



Black Sea Economic Co-operation

Topic B: Addressing the current financial, energy, political and commercial challenges in the region of the Black Sea towards the creation of a network of intra-regional trade, investment opportunities and energy security

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Introduction

The Black Sea region is geographically predestined to be contested. This pattern has been many times confirmed in its restless history. However, the Black Sea Economic Cooperation was founded upon the willingness of the member states to extend their mutual cooperation to a wide range of sectors uniting the peoples of the area, but always with respect to the national interests and diversity.

While integration is processing, a network of intra-regional cooperation and project accomplishment becomes a necessity. Energy security, commercial opportunities, financial status, political challenges may form the heart of the new era of the Organization, which will promote both internal and external development of its member states and of its own institution.

Energy

Energy security is a term that correlates the availability of natural resources for energy consumption with the national security interests. Especially during the current economic crisis, access to inexpensive energy and the development of the respective sector have become more than essential to the proper and efficient functioning of modern economies. However, the uneven distribution of energy supplies among countries and the threat of a possible depletion of resources in the future have led to significant vulnerabilities. In terms of the BSEC Member States, the strategy that they will follow is defined by a pattern that combines both the increase of energy demand worldwide and also the action plan of the European Union's energy policy, due to not only geographical criteria but also the close cooperative relations with the Old Continent.

Currently, the Black Sea region is home to two major energy actors, Azerbaijan and mostly Russia, the foremost energy producer and provider in the world. Consisted of 12 member states, including the two aforementioned countries, and enclosing a sea full of natural resources, the "Hospitable Sea" area - euphemistically named by the Ancient Greeks - is considered an increasingly emerging significant player in the global geopolitics of energy, and thus it is believed it could replace Russia as Europe's primary source of energy in the decades to come. Nowadays, it is traversed by 5 large natural gas pipelines that connect Asia with Europe: the South Stream, the White Stream, the Blue Stream, the Blue Stream 2 and the Nabucco pipeline. Moreover, the wider Black Sea region is being developed as an important hub for energy transit, while its undersea oil reserves hold enormous potential to supply not only the European Continent, but also the world markets, shaping the future of transatlantic energy security, strengthening western relations with the BSEC member states and enforcing the engagement of the countries of Eurasia in the world politics. Besides, energy security is indispensable for the smooth function of the international community and paralyzing events, such as the 2006 Russia – Ukraine gas dispute and the 2007 Russia – Belarus energy dispute ought to be avoided in the future.

Technological advances on the extraction methods of natural resources and particularly of the Black Sea's huge stores of gas hydrates - water-based solids that contain natural gas - along with investments in the establishment of renewable energy sources systems - solar, geothermal, hydro-electric, biofuel and wind power - will produce such quantity and quality of energy amounts able to first suffice the needs of the member states and to also supply the European and international markets with their functional ingredient. Attention must be paid upon the nuclear power as an energy source, which currently produces a small fraction of the world's electricity. Although dangerous and non-environmentally friendly, nuclear energy systems are able to suffice large demands of power in a facilitated and rapid way than the other sources.

While the Black Sea region has a great potential of enforcing its international presence in the energy sector, the high prices of resources and the countries' still constrained budgets thought to be seen as obstacles in the prospects of development. However, the

establishment of new trade routes, the diversification of energy supplies and the intensification of cooperation inside and outside of the Organization could set the foundations of sustainable development, improved energy infrastructure in Eurasia, and enhancement of worldwide and mostly regional oil and gas markets. Nevertheless, the lack of legal framework and the issue of the protection of the environment require efficient measures to be taken.

The Parliamentary Assembly of BSEC has released in the past three recommendations towards a proper and gradual energy development: rec. 68/2003 on Cooperation in the Field of Energy, rec. 91/2006 on Alternative Energy Resources and their possible application in the Black Sea, and rec. 98/2007 on the Priorities of Cooperation between the BSEC Member States in the field of Energy (Oil and Gas spheres).

Trade and Economy

Between the years 2000 and 2008, the Black Sea region has undergone unprecedented changes in a huge range of sectors, all leading up to the economic development. The elements that differentiate the current situation from the one in 1999 have been the increased prosperity and high growth, the enforced interaction between member states and the enhanced communication with the global economy in general, and the fact that the economies of the region are now more open towards markets and investments than in the past decades.

However in late 2008, the current world economic crisis burst out and suspended the auspicious development of the Black Sea region. The impacts on the member states of the Organization have been negative enough for them to face a period of stagnation and the danger of possible financial decline was present. The harsh economic conditions resulted in a drop in international trade flows and the resurgence of protectionism in developed economies. Being on the verge of collapse, the global financial markets have detrimentally influenced the exports from the region. The situation was exacerbated by a slump in commodity prices. Consequent to all the above, regional currencies came under terrible pressure and some countries experienced massive depreciation of their currencies in 2009. Due to the nature of the crisis and the austere measures taken, it was obvious that the recovery would be protracted and slow. Nevertheless, recent restoration of credit flows to the Black Sea countries represents a critical element in the recovery from the crisis.

Despite that despairing situation, the Black Sea region managed to show some very first and healthy economic growth that in real terms reached approximately 4.1% of GDP in 2011. The proof was consisted of high export growth, a modest but noteworthy rise in regional and foreign investment, progress in fiscal consolidation, and abating price pressures. Moreover, 25.3% growth in exports achieved in 2010 indicates a full recovery from the precipitous decline in external trade of 31.7% during the 2009 recession, and thus

international commerce was ranked as second and utterly important contributor to economic growth in the Black Sea region in 2011. In spite of the global and mostly European uncertainties of the time, many significant improvements have been observed in the business environment in which firms operate. This was underscored by the fact that no fewer than five Black Sea states figured in the top 30 “most improved” reported in the World Bank’s annual “Doing Business Report”, with two in the top 10: Armenia, which was second overall globally, and Moldova, which placed ninth.

Furthermore, although intra-regional trade declined by 39% in 2009, it reversed this trend and it rose 36% in 2010. Early evidence from provisional data indicates that this trend continued in 2011, providing further evidence of the rise of regional economic cooperation and the continuing integration of the area in the global economy. However, if compared to the Baltic Sea region, whose states share significant institutional structures and reach higher levels of integration and an intra-regional trade over 40% of total trade, it is assumed that better enhancement can be accomplished in the Black Sea region. Finally, with the exception of Greece, public debt in most Black Sea countries remains at very manageable levels, with little movement of particular significance during the course of 2011.

The Black Sea Region enjoys a number of competitive advantages including (i) proximity to the wealthy markets of the EU, (ii) improved political and economic stability and favorable business environments, and (iii) high quality of human capital (education, skills) at a relatively low cost. Moreover, even though the devaluation of most Black Sea countries’ currencies may have rendered low the standard of living, it will boost the competitiveness of the region’s exporters. Nonetheless, many businesses have failed, unemployment has jumped, and there are fears that poverty rates will rise once again, while the recession also brought a needed reduction in inflation levels. As a consequence, BSEC has considered as necessary the undertaking of structural reforms in key sectors, with energy and especially, agriculture, ranking as the most difficult, and the maintaining and expansion of infrastructure along with the enhancement of public and private governance.

Private investments seem more likely to be made and succeed during a crisis like this. The business environment in the region is favorable and open to new incentives, and Black Sea countries possess a highly skilled, flexible, and relatively inexpensive labor force. These factors are attractive for investors, as is the proximity of the region to the wealthy markets of Western Europe, and the trend of strong and growing relations with these markets.

The importance of the Black Sea region as a necessary link for trade and energy routes connecting Europe to the emerging markets in Central Asia, China, Indian subcontinent and the Middle East, requires the facilitation, expansion, diversification and liberalization of commerce, while the development of the intra-regional trade and intra-regional investment postulates the technical cooperation and exchange of related information, data and know-how.

Indispensable contributor to the efforts of the Black Sea region to boost its economic system and play a defining role in world politics is the Black Sea Trade and Development Bank. During the harsh times of the recession, it has been a development partner for banks, firms and investors active in the Black Sea region. Implementing cautious expansion with conservative policies and cost consciousness, the BSTDB will increase its outreach and seek new opportunities to support the Black Sea region by innovative incentives. In 2011, it welcomed two new observers with extensive presence and experience in the region, the European Bank for Reconstruction and Development and Vnesheconombank, the development bank of Russia.

Politics

Different historical backgrounds and, even, past hostile relations compose the framework in which the Black Sea countries started cooperating for their own common interests. Mutual trust and confidence has been typically established between the nations involved in the region, however, the original lack in some areas cannot be ignored. Nowadays, the region undoubtedly undergoes fundamental political transformations, through which the BSEC member states are trying to overcome the absence of a dominant common regional identity by sharing same economic and political incentives.

BSEC is a comprehensive and multidimensional regional organization, facilitating frequent vertical, horizontal, bilateral and multilateral contacts and transactions at different levels of society. This organization reflects a new component of the post-Cold War regionalism, which is a dynamics coming from the support and proper administration of civil society, boosting the political endeavors of forming regional identities and consequently enforcing the settlement solutions about the four “frozen conflicts” of the region. Disputes over the territories of Georgia (Abkhazia, South Ossetia), Armenia and Azerbaijan (Nagorno Karabakh) and Moldova (Transnistria) seem to be particularly complicated given the fact that post-Soviet space has undergone several changes in the last twenty years.

Romania and Bulgaria are still in a challenging period of political, social and economic transition and integration, after their recent accession in the European Union in 2007. Turkey holds the status of an EU Candidate Country and has to achieve a compliance with the three Copenhagen EU accession criteria, the political, the economic and the European acquis. Georgia, Russia and Ukraine are in a phase of political and social transition, while Greece’s financial crisis delays any development at the moment.

The fact that the Black Sea region constitutes a gateway to the Middle East has attracted the interest of the EU and NATO towards the area and their cooperation with it. Particularly, some Black Sea states are also members of one or both international organization, whereas the rest belong to the neighboring partnership projects that the EU

and NATO launch. An interesting but also challenging fact for the region is the plans of American military officials to establish a part of a prepared Missile Defense System in the South Caucasus.

Points to focus upon

1. The strengthening of cooperation between the member states.
2. Energy security as the key of internal development and external expansion of influence.
3. New commercial routes.
4. New investments both on and by the public and private sectors.
5. Enforcement of the BSTDB, being the major financial support of the Organization.
6. Peaceful confrontation of internal political disputes and smooth implementation of peace and security in the region.
7. The position of the Organization in world politics and the possible collaboration with international actors.
8. Independence on every level and sector of the BSEC.
9. Innovative concepts of development.
10. Conservative incentives with a light shade of progressive look on the economic and commercial sector, taking into account the financial crisis and the overall development status of the member states.

Conclusion

Ultimately, regionalism and the strength of the Black Sea regional identity rest upon the involvement of civil society, NGOs, business and trade chambers and the media. The more the people feel that they belong to the Black Sea region, or in a wider context, sub-region, the easier it will be to discuss global and regional issues in the framework of the exchange of views that the BSEC enabled. The Organization first helped overcome ideological barriers, and then convinced participating states from different cultural and religious backgrounds that common undertakings would only multiply potential benefits.