THE EUROPEAN GEOPOLITICAL FORUM

Geopolitical Challenges: Prospects and Scenarios 2010
16-20 February 2010
Summary Document

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Introduction

At the end of December 1999, as the world prepared to usher in a new Millennium, in Europe and other parts of the planet, there was widespread concern that the so called “Millennium Bug” would strike, causing unforeseen disruption and havoc. Ten years on, in December of last year, for many in Europe, the Millennium Bug was just a shade in the memory as a far more ominous concern was pressing home – the prospect of another gas crisis. Although the fact that the Russia-Ukraine gas dispute of January 2009 – and its knock-on effect of leaving much of Europe without natural gas in the peak of winter – did not repeat itself during the record cold European temperatures of January this year, the very fact that European attention has become so focused on this theme demonstrates how geopolitical developments in the European hinterlands have come to impact the day-to-day livelihood of all Europeans.

Energy Security and the EU-Russia energy relationship, is just one of the many core geopolitical challenges that face Europe’s political leadership at present. Others include:

- **The stability of the Caucasus, which remains highly uncertain**
- **Navigating the right strategic partnerships in the Black Sea basin**
- **Making something of the EU’s “Eastern Partnership” agenda**
- **Promoting security, stability and trade through the Caspian to Europe**
- **Enhancing the Arctic into a European agenda of strategic significance**

Leading experts have shared their views on how such geopolitical challenges are likely to pan out during 2010 and beyond in an online session. The first Prospects and Scenarios 2010 Forum began by examining the geopolitical map of greater Europe and identifying core challenges around energy security and neighbourhood politics. Five days of expert commentary highlighted several issues warranting current and future attention of European policy makers: (1) competition in the energy field, (2) the impact of new energy technologies (3) politics of the Commonwealth of Independent States (CIS), and (4) rising attention to Arctic issues.

Key points for policy makers:

- Chinese and Russian efforts towards cooperation with Central Asian energy producers far outpace those of their European counterparts
- In 2009, as a result of decreasing shale gas exploitation costs, the U.S. surpassed Russia as the world’s largest natural-gas producer
- The combination of new energy technologies, competitive Qatari LNG, and the expansion of American shale gas production will result in some degree of erosion in Russia’s dominant position as key energy supplier to the EU market

- Competing national interests within the EU have deprived the Union's Eastern Partnership (EaP) strategy of any policy teeth and, despite possible reservation in Moscow, EaP has been more of a disappointment to the EU than to Russia
- Georgia has been losing some of its geopolitical relevance since the August 2008 war with Russia, amidst the onset of a bout of "Georgia fatigue" in the US administration
- The EU is negotiating membership with Iceland and subtly shifting focus from the East (The EaP countries) to the North: the Arctic will become a vital part of Europe's energy strategy and we are likely to see a definitive policy in the near future.

Extended commentary:

Energy Field Competition

Chinese and Russian efforts towards cooperation with Central Asian energy producers far outpace those of their European counterparts. In 2006, China entered agreement with Turkmenistan, signed a supply contract, built a pipeline, and began exports in late 2009. To be fair, Russia and China have a strong advantage in that their deal-making governments are closely aligned with companies able to operationalize an agreement. In contrast, without such direct influence, the EU must work to translate political agreements into practical reality. Major oil companies in Europe have similar quick-response capacity but they lack the necessary incentive. Motivated by profit and not necessarily by national security interests, for example, the impetus is not there for active commercial participation on par with Gazprom or CNPC.

Of course, pure geography plays an important role in Russian and Chinese leadership in the energy arena. Russia advantageously capitalizes on its Soviet-era pipeline in Central Asia and focuses on maintaining the path of oil to Europe through Russia. Meanwhile, China's relatively new pipelines flowing eastward pose little threat to Russia but necessitate higher transportation costs. Russia is thus, appealing to Central Asian oil states as a lower-cost option, leading China to offer soft loans to regain Central Asian favor.

Notably, the competition-averse environments of many oil industry states dissuade market participation of international oil companies (IOCs). For example, Turkmenistan is the region's next growth opportunity; however, its government awards only service contracts which are largely unappealing to IOCs. Until state practice shifts, either as policy or resulting from an accident, IOCs will likely not participate. IOCs could look briefly to the European market; however, changes are due in the foreseeable future as Europe trends toward lower oil consumption and more diverse sources.

The Impact of New Energy Technologies

In 2009, as a result of decreasing shale gas exploitation costs, the U.S. surpassed Russia as the world's largest natural-gas producer. While the future impact of shale gas is still unknown, it is likely to impact negatively upon Russia's ability to enter the U.S. market as had been planned earlier. Its American presence has also led to a decrease in gas imports and a resulting over-supply in Europe. With more LNG available, Qatar will grant discounts, Russia will lose market share, and pricing will be much more competitive.

European oil companies have already begun to purchase the American shale gas technologies, saving the time and expense of self-development. We could see their application by European companies in as few as 3-5 years. This combination of new technologies, competitive Qatari "The stone age didn't end for lack of stones, nor will the oil age end for lack of oil." With tar sands, ultra deep oil, heavy oil and other resources, we are not running out of options. If the market will support the extraction costs, we will pursue these, commented one Forum participant.

CIS Politics

Recently, the EU has made a concerted effort to engage CIS states within the realm of EU neighborhood strategies. Its Eastern Partnership (EaP) strategy, guided by Poland and supported by Sweden during its six-months rotational presidency of the EU in the second half of last year, aimed to narrow the legal and institutional space between the Union and six westwardly former-Soviet Republics: Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan. Initially presented as a means of drawing the abovementioned six countries closer to the realm of the EU institutional environment (without necessarily putting them on a clear membership path), Russia interpreted the initiative as an attempt to establish a new EU sphere of influence in this region. In actuality, the strategy has become undermined by conflicting politics of national rivalries within the EU bloc.

Under the guise of its EU presidency (July-December 2008), France aimed to focus the EU's European Neighborhood Policy (ENP) cooperation initiatives southward to include the south bank Mediterranean states, while other members looked to counterbalance that goal with eastward oriented initiatives, notably involving the six former Soviet-Republics. Competition between these two orientations within the EU's broader ENP framework become evident when France secured two thirds (8 billion EUR) of the six year ENP budget for "southbound" regional cooperation initiatives, leaving minimal funding (4 billion EUR) for the EaP component. The efforts of EU members such as Poland and Sweden were out-maneuvered by their member peers, disappointing the EU far more than aggravating Russian concerns.

The results of this internal political rivalry include a weakened and lesser quality EaP initiative, as well as the risk of overlap with other initiatives, such as Black Sea Synergy. Thus, we see that engagement of the CIS is an interest of the EU but it is subject to internal politics. Comparatively, the EaP resembles association agreements, intended to defer the membership question, disappointing aspiring countries like Ukraine. The EU has, however, established a Free Trade Zone with Ukraine which is more likely to produce noticeable results in Brussels-Kiev cooperation than the EaP.

Meanwhile, since the 2008 conflict with Russia, Georgia's international standing has been declining. The economic crisis was accompanied by a change in U.S. administration to one less concerned with the CIS, given the prevailing foreign policy priorities in Afghanistan, Pakistan, Iran and elsewhere. This combined with European weakness and the falling price of hydrocarbons worked to Georgia's disadvantage. As a result, Georgia lost geopolitical relevance.

This raises two topical questions regarding the relationship between Georgia and the West. First, will the current Georgian government remain until a possible next Republican U.S. administration? And, second, would such an administration have priorities similar to those of President George W. Bush, whose own administration even shared divergent view which may have impacted President Saakashvili's decisions? While entertaining these, we should consider it highly unlikely that Georgia will enter NATO and remember that Georgia's global perspective of "the West against the rest" is becoming increasingly outdated due to the declining legitimacy of the "colored revolutions" in the CIS countries.

The Arctic Energy Effect

With an estimated 25% of the world's remaining gas resources, the Arctic is rapidly becoming a key area of interest. While the EU is navigating its Lisbon Treaty and a new Parliament and Commission, it is also negotiating membership with Iceland and subtly shifting focus from the East (the Caucuses, Central Asia, and Russia) to the North. In addition, the EU seeks to diversify its sources of energy and increase its energy efficiency, perhaps to the point of independence. Thus, the Arctic will become a vital part of Europe's energy and strategy and we are likely see a definitive policy from the EU in this area in the near future.

To view the entire forum or selective passages of commentary, please click hear.

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