Application

Bosphorus Energy Club
Young Leaders in Energy 2015

Essay

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Would geopolitical confrontation or international/regional collaboration prevail in future cross border energy and infrastructure projects?

In times of turmoil and rapidly changing political landscapes, it is legitimate to ask whether collaboration or confrontation will prevail in international energy relations in the years to come. Recent political developments provide ample food for thought on this subject. In fact, a number of significant, if not game changing political moves are leading to a major shakeup of international relations. The global configuration of longtime friends and enemies is changing and might stay in flux for some time to come. Energy market actors are more often than not among the first to feel the consequences of such developments. This does not only remind us how strongly geopolitics and energy are intertwined, but also exemplifies the limits of pure economic arguments in understanding the current energy policy dynamics. Regional cooperation will only prevail, if a global culture of pragmatism evolves that allows to make cooperation in the energy sector possible even under difficult political circumstances.

Regional cooperation: What is there to lose?

Most of us know the multitude of opportunities and advantages that regional and international cooperation can offer to the parties concerned. It involves a long list of economic benefits *inter alia* increased market size, competitive prices/costs, enhanced consumer choice and most importantly security of supply and demand. In other words, cooperation is about exploiting synergies and creating a positive sum game for those involved.

The EU for example has been working hard on establishing an internal energy market in which Member States cooperate. To this end, it has created a specific regulatory framework and a corresponding policy set. Undoubtedly, a lot of challenges still remain in building a common EU energy market. At the same time, the EU seems to represent the only world region that has gone so far as to mandate and even oblige individual member states to cooperate by law¹ including the establishment of an EU-wide energy governance structure. Whatever one might think of the practical functioning, progress or effectiveness of the EU energy market, the underlying idea has been one of cooperation since its creation, especially in the energy sector. After all, the EU as we know it today has developed out of an energy union created in the 1950s, the European Coal and Steel Community.

Despite these conditions and peace among Member States, the EU has repeatedly experienced setbacks when it comes to cooperation. Recent events have gone so far as to threaten the entire integrity of the Union with Great Britain thinking to break away, Greece on the brink of being excluded from the Eurozone and the current refugee crisis. While these events may not be connected to energy per se, they touch upon a core value that is vital for cooperation in the energy sector as well: Solidarity among Member States. In terms of energy, the crisis in Ukraine is the latest reminder of how vulnerable the EU can be if there is a lack of solidarity from within.

So why is it that even a peace project such as the European Union which was built on the idea of joining forces is struggling to live its core values of cooperation and solidarity?

One explanation might be that countries perceive losing their sovereignty if decisions no longer lie in their hands entirely. In addition, there may be fears that actions benefitting the Union as a whole come at the expense of some member states. These dynamics point to a presence of mistrust that is exposed as soon as national interests are perceived to be threatened. The big advantages of cooperation are then quickly overshadowed by short-term concerns and self-interest and cannot fully develop. Similar dynamics are observed in many regions around the world when cooperation efforts are put into practice.

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¹ e.g. 3rd energy package, security of gas supply regulation, trans-European energy infrastructure regulation

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New world order reinforcing geopolitics

As a matter of fact, we are facing multiple centers of gravity today. The bipolar world order during the cold war was followed by a unipolar world order led by the US and eventually developed into the multipolar word order we are living in now. Today, the US is particularly challenged by China and other emerging economies. In addition, regional fights for primacy are ongoing in the Middle East (Iran vs. Saudi Arabia). Russia is also trying to regain a wider sphere of influence. And many more regional power plays exist. With individual countries being increasingly left to defend their own fate, the number and intensity of conflicts is likely to rise. This fragmented picture of parallel power struggles has significantly increased the relevance of geopolitics, particularly in the energy sector. The question whether regional confrontation or collaboration will prevail in the future must therefore be seen in this context.

Two questions are of particular interest:

1. Can cross-border energy cooperation work despite political conflicts if mutual interests are satisfied?
2. Can cross-border energy projects themselves be a vehicle to minimize regional conflicts?

Concerning question number one, positive as well as negative examples come to mind. During the cold war for example, energy continued to flow from the Soviet Union to Europe despite the ongoing threat of a nuclear war. From today’s perspective, this is remarkable as similar achievements have been rare ever since.

During the time of sanctions with Iran for example, one of the world’s largest energy resource base was forcefully left ignored by the international community for decades despite business opportunities and growing demand. Staying in the region, we see another particular situation in former Soviet Union states, i.e. Central Asia and South Caucasus where a regional electricity grid is still in place from the Soviet era but is left unexploited with many lines standing idle due to regional conflicts such as between Armenia and Azerbaijan (Nagorno-Karabakh) and between Uzbekistan and Tajikistan/Kyrgyzstan over water resources.

The breakup of the Soviet Union also increased the number of Caspian littoral states from two² to five³ leading to repeated disagreements on the resources in the Caspian Sea. This has had implications on cross-border projects such as the long-discussed Trans Caspian pipeline connecting Turkmenistan and Azerbaijan, which still has not been constructed.⁴

No doubt, one of the most discussed examples of political tensions preventing cross-border cooperation is the Russia-Ukraine conflict. Ukraine being a key transit state for Russian gas to Europe will soon be circumvented by alternative routes. While Turkish Stream and extensions of Nord Stream offer potential new corridors for Russian gas to Europe and partly to Turkey, there is a new geopolitical aspect that has recently come into the picture which might further complicate the picture: The Russian military intervention in Syria. This intervention is currently leading to a setback in the otherwise good Turkey-Russia relations. It, thus, remains to be seen whether the Russian move to Syria will have implications on energy cooperation with Turkey (which extends way beyond Turkish Stream) and the effect this could have on gas supplies to Europe.

As far as question number two is concerned, there are a number of cross border projects which have been labeled “peace projects” or are hoped to bring troubled regions together through energy interconnections. A long-known example is the Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI). This project is planned across a highly difficult route through outright war zones and across countries in conflict with each other. For these reasons, prospects for this project to succeed remain rather low. Even if gas may flow through it one day and the political hurdles are overcome, the context undoubtedly remains highly fragile.

Similarly, the significant gas finds in the Eastern Mediterranean (Leviathan, Tamar, Zohr, Aphrodite, etc.) uncontestably face one of the most complex global geopolitical set-ups. The question is whether this is a golden opportunity to partly settle some of the

² Soviet Union and Iran
³ Russia, Iran, Azerbaijan, Turkmenistan, Kazakhstan
⁴ The Caspian Sea conflict is not the only reason why the project was stalled; negotiations with the EU and transport to Europe are also an issue amongst others
severe tensions in the region or a source of even more intense conflict. A number of complicated issues are a stake in this region, notably the relations around Israel and its neighbors but also the unresolved conflict in Cyprus. With more discoveries in the Mediterranean, additional dynamics evolve (i.e. the newest find off the coast of Egypt), which threatens already envisaged cooperation projects (e.g. Egypt-Israel). Also, export of East Mediterranean gas to attractive nearby markets such as Turkey or the EU will depend on the parties’ willingness to find a solution on the stalled conflict around Cyprus.

**Illusive quest for pragmatism?**

All the dynamics mentioned in the examples above show that political conflicts strongly impact the realization of cross border energy projects and often gain the upper hand, even if the concerned parties may economically gain from cooperation and have a prospect of realizing their mutual interests in terms of energy. In all the examples cited, the parties actually have real incentives to cooperate be it for reasons of achieving a higher degree of energy security, improved economic efficiency, increased regional stability or other reasons. Yet, some of these incentives are often foregone by counterintuitive decisions such as leaving feasible infrastructure unused or failing to build new vital interconnections. We have also seen that cooperation can be a major challenge even without the presence of outright conflicts such as in the EU.

What is therefore the missing ingredient that could lead states to cooperate on energy projects even if their relations are hampered by other conflicts? The right answer might be: Pragmatism. Indeed, pragmatism not only entails a powerful can-do attitude but represents a key element for successful cooperation, especially in the energy sector where natural interdependencies between consumers, producers and transit states exist. It describes handling of relations based on non-ideological grounds for the purpose of achieving an acceptable outcome for all parties involved. Recalling the example mentioned earlier about cooperation during the cold war shows quite clearly that a high degree of pragmatism was opted for to implement this cooperation.

In contrast to the times of the cold war, where a bipolar world order dominated international relations, today’s set-up demands handling a multitude of relations at the same time. This may essentially lead to a situation in which one cannot have good relations to everyone. In fact, there is a risk that having good relations with one country may make it difficult to have good relations with another country if the relations among the two partner countries are damaged. Yet, pragmatism may help to counter this situation and allow for more tolerance in the midst of mounting discrepancies.

For the assessment of whether regional cooperation or confrontation will prevail in the future this means there is a risk that confrontation will dominate unless a global culture of pragmatism evolves that allows to make cooperation in the energy sector possible even under difficult political circumstances. A good dose of pragmatism will certainly be needed for the geopolitical challenges awaiting us in the future such as e.g. the exploration of Arctic energy or mega projects such as the Chinese One Belt One Road (OBOR) Initiative, which is expected to have positive impacts on global energy cooperation as well. The latter incorporates major new and growing energy demand centers in Asia and is likely to shift geopolitical considerations more towards these regions.

Whether the quest for more pragmatism is illusive remains to be seen. Without it, however, we might see more confrontation than collaboration in ongoing and future international energy projects.