developing Iran's gas fields and transporting Iranian gas to Europe.⁴⁴ At the same time, given its own energy demand and paying insufficient attention to energy efficiency and conservation by subsidizing its domestic fossil fuel prices, Turkey has also improved its energy cooperation with Russia albeit both are still geopolitical rivals in CACR. This bilateral energy cooperation also includes the nuclear sector. But it has also led to new speculations whether Turkey's civilian nuclear ambitions are not only driven by its energy demand and interests to broaden its energy mix but Ankara may also have its own ambitions for a nuclear weapons option, in particular in the light of the progress on the Iranian side. Officially, the Turkish government plans state the objective that at least 5% of the total electricity production will be generated by nuclear power plants by 2023.⁴⁵ After concluding a deal with Russia for the construction of the first nuclear plant in May 2010, Turkey has also engaged in talks with Japan and France for building the next ones.

However, Ankara's rapprochement with Moscow has been questioned by the August 2008 Russo-Georgian war. Although the conflict has led to an improvement of Turkey's relationship with Armenia, it has simultaneously led to new problems in its relationship with Azerbaijan over gas pricing, re-export and transit issues. These new conflicts with Azerbaijan also caused new uncertainties for the Nabucco-Pipeline, strongly supported by Ankara, and Turkey's strategic interest to reduce its energy dependencies on Russia.⁴⁶ Nevertheless, after the failure of rapprochement between Turkey and Armenia, the serious crises in the Azeri-Turkish relations were to large extent overcome. In June 2010 Azerbaijan and Turkey signed a range of documents concerning bilateral gas cooperation. In October 2010, the Turkish government ratified part of the agreements which allows the sale via Azerbaijan of small amounts of gas on Turkey's internal

market, and the export of gas via Azerbaijan to Greece, Syria or Bulgaria. Although according to the Turkish side, a compromise was reached on all the most important questions (concerning overdue payments for gas from Azerbaijan, the prices and amounts of the gas to be purchased in the next few years, as well as fees for transit of raw material through the territory of Turkey), several matters remain unclear. The Turkish new energy strategy plan of 2010 outlines the objectives to boost both Turkey's supply security as well as its growing influence in the regional and global energy markets, protecting the environment and relying on the greater use of domestic resources. It also hopes that its gas reserves will satisfy one sixth of its gas consumption annually, while to reduce the share of one single country in its imports to 50%. However, many of those objectives, including Turkey's future strategic status as a major hub for European oil and gas imports from CACR and the Middle East as well as its expected geopolitical influence in its neighbouring regions of the Black Sea, CACR and the Middle East depend on its own prudent good governance as well as the policies of other and often competing actors in those regions that determine the future political stability of those regions.⁴⁷

Conclusions and recommendations

The full implementation of the Black Sea's role as a transit route for the energy resources depends on the development of the CACR's oil and in particular gas reserves. They are still hampered by an inadequate export infrastructure, disagreements over new export routes (mainly with Russia), unresolved border disputes between the littoral states and by regional instabilities.

Russia has an understandable interest at demand security, particularly in regard to the EU-27 as its major export market to hinder the role of the Black Sea region as an alternative transit route to Europe. But it has never seen its energy sources and pipeline policies as just a normal economic good as the EU. In-

stead, The Kremlin has often used energy dependencies and its gas export policy as an instrument not just of his economic and energy strategies, but also of its foreign, security policies and geopolitical interests. Meanwhile, however, it is facing very serious threats to its very fundamentals of its energy and in particular gas export policies because of the EU's both objectives to reduce its domestic energy and gas demand as well as to diversify its gas imports, the rising share and declining price of LNG vis-à-vis its pipeline gas, the potential for unconventional gas production even in Europe and globally and the de-coupling of the international gas prices from the oil price. In the Black Sea region, it is confronted to lose not just its oil export monopoly from CACR, but also its gas export monopoly due to the regional states' interests to diversify their own oil and gas exports and thereby to reduce their pipeline export dependence on Russia, as well as by the EU's and in particular China's energy import policies. In many ways, China's strategic interest to increase its oil and in particular gas imports from CACR and increasingly also its energy cooperation in the Black Sea region and especially in Ukraine can be considered as much more challenging for Moscow's future position and influence in the region than the EU's.

In this context, Moscow's plans to overtake Ukraine's gas pipeline network like the one of Belarus. While the Gazprom's merger with the Ukrainian state energy firm Naftogaz is off the table for the time, Moscow may now seek an agreement with Brussels rather with Kiev that could accomplish three objectives, as some experts have already speculated: (1) to assure the EU that any discussions of the Ukrainian energy system depends on Russia in the future; (2) it keeps any discussion of Ukraine's energy system between Moscow and Brussels instead between the direct channel of EU-Ukraine and (3) it reminds Ukraine on its dependence on Russia in regard to any discussions of its energy transit system and any negotiations of its energy infrastructure.⁴⁸

With any new energy crisis and conflict of European countries with Russia since 2006, the EU has made steps forward in defining and executing a common energy policy and to speak with one voice towards Russia. The progress is also partly driven by

its ambitions to become a global actor and its CFSP that needs defined common interests and strategies. Whereas the rather slow speed on this way has been and still needs to be criticized, the overall awareness has grown that Europe has no alternative in the light of the global challenges, its responsibilities and the need to preserve the EU's strategic interests in CACR and the Black Sea region and beyond by an active strategy and speaking with one voice.

For the years to come, the EU is confronted with two major challenges for enhancing its energy supply security: Firstly, if the EU is able to implement its March 2007 decisions and its 2nd Strategic Energy Review Package of November 2008 by 2020, it will decrease its gas import demand in contrast to previous forecasts. By freezing or at least decreasing its present gas demand, Putin's energy policies by using Russia's energy resources and pipeline monopolies as an assertive political instrument to enforce its economic and geopolitical interests may prove as self-defeating in its long-term strategic interests. In contrast to its previous forecasts, it will drastically reduce Gazprom's gas exports to a much smaller and more diversified EU gas market as the result of a deliberate EU policy of decreasing its overall gas (import) demand and by diversifying its gas imports.

Secondly and more urgently, in addition to improve its ambivalent energy relationship with Russia, the EU needs to implement the Nabucco project as soon as possible. Without the Nabucco-pipeline and a diversification of gas imports with new LNG projects in the "Southern Corridor" of the EU's new member states, a common and liberalized energy and gas market can hardly be realized in Central and Southeastern Europe. It may create a fragmented energy market with an Eastern part of the EU that remains highly dependent on Russia's energy supplies and its good will, whereas a Western EU has highly diversified its energy and particularly gas imports from North and other African countries as well as by increasing LNG imports. Such a development could have grave consequences not just for a liberalized common gas market, which will be fragmented, but also for the EU's future energy (foreign) policy, the future development of the

CFSP and the strategic foreign policy orientations of its member states. Thus the EU and its governments need to strengthen their engagement and support for the Nabucco-project both politically and financially. With the building of the Nord Stream pipeline and Russia's proposals for a merger of Gazprom and Ukraine's state-owned Naftogaz, the diversification of Europe's gas imports such as from CACR via the Nabucco gas pipeline and new LNG import terminals at Europe's "southern corridor" have become even more important. By building the Nabucco gas pipeline, the energy cooperation within the Black Sea region and CACR will tremendously be boosted and offer new perspectives of regional energy cooperation beyond oil and gas pipeline projects. These new perspectives need to increase energy efficiency and conservation, the expansion of renewable energy resources as well as the development of unconventional (shale) gas deposits in Europe and the Black Sea region like Ukraine. Thereby, the EU needs to recognize that it needs Turkey in the future more than Turkey the EU vice-versa.

* Dr. Frank Umbach is a Senior Associate and Head of the Program "International Energy Policies" at the Centre for European Security Strategies (CESS GmbH) in Munich-Berlin and Associate Director of the European Centre for Energy and Resource Security (EUCERS) at King's College in London.

¹ The following analysis is partly been based on my publication: "Competing for Caspian Energy Resources: Russia' and China's Energy (Foreign) Policies and the Implications for the EU's Energy Security", in: M.Amineh/Y.Guang (Eds.), *The Globalization of Energy. China and the European Union*, Volume II (Koninklijke Brill NV: Leiden-Boston 2010), 35 pp. (forthcoming in 2011).

² IEA, *World Energy Outlook (WEO) 2010*, Paris 2010, p. 45.

³ The New Policies Scenario takes into account the broad policy commitments and energy plans that have already been announced by the national states around the world, including pledges to reduce greenhouse gas emissions (GHGE) and plans to phase out fossil-energy subsidies. This scenario is being place between the traditional Reference Scenario (business-as-usual) and the ambitious 450 Scenario that is consistent with the 2° C goal of the global climate policy efforts.

⁴ See F.Umbach, *Global Energy Security and the Implications for the EU*, *Energy Policy*, Vol. 38, Issue 3, March 2010, pp. 1229-1240.

⁵ The region covers the eight countries of Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. It has a population of 76 million people, only slightly more than Turkey (75 million). Energy production in CACR is concentrated in the four main fossil-fuel holders of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan.

⁶ IEA, *World Energy Outlook (WEO) 2010*, p. 52.

⁷ See also Marlène Laruelle/Sébastien Peyrouse (Eds.), *Central Asian Perceptions of China. The China and Eurasia Forum Quarterly*, Vol. 7, No. 1, February 2009.

⁸ See British Petroleum, *BP Statistical Review of World Energy 2010*, June 2010 and IEA, *WEO 2010*, pp. 460 ff..

⁹ See BP *ibid.*

¹⁰ See also Rudolf ten Hoedt, *Kazakhstan's Wants to Break Free*, *European Energy Review (EER) September-October*, pp. 90-93.

¹¹ See IEA, *WEO 2010*, pp. 487 ff.

¹² Compare British Petroleum, *BP Statistical Review of World Energy 2009*, June 2009 with BP, *BP Statistical Review of World Energy 2008*, June 2008.

¹³ See *ibid.*, here p. 495 ff.

¹⁴ See also F. Umbach, "Competing for Caspian Energy Resources and idem, "Energy Security and Central Asia: A Comparison of the EU's, Russia's and China's Energy (Foreign) Policies", in: Thomas Gomart u.a.(Eds.), *Russian Energy Security and Foreign Policy* (Routledge, forthcoming), 28 pp.

¹⁵ See European Commission: *An EU Energy Security and Solidarity Action Plan. Second Strategic Energy Review 2008. Commission Working Staff Document: Europe's Current and Future Energy Position. Demand-Resources-Investments. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee of the Regions, Brussels, November, COM(2008) 744.*

¹⁶ See F.Umbach, *Global Energy Security and the Implications for the EU.*

¹⁷ See European Council, *Presidency Conclusions. 7224/1/07 REV 1, CONCL 1, Brussels, 8-9 March 2007, 26 pp., to the EAP, pp. 11-26.*

¹⁸ See Sammi Andoura/Leigh Hancher/Marc Van Der Woude, *Towards a European Energy Community: A Policy Proposal by Jacques Delors* (Paris: Notre Europe, March 2010), here p. III.

¹⁹ See European Council, *The EU and Central Asia: Strategy for a New Partnership*, Brussels, 22 June 2007.

- ²⁰ See also Egidijus Motieka et al. (Eds.), *Building Energy Security: Cooperation among the Baltic, Caspian and Black Sea Regions*. International Conference, Transcript of the Conference (Vilnius: Center for Strategic Studies, 2007).
- ²¹ See International Crisis Group, *Central Asia: What Role for the European Union?*, Asia Report, no. 113, 10 April 2006; Vladimir Socor: *Central Asia-Europe Energy Projects: Itemizing What Went Wrong*, Eurasia Daily Monitor (EDM), Vol. 4, No. 106, 31 May 2007; Svante E Cornell, *Commentary: So far, Europe's Approach to Central Asia has been Moralistic and Counter-Productive*, *Europe's World*, Spring 2007 and Michael Emerson/Jos Boonstra/Nafisa Hasanova/Marlene Laruelle/Sebastien Peyrouse, *Into EurAsia. Monitoring the EU's Central Asia Strategy*. Report of the EUACAM-Project (Brussels-Madrid: CEPS, FRIDE, 2010).
- ²² See European Council, *The EU and Central Asia: Strategy for a New Partnership*. Brussels, 22 June 2007. Online. Available HTTP: <<http://www.auswaertiges-amt.de/diplo/en/Europa/Aussenpolitik/Regionalabkommen/EU-CentralAsia-Strategy.pdf>> (accessed 5 July 2007).
- ²³ See Michael Emerson/Jos Boonstra/Nafisa Hasanova/Marlene Laruelle/Sebastien Peyrouse, *Into EurAsia*, here p. 2. The EU-Central Asia relationship and its evolution are continually reviewed by the EU-Central Asia Monitoring (EUCAM) project – see its website <http://www.eucentralasia.eu>.
- ²⁴ See Nicklas Norling, *Gazprom's Monopoly and Nabucco's Potentials: Strategic Decisions for Europe*. Silk Road Paper, Washington-Stockholm-Nacka: Central Asia-Caucasus Institute/Silk Road Studies Program, November 2007), Katinka Barysch, *Should the Nabucco Pipeline Project be Shelved?*, Policy Brief (Brussels: Centre for European Reform, May 2010) and F.Umbach, *Global Energy Security and the Implications for the EU*.
- ²⁵ See also F.Umbach, *Global Energy Security and the Implications for the EU and IEA*, WEO 2010, p. 530.
- ²⁶ See also Vladimir Socor, *Interconnector and Trans-Adriatic Gas Pipeline Projects: How Competitive?.*, Eurasia Daily Monitor, Volume: 8, Issue: 10, 14 January 2011.
- ²⁷ See also Robert M. Cutler, *Russia's Emerging Place in the Eurasian Hydrocarbon Energy Complex*, in: M.Amineh/Y.Guang (Eds.), *The Globalization of Energy. China and the European Union* (Koninklijke Brill NV: Leiden-Boston 2010), pp. 71-100; Keith Smith, *Russia-Europe Energy Relations. Implications for U.S. Policy* (Washington D.C.: CSIS, February 2010); idem, *Managing the Challenge of Russian Energy Policies. Recommendations for U.S. and EU Leadership*, (Washington D.C.: CSIS, November 2010) and F.Umbach, *Memorandum: The European Union and Russia – Perspectives of the Common „Strategic Energy Partnership“*. Personal Analysis for the Sub-Committee on Foreign Affairs, Defence and Development Policy, House of Lords/Great Britain, in: House of Lords and its European Union Committee (Eds.), *'The European Union and Russia'*, Report with Evidence, 14th Report of Session 2007-08. HL Paper 98, Norwich-London: The Stationary Office, 185-188

- ²⁸ See F. Umbach, *Energy Security and Central Asia: A Comparison of the EU's, Russia's and China's Energy (Foreign) Policies*.
- ²⁹ See IEA, *WEO 2010*, p. 546.
- ³⁰ See also Simon Pirani, *The Impact of the Economic Crisis on Russian and CIS Gas Markets*, Oxford Institute for Energy Studies, NG 36, Oxford, November 2009.
- ³¹ See F. Umbach, *Global Energy Security and the Implications for the EU*.
- ³² See *Russia Reform Monitor*, No. 1675, 23 June 2010.
- ³³ See also F. Umbach, *The EU-China Energy Relations and Geopolitics: The Challenges for Cooperation*, in: M. Amineh/Y. Guang (Eds.), *The Globalization of Energy. China and the European Union* (Koninklijke Brill NV: Leiden-Boston 2010), pp. 31-69.
- ³⁴ Although China may also have some substantial unconventional gas resources, it is too early to make any concrete forecasts to which extent and under which circumstances they become available for real production. One of the biggest challenges will be the necessary water resources which are already limited for China's population, industry and the agriculture sector and face huge environmental contamination problems.
- ³⁵ See also Jen-kun Fu, 'Reassessing a 'New Great Game' between India and China in Central Asia', *China and Eurasia Forum Quarterly*, Vol. 8, No. 1, pp. 17-22 and James Bospotinis, *Sustaining the Dragon, Dodging the Eagle and Barring the Bear? Assessing the Role and Importance of Central Asia in Chinese National Strategy*, *China and Eurasia Forum Quarterly*, Vol. 8, No. 1, pp. 65-81.
- ³⁶ See also Roman Muzalevsky, *Turkmen-Chinese Cooperation: Key to Turkmenistan's Diversification Strategy*, *EDM*, Vol. 7, Issue: 92, 12 May 2010; Stephen Blank, *Chinese Energy Policy in Central and South Asia*, *Korean Journal of Defense Analysis* 2, 4, 2009, pp. 453-453 and Vladimir Socor, *Turkmenistan Starts Construction of East-West-Pipeline*, *EDM*, Vol. 7, Issue: 110, 8 June 2010.
- ³⁷ See *China Reform Monitor*, No. 848, 14 September 2010.
- ³⁸ See Pavel Korduban, *President Yanukovich Returns to Multi-Vector Foreign Policy*, *Eurasia Daily Monitor*, Vol. 7, Issue 106, 2 June 2010.
- ³⁹ See also James Sherr, *The Mortgaging of Ukraine's Independence*. Briefing Paper, Chatham House, August 2010.
- ⁴⁰ Quoted following the press release: *Commission Welcomes Ukraine in Energy Community*, IP/10/1173, Brussels, 24 September 2010.
- ⁴¹ See European Commission, *EU-Ukraine Energy Cooperation. Fifth Joint EU-Ukraine Report: Implementation of the EU-Ukraine Memorandum of Understanding on Energy Cooperation during 2010*, Brussels, 22 November 2010.

⁴² See also Natalia Shapovalova, *The Battle for Ukraine's Energy Allegiance*, Policy Brief, FRIEDE, No. 55, September 2010.

⁴³ See also Thrassy N. Marketos, *Turkey in the Eurasian Energy Security Melting Pot*, *China and Eurasia Forum Quarterly*, Vol. 7, No. 4, 2009, pp. 95-113, here pp.

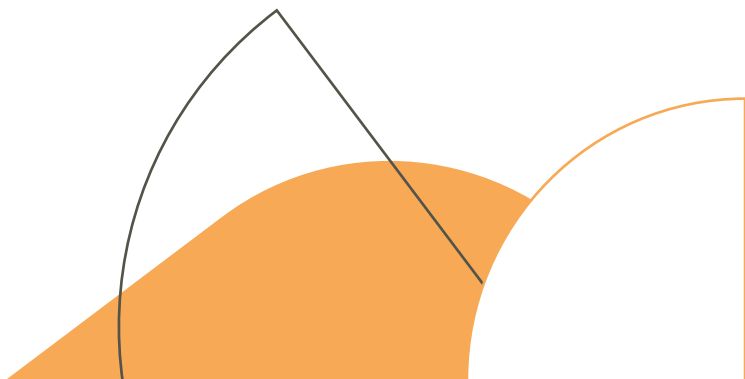
⁴⁴ See Emrullah Uslu, *Turkey and Iran Sign Accord on Natural Gas Cooperation*, *Eurasia Daily Monitor (EDM)*, Vol. 5, Issue 224, 21 November 2008 and Lale Sariibrahimoglu, *Ankara Does not Rule Out Further Energy Ties with Teheran*, *ibid.*, 17 January 2008.

⁴⁵ Saban Kardas, *Turkey Unleashes New Energy Strategy Plan*, *EDM*, Vol. 7, Issue 83, 29 April 2010.

⁴⁶ See also Gareth Winrow, *Turkey, Russia and the Caucasus: Common and Diverging Interests*. Briefing Paper, Chatham House 2009. To the background see also Bulent Aras, *Dealing with Russia: a Turkish Perspective*, GMF, Mediterranean Policy Program, Washington D.C., 7 May 2010.

⁴⁷ See also Heinz Kramer, *Die Türkei als Energiedrehscheibe*, SWP-Studie S 9, Berlin, April 2010.

⁴⁸ See Sergei Supinsky, *Russia Includes Europeans in Ukraine Energy Pact*, AFP, 27 October 2010.





In Search of the Philosopher's Stone: The Prospects of the Eastern Partnership

Adam Balcer*

Abstract

The importance of the Eastern Neighborhood for the EU derives from various economic, geostrategic and political reasons. However, this region has very serious handicaps to become top priority on the EU foreign policy agenda. The most important one is the presence of the other powerful players: particularly Russia and to a lesser extent Turkey and China which possess important stakes in the region. The concerns about Russia's negative reaction, especially prevent the EU from promoting a bolder approach in the Eastern Neighbourhood.

Moreover, the EU is discouraged from more assertive approach in the East because the Eastern Partners face multiple structural problems and often fail to deliver on reforms. However, due to the same reasons, a genuine modernisation and leap of civilization in the Eastern Neighbourhood depends on the EU's assertive engagement.

The EU's strategic goal with regard to its Neighborhood is its stabilization through approximation with the EU model and modernization. In case of the most important and promising Eastern Neighbors these goals are very strongly linked to the establishment of liberal democracy based on the rule of law. In consequence, the main Achilles' heel of EU policy towards the East is its reluctance to provide the Eastern partners with a long term European perspective, which could be the strongest incentive for the reforms and an anchor of stability.

On the other hand, the EU has witnessed in recent years systematic growth of its leverage and engagement in the Eastern Neighbourhood. The EU has launched or is preparing to launch several initiatives fully or partially aimed at the Eastern Neighborhood. This multitude of the EU's initiatives stems from the divergences of interests and perception between the EU member states with regard to EU foreign policy.

It is beyond question, that the Eastern Partnership (the EaP) is currently the most advanced and ambitious vehicle of the EU's engagement in the Eastern Neighborhood. However, despite the Eastern Partnership's several serious important achievements and strong points, the initiative has not overcome the essential weaknesses EU's engagement in Eastern Europe.

In order to tackle these weaknesses, the EU needs to upgrade the EaP. In the first place the EU should promote differentiation between the Eastern Partners according to their reform performance, a bottom-up approach (support for the third sector) and put much more emphasis on judicial reform and the fight against corruption. Success stories in the region are badly needed to overcome resistance in the EU towards further enlargement.

The strategic importance of the Eastern Neighborhood for the EU

The EU Eastern Neighbourhood composed of the six countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine is the EU's backyard. Nevertheless, it simultaneously lays in the alleged sphere of Russia's 'privileged interests', the traditional area of Turkish economic and security interests in the Black Sea region and presents an increasingly attractive terrain for China's power projection especially in the economic dimension.

In the Eastern Neighbourhood the EU enters into interaction with its three most important –from a demographic and economic point of view– direct neighbours: Russia, Turkey and Ukraine, respectively. From a broader perspective, the Eastern Neighborhood plays a role of the strategic bridge connecting Europe with the Middle East (Iran) and through the Caspian Sea with the Central Asia. The Eastern Neighbourhood's significance for the EU also stems from its position as a transport corridor between the EU and China, which gained status as a global player in recent years and the main economic partner of the EU. South Caucasus borders North Caucasus. The last one is simultaneously Russia's underbelly and Achilles' heel, namely the main challenge to its security. Last but not least, The Eastern Neighbourhood possesses a geo-strategic importance for the energy security of the EU, with regard, in particular, to transit routes and the possible diversification of energy supplies.¹ In consequence, The EU has important hard and soft security stakes in the region. If they are neglected, EU stability and also its relations with above mentioned "big fishes" could be threatened. The main challenges faced by the EU in the Eastern Neighbourhood are: internal political tensions (post-electoral unrests, riots), gas wars between Russia and the Eastern Neighbours, ecological risks, illegal immigration, smuggling, organized crime and frozen conflicts). Probably the most serious hard security challenge is Russia's assertive eagerness to retain its leverage on the region by all means, including use of force (the August War in Georgia). The political instability in the region is strongly linked to economic and social constraints and liabilities.

Indeed, current economic and social conditions in the Eastern Neighbourhood are rather precarious. The global economic crisis brutally striped its vulnerability. It has hit almost all Eastern Partners exceptionally hard, sharply halting a period of fast pace growth and has put the region's financial system under extreme stress. In a long term perspective, very serious structural challenges for the Eastern Partners' economies could produce very negative demographic trends found in almost all of them. On the other hand, the Eastern Partners should also be perceived as an opportunity for the EU. The economies of the Eastern Partners are possible emerging markets and to some extent a source of labour supply and natural resources. Certainly Ukraine, due to the size of its economy and population, has the largest economic potential for the EU.

The developments in the Eastern neighbourhood could also have an important impact on Russia's future. Russia's modernization and approximation with the West is of crucial significance to the EU due to Russia's status as the most important EU direct neighbour. The probability of this scenario will substantially increase in case of the Eastern Neighbourhood's Europeanization, especially in Ukraine.

The EU engagement in the Eastern Neighbourhood brings us to a question of the EU's international credibility. The EU's strategic goal, with regard to its Neighbourhood, is its stabilization through convergence with modernization toward the EU model. The achievement of these goals is a precondition sine qua non for the success of the EU's ambition to play a role of a global power. These aspirations could suffer a serious blow if the EU fails to stabilize and transform its immediate vicinity.

The Eastern Neighbourhood's significance to the EU also stems from the fact that the Eastern Partners possess the prospects of accession, as envisaged in article 49 of the Treaty of the European Union. They as European states geographically fit the criteria set for a candidate country in the treaty, to apply for this status. In consequence, their relations with the EU raise fundamental questions for the EU about the enlargement future and its finality.

However, after providing extensive evidence of the Eastern Neighbourhood's strategic importance to the EU it should also be pointed out that region faces serious constraints to gain the status of the top priority for the EU. Currently, the EU struggles to recover from the fallout of the global economic crisis and political reforms (the Lisbon treaty). The institutional reform of the euro zone will remain the main topic on the EU agenda in the coming years. The relations with global players as China, India and the US are of crucial significance to the EU. The enlargement process covering Turkey and the Western Balkans, has not lost its relevance to the EU through in crisis. Moreover, even within the framework of the ENP, the Eastern Neighbourhood and, to a smaller extent, Russia will probably become a less significant issue on the EU's agenda, while higher priority will be given to the Southern direction with regard to a positive or negative scenario in the Mediterranean. The main reason behind this trend will be the increasing demographic and economic leverage of the Southern Neighbours. The only way of counterbalancing, to a certain degree, the marginalisation of the Eastern Partnership countries on the EU's agenda is by covering them with the enlargement process. If the status quo is preserved in the long term, the Eastern Neighbourhood will transform durably into a de facto buffer zone separating the EU from Russia and Turkey (the latter remaining outside the EU) as a sort of geopolitical periphery.

The ambivalence of the Eastern Neighborhood and EU's positioning towards it

The EU's engagement in the Eastern Neighbourhood is determined by several factors. Despite significant similarities the region also has a high level of heterogeneity in political, cultural and economic terms. This makes the creation of a coherent and holistic approach to the region – the EU's specialite de la maison – a hard task. The Eastern Neighbourhood's ambivalence also concerns its position in the context of EU's foreign policy.

The Eastern Neighbourhood is generally more democratic than the South (excluding Israel). The Eastern Partners are European states in contrast to the Southern neighbours who possess the prospects of accession (right to apply for the candidate status), as envisaged in article 49 of the Treaty of the European Union. Another key factor which separates some of the EU's Eastern Partners (Georgia, Moldova, Ukraine) from the Southern Neighbours is their European vocation, namely explicitly declared interest in the accession to the EU. On the other hand, serious discrepancies exist between the EU and its Eastern Partners with regard to the national income per capita and quality of political systems (democracy, rule of law). However, in case of the most democratic EaP countries (Georgia, Moldova, Ukraine), the state of their state institutions, economic conditions and overall levels of democratic development are on the level of some Western Balkans states which are recognized by the EU as potential candidates. This implies a safeguard of accession after fulfilling all necessary criteria. However, the EU is still not ready to provide the aforementioned Eastern Partners with the same status. In consequence, the EU's policy towards the East is characterized by permanent perplexity stemming from the contradictory emotions in reluctance to "digest" the Eastern Neighbours accompanied by fear of their exclusion and in consequence destabilization.

There are many commonalities of the Eastern Partnership countries deriving from the post-Soviet and Tsarist Russia's legacy: weak state institutions infected with rampant corruption (excluding to a large extent Georgia), defective post-communist economic transformation, authoritarian tendencies and high poverty levels in comparison to the EU average. Despite diminishing role, Russian language still plays a role of lingua franca in all of them. Their common geopolitical attribute is to some extent their location between the EU and Russia. In effect, the economic and political dimension, relations with Russia and the EU are of key significance for each of them. The perspective of Southern Caucasus, however differs partly due to Turkey's importance in the region. Maneuvering between Moscow, Brussels and other stake-holders can be recognized as a typical foreign policy feature in case of majority of the EaP countries.

Nevertheless, differences among the Eastern Partnership countries – when it comes to nature of their political and economic systems, strategic goals of their foreign policy and economic international ties – prevail over similarities. A good evidence of this phenomena is low level of cohesion and cooperation on the regional scale within the framework of the Eastern Neighborhood. The basic source of this heterogeneity is a very serious divergence of economic and demographic potentials existing among the Eastern Partners. In that dimension the Eastern Neighborhood differs from the Southern Neighborhood or the Western Balkans. The region is dominated by one player, namely Ukraine. It has a relatively large economy (GDP PPP approx. US\$ 300 billion) which accounts for nearly 55% of the region's income.² Ukraine's population of nearly 46 million constitutes over 60% of the residents of the Eastern Neighbourhood. In effect, developments in this country could have an important impact on the situation in the other EaP countries. This impact could be either positive or negative. A leap frog of the entire region will be very difficult without the genuine transformation in Ukraine. The EaP countries are also more strongly diversified in terms of GDP PPP per capita than the Southern Neighbours or Western Balkans. Moldova is the poorest country in Europe and its GDP PPP per capita (around US\$3.000) is almost five time smaller than national per capita income of Belarus- the richest country in the Eastern Neighbourhood. The scale of economic freedom is also very diversified in Eastern Partnership countries. According to Doing Business Index issued by the World Bank, Georgia possess one of the most free economies in Europe and Ukraine locates itself on the very opposite pole. The economic composition of individual Eastern Partnership countries also differ to a greater extent than in case of Southern Neighbours and the Western Balkans. Due to these factors in contrast to Western Balkans the regional economic ties among the EaP countries are feeble. The diversified economic ties of the region with the outside world (the structure of trade volume, FDI stocks, tourism, remittances, the source of official development assistance) provide for another evidence of divergence. The countries of the Eastern Neighbourhood in terms of their economic foreign relations can be roughly divided into four groups: 1. countries more

strongly integrated with Russia (Belarus, to a lesser degree Armenia), 2. countries more strongly integrated with the EU (Moldova), 3. countries between the EU and Russia (Ukraine), 4. countries with mixed foreign economic ties but with a clear Western orientation (Georgia, Azerbaijan). Lastly, it should be mentioned that the Eastern Neighborhood framework addresses two different geographic and cultural regions: Eastern Europe (Belarus, Moldova, Ukraine) and the South Caucasus (Armenia, Azerbaijan, Georgia).

However, from the point of view of the EU the most fundamental differences among the EaP countries concerns their attitude towards the EU membership and the character of their political systems (democracy vs. authoritarianism). In this matter, the EaP countries are strikingly different when compared the Western Balkans, where there is no alternative to the EU and the enlargement is the only game in town. Georgia, Moldova and Ukraine have been trying in vain to obtain the status of potential candidates to the EU and are the most advanced in the Eastern Partnership. Armenia, Azerbaijan and Belarus are located on the other pole. They are not interested in the accession and have rather low expectations regarding the EaP. It is worth recalling that the framework of the Association Agreements, which the EU intends to sign with the Eastern Partners, also severely limits the scope of integration between Belarus, Armenia, and Azerbaijan.³ But even Armenia and to lesser extent Azerbaijan are substantially more “seduced” by the attractiveness of the EU model than some Southern Neighbors (Libya, Syria) which can be called justifiably totalitarian regimes.⁴

Belarus and Azerbaijan belong to the category of almost classical post-Soviet authoritarian regimes and Armenia is slowly sliding in this direction. Ukraine after the Orange Revolution was recognized as a free country by the Freedom House in its ranking “Freedom in the World” published annually.⁵ For the first time in history, a post-Soviet state (excluding the Baltic republics) gained this status. Nevertheless, Ukraine has been recently relegated due to worrying infringements of democratic and civil freedoms to the “partly free” category. It was evaluated as

a state located just below the “free country” category. However, the continuous aggravation of the authoritarian trends should not be excluded. Moldova received the same note as Ukraine but in its case the trend is completely opposite, namely a positive evolution towards the status of a free country which is within its reach. Due to this fact, Moldova is often called a window of opportunity or light in the tunnel for the region and the most promising partner for the EU. However, the political situation in Moldova is still fragile and the authoritarian communist comeback cannot be ruled out. If they were to control the government again, backsliding from a free political environment and the EU integration course would become a dangerous possibility. In the Freedom House ranking Georgia was positioned in the “partly free” category with score slightly worse than Moldova’s and Ukraine’s. The most positive development in Georgia were last local elections (May 2010) which, despite some shortcomings, were the most fair in its modern history. The strongest point of Georgia’s political system is its relatively successful fight against corruption which resulted in an impressive advance in the Transparency International rankings in the last years. However, the level of corruption in Georgia still lags significantly behind the EU’s average. Moreover, authoritarian tendencies are still quite strong in the Georgian ruling political elite. Armenia was positioned by the Freedom House along with Georgia, Moldova and Ukraine in the same category, but obtained a decisively worse note. It can be said, that Armenia situates itself on the verge of being recognized as non free country.

Democratisation and the issue of stability are in case of more democratic Eastern Partners tightly bound to the EU’s policy towards them, particularly the European perspective. In the case of several Eastern Partnership countries (Ukraine, Georgia and Moldova) the EU faces defective democracy. It is the source of instability in these countries, their fragility but at the same time almost completely excludes their superficial stabilisation, which could be achieved through the establishment of authoritarian regimes reminiscent of those operating in Arab countries. The low probability of the authoritarian slide can be proven by the fact that neither of these countries have become an authoritarian

state over the last two decades of their independence. In effect, their stabilisation is closely linked to a complete democratisation and building the rule of law, which has little chance of success without support from the EU. The most efficient incentive and driving force for reforms constitutes, beyond any doubt, the long term European perspective. Moreover, the lack of membership perspective creates to certain degree of a vicious cycle. The lack of these prospects does not create motivation to reform and the lack of reform inhibits more profound structural integration between the Eastern Partners and the EU, a precondition for the accession. To sum up, a more democratic character of Moldova, Ukraine and Georgia results in a substantially larger demand for the EU's engagement and commitment.

The level of economic development and quality of state institutions and their democracies in Georgia, Ukraine and Moldova are very similar and in some cases even better than several Western Balkans states (Albania, Bosnia) which already in 2000 gained the status of potential candidates.⁶ Moreover, these three East European states experienced one of the fastest paces of economic growth in Europe in the last decade, fastest than many poor European states attempting to catch up with the EU (i.e. almost all Western Balkan states). Even though the crisis hit them severely in 2009, they have been recovering since then and their projections of growth are rather optimistic. Unfortunately, chances for the EU's change of mind with regard to the enlargement towards the East currently look bleak. The enlargement fatigue within the EU concerning inter alia the Western Balkans, the EU's serious internal problems and fears of Russia's backlash are accompanied by the size of Ukraine, which has a population twice as large as the population of the entire Western Balkan region and a similar economy to that of all Western Balkan states taken together.⁷ From the EU's perspective, the Eastern Partners are still very underdeveloped. Moldova's GDP PPP per capita is more than 10 times smaller than the EU's average. Excluding the Eastern Neighbourhood, Georgia and Ukraine's national incomes (PPP) per capita exceed only Kosovo's in Europe. Both countries lag far behind Serbia or Montenegro. However, Ukraine is only slightly poorer than Bosnia and Albania. Unfortunately, according to the

Corruption Perception Index issued by the Transparency International, level of corruption in Ukraine is enormous, the highest in Europe apart of Russia. Moldova received only a slightly better score.⁸ The Western Balkans, though predominantly very corrupted, still gained a higher position in the ranking than Ukraine and Moldova. Another weak point of Georgia, Moldova and Ukraine is non recognition of any of them as fully free country by the Freedom House and regional environment unfavourable for democratisation (authoritarian regimes in Belarus, Azerbaijan, Armenia and separatist entities). The situation in the Western Balkans was similar at the end of the 90s. For instance, in 1999 no Western Balkan state was completely free and one was non free according to the Freedom House ranking. However, in the recent ranking three Western Balkans (Croatia, Montenegro, Serbia) were rewarded with the free status and remaining four were placed in the category “partly free” receiving scores significantly better than in 1999. Meanwhile, in the Eastern Neighbourhood during the same period the prevailing phenomena with regard to democratisation was stagnation, in some cases even regress, or ups and downs as in case of Ukraine. This striking difference between the Western Balkans and the Eastern Neighbours’ experiences shows very well how deeply the transformation of the EU’s neighbours depends on its predominant position in the region. In consequence, it can be said that the European perspective of the Eastern Partners and their democratisation is, to some extent, hijacked by the vicious circle: the EU’s lack of the first rank position in the region feeds reluctance towards a more assertive engagement, meanwhile insufficient attempts to increase the EU’s leverage are interpreted as the evidence that the EU has limited capacities to put in order the Augean stables in the East.

The EU and the other stake holders in the region

The key difference between Western Balkans, Maghreb and the Eastern Neighbourhood is the multipolar character of the last. In Western Balkans and Maghreb, the EU -cooperating close-

ly- with the US plays a crucial role in the economic, social and security spheres. In the Eastern Neighbourhood, the EU possesses important stakes in the region, but certainly is not the only player in town. In that sense, its position in this Eastern Europe is similar to its role in Mashrek (the proper Middle East), namely Eastern part of the Southern Neighbourhood. Indeed, there are several very important stakeholders active in the Eastern Neighbourhood besides the EU, above all Russia. The concerns about Russia's negative reaction in particular prevent the EU from promoting a bolder approach in the region. The EU has relatively the strongest position in the economic sphere in Eastern Europe, but it's weak in the social and security areas. However, it is worth reminding that at the beginning of the 90's the EU's general influence in the post-Soviet Europe was almost null and since then the EU's leverage on the region has been increasing, though its pace has been slow and unsatisfactory.⁹

The EU has decisively the strongest position in Moldova out of all spheres among the EaP countries.¹⁰ A unique factor favoring Moldova's closeness with the EU can be attributed to special bonds between Moldova and Romania, united by common a language and history. Romania plays a role of a very important economic partner for Chisinau and a staunch advocate of the Moldavian cause in the EU.

The EU, as an organization, is the most important economic partner for the EaP states, excluding Belarus and to a large extent Armenia, but its performance is rather mixed. After Moldova, the EU has the largest share in Azerbaijan's trade volume accounting for around 40%. However, in the case of other Eastern Partners including Ukraine, the EU does not exceed 30% of their trade volume. The EU is the largest investor in the EaP countries, with the exception of Armenia and Belarus. Nevertheless, investments from Cyprus, which account for a significant part of EU based FDI in Ukraine, are reinvested Ukrainian capital or originate from Russian entities. The EU, as an investor, plays a significant role only in the case of Azerbaijan and Georgia (due to energy related commerce) but the EU is decisively a "minority shareholder" in the cumulative FDIs of these countries. In the

case of Georgia, with regard to the financial assistance which has an enormous importance for its economy, the EU plays a significant but not a predominant role again. As far as remittances are concerned, besides Moldova, only a large number of expatriate workers from Ukraine work in the EU, but even in the case of Ukraine the main emigration destination remains Russia. Taking into account Ukraine's importance in the region and its rather pro-European stance, the level of EU financial aid (bilateral and multilateral) is surprisingly low in this case.¹¹

In the social dimension, EU's impact is rather feeble. Its Achilles' heel is its restrictive visa regime. At the same time, the visas do not exist or are going to be lifted in the nearest future between Turkey, Russia and the Eastern Partners. In effect, social contacts occur more often between Russians and the citizens of the EaP countries, – excluding Moldavians – than the last ones and the citizens of the EU. Another weak point of the EU is the fact that it plays a very minor role – again with exemption of Moldova – as the destination for students from the Eastern Neighborhood who wish to study abroad.

The EU's advantage is certainly the US's engagement in the Eastern Neighborhood which decisively supports the EU's agenda. The US plays a role of an important economic partner (share in the trade volume, FDIs, the official development assistance) particularly in Georgia and to a lesser degree in Azerbaijan and Moldova. The economic relations with the US are also relatively significant for Ukraine and Armenia. Unfortunately, the US's involvement has significantly diminished since 2008 due to the failure of NATO's enlargement and its preoccupation with the other parts of the world.

The most important challenge for EU's engagement in the Eastern Neighborhood is within the area of security. Four frozen conflicts (Abkhazia, Nagorno-Karabakh, South Ossetia and Transnistria) make up a very peculiar feature of the Eastern Neighborhood. These conflicts create the most significant liability, hampering a genuine democratization, modernization of the entire region and the regional cooperation. The EU is

not able to solve these conflicts on its own. They are also main source of Russia's leverage on the region. Thankfully, the EU has substantially increased its engagement in the security sphere, especially since the launch of the Common Security and Defense Policy(CSDP).¹² Despite certain undeniable successes, the EU's engagement in the region is still decisively insufficient and means that the EU, to a certain extent, accepts Moscow's domination in this field.¹³ As already mentioned, UE's reluctance towards a more assertive engagement dominates the its security considerations in the region. However, Nicu Popescu is right when he points out the following: "There is little the EU can do in the Eastern Neighborhood without addressing the secessionist conflicts in Transnistria, Abkhazia, South Ossetia and Nagorno Karabakh. One can hardly dream of good governance and functioning state institutions when the poorest European states invest heavily in their military, and do not control significant part of their borders, where smuggling and corruption in around the conflict zone flourish, publics have become increasingly radicalized, military escalation is plausible possibility."¹⁴

The main player in the EaP area is certainly Russia.¹⁵ Moscow has an important influence, to a various degree, in all the EaP countries, but especially in Armenia and Belarus. However, its leverage on the region has significantly decreased since the fall of communism.¹⁶ The strongest point of Russia was already mentioned in its prominent role in the regional security field. Moscow has several military bases or facilities in the region (Abkhazia, Belarus, Transnistria, Moldova, Ukraine, Azerbaijan, Armenia, South Ossetia). Last but not least, Russia's specialite de la maison are frozen conflicts in Abkhazia, South Ossetia, Transnistria and Karabakh. Moscow explicitly defines the Eastern Neighbourhood as its own sphere of interests. In consequence, Russia has per se the most sceptical approach, among the third-party players, to EU's engagement in the region, which is strongly correlated with Russia's highest readiness to use force to achieve its strategic goals. However, contrary to the membership in NATO, the European aspirations of EaP countries do not transmit automatically into a serious deterioration of relations with Moscow. Russia is an important economic partner for all

countries covered by the Eastern Partnership, particularly Belarus and Armenia.¹⁷ Lastly, Russia doubtlessly has a very strong leverage on the energy sector in EaP countries due to its monopoly on gas supplies and integration of Eastern Partners with Russia's energy grid.¹⁸ Russia also possess strong stakes in the social sphere in the Eastern Neighbourhood. This is mainly due to the freedom of movement (liberal visa regime), numerous Russian speaking communities and the post-Soviet cultural legacy (popularity of Russian culture). Russia also pursues a policy of institutional integration of the Eastern Neighborhood under its own auspices, through different regional organizations and initiatives tackling economic, political and security areas.¹⁹ Certainly, the main purpose of these attempts is to create a viable and competitive alternative towards the EU's engagement in the region. Nevertheless, despite some success stories, the results of Russia's activity are generally below Moscow's expectations..

The future of the EU-Russia's relations has a fundamental importance for the Eastern Partners. The idea of Russia's modernisation currently discussed in Moscow created hopes for a ground-breaking rapprochement in relations between the EU and Russia. Brussels responded to these trends in Russia by launching the Partnership for Modernization a new initiative aiming at an establishment of cooperation between Russia and the EU in the modernisation process. However, probably James Sherry is right when he admits that "whatever the differences between President Medvedev and Prime Minister Putin over modernization and legal reform, when it comes to their country's 'sphere of privileged interests', they are 'of one blood'."²⁰ In fact, Russia's policy towards the Eastern Neighborhood could be the best test for sincerity of Russia's modernization vocation. Russia's support for the anachronistic and obsolete regimes in the Eastern Neighborhood and frozen conflicts is irreconcilable with its modernization agenda and approximation with the West.

Following the Soviet Union's dissolution, the Eastern Neighbourhood become an arena of increased activity for other stake holders as well, namely Turkey and China. Turkey, as a lynch pin state with strategic geopolitical position, plays a role of the gate to the

Eastern Neighborhood, particularly Caucasus.²¹ Indeed, Turkey's leverage is particularly felt in South Caucasus and to a significantly lower degree on the northern shores of the Black Sea.²² A strong point of Turkey's engagement in the region is its ability to establish good relations with antagonistic parties (Russia, Abkhazia vs. Georgia, Yushchenko's Ukraine). The most important shortcoming of Turkey's foreign policy in the region remains the closed border and lack of diplomatic relations with Armenia. Turkey is also realizing its own agenda of the regional institutional integration in the Black Sea region. Ankara initiated the Organization of the Black Sea Economic Cooperation (BSEC), BlackSeaFor, Black Sea Harmony and the Caucasian Stability and Cooperation Platform. The legacy of these initiatives is at least ambivalent. They did not succeed in solving the key regional problems. Turkey is a very important economic partner for Abkhazia, Georgia and Azerbaijan.²³ The Turkish "factor" also plays a relatively significant role in the Moldavian and Ukrainian economies. Turkey's position in the social dimension of the region is based on Turkish and Muslim minorities in Adjara, Gagausia and Crimea and large Abkhazian and Georgian communities in Turkey.²⁴ In the security sector, Turkey also has substantial stakes, because it is a very important partner for Georgia and Azerbaijan in the military dimension (training, equipment, exercises).

Turkey's approach to EU's engagement in the Eastern Neighborhood is much more nuanced and sophisticated than Russia's. As a candidate state, Turkey declares support for European Union's activities in the Black Sea area, but on the condition that Brussels consults its policies regarding the region with Ankara. Because of its status as the largest country of the Black Sea region (apart from Russia) Ankara feels its position is privileged and it should be fully engaged in the preparation and implementation of EU policies regarding the area. Turkey is not interested in the eradication of EU's influence in the region, because Ankara would not like to find itself alone in front of Russia. But Turkey, due to the rapprochement with Russia and the importance of relations with Moscow, is not interested in jeopardizing its relations with Moscow either.²⁵ In sum, Turkey assumes that by maintaining good relations with both Russia and the EU, it may maneuver be-

tween the two to secure its own interests in the Black Sea area. The character of Turkish foreign policy in the region will depend in future, to large degree, on the state of Turkey's relations with the EU, its most important partner. The negotiation process is inevitably organizing axis of the Turkish-European relationship. An acceleration of the negotiation process would increase the chances of a closer Turkish-European cooperation in the Eastern Neighborhood. This scenario could encourage Russia to conduct a more pragmatic policy as Moscow will most probably try to avoid isolation. On the other hand, a permanent stalemate or crisis in the Turkish-European relations will push Turkey towards a closer tactical cooperation with Russia.

The newest phenomena is an unprecedented growth of China's presence in the region. Although China's position in the Eastern Neighborhood is much weaker than in Central Asia, China – apart from Russia, the European Union, the US and Turkey – has recently become one of the stake-holders in this region for the first time. Geopolitical conditionings predestine that the position of Beijing in Eastern Europe and the South Caucasus will never be the same as in Central Asia – its “direct neighborhood”. Nevertheless, last year showed that China has great potential for playing an important economic and, consequently to a smaller degree, political role in this part of the world. Today, China is quite an important economic partner of all the states in the Eastern Partnership, except Azerbaijan.²⁶ The clear intensification of relations between the Eastern partners and China that took place in 2010 was also reflected in the political dimension. The most striking evidence confirming this phenomena were the visits to China of the prime ministers and presidents from every country covered by the Eastern Partnership (excluding Azerbaijan) in autumn 2010. The increasing power of China in the Eastern Neighborhood is both an opportunity and a threat to the European Union. Beijing is a tough player, but in contrast to Russia, it is more pragmatic and thinks more often in a “win-win” way. There is a chance that Russian foreign policy, under the increasing leverage of China in the post-Soviet space, will become more “Chinese” or in other words more pragmatic. On the other hand, the most important negative consequence of the Chinese

rise for EU interests could be the reduction of EU's ability to put "reformative" pressure on local political elites.

Indeed, the multipolar character of the Eastern Neighborhood is often perceived by regional politicians positively because it allows them to pick and chose a la carte from different menus and prepare dishes of a fusion cuisine. Maneuvering means playing "big fishes" off against each other in order to consolidate their grip on power. Nicu Popescu and Andre Wilson created a special neologism for this phenomena: neo-Titoism. Acknowledging its presence, its relevance of it for the entire region shouldn't be overestimated. Indeed, it is impossible to put Georgian and Belarusian or Moldovan and Azeri foreign policies in the same basket.

The further alignment of forces in the Eastern Neighbourhood will take place in the coming decades. A decline of Russia's leverage and Turkey's²⁷ and China growing one will be the most probable trends. Nevertheless, Russia will remain still the most important third country in this region for a foreseeable future. An open ended question concerns the EU's position after this shift of power in the region. Most probably, its rise of influence will continue, but the pace of this process will depend on the EU's political will and resoluteness to exploit its strong points. The EU possess the greatest economic and geopolitical potential to increase its influence and become the most important, though not dominant actor. This capacity derives from its economic and demographic superiority over Russia and Turkey²⁸, higher level of internal political stability, better quality of state institutions and geopolitical advantage in case of China (geographical distance). The EU's strongest point is its ability to modernize the Eastern Partners that the other players cannot deliver on. Moreover, the EU is perceived by the societies of Eastern Partners as the most attractive model. Although no integration initiative or organization in the region can be recognized as a success story, the EU's engagement in comparison to Russia's and Turkey's seems to have brought the most tangible results which can be measured by the political and economical transformation in the Eastern Partners.

The Eastern Partnership in the context of the EU's Eastern Policy

The coherence and effectiveness of the EU engagement in the Eastern Neighborhood suffers from a lack of consensus in the EU on several crucial issues. First of all, there is the matter of possible EU membership for the EaP countries. This idea is supported by some EU member states (the Czech Republic, Poland, Romania, Sweden the UK) but for others it is currently unacceptable (France, Germany, Italy).²⁹ The second issue is that of Russia's place in the EU's relations with the countries of Eastern Europe. Some important EU states (France, Germany, Italy) to various degrees, still treat the good bilateral relations with Russia as a priority (Russia First), while showing more sensitiveness towards Russia's special position and interests in the Eastern Neighborhood than other member states. The third issue concerns the dispute over the extent of the EU's engagement in the East and to the South, namely with Eastern Europe and the Southern Mediterranean.³⁰

The dynamics of the east-south cleavage is determined by the disproportion of economic and political potentials between the two camps. The most important advocates of the Southern Neighbourhood – France, Italy, and Spain – have greater bargaining power in the EU than supporters of the Eastern dimension of the ENP (Central Europe, Baltic States, Bulgaria, Romania, Sweden, Finland). Moreover, the post-communist EU member states do not exploit, to a large extent, their potential in the social, economic and political terms in the Eastern Neighbourhood.³¹ The asymmetry between the Eastern and Southern directions would be counterbalanced, to some extent, in case of Germany's more assertive engagement in the Eastern Partnership area than before³².

Last but not least, within the framework of the EU's policy towards the Eastern Neighborhood, the most important divergence exists between "the Black Sea" orientated approach and "the Eastern borders" oriented one. Paradoxically, this divergence occurs sometimes even between the EU member states having generally

overlapping strategic interests (Poland and Romania). Poland, the main driving force behind the Eastern Partnership has a rather negative attitude toward the Black Sea Synergy or the Black Sea Strategy recently proposed by the European Parliament. On the other hand, Romania's support for the Eastern Partnership is weakened by its attachment to the Black Sea dimension.

The EU's engagement in the East is characterized by the multiplication of EU programs and initiatives. Nevertheless, their impact, in terms of Europeanization of the region, has been modest so far. The almost annual attempts to improve the ENP's offer for the East indicates that the EU engagement is still under construction. It also confirms that the EU is dissatisfied with the performance of the programs designed for the Eastern Neighbours.

The crucial common feature of all of the EU initiatives is a lack of the European perspective. It can be said, that the EU engagement in the East is a history of searching for the optimal model which would rely on enlargement policy tools (integration, conditionality) without offering a prospect of accession for the Eastern neighbors. This model of "integration without membership" is based on the formula "everything except institutions". This concept, aiming at preventing the emergence of new dividing lines in Europe, is driven by efforts to solve the fundamental "inclusion/exclusion" dilemma which the EU faces with regard to the Eastern Neighbours. In effect, some basic similarities united all of the EU initiatives and programs directed towards the East after the fall of the Soviet Union as far as concerning their agenda (convergence with the EU model, conditionality). However, they found their expression in a different scope and intensesness in each of the initiatives or programs. The following EU initiatives and programs, coming one after another, are supposed to be upgraded instruments invented by the EU to copy the above mentioned dilemma.

In the 90s EU's contractual relations with the Eastern Neighbours were based on Partnership and Cooperation Agreements (PCA), aiming at democratization and market transition, promotion of trade and investment, as well as, an establishment of a solid framework for further cultural, scientific, technological

cooperation.³³ The point of reference for the PCA initiative was the entire post-Soviet space from Lvov to Vladivostok, including Central Asia. In the period between 1997-1999 the EU signed the PCAs with almost all post-Soviet states (excluding inter alia Belarus). The post-Soviet oriented approach was recognized as obsolete and too wide in scope after the EU enlargement in 2004 which resulted in the establishment of a direct border between the EU and Belarus and Ukraine. Moreover, after the next round of enlargement in 2007, The EU gained the third direct Eastern neighbour, namely Moldova. In consequence, in 2004 the EU decided to reframe its engagement in the East by launching the European Neighbourhood Policy (ENP). The main new tool of the ENP were the Action Plans, outlining renewed offer of the EU's support and list of reforms which states committed to conduct (more conditionality and convergence). The ENP was supposed to become sort of a carrot and incentive for the Eastern Partners. However the ENP met with mixed reactions in the East because it put into one basket five Eastern Partners (Armenia, Azerbaijan, Georgia, Moldova and Ukraine) together with the Southern Neighbours. Russia was invited to the ENP, but Moscow declined the EU's offer, preferring an establishment of special bilateral relations with Brussels. Belarus, due to the political internal situation, was left outside the framework of the ENP. Between 2005 and 2006, the Eastern Partners signed Action Plans with the EU. The ENP agenda was substantially enhanced when in 2007 and 2008 the EU started negotiations with Ukraine on the Association Agreement including the Deep and Comprehensive Free Trade Agreement and launched the Visa-Dialogue, aiming at liberalization of the visa regime. The Association Agreement negotiated with Ukraine secured a much more ambitious and reformative agenda than the Action Plans. Nevertheless, this more robust offer did not include the European perspective.

In 2007, after Romania and Bulgaria's accession, the Black Sea region become a direct neighbor of the EU. In effect, in April 2007 the European Commission proposed a new initiative: the Black Sea Synergy. It was officially launched jointly by the EU and the Black Sea actors in February 2008. The Black Sea synergy encompasses the EU and a candidate country (Turkey), five Eastern-

European neighbors (Armenia, Azerbaijan, Georgia, Republic of Moldova, and Ukraine) and Russia as a strategic partner. The initiative functions within the framework of the ENP. The common possible fields of cooperation were identified in a number of sectors ranging from energy to maritime management, and from democracy promotion to cultural cooperation. The Black Sea Synergy (BSS) has had the merit of recognizing the Black Sea region as strategic for the EU, together with the need for strengthened EU involvement in the area. However, three years after the kick off, the Black Sea Synergy should be recognized as a failure because its results have so far been limited. According to the European Parliament's resolution from December 2010 „no action plan has been drawn up setting out concrete objectives and benchmarks, and reporting, monitoring, evaluation and follow-up mechanisms. [...] Only one progress report has been issued in 2008.”³⁴ As far as concerning the implementation of concrete projects, only a Partnership on the Environment was launched in March 2010. Two Partnerships on Transport and Energy respectively, are still in the phase of elaboration. Since 2008 no ministerial conference has been held within the framework of this initiative. The Achilles heel of the Black Sea Synergy are the lack of visibility, strategic vision and political guidance. The implementation of the Black Sea Synergy's agenda has been severely hampered by poor administrative organization, a lack of institutional and political commitment, and human and financial resources. Probably the most important positive legacy of the Black Sea Synergy is an establishment of the Black Sea Civil Society Forum which takes place every year. It gathers the NGOs from the region, the EU and Belarus, respectively. Romania is the principal patron of the Forum. In response to the failure of the Black Sea Synergy the European Parliament proposed, in the above mentioned resolution, to extend the EU Strategy for the Danube Region towards the Black Sea region and an establishment of a new Black Sea Synergy modeled after the first initiative. It also called for the creation of a specific budget line for the Black Sea Strategy and regular ministerial meetings between the EU and the countries of the Black Sea region.³⁵

The most important development in the EU's policy towards the Eastern Neighbourhood so far has been the launching of the

Eastern Partnership initiative in May 2009. It followed a joint Polish-Swedish idea presented in 2008. The August war in Georgia in 2008 provided Poland and Sweden with a sufficient impetus and arguments to persuade the EU member states whose geographical location makes the Eastern Neighborhood of lesser concern to endorse this initiative. The creation of the Eastern Partnership was also prompted by the commencement in the same year of the Union for the Mediterranean which was framed for the Southern Neighborhood and the above mentioned Black Sea Synergy. The Eastern Partnership was built upon the framework developed through the European Neighborhood Policy. The EaP did not deliver a new vision or strategy for the Eastern Neighborhood, it rather preferred to create an additional layer to existing bilateral policies, and added to them new important multilateral dimension. The best evidence of this philosophy is its financial dimension. The EU did not allocate significant new funding for the EaP. It is foreseen that 2,5 billion Euros will be spent for the projects related to the EaP's agenda until 2013. However, only 350 million Euros will be "fresh" funds, the rest will be redirected through the EaP under the current ENP envelope. Two main instruments of the EU engagement with the Eastern Partners on a bilateral basis are the Association Agreements and visa-dialogue. The Association Agreements are designed on the model of the Ukrainian AAs, which namely include the Deep and Comprehensive Free Trade Agreement (DCFTA).³⁶ The conclusion of the AAs with the Eastern Partners is conditioned on the sufficient progress towards democracy, the rule of law, respect for human rights and a free market economy. Lifting the EU visa requirement for the citizens of the Eastern Partners is the second key long-term objective of the EaP's bilateral track. In the shorter perspective, the EaP envisages visa facilitation and readmission agreements. The next step is 'visa dialogue', the aim of which is to determine the conditions each country needs to fulfill to have the Schengen visa requirement lifted. The EU aims at supporting the EaP countries' efforts to meet the AA requirements and to make progress towards visa liberalization through an establishment of the Comprehensive Institution-Building program which will aim at strengthening core institutions in the EaP countries.

The novelty of the EaP is a multilateral dimension which was missing in the ENP. Within the framework of this multilateral approach the EaP foresees establishment of many instruments: the four thematic platforms³⁷, the flagship initiatives³⁸, local and regional assembly of Eastern Europe and the South Caucasus (EaP LRA), EaP Parliamentary Assembly Euronest, Civil Society Forum (CSF), the EAP summits, working panels, meetings of foreign ministers and ministerial sectoral conferences or meetings. The EaP foresees also a participation of the third states (i.e. Russia, Turkey, US) in the flagship initiatives. To sum up, it can be said that the EaP put the institutional flesh on the ENP bones and pushed forward the democratization agenda.

The strong and weak points of the Eastern Partnership

The Eastern Partnership is currently without any doubt the most advanced and ambitious vehicle of the EU's engagement in the Eastern Neighborhood and the most upgraded initiative in the evolutionary line of the EU's attempts to find the golden solution to the Eastern Policy dilemma (integration without membership). The EaP has so far had the most progressive democratization agenda based on the conditionality principle. These ideals were very clearly expressed during the first EaP summit in May 2009 in Prague when the EU member states and the Eastern Partners "agree that the Eastern Partnership will be based on commitments to the principles of international law and to fundamental values, including democracy, the rule of law and the respect for human rights and fundamental freedoms."³⁹ The positive added value of the EaP is that it separates the Eastern Neighbors from the Southern ones by engaging them into different policy frameworks. This distinction was earlier blurred by the ENP. Actually, the EU indirectly recognized the East's peculiarity in the Neighbourhood through different agendas. The most convincing evidence of this trend is a radically larger focus on political elements (good governance and democratisation) of the agenda on the Eastern Part-

nership, in comparison to the initiatives targeting the southern neighbours (the Barcelona Process and now the Union for the Mediterranean). The EaP's strong emphasis on the DCFTA, the long term visa free regimes, people to people contact and civil society confirms the badly needed rise of the EU's awareness to necessity to intensify economic and social ties with the EaP countries and societies in order to reinforce the EU's stakes and leverage on the region.

Indeed, the Eastern Partnership since 2009 has significantly enhanced the bilateral relations between the EU and the Eastern Partners and has managed to establish the multilateral track under the EU's exclusive tutelage, though with some setbacks. For the first time in history has such a comprehensive multilateral institutional network appeared in the region. Within the framework of bilateral relations, the EaP substantially accelerated the pace of preparation of the agenda for negotiations on the AA's visa regime and negotiations themselves. Currently, the ideas of signing the AA and liberalization of the visa regime with the EaP countries are treated in the EU as something obvious. However, it worth reminding that a few years ago they were the subject of very heated debates. Ukraine is the most advanced country in the negotiation process. However, the most spectacular progress has been witnessed in recent months where Moldova which has overcome Ukraine in a race for the status of the best pupil in the class, while Georgia has claimed third place significantly leading ahead of Azerbaijan and Armenia.⁴⁰ The Eastern Partnership is the first EU initiative directed to the East which covers Belarus, but only in the multilateral dimension.⁴¹ In 2010 the EU attempted, in response to some positive steps in the domain of democracy and fundamental freedoms in Belarus, to establish the bilateral relations with this country in return for further reform efforts. However, the endeavour ended up with failure due to the crackdown on opposition which took place in Belarus in December 2010 during the presidential elections. Progress on the multilateral was to some extent less spectacular and efficient than in the bilateral dimension, nevertheless it opened new windows of opportunity for the EU cooperation with the EaP countries.⁴²

Despite the Eastern Partnership's several important achievements and strong points, the initiative has not overcome the essential weaknesses of EU's engagement in the Eastern Europe. Certainly, the most prominent objection – “traditionally” raised concerning the initiatives directed to the Eastern Neighbourhood – is lack of the long term European perspective in the EaP's agenda. Recognizing the fact, the EU currently cannot deliver on this issue. The key question which should be raised with regard to the EaP concerns its capacity to create a momentum and push the EU towards decision of the recognition of Georgia, Ukraine, or Moldova as the potential candidates. The crucial challenge to the European perspective of these three EaP countries is their negative image in the EU. They are often perceived as unstable, underdeveloped, corrupted, and copying with the authoritarian tendencies. Certainly, Georgia, Moldova, and Ukraine will not solve all their problems and overcome enormous distance in political and economic terms existing between them and the EU in the coming years. Nevertheless, a substantial and tangible progress in fight against corruption, an irreversible democratization and fast pace of economic growth accompanied by creation of favourable conditions for intensification of economic relations with the EU would make a difference. This scenario could bring a change of mind in the EU with regard to the European prospects of Georgia, Moldova, and Ukraine. Moreover, certain hitherto developments give hope that this scenario is within reach of these countries. A few years ago Georgia was a failed state and Moldova was sliding towards the authoritarian abyss. Therefore, the transformation they have undergone in the recent years deserves respect. However, their progress took place predominantly in the individual categories (democratization in case of Moldova, fight against corruption and economic reforms in case of Georgia). Thus, the crucial issue is an achievement of the comprehensive and holistic progress in all spheres, namely: merged Georgia's and Moldova's successes.

It seems that the EaP is not the optimal tool to achieve these goals and, in effect, its agenda needs an enhancement. The economic integration between the EU and the EaP and the stable and fast pace of economic growth in the Eastern Partnership are a very important precondition to the enlargement process. The reason

why the Western Balkan states gained the status of potential candidates derives, to some extent, from their radically greater economic integration with the EU than the Eastern Partnership area has right now. However, the EU's limited socio-political impact on the domestic situation in the Maghreb proves that economic integration alone is an insufficient condition for the establishment of closer political convergence between the European Union and its neighbours. Economic integration must be accompanied by the EU's will and determination to implement a political agenda as it has done in the case of the Western Balkan countries. Despite its democratization, rhetoric, and some institutional frameworks, the EaP does not foresee a radical financial invest in foundations for democracies in the EaP countries. According to the EaP financial framework, NGOs, independent media, and universities will still receive mere dribs and drabs of the support that the EU pumps into their respective governments. This approach is very different in the US engagement in the region which is to focus on the civil society. Therefore, the bottom-up approach is badly needed because it could result in the establishment of strong European vocation on the grass roots level and, in consequence, creating a momentum for reforms in some of the Eastern neighbour states (social pressure on government from below). The bottom up approach could also be very helpful in creating a more coherent policy on the EU's side and cooperation between states treating the EaP as a preliminary round before the accession process and these ones perceiving it as permanent solution.⁴³ The bottom-up approach requires an establishment of free visa regime for above mentioned states. The EU officially declares that this is its long term goal. The main problem is that some EU member states (i.e. France, Italy), reluctant to deliver on this issue, interpret this commitment in a very rigorous way, namely: putting the emphasis on the phrase "long term perspective" and, in effect, artificially slowing down the process.

The fight against corruption is recognized as one of the top priorities in the EaP's agenda, but the comprehensive Institutional-building program, aiming at the increase of administrative capacity focuses on a very wide range of issues and institutions. Meanwhile, the reform of the judiciary and police and its success-

ful implementation are currently the most pending issues which, if realized, would cause spill over effect in all institutions and bring a breakthrough both in economic and political spheres.

With regard to the economic dimension, the most important challenge is the issue of the Association Agreements' implementation. They have an ambitious agenda. An ambition can be very constructive but only if there is real chance of implementation. 90 percent of the AAs agenda of the Eastern Partners derives from the AAs signed with the Western Balkan states. Even those of the Western Balkan states which are on the similar level of economic and administrative development as the EaP countries were able to liberalize their trade with the EU. However, the EaP countries would undertake obligations very similar to the ones undertaken by the (potential) candidate states but with much smaller EU financial and political commitment (lack of the European perspective). Adjusting to the EU, *acquis* will be an enormous financial effort for the EaP countries – especially for Ukraine. Institutional weakness in the EaP countries can also make the implementation of the AAs very difficult because the latter requires serious and difficult institutional transformation, including, in particular, the already mentioned reform of the judiciary.

Another serious challenge for successful implementation of the AAs could also be an insufficient commitment on the EU side to open its markets to products coming from the EaP countries. This will mean that the EU is not eager to take into consideration the needs of much weaker partners. The AAs are based on the idea that as a partner country implements the *acquis*, the EU internal market in that sector will be extended to it. However, the bargain 'a share in the internal market in return for regulatory harmonisation' is defined in the AA's in a rather vague manner.⁴⁴

Last but not least, the frozen conflicts. The EaP falls short in addressing the key security challenges that unravel in the Eastern Partners locked between the EU and Russia. Instead, it puts emphasis on soft policy and external governance tools. In this way, the Eastern Partnership attempts to build consensus within the EU and between Brussels and Moscow by depoliticising some of

the problems and digusing them in the technical and bureaucratic discourse of the European Commission. Therefore, the EaP deliberately avoids to address the unresolved conflicts in the region of the underlying tensions with Russia. However, as Rosa Balfour rightly admits “The EaP claims that rather than address security issues directly, it can support the creation of environments more conducive to managing the security challenges by focusing on economic development and governance reform. But these fields too are severely undermined by the conflicts in the region making it difficult to decouple governance from security.”⁴⁵

Conclusions and recommendations

Despite the importance of complementing EU’s bilateral relation with Eastern Partners with the EaP’s multilateral dimension, the bilateral dimension should gain an overriding prominence. Intensification of ties with the best-performing partners could have a positive effect on others (the domino effect) and could bring an enhancement of the multilateral cooperation. In consequence, the EU should strengthen the performance-based differentiation, grounded on clearly defined benchmarks. The EU should rearrange the EaP’s agenda by ensuring central position of bottom-up approach, aimed at civil society in its implementation process. Therefore, the EU should increase significantly the financial and organizational support for the NGOs and media outlets. The full visa liberalization as a long-term objective, should be provided as soon as relevant conditions are met. Currently, the EU should pay particular attention to mobility of students, academics, researchers, and businessmen by ensuring sufficient resources and by strengthening and broadening existing scholarship programmes. The fight against corruption, in particular in the judiciary and the police, should be number one priority for the EU in the development of its relations with the Eastern Partners and this should be reflected within the Comprehensive Institution Building program. Bearing in mind the ambitious nature of the Association Agreements, the EU should support the Eastern Partners through increase of technical and financial assistance, wider than foreseen opening

of the EU market to make approximation of *acquis* worthwhile, long transition periods for most difficult and expensive parts of *acquis* but combined with constant evaluation to ensure regular progress and avoid unnecessary delays.

After the Russian-Georgian war, 'NATO leads, the EU follows' approach is not applicable any more in the security sphere of the Eastern Neighbourhood. The EU has already assumed a greater role in this sphere than it was imagined a few years before. The EU must continue this trend and increase its involvement even further in the solution of protracted conflicts. The security issues can be incorporated to the EaP's agenda by creating comprehensive EU strategy of conflict resolution in the region. This strategy should propose the following ideas: assertive EU's participation in permanent and ad hoc conflict resolution structures (peace plans),⁴⁶ the launch of the EU peace keeping missions with possible Russia's involvement, confidence-building measures and programmes (contacts people to people in the conflict areas), the consideration of pragmatic initiatives such as informal contacts with the societies and leaders of the breakaway territories. The EU should focus especially on Transnistria (the most solvable of all post-Soviet secessionist conflicts) as far as concerning peace process⁴⁷ and Abkhazia⁴⁸ (the most solid base for modern statehood among the non recognized territories) with regard to the informal contacts.

An increase of coherence in the EU member states' policies towards Russia is another *sine qua non* of the EaP's success. The Partnership for Modernization between Russia and the EU will be a failure if it results in mere technology transfers, a scenario that Russia wants. The Partnership must focus on rebuilding Russia as a state based on the rule of law which, in the long term, could result in its democratisation. The nature of Moscow's engagement in the EaP area should become a test of Russia's intentions with regard to cooperation with the EU and its modernization. Particularly, the peace process in Transnistria could be used as testing ground for the EU-Russia's cooperation. The EU should also engage Russia in the Eastern Neighbourhood by establishment of coordination mechanism between the Eastern Partnership and the Partnership for Modernization. The agenda of both

initiatives is, to a certain extent, similar (visa, energy, modernization, fight against corruption etc) and Russia has already been invited to participate in the EaP projects as the third state. The optimal form of coordination between the EaP and the Partnership for Modernization would be the launch of regular special summits gathering the EU, Russia, the Eastern Partners and the other third states. It seems that the EU's co-operation with the other third countries engaged in this region will be the optimal way of convincing Russia to accept the Partnership. China is certainly a country which should be paid more attention to than it is the case right now. In case of Turkey, one should be aware that its constructive engagement strongly depends on the breakthrough of the current stalemate in the accession process.

The EU member states supporting the enlargement toward the East should increase their engagement in the region substantially in the coming years and enhance coordination of their activities directed to the Eastern Neighbourhood. Close cooperation between them will also be particularly important in the internal debates in the EU concerning the size of EaP's budget during the negotiations on the new Financial Framework. However, the most pending issue is to find a compromise between the East European approach and the Black Sea orientation. An ideal solution seems to be the recognition of the Eastern Partnership's overriding role in the entire Eastern Neighbourhood and simultaneously underlying in the EaP's agenda that the Black Sea is a crucial area of its implementation.⁴⁹ These states should also initiate within the EU a serious debate on the future of the Eastern Partnership area. The most favourable result of this debate would be the EU's declaration foreseeing that the best reformers in the EaP area will receive a list of concrete requirements in the near future whose fulfilment will result in rewarding them with a potential candidate status.

* Adam Balcer is a director of the program "EU Enlargement and Neighborhood" at demosEUROPA.

¹ More on this issue in Frank Umbach's contribution.

² Data according to the International Monetary Fund.
<http://www.imf.org/external/index.htm>

³ Membership in the World Trade Organisation is a precondition for entering negotiations on the Deep and Comprehensive Free Trade Agreement CFTA, a very important part of the AA. Therefore, Azerbaijan and Belarus, which are not WTO members, cannot start negotiations on DCFTA. With regard to the political aspects of the Association Agreement, perspectives of negotiations ending with their signature and implementation look gloomy in case of both countries and probably Armenia. Indeed, the main requirement of the AAs is a functioning electoral democracy. Last but not least, focus on the democratization and civil society which is a hard core of the EaP severely restricts more comprehensive engagement of the above mentioned states (to a lesser degree in case of Armenia) in the cooperation with the EU.

⁴ The geopolitical division in the Eastern Neighborhood should be treated with some caution due to strong individual peculiarities of the EaP countries' foreign policy. For instance, Ukraine currently conducts almost classical multi-vector policy. The EU membership is priority but on the other hand almost equally important for Kiev are good and intensive relations with Russia. Ukraine's foreign policy sometimes gives strong evidence that Russia's is in practice more relevant partner than the EU. On the other hand, Georgia is the most US-oriented among the EaP countries and has very bad relations with Russia. Moldova is very strongly pro-European but wishes not to no to irritate Russia. In the second camp, Azerbaijan contrary to Belarus is not de facto Russia's protectorate or almost protectorate in case of Armenia. The Azeri foreign policy is more Western oriented than Belarusian and to large extent the Armenian. But still due to the authoritarian regime, it is not interested in very close relationship with the EU.

⁵ Freedom House, Freedom in the World 2011,
http://www.freedomhouse.org/images/File/fiw/FIW_2011_Booklet.pdf

⁶ The current gap of economic development between Ukraine and Germany (the comparison of their GDP PPP per capita) is significantly smaller than between Germany and Albania in 2000 when Tirana was recognized by the EU as potential candidate status.

⁷ On the other hand, this size is sometimes an advantage for Ukraine in its current relations with the EU, because provides Kiev with greater leverage that Georgia or Moldova cannot even dream of.

⁸ Transparency International, The 2010 Corruption Perceptions Index,
http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

⁹ For instance, in the middle of the 90s only around 20% of Moldova's exports went to the EU; currently the number has risen to 50%.

¹⁰ The EU posses the largest share in Moldova's trade turnover (around 45%). The FDI from the EU composes the majority of Moldavian FDI stocks. The EU is

the most important source of remittances and development assistance which play a tremendous role in their economy. Numerous Moldavian diaspora lives in the EU. Many Moldavians possess or will obtain in the nearest future the Romanian citizenship. A very large number of Moldavian students studies in Romania. In consequence, taking into consideration all these factors, it is not an accident that the support for the EU accession in the Moldavian society has reached a very high level (around 70% for and 15% against).

¹¹ In 2008 all the official development assistance received by Ukraine did not exceed 0.3% of its GDP (nominal). By comparison, in case of Belarus it was 0.2% of its GDP and Morocco 1.2% respectively.

¹² Particularly in 2008, the EU gained a position of a significant security provider through the French Presidency's mediation of a ceasefire between Russia and Georgia and the EU's role of a broker during the on-going Geneva peace talks between Russia and Georgia. Moreover, the termination of OSCE and UN missions in Georgia has created a situation where the in which EU has remained the single international organization with a relevant presence in the conflict areas in this country. However, it seems that the most successful engagement of the EU in the security sphere in Eastern Europe seems to be the EU mission in Moldova. The EU managed to gradually make Transnistria a part of Moldova's economic space. This de facto reintegration on economic level was unfortunately not sufficient to solve the conflict but it created relatively solid base for the future settlement.

¹³ Nagorno-Karabakh is a conflict which virtually sees no EU involvement. The EU mission in Georgia is not allowed to enter Abkhazian and Ossetian and territories. Georgia is a classical example of a missed opportunity because the EU mission could have been sent before the August War and, in consequence, could have prevented its outbreak.

¹⁴ Nicu Popescu, *EU Foreign Policy and Post-Soviet Conflicts: Stealth Intervention*, New York 2010, p.1.

¹⁵ Andrei Zagorski, *Eastern Partnership from the Russian Perspective*, 2010. http://www.feswar.org.pl/fes2009/pdf_doc/Russia.pdf

¹⁶ The recent most striking evidence of the Russian leverage's limits provided lack of recognition of South Ossetia and Abkhazia by any Eastern Partner and colour revolutions (Georgia, Ukraine).

¹⁷ It has the largest share in trade volume of almost all Partnership countries (excluding Azerbaijan and Georgia). Its share in the trade balance is the largest in the case of Belarus (nearly 50%). Russia's share in trade balance reaches around 25% in the case of Ukraine, exceeds 20% of Armenia and 15% of Moldova. Its share in the trade volume is much smaller in the case of Georgia and Azerbaijan (around 7-8%). The stocks of Russian direct investments, realized both in an indirect way (e.g. via Cyprus) and directly, are very high in Belarus and Armenia's FDI stocks (around 70%) and to a much lesser extent in Ukraine's. Remittance inflows coming from expatriate workers working in

Russia account for a significant part of the nominal GDP in the case of Moldova, Armenia and Georgia. According to World Bank's data, remittance inflows play the most important role in Moldova's economy (around 30% of GDP). Their impact is also quite strong in Armenia (9% of GDP), Georgia (almost 6% of GDP), Azerbaijan and Ukraine (each over 3% of GDP).

¹⁸ Gas supplies account for 60% of energy balance of Belarus (the only supplier being Russia), 65% in the case of Moldova (also supplied exclusively from Russia) and almost 60% in the case of Armenia (of which 70% originate from Russia). Russia controls Armenian gas pipelines and supplies nuclear fuel to the country's nuclear power plant. In the case of Ukraine, natural gas has an approximately 40% share in its energy balance, and all supplies of this raw material are made either from Russia or via Russian territory.

¹⁹ The main organizations created by Russia in order to increase its leverage on the region are as follows: the Commonwealth of Independent States (CIS) all the EaP states, excluding Georgia members or de facto participant –Ukraine), the Collective Security Treaty Organization (CSTO) (Armenia, Belarus), the Eurasian Economic Community (Belarus-member, Armenia, Moldova, Ukraine – observers) and the Customs Union between Russia, Kazakhstan and Belarus (Ukraine invited).

²⁰ James Sherr, *The Mortgaging of Ukraine's Independence*. Briefing Paper, Chatham House, August 2010.
http://www.chathamhouse.org.uk/files/17149_bp0810_sherr.pdf

²¹ Turkey controls the straits connecting the Black Sea with the Mediterranean Sea and thus the main trade route for most of the countries of the Black Sea region, including Russia. Istanbul, which is located on the Bosphorus strait, dominates the whole region.

²² Adam Balcer, *Heading for the Strategic Partnership EU-Turkey in the Foreign Policy*, demosEUROPA report 2010, pp.33-36. <http://www.demoseuropa.eu/files/W%20strone%20strategicznego%20partnerstwa%20UE%20i%20Turcji%20w%20polityce%20zagranicznej%20EN.pdf>

²³ Turkey is the most important trade partner for Georgia (accounting for more than 15% of its trade balance), it is also important for Azerbaijan (almost 9%) and quite important for Armenia, Moldova and Ukraine (4-5%). Abkhazia sees Turkey as its most important trade partner (over half of the trade of Abkhazia is with Turkey). Ankara is also an important donor of official development assistance in case of Azerbaijan and to a lesser degree for Georgia, Moldova and Ukraine. Turkey is a major investor in Georgia and Azerbaijan (10%-15% in their investment balance). It is also worth mentioning very large Azeri investments in Turkey. Turkey also plays an important role in the construction sectors of Azerbaijan and Georgia. They key element of the relations between Turkey and these countries is energy cooperation (for example the Baku-Tibilisi-Erzurum and Baku- Tibilisi-Ceyhan pipelines.) The economic relations between Turkey, Azerbaijan and Georgia can be expected to intensify further in the next few years. This should be aided by the new train route (Baku-Alkhalkalaki-Kars) which will connect them. The Turkish government authored this idea.

²⁴ Turkey and Azerbaijan unities the idea of „one nation, two states“. Turkey is very often visited by Georgians and Azeris (visa free regime) and relations in education field are very strong between Ankara and Baku

²⁵ However, because Turkey has a smaller demographic and economic potential and is dependent on Russian supplies of gas (over 60%) its relations with Russia are rather asymmetrical.

²⁶ The trade with China constitutes from 4% to almost 10% of their trade volume. In the case of Ukraine, the largest state in the region, the Chinese share in trade turnover amounts to approx. 5%. In countries such as Armenia, Belarus, and Georgia, the share of China in their foreign trade has increased substantially in 2010. China has not only augmented export volume to these countries but has also opened its markets to them. For example, in 2010, Belarusian export to China increased by nearly 300%. Huge long-term credits assigned by Beijing to Belarus and Ukraine (several billion USD) and a readiness to provide Moldova 1 billion USD could be deemed as another sign of a new Chinese position in the states of the Eastern Partnership. Credits for Belarus and Ukraine are to be assigned, first of all, for the modernization of transport and energy infrastructure by Chinese companies. China's role in the Belarusian economy can substantially increase in 2011 because Chinese companies are looking to buy shares in the Belarusian Potassium Company, worth several billion USD.

²⁷ According to PricewaterhouseCoopers and Goldman Sachs' projections, Turkey will be growing much faster in the coming decades than Russia, and around 2050 it will become the world's 10th or 12th largest economy. It is quite possible that its economy will be only slightly smaller in GDP (PPP) terms than that of France, the United Kingdom, or Russia. Turkey's geopolitical importance will also increase with the country's demographic growth. According to the UN projections, in 2050, the population of Turkey will be about 100 million. Whereas Russia's will drop to some 115 million. Certainly, Turkey has to successfully copy with important internal challenges (i.e. the Kurdish issue); nevertheless, they are less serious than in case of Russia.

²⁸ The EU's combined economy measured in PPP is almost 7 times the size of Russia's. Its GDP PPP per capita is around two times higher than Russian one. The EU's population is three and a half times the size of Russia's; its military spending is seven times bigger. Trade figures tell a similar story. The EU buys around 50% of Russia's exports and supplies approximately 45% of its imports, while Russia buys only 6% of what the EU sells, and supplies just 10% of what the Union buys from abroad. Even in the energy sphere, interdependence defines the relationship as much as one-way dependency in favor of the EU. Russia may supply a large percentage of the EU's energy, but given the absence of gas pipelines to China, Russia – at least in the medium term – has no practical alternative to the EU market. Mark Leonard and Nicu Popescu, A Power Audit of EU-Russia Relations, ECFR report, 2007, p. 8. <http://ecfr.eu/page/-/documents/ECFR-EU-Russia-power-audit.pdf>

²⁹ On the other hand, the Eastern Partners' long term European perspective in difference to Turkey's one has never been denied explicitly by any important po-

litical leader in the EU. Moreover, public opinion polls conducted in the EU have also shown that a potential Ukraine's accession enjoys greater support among European societies than the membership of Turkey or some Balkan states.

³⁰ An absence of the most important EU leaders (excluding Angela Merkel, the chancellor of Germany) during the first summit of the Eastern Partnership in May 2009 in Prague was a clear signal of the lack of genuine and profound interest in Eastern Europe among some states.

³¹ In case of Poland, the largest proponent of the Eastern dimension in the ENP its engagement in the East is clearly insufficient. The number of young people from Eastern Europe who study in Poland is low. The development aid Poland offers to the East is also limited. Poland only has a relatively strong economic position in Ukraine, however, considering the strategic significance of Ukraine and its immediate neighbourhood, Poland's position is still unsatisfactory. In turn, Poland's economic impact (trade, foreign investments, and tourism) is limited in Moldova (an almost 3 percent share in the Moldovan trade balance) and marginal in Georgia. Adam Balcer, *Just a Platonic Love: Poland and the EU Enlargement [in:] Poland and the Czech Republic: Advocates of the EU Enlargement?*, edited by Adam Balcer, 2010 Warsaw, pp. 33-34. http://www.demoservices.home.pl/www/files/raport_demos%20PL-CZ.pdf

³² Currently, Germany, without any doubt the most important EU player in all field in the Eastern Neighbourhood, treats this region too often as subordinated to relations with Russia. The increase of the UK's involvement in the Eastern Neighbourhood, the only supporter of the idea of the enlargement towards the East among the largest member states would also reinforce the Eastern direction.

³³ The accession of Finland, the first member state having a direct border with Russia (1995) and providing the candidate status to the Central European, Baltic and Balkan states (1997) created an important momentum for this program.

³⁴ European Parliament, Report on an EU Strategy for the Black Sea (2010/2087 (INI), 16.12.2010, <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2010-0378&language=EN>

³⁵ The EU Strategy for the Danube region, which will be launched in April 2011, covers states from Central Europe, the Balkans and parts of the Black Sea region. Among the Eastern Neighbors, Moldova and some regions of Ukraine participate in this initiative. The Strategy deals with the issues like transport and energy, socio-economic development, environment and the tourism sector.

³⁶ The AAs contain four parts: political dialogue and foreign and security policy; justice, freedom and security; economic and sectoral co-operation, Deep and Comprehensive Free Trade Agreement (DCFTA), which is negotiated separately. The DCFTA is more than a normal free trade agreement. It concerns not only the liberalization of trade in all areas, but also the harmonization of the partner countries' trade-related legislation with the *acquis communautaire*.

³⁷ The four thematic platforms, bringing the Eastern partners together are: 1) Democracy, good governance and stability; 2) Economic integration and convergence with EU policies; 3) Energy security and 4) Contacts between people.

³⁸ The flagships are as follow: cooperation in preventing and responding to natural and man-made disasters, the integrated border management program, the facility for small and medium sized enterprises, good environmental governance, energy efficiency, while the program on diversification of energy supply still needs to be further developed.

³⁹ Joint Declaration of the Prague Eastern Partnership Summit, Prague, 07.05.2009, p.5., http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/107589.pdf

⁴⁰ Since the commencement of negotiations on the Association Agreement with Moldova in January 2010, they have gone very smoothly. A significant number of chapters have been provisionally closed. In May 2010 the Republic of Moldova also acceded to the Energy Community, which covers the EU, the Western Balkans and Norway. In June 2010 the EU launched visa-dialogue with Moldova and in January 2011 Moldova received an action plan setting out all technical conditions to be met before the possible establishment of a visa-free travel regime from the EU. In September 2010 Moldova and the EU signed a protocol to the PCA, which will allow Chisinau to participate in seven programs designed for states aspiring to EU membership. The negotiations on the Association Agreements with Ukraine in 2010 also witnessed some progress, including the DCFTA. Currently, among the EaP partners, only Ukraine is negotiating with the DCFTA. Ukraine signed the Protocol on the Accession to the Energy Community Treaty in September 2010. Two months later, the EU provided Ukraine with the Action Plan concerning the visa free regime and signed the Protocol to the PCA providing Kiev with the possibility to participate in several EU programs. Negotiations on Association Agreements with Armenia, Azerbaijan and Georgia were launched in July 2010. The EU-Georgia visa facilitation agreement was signed in June 2010 and the EU-Georgia readmission agreement in November 2010. The Commission is working currently on the draft visa facilitation and readmission agreements with Azerbaijan and Armenia.

⁴¹ The EU does not have contractual relations with Belarus which is not a participant of the ENP due to the repressive and genuinely authoritarian character of the political regime in the country. Relations between Minsk and Brussels are still based on the Trade and Cooperation Agreement (TCA) signed with the USSR in 1989, because Belarus did not sign the PCA.

⁴² In 2009 and 2010 five of six flagships were launched, but the flagship Diversification of Energy Supplies has been postponed because of lack of consensus amongst Partner Countries. In November 2009 the EaP Civil Society Forum (CSF) was officially inaugurated. Some 220 civil society organisations participated, including some 140 from Eastern Partner Countries. The Forum worked out recommendations on the implementation of the EaP. In 2010, the four thematic platforms met twice and started implementing their work program. They established several panels and cooperation mechanisms with

the Civil Society Forum. Attempts made for the establishment of the EU-Neighborhood East Parliamentary Assembly have not been successful so far, since it has not been possible to find agreement on arrangements for the participation of representatives from Belarus. Within the framework of the external dimension of the multilateral track, the Group of Friends of the Eastern Partnership was officially inaugurated in September 2010. Canada, Japan, Norway, Switzerland, Turkey, United States and Russia (observer status) along with representatives of the international financial institutions attended the first meeting of the Group.

⁴³ Germany is sceptical towards the enlargement per se, but the German NGOs affiliated to the political parties are extremely active in the region and very supportive for the local civil society's sector. Germany is also decisively the largest aid donor to the region. Moreover, the German NGOs are often supportive of Germany's more assertive engagement in the Eastern Neighbourhood, including change of the current Berlin's reluctant stance on the enlargement towards the East.

⁴⁴ Lack of willingness on the EU side to open its market will be prominent particularly in traditional protectionist areas such as agriculture. For instance, even if Ukraine adopts whole of the EU acquis concerning this sector, almost certainly it will not gain access to the European agricultural market. Moreover, the EU declares that it will refuse to reduce contingent protection measures in areas such as steel and heavy chemicals even if the EaP countries implement EU competition and state aid policies. The EU is also unlikely to be generous in transport markets – cabotage. Last but not least, the EU will most probably remain restrictive on the movement of workers. Alan Mayhew, How efficient are the EU's agreements with the Black Sea Basin countries?, the Power Point Presentation, September 2010.

⁴⁵ Rosa Balfour, Debating the Eastern Partnership: perspectives from the EU, 2010, p. 13., http://www.feswar.org.pl/fes2009/pdf_doc/EU.pdf

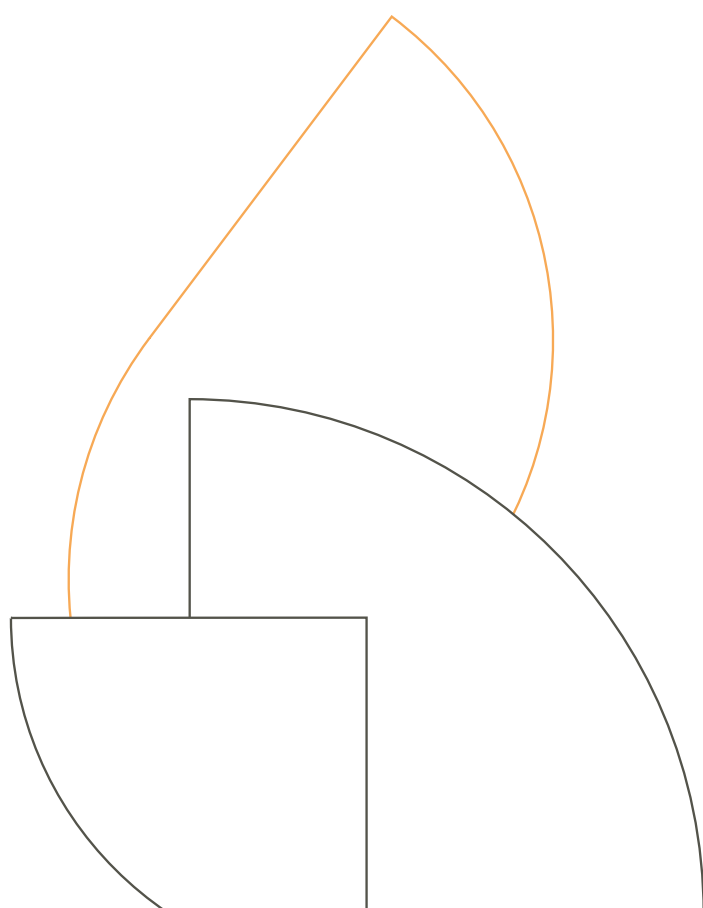
⁴⁶ For instance, the EU should engage in Nagorny-Karabakh peace process by replacing France as the Co-Chairman in the Minsk Group.

⁴⁷ The likelihood of violence in Transnistria is virtually null. Most of the issues pitching the conflict parties against each other are of political and economic nature, not ethnic or military one. In difference to South Caucasus, in Transnistria the circulation of people between the conflict zones is essentially unrestricted.

⁴⁸ Abkhazia possess a solid tradition of statehood. According to the Freedom House ranking, it is a single "partly free entity" non recognized territory in the region. Abkhazia has also the greatest interest in wider scope of independence from Russia's control.

⁴⁹ Belarus is the only country among the EaP states which does not belong to the Black Sea region. However, Minsk is the least promising partner. The frozen conflicts are located around the Black Sea. The region is vital for the energy

diversification of the EU. In case of Ukraine the most important EaP country its centre of gravity is located in the south-eastern part of the country, near the Black Sea or in its immediate vicinity (Donbas, Dnipropetrovsk-Zaporizhia). This region produces the greatest share of Ukraine's GDP; it has the highest population density and is the most urbanised. Last but not least, the Black Sea is a crucial area of Turkey's engagement which will most probably significantly increase in the coming decades.



Cover design:
Studio Brandingowe BAKALIE

DTP:
Studio Brandingowe BAKALIE

© Copyright by demosEUROPA – Centre for European Strategy, Warsaw 2011

Copyright of this publication is held by demosEUROPA – Centre for European Strategy. You may not copy, reproduce, republish or circulate in any way the content from this publication except for your own personal and non-commercial use. Any other use requires the prior written permission of demosEUROPA – Centre for European Strategy.

We care for Europe



demosEUROPA

Centre for European Strategy

ul. Idzkowskiego 4/6

00-442 Warsaw

Poland

tel. +48 22 401 70 26

fax +48 22 401 70 29

demoseuropa@demoseuropa.eu

www.demoseuropa.eu