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## THE BLACK SEA REGION: ECONOMIC AND GEO-POLITICAL TENSIONS

Report

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## **I. INTRODUCTION: A FRAGMENTED REGION BUFFETED BY CONFLICT BUT DEPENDENT UPON COOPERATION**

1. The Black Sea region is at once alive with economic potential and imperilled by division, rivalry, and conflict – all with implications for the international system as a whole. It is an area united by an important waterway that links the littoral countries and hinterlands to the global economy. As such, the Black Sea constitutes a crossroads for Europe, Asia and the Middle East and has emerged as a vital route for the movement of energy to Europe. But it has also become the object of a great game in which global and regional powers compete for influence, leverage, and access to resources and ports. Sadly, the region's development has been seriously hampered by international and frozen conflicts and a welter of clashing interests that conspire to hamper trade and investment in the region. Russia's ongoing conflicts with Ukraine and Georgia are the defining dispute in the region, but there are other bilateral and regional tensions that cannot be discounted.

2. This hardly means that the Black Sea region is bereft of success stories. Turkey is an important regional player, and its economy has evolved substantially over the past twenty years. Bulgaria and Romania have joined both NATO and the EU, and, as a result, enjoy greater security and a higher level of economic growth. The Black Sea is also the location for one of the most successful international environmental cooperation initiatives (the Black Sea Danube Basin Partnership) and organisations like the European Commission and Black Sea Economic Cooperation (BSEC) are working to foster deeper cooperation and dialogue across this diverse and conflicted region.

3. However, these undertakings hardly compensate for mounting instability in waters that have been roiled by Russian aggression and that country's significant military build-up along the Black Sea littoral. Russia has fomented conflict throughout the region as it apparently judges it better to have border lands paralysed by tension, frozen conflicts, and conflict than to live alongside autonomous, prosperous, and confident states enjoying good neighbourly relations. This is a concept that is almost foreign to Western governments, which seek stability and welcome confident, democratic, and prosperous states on their own borders. Indeed, while Russia's world view is infused with a zero-sum logic, the Western community of nations largely adheres to a range of liberal internationalist suppositions about international relations and trade. As a result, they prize stable borders and open trade precisely because they recognise the value of building mutually beneficial relations with neighbours.

4. Russia does not share this outlook and has a long history of political and military intervention in the region. Of course, several of the countries along the littoral were once part of the Soviet Union while others, for all intents and purposes, were conscripted into the Warsaw Pact and only enjoyed a highly qualified form of sovereignty during the Cold War. In the post-Cold War period, Russia illegally occupied Transnistria in Moldova in 1991, the regions of South Ossetia and Abkhazia in Georgia in 2008, and Crimea and parts of the Donbas in 2014. Conflict in the region continues, and indeed has escalated in recent months. The Kremlin has exploited these interventions to bolster Russia's military presence along the Black Sea, most apparently in Crimea, which has been massively militarised since the illegal occupation. In the broader region, the unresolved conflict of Nagorno Karabakh has also posed a challenge to regional peace, stability, and prosperity.

5. In all of these occupied regions, human rights violations have soared, and economies have grown significantly more fragile, particularly those under the heavy hand of the Russian state and the kind of corruption it tends to nourish and instrumentalise in the region and beyond. Russia has militarised the region while humanitarian conditions have worsened. Western sanctions in response to Russian aggression have also exacted a toll on Russia and led to counter sanctions.

6. Occupation, blatant political interference, and military build-up have had very negative consequences on the region's economy writ large. Investors abhor risk, and Russian policy has very purposely pumped risk into the heart of the region. This has complicated economic transition for the countries working to integrate into the global and European economic order and has helped deny the region the kind of economic take-off that might otherwise have transpired had a more peaceful foundation for inter-state relations been established in the region.

7. The economic and security conundrum is only exacerbated by the region's fragmentation. Whereas the Baltic Sea region, by contrast, is quite compact in its opposition to Russia's aggressive revanchism, in its embrace of Western norms and values, and in its high level of institutional development, the Black Sea region is far more divided and heterogenous in terms of how states, markets, and civil societies interact and even in terms of strategic priorities and outlooks on NATO. It is thus significantly less capable of presenting a united front in the face of a serious Russian challenge to regional security. This might also explain why Russia has moved with such aggression in the region. Even the region's NATO members – Bulgaria, Romania, and Turkey – have significantly different views of how best to engage and deter Russia. But they have not hesitated to provide strong support to Georgia and Ukraine which have suffered the worst consequences of Russian aggression (Joja, 2019). While both of these countries have long-term aspirations for EU membership, they are particularly focused on deepening their ties to NATO, in part, because both are victims of ongoing Russian aggression. But Georgia and Ukraine also share the core values of NATO and see accession to it as the best mean to achieve democratic development in a peaceful manner.

## **II. RUSSIA: UNRESOLVED CONFLICTS, REGIONAL MILITARISATION, AND CORRUPTION**

8. Russia has significantly expanded its military presence in the Black Sea and in its Southern Military District to intimidate the countries of the region and to project power both in the Eastern Mediterranean and, at least indirectly, in the Levant (Flanagan and Chindea, 2019). Although this report is focused on the Black Sea region, it worth noting that Russia's interest, policies and actions in the Black Sea mirror Russian policy in the Barents Sea and the Baltic Sea. In both those regions, Russia seeks to alter the status quo. It has effectively declared the Azov Sea an internal waterway, while its military build-up aims to turn the Black Sea into something approaching an internal waterway – an ambition opposed by other littoral countries and the international community at large. But opposition to Russia's grand scheme is not the same as achieving a greater unity of purpose, which continues to elude the littoral countries. More effective strategies are clearly needed to counter Russia's narrative, undermine its hybrid tactics, and demonstrate through strength and cohesion that Russia cannot rule these international waters. Bolstering coastal defence, countering missile threats, expanding NATO exercises, and supporting partners like Ukraine and Georgia are also essential. The European Union, of course, is also positioned to contribute to the region's security particularly in matters pertaining to economic and institutional development.

9. But Russia's challenge to the Black Sea region is not simply military in nature. The Kremlin is seeking to undermine the region's political, military, and economic connections to the Western community of nations and their most vibrant institutions, including NATO and the European Union. It uses sophisticated information, economic, and hybrid tactics to foster doubt and uncertainty about Western goals while promoting the false notion of Russia's benign intent. It also seeks to discredit the most important currency of the West: its commitment to democratic values. Russia has accordingly used all manner of subterfuge to undermine public trust and confidence in core democratic institutions in the region, including elections and judiciary systems. It has launched disinformation campaigns, instrumentalised corruption, tapped into organised criminal networks, and launched propaganda through Kremlin controlled media, social media, and cyber-attacks to

further these aims (Spaulding et al.). Of course, these are all tactics that Russia also employs against NATO member states.

10. These kinds of campaigns have helped foment a degree of discord within the most developed democracies in the West. Their impact on newer, more vulnerable democracies has had even more adverse consequences. Russia thus pose a shared challenge to the democracies of the Black Sea region as a whole and to the broader trans-Atlantic community of nations. Russia's disinformation operations are tailored to have maximum impact on each of the countries of the region. In Bulgaria, the campaign zeroes in on that country's traditional ties to Russia and lingering anti-NATO sentiment in parts of that society. In Romania, Russia seeks to exploit residual dissatisfaction with the EU, while in Turkey, there are claims that Russia plays on anti-Western sentiments in some sectors of that society. In Ukraine and Georgia, the disinformation campaign is significantly more intense and promulgates the notion that Western democracy is a hoax, that NATO is an aggressor and an unacceptable option, and that, in the end, there is no viable alternative to submission to Russian political and economic hegemony. Of course, there is an alternative, and it is very important that the West ensures that this far superior proposition premised on a more liberal internationalist vision is kept alive. This is as true in the Black Sea region as elsewhere in the West.

11. Russia sees the Black Sea almost as an internal waterway and is extraordinarily reluctant to recognise the legitimate claims of other littoral states on these waters. In the case of Ukraine, Georgia, and the Republic of Moldova – all former Soviet Republics – it is even reluctant to recognise their sovereign right to self-determination. Russia's aggression in Crimea, the Donbas, and Georgia is a logical consequence of this outlook and must be understood as part of a play to establish an effective hegemony over the broader region. Towards that end, the Kremlin pursues a divide and conquer strategy while working assiduously to pit NATO members against each other. It sees any dissension within NATO as a victory and aims to achieve as many small victories as possible as long as these contribute to its greater ambition of undermining Western solidarity.

12. Russia's illegal occupation of Abkhazia and South Ossetia and illegal and illegitimate annexation of Crimea marked a critical juncture in the post-Cold war strategic evolution of the Black Sea region. Russia's overt aggression injected enormous tension into an already divided region. That tension, in turn, has had a range of adverse political and economic consequences. Russia has turned the Black Sea into a far more strategically unstable and dangerous region. It has deployed very sophisticated and powerful anti-access/area denial systems on the peninsula that give it a powerful hand in thwarting NATO efforts to contribute to the stability of the Black Sea region. In a clear violation of the Convention on the Law of the Sea, in November 2018 Russia also seized Ukrainian naval vessels moving in the Kerch Strait that lead into the Azov Sea, which it has falsely claimed as territorial waters (Brzozowski, June 2019). Those actions violated the concept of Freedom of the Seas, which is a pillar of the international legal order and interestingly, it paralleled similar efforts by China in the South and East China Seas. This menace to free navigation could have serious long-term economic as well as strategic implications for the Black Sea region and obviously threatens to cut Ukraine off from global markets (Blank, 2018). To hammer home its aggressive claims, Russian fighter aircraft have also provocatively buzzed western naval vessels and flown dangerously close to US surveillance aircraft operating over international waters. This, like the Russian actions near the Kerch Strait, has only raised the risk of miscalculation and collisions (Browne and Cohen, 2018).

13. Russia's violation of Ukrainian and Georgian sovereignty has strongly conditioned relations with other Black Sea neighbours. The Kremlin has directed threats at Romania and Bulgaria while occasionally promising concessions on the energy front, for example, by vowing to help make Bulgaria a regional energy hub or promising concessional energy pricing that often fails to materialise. Turkey has a more nuanced approach as it is a strong regional actor which, by virtue of the 1936 Montreux Convention, controls access to the open seas through the Istanbul and

Çanakkale Straits<sup>1</sup>. The convention also imposes limits on non-littoral naval war ships operating in the Black Sea and effectively denies the deployment of aircraft carriers in those waters. One consequence of the Convention was to effectively hinder escalation in the Black Sea, while limiting the ability of the Soviet Union (and later Russia) to move its Black Sea fleet into the Mediterranean.

14. Russia, however, must contend with Turkey because of its important role as the guardian of the straits and it is the other significant military and economic power on the littoral. The relationship is one of both rivalry and partnership. Russia's sale of its advanced S-400 anti-aircraft system to Turkey reflects this more privileged relationship, as does the partnership between the two countries to build the Turkish Stream Pipeline, which will deliver Russian gas to Turkey. It is worth noting that a number of European and North American governments have not welcomed either initiative.

15. Russia's regional military build-up has also helped extend its reach into the Caucasus, Central Asia, and is of some consequence for the Middle East. Indeed, the Kremlin's intervention in Syria cannot be entirely distinguished from its illegal annexation of Crimea; they are likely part of a grand strategy to project power across a broad arc of space that is vitally linked to the flow of energy to Europe. Russia is using its massive Black Sea military presence as well as its position as a privileged interlocutor of the Syrian regime to consolidate its position as an irreplaceable energy provider to many of the countries of the region, and indeed to Europe as a whole. Insofar as it is positioned to crush alternative suppliers, its ambitions will more likely be fulfilled.

16. The first victims of Russian aggression in the region have been the inhabitants of occupied Georgian and Ukrainian regions. Occupation has resulted in a dramatic increase in economic stultification and a significant rise of human rights violations including, for example, the persecution of Crimea's indigenous Tatar people. Over 10% of the peninsula's population have emigrated because of worsening conditions, although Russian military personnel, civil servants, and retirees have been flowing into the region to offset these losses and to consolidate Russia's grip on Crimea (Berman, 2017).

17. In the wake of Crimea's illegal annexation, the Kremlin promised to transform the peninsula's economy. It pumped resources into the region for a range of large infrastructure projects of questionable economic value. This spending has burdened the Russian treasury at a time when international sanctions have also exacted a high toll on the Russian economy. These projects have included the 18.1km-long Kerch Strait Bridge, which opened in May 2018 and cost USD 3.7 billion. The bridge was more a strategic than an economic project, and its primary purpose was to create the illusion that the Sea of Azov is a Russian lake.

18. Crimea's economy has become dependent on significant subsidies from Moscow, which range from USD 1 billion to 2.7 billion per year. The diversion of investment capital for infrastructure to the peninsula has cost Russian regions with lower international profiles, although this has not yet engendered any serious pushback in the country, which generally, if not universally, welcomed the illegal annexation as an act of patriotism. That said, Russia's Public Opinion Foundation recently reported that only 39% of Russian citizens believe that the illegal annexation caused Russia more good than harm – a figure that stood at 67% in 2015 (Ballard, 2019). Other projects include a pipeline supplying natural gas from Krasnodar Krai, a new passenger terminal at Simferopol International Airport, and the Tavrida highway. Despite this spending, occupation has isolated the Crimean economy and has triggered several rounds of US, EU, and Canadian sanctions. Russia now looks to the East and South to help Crimea build new markets as it has lost access to its natural Ukrainian markets.

19. The shaky economic situation in Crimea has weakened Russia's claims of effective economic stewardship and further discredited the notion that joining its economic union might be beneficial for former Soviet Republics (Berman, 2017). With few exceptions, most former Soviet

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<sup>1</sup> Referred to as « the Bosphorus and the Dardanelles » in the 1936 Montreux Convention regarding the Regime of the Straits

republics have shunned the idea of such a union and would see joining an exclusive trade pact with Russia as a fast track to undermining their own economic development, sovereignty, and economic prospects. The Russian occupation has thus transformed Crimea from a region with the potential for economic development to an isolated military redoubt utterly dependent on Russian transfer payments. Its primary function is now to support Russian ambitions to project power throughout the Black Sea region. Accordingly, the number of naval personnel in Sevastopol doubled from 12,500 in 2014 to 25,000 in 2017 as the naval fleet based in that port expanded.

20. Russia has also created an anti-access / area denial (A2/AD) bubble that is extremely worrying to its neighbours and to NATO, which is now compelled to factor in this build-up in its own defence planning. But it is not only this build-up that is concerning, Russia has flouted international law while conducting the first outright annexation of the 21st century in violation of international law and two treaties – the Great Ukrainian-Russian Treaty of 1997, and the Budapest Memorandum of 1994 in which Russia had agreed to be one of the guarantors of Ukrainian territorial integrity and independence (Ukraine Institute for the Future, 2017).

21. Obviously, Ukraine has not only lost jurisdiction over Crimea, but since the construction of the Russian bridge over the Kerch Straits, its commercial ships are now hopelessly delayed when passing through these waters. This has imposed enormous costs on the Ukrainian Azov Sea ports of Mariupol and Berdyansk. These delays are orchestrated by Russian naval ships carrying out inspections, the duration of which rose from an average of seven hours in June 2018 to more than five days by November 2018. Not coincidentally, cargo handling at those two ports has fallen more than 70% and 50% respectively since Russia seized control over the Kerch Strait in 2014. Russia appears to be purposefully working to strangle both as part of its pressure campaign on Eastern Ukraine (Bond, Olearchyk and Seddon, 2019). It is worth noting that the United States, Canada, and a number of European countries imposed additional sanctions on Russia after the Federal Security Service (FSB) coast guard fired upon and seized Ukrainian naval ships moving through these waters.

22. Russia's coastal operations are directly linked to the six year-long war in Eastern Ukraine in which it has overtly supported proxy forces to weaken the government of Ukraine. It has employed overt military and hybrid tactics to fuel this war and has deployed both regular and irregular forces to the region to conduct these illegal operations. Roughly 4,500 regular Ukrainian soldiers had been killed in the fighting as of July 2020, while the UN Office of the High Commissioner for Human Rights (OHCHR) estimated the total conflict related deaths including civilians from April 14, 2014 to January 31, 2019 was between 40,000-43,000 (Miller, 2019).

23. Russia is essentially engaged in an illegal military, political and economic occupation of Abkhazia and the Tskhinvali region/South Ossetia. It financially underwrites the regimes Abkhazia and South Ossetia and essentially dominates critical decision making although the situation varies in these two regions. South Ossetia's politically elite, for example, is essentially transplanted from Russia which is not the case in Abkhazia.

24. Due to violations of the EU mediated 12 August 2008 Ceasefire Agreement, the humanitarian and human rights situation in occupied Georgian regions and adjacent territories has deteriorated considerably in recent years. The Russian Federation has reinforced its illegal military presence on Georgian territory and deployed 4,500 military and 1,300 FSB personnel in the occupied regions. Russia's military bases in the Abkhazia and South Ossetia are equipped with contemporary and sophisticated offensive weaponry, including tanks, various armoured vehicles, rocket launch systems as well as SA and SS missile systems SA10 Grumble and SS21 Scarab. These army divisions are regularly participating in illegal military exercises in the occupied territories. Since the beginning of 2020, more than 80 military exercises have been held in both regions. Additionally, Russia has continuously violated Georgian airspace and territorial waters.

25. Russian FSB troops have also erected barbed wire fences and artificial barriers along the occupation line. This has separated families and deprived the local population access to agricultural lands. Illegally detained inhabitants of these regions include women, children, the elderly, clerics and the mentally ill. Residents in the occupied territories, especially ethnic Georgians, bear the heaviest burden of the illegal occupation. The scale of human rights violations includes (but is not limited to): murder, torture, and ill-treatment, kidnapping and arbitrary detention, property rights violations, restriction on the freedom of movement, the curtailment of language rights violations, and ethnic discrimination. Close to half a million people have been expelled from Abkhazia and South Ossetia. High profile cases of torture and murder of Georgian IDPs carried out by the occupation regimes are perhaps the most grotesque consequence of these illegal occupations. These provocations and the use of hybrid warfare tools have helped Russia to escalate the conflict and destabilise not only Georgia's occupied territories, but also the wider Black Sea region.

26. That Russia itself is now subject to a range of sanctions as a consequence of its aggression has further undermined the potential of the region. Russia's tit-for-tat response raises the costs to the Russian people and has, for example, added USD 10 billion a year to the food bill paid by Russian consumers, according to the Russian Presidential Academy of National Economy and Public Administration (The Moscow Times, 2019). If anything, the sanctions regime has only been strengthened. In January 2020, for example, the United States placed new sanctions on Russian-backed officials in Crimea and a railway company that connected Russia with Crimea over the Kerch Strait Bridge. The EU imposed sanctions on many of the same officials that same week. Of course, these sanctions do come with costs to the West, particularly as Russia has responded in kind.

27. Russia is a large and potentially prosperous country, although its GNP is still only the size of Italy's – a country with a much smaller population. Sanctions, pervasive and systematic corruption, unfavourable demographics, and utterly unnecessary hostility to its neighbours unfortunately have prevented Russia from achieving its economic potential. Russia's failure to carry out an effective economic transition and pervasive and high levels of corruption has meant that it continues to rely on carbon energy exports to generate income for the state, which, in turn, expends an inordinate amount of that wealth to underwrite military adventurism. This dynamic seems unlikely to change over the medium-term, at least. Russia's neighbours need to factor in these sad circumstances in both their economic and security planning. For NATO, this unhealthy dynamic poses a security challenge and requires the implementation of an active deterrence strategy for the region as a whole.

28. Of course, the region would confront other challenges even without Russian adventurism. Corruption, for example, has long constituted a barrier to economic development in the Black Sea region. It is ultimately the responsibility of national and local governments and their constituents to deal with the problem. But it is also true that Russia has essentially weaponised the problem. The Kremlin has deployed the country's enormous energy sector, not to foster regional development, but rather to facilitate state capture and promote favoured elites in weaker states on or near its borders. Corruption provides Russia with clear leverage over senior officials, even in some states which are theoretically opposed to Russia's quest for regional hegemony. Corruption serves several regime purposes. It helps cultivate and nourish a compliant political class in neighbouring countries. It also helps Russia undermine the narrative of good governance in Western democracies and in transition societies. The Russian propaganda machine then engages in massive disinformation campaigns to hammer this message home.

29. Of course, when some well-connected elites in the region systematically divert funding from international lenders originally targeted for projects to benefit the broader society, public cynicism rises, and faith in national democratic institutions erodes. This leaves these societies more vulnerable to ultra nationalist, anti-democratic, and anti-Western campaigns that, not coincidentally, align well with the Kremlin narrative, cynically pushed through social media and

official propaganda and echoed by witting collaborationists and unwitting foils in these societies with either an economic or political stake in the anomie this propaganda produces. Despair in the Western project mounts even in societies that have long been enthusiastic about their inclusion in the Western community of nations – positions that were achieved through exceedingly hard work and societal dedication to democratic liberal market values. It nourishes the growing perception that some Black Sea societies are ruled by oligarchs determined to undermine the kind of meritocratic promises that make democratic governance possible. Those despairing of widening wealth gaps see few remedies when Western sponsored programmes are distorted to bolster the interests of those engaged in state capture. In these circumstances, pro-market, pro-democracy rhetoric can come to be seen as just that and not much more (Joja, 2019).

### **III. ENERGY PRODUCTION, TRANSPORT, AND SECURITY IN THE BLACK SEA REGION**

30. The Black Sea has emerged as an important locus of energy politics. The region is the second-largest source of oil and natural gas after the Persian Gulf and is also a critical energy transfer corridor. Conflicting claims on Black Sea region resources, the engagement of important regional and global powers and the ever-changing networks that move energy to market are all elements of the security equation. Russia's aggressive regional policy is obviously a great concern here as well. It has not only seized territory in violation of international law, but it has also stolen energy assets – expropriated without compensation is more of a euphemism in this regard – and claimed offshore oil and gas rights that are rightfully Ukrainian. Russia's regional naval build-up and ever enlarging A2/AD bubble, in part, aims to fend off potential challenges to these claims. Russian forces have also engaged in illegal spoofing of commercial and military maritime GPS to sow confusion on the region's waterways, and possibly to test their own capacity to wage economic warfare against other energy suppliers and their naval assets.

31. The struggle for regional influence is often played out through the network of existing and proposed pipelines crisscrossing the region and running under the waters of the Black Sea. Who controls these pipelines matters greatly, not only to the region, but also to Europe and to the transatlantic community more broadly. In this sense, there is something of a great game afoot in the Black Sea region, and one does not have to dig very deeply to discern that energy ambitions and concerns are critical drivers of regional tensions. To take one example, Russia's illegal annexation of Crimea has not only proven a boon to Russia's military forces in the Black Sea region, it also allowed Russia to assert highly dubious claims on energy-rich waters while depriving Ukraine access to assets that are rightfully its own (Joja, 2020). Russia's military expansion in the Black Sea, similarly to its intervention in the Syria conflict, should thus be understood as reflecting a greater strategic ambition to control Europe's access to vital energy supplies.

32. As both a host to one of the world's largest proven gas and oil reserves and a vital transit corridor, the Black Sea region forms something of an energy bridge between supplier countries, such as Russia, Azerbaijan, and the Caspian states, and the important consumer markets of Europe. The broader Black Sea region constitutes an important crossroads of key east-west and north-south transit routes for oil and natural gas. The most visual expression of the "great game" underway in the region may well be the network of pipelines laced throughout the region and under the region's waters. These routes, however, are not simply vehicles for transporting energy. They are also expressions of power politics and a means either to achieve leverage over other countries or to counter such leverage, depending on the circumstances.

33. Inaugurated in January 2020, the TurkStream gas pipeline running from Russia through the Black Sea to Turkey is emblematic of the security dimensions of pipeline architecture in the Black Sea region. Support for this 930km pipeline project gathered momentum after the 2014 cancellation of Russia's South Stream project to transport Russian natural gas across the Black Sea to Bulgaria and into Europe. The Russian state-owned company Gazprom's venture had been scrapped in the wake of Russia's illegal annexation of Crimea and amid a dispute between

Gazprom and the EU involving EU regulatory requirements. Gazprom subsequently signed a Memorandum of Understanding with Botaş Petroleum Pipeline Corporation, a Turkish state-owned company, to construct TurkStream. It consists of two parallel pipelines linking Russia to Turkey's westernmost regions close to the borders with Bulgaria and Greece.

34. This Gazprom-led venture might best be understood as a counterweight to the Western-backed Southern Gas Corridor project (SGC) (CRS, 2020). The European Commission helped launch the initiative to establish a natural gas supply line from the Caspian and Middle East regions to Europe with the aim of diversifying Europe's natural gas supplier base. In its present form, the Southern Gas Corridor project consists of three connecting pipelines with an annual capacity of 16 bcm – roughly half the proposed capacity of TurkStream: the South Caucasus Pipeline (SCP) linking Azerbaijan and Georgia; the Trans-Anatolian Pipeline (TANAP) that runs through Turkey, and the Trans-Adriatic Pipeline (TAP) connecting Greece and Italy.

35. Despite rising concerns about the security risks of handing an increasingly hostile Russia additional market leverage, with Nord Stream 2 soon set to go online, and with TurkStream delivering gas to the south, the EU's hopes to begin to wean the continent off its unhealthy dependence on Russian gas may be more aspirational than realistic. In combination, the two Russian projects make the Southern Gas Corridor less competitive. Theoretically, the best chance of boosting the competitiveness of the SGC would lie in linking it to gas fields in Turkmenistan or Iran or both. The conundrum here is that Russia would block the construction of a pipeline under the Caspian on environmental grounds and Iran, of course, remains under very tight US sanctions. In its current form, the SGC only meets 2% of EU demand and is price competitive only in Turkey and South-East European countries but not in Western European countries (The Economist, 2019).

36. Blue Stream is the world's deepest undersea pipeline and carries natural gas from Russia to central Turkey. Prior to its opening in 2003, Turkey imported Russian gas via the Trans-Balkan pipeline (TBP), which crosses Ukraine and the Eastern Balkans (Moldova, Romania, and Bulgaria). The TBP, which is still a major gas route for Eastern Balkan countries, remains one of the primary Russian gas pipelines crossing Ukrainian territory. Russia is determined to reduce its dependence on transporting gas through a country with which it is, for all intents and purposes, at war. It undoubtedly sees the process of reducing gas exports through Ukraine as an economic tool with which it can apply political pressure on the government in Kyiv while limiting Ukraine's capacity to inflict economic pain on it.

37. Viewed in this light, the newly-inaugurated TurkStream pipeline at once encapsulates the intricacies of pipeline politics in the region, the shifting degree of economic and energy interdependence among the three largest Black Sea economies (Russia, Turkey, and Ukraine), the important energy links between the Balkan and European markets, and the manner in which pipeline politics in the region can have a broader impact on European energy security writ large.

38. Russia remains the most important supplier of natural gas to Europe, with exports to Western Europe accounting for roughly two fifths of total supplies. This supply is less secure than it once was, as three times since 2014 Russia has cut off gas flowing through Ukraine to Europe (The Economist, 2019). Estonia, Finland, Latvia, Lithuania, and Bulgaria are among the most dependent on Russian gas in the EU, and to varying extents all have come to understand that Russia has the capacity and will to use energy to threaten their national security and economic well-being.

39. About 80% of Russian natural gas exports to Europe transit the Black Sea region, and in 2019, Turkey was the fourth-biggest gas export market for Russia in Europe after Germany, Italy and Austria. While the share of Russian natural gas in Turkey's portfolio was 54% in 2014, this ratio had fallen to 34% in 2019. Moreover, Azerbaijan replaced Russia as Turkey's most important natural gas supplier for the first seven months of 2020. Beyond meeting domestic energy needs,

Turkey aims to establish itself as a major transit energy hub. Half of Russian gas transiting through the TurkStream pipeline between Russia and Turkey will go to Turkey, and the rest will move into other European markets including Bulgaria and Serbia.

40. Turkey, however, is not only working with Russian suppliers. The 1,841 km Trans-Anatolian Natural Gas Pipeline (TANAP) is part of the ambitious Southern Gas Corridor. It is part of a three pipeline system beginning with the South Caucasus Pipeline, TANAP and the Trans Adriatic Pipeline. Azeri Gas can now move from Azerbaijan to Italy via Georgia, Turkey, Greece, Albania, and then under the Adriatic Sea. This is widely seen as enhancing European energy security.

41. Although the Black Sea is now a vital route for moving crucially needed energy to Europe, it is also a region where state conflict is triggering energy insecurity. Russia's illegal annexation of the Ukraine's Crimean Peninsula preceded its claim to exercise control over an exclusive economic zone (EEZ) rich in offshore gas (estimated to be between 4-13 trillion cubic meters of natural gas). According to a report by the Ukrainian Ministry of Energy, Ukraine lost 80% of its oil and gas deposits and significant port infrastructure as a result of Russian actions. Russian aggression has purposefully undermined Ukraine's plans to develop a domestic conventional and unconventional energy and gas industry and eventually to reduce its dependence on Russian gas by 2020 (Umbach, 2014).

42. Moreover, as the Black Sea is a key transit corridor for energy resources, Russia's militarisation of these waters has endowed it with a greater capacity to disrupt the flow of energy to Europe. Maritime security in the Black Sea is thus inextricably linked to broader energy security challenges for the region and for Europe more generally. In periods of international tension, control of energy supply lines and strategic choke points by a hostile power can be factors of coercion and intimidation. Iran's repeated threats to close the Strait of Hormuz in the event of a military attack by the U.S. is a timely reminder of how military action to close energy transit routes can be used as a weapon.

43. Three percent of the world's oil – primarily from Russia and the Caspian region – transits the Turkish Straits of Istanbul and Çanakkale, as well as substantial amounts of Russian and Kazakh grain (Yackley). Although Turkey is entrusted with control over those narrow waters and has been a reliable steward of international law governing access to them, the straits linking the Black Sea to the Mediterranean are vulnerable. But they become even more of a concern at a moment of heightened Russian-Turkish tensions arising out of the conflict in Syria.

44. Reinforcing energy connectivity is a crucial challenge for Black Sea littoral and neighbouring countries aiming to diversify energy supplies. A range of energy and transport interconnection projects are seeking to achieve this, and some progress is apparent. A country like Romania, for example, was once quite isolated from the EU in terms of energy infrastructure, but it has managed to achieve a far higher degree of integration and is thus less vulnerable to supply disruption than previously. In 2019, for example, the Romanian gas provider Transgaz announced plans for the Podisor gas pipeline linking the Black Sea coast to the Romanian national transmission system, following the Bulgaria-Romania-Hungary-Austria (BRUA) agreement signed in 2016. Welcomed by the European Union, this project should be completed by 2021. The plans will include: a 308.4km gas transmission pipeline from the Black Sea coast to Amzacea in Southeast Romania, a receipt-launching station located in Amzacea, a technological node for the interconnection with the Trans-Balkan transit pipeline, another technological node for the interconnection with the national gas transmission system in the Vlasina area, and the interconnection point with the gas compressor from Podisor station located west of Bucharest (Industry Europe, 2019).

45. To encourage linkages among member states, the EU has set up a list of key infrastructure projects aimed at completing the European energy market in order to help the EU achieve its energy policy. These Projects of Common Interests (PCIs) are eligible for EU financial support through the Connecting Europe Facility (CEF) program (European Commission, 2017).

46. Although much of the recent focus of the gas pipeline industry has been on large gas projects such as the Turkish stream gas pipelines, lower profile projects to endow pipelines to flow in two directions are critical to advancing regional and European energy security. In Ukraine, work on enhancing gas pipeline interconnections and reversing flows has been principally underway since 2009 – Russia’s decision to cut supplies to Ukraine created dangerous and costly electricity blackouts in several EU member states. Nearly all existing transit pipelines in Ukraine can now handle reverse flows, enabling much greater flexibility in deliveries compared to just two years ago (Harrison and Princova, 2015).

47. While there is a tendency to focus on the movement of gas in the region, oil is also important. One hundred and fifty million tons of Russian and Caspian oil moves through the Turkish Straits each year. Pipelines are increasingly used to bypass these crowded waters and to move oil from distant fields to dynamic markets. The Baku-Tbilisi-Ceyhan pipeline moves crude oil from the shores of the Caspian Sea to Turkey without shipping it through the Bosphorus. There are believed to be reserves of up to ten billion barrels in the region, and several companies are exploring the region’s underwater oil and gas reserves. In 2012, the Romanian well, Domino-1, represented the largest well ever tapped under the Black Sea. Significant drilling projects have also been underway off the Bulgarian and Turkish coasts. Some of the world’s leading energy companies including Shell, Total, ExxonMobil, and OMV are teaming up with local players to exploit these reserves. Of course, field development decisions are shaped by price and cost considerations (Offshore Technology.com, 2016). But geopolitical risk plays into cost structures and certainly explains, for example, why Ukrainian offshore fields, some but not all of which are now claimed by Russia, are not under development in the current environment. The Crimean Peninsula has significant offshore oil and gas reserves which the illegal Crimean government has charged Russia’s Gazprom with managing. Gazprom has nationalised the Crimean subsidiary Naftogas Ukraine, and Russia is intent on claiming not only Crimea’s but also the rest of Ukraine’s continental shelf and Exclusive Economic Zone (Umbach, 2014). Ukraine has charged Russia with violating the UN Convention on the Law of the Sea with its claim of sovereignty over waters in the Black Sea and Sea of Azov off the Ukrainian coast. Russia rejects the relevance of the claims as it asserts sovereignty over the land territory of Crimea (Ministry of Foreign Affairs of Ukraine, 2019).

#### **IV. THE ECONOMIES OF THE BLACK SEA, REGIONAL INTEGRATION AND DIALOGUE**

48. There is, of course, a disparity between the aspirations for Black Sea regional cooperation and integration, and developments on the ground in what remains a dangerously divided region. The challenge is made more difficult given the diversity in size, levels of development, natural resource endowments, institutional characteristics, national experiences during the Cold War and the post-Cold War transition, and the aspirations and political orientation of the region’s countries (Astrov and Havlik, 2008). In broad terms, there are competing poles of attraction operating in the region. The EU is present along the littoral, and Georgia, and Ukraine aspire to deeper relations with the EU, although for various reasons, membership for these countries is not likely over the short-term. Turkey itself is a major regional power, a NATO member, an EU candidate country, and a centre of gravity in its own right. Russia, of course, is the strongest military player in the region and remains overtly hostile to NATO, the EU, and the West in general. Of course, external powers like the United States also exert strong influence both directly and through its leading position in the Alliance.

49. The littoral countries along the Black Sea are obviously highly dependent on their access to the sea, which is a vital transportation artery linking these countries to world markets. There is a degree of specialisation among the ports with the Russian ports of Tuapse and Novorossiysk, and Georgia’s Batumi focussing on petroleum trade, while the Bulgarian Ports of Varna and Burgas ,and Constanta in Romania playing critical roles in linking their respective countries to European and global markets. Istanbul is obviously a global port through which much sea-borne

commerce in the region must pass, and the Danube links this entire region deep into the Balkans, Hungary, and Austria.

50. With so many countries along the littoral ever more dependent on access to these waters, regional cooperation is essential to long-term regional development and prosperity. The record on this front is decidedly mixed, particularly in the wake of Russia's illegal annexation of Crimea, although there have been several important initiatives working toward these goals. The Black Sea Economic Cooperation (BSEC) is perhaps the most ambitious and comprehensive of these. It was founded in June 1992 with the signing of the Istanbul Summit Declaration and the Bosphorus Statement by the heads of State and Government of the countries in the region. The Charter went into force on 1 May 1999, when it became the Organization of the Black Sea Economic Cooperation. Its geographic coverage is extensive and includes all the littoral states, the Balkans, and the Caucasus – a region of 325 million people engaged in USD 187 billion of annual intra-regional trade. The BSEC seeks to build cooperation across a range of fields including trade, transport, energy, small and medium businesses, finance, organised crime, customs, digital technologies, education, environmental protection, healthcare and pharmaceuticals, tourism, science and technology, and emergency preparedness.

51. The BSEC organises its agenda around summit meetings during which Heads of State and Government of member states lay out the strategic direction of the organisation. The Council of Ministers, consisting of Ministers of Foreign Affairs, meets every six months to provide regular guidance. Other committees and experts' groups generate information and help implement Council policy decisions and recommendations. The Chairmanship-in-Office defines priorities, and coordinates all activities carried out under the rubric of the organisation. This leading position rotates among member countries every six months.

52. In a sense, the BSEC both embodies the aspirations of many for a more integrated, secure, and prosperous Black Sea region and demonstrates the degree to which geopolitics in the region have undermined those aspirations. Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Serbia, the Russian Federation, Turkey, and Ukraine are all members of the BSEC. But this list of countries alone illustrates the problem of heterogeneity and conflicting interests. While there are compelling reasons why the region's 350 million inhabitants would stand to benefit from deeper cooperation, rivalries and tensions simply prevent this from happening.

53. While the Cold War's end opened new opportunities for integration, it also unleashed forces that would revive substantially older divisions. Regional conflicts fuelled by nationalist and sectarian impulses in the Balkans, Moldova, Abkhazia, South Ossetia, Nagorno-Karabakh, Chechnya, Crimea, and the Donbas fluctuated between violence and frozen conflict. This has infused the region with uncertainty while erecting formidable barriers to cooperation that organisations like the BSEC simply are not positioned to overcome. The BSEC can help at the margins by pursuing very focused cooperative projects, but it is not situated to address the more fundamental impediments to regional cooperation which, in the end, need to be dealt with directly by the region's governments and those they represent. Economic rationale is not enough to overcome geopolitical tensions that, among other things, are rooted in conflicting values on matters such as human rights, social justice, democratic governance, ethnicity, religion and the manner in which national security is defined (Kunt Akin, n.d).

## V. THE INTERNATIONAL COMMUNITY AND THE BLACK SEA

54. Two EU members, Bulgaria and Romania, and EU candidate country Turkey border the Black Sea, and this automatically makes it a region of vital importance to the European Union. The EU imports a significant share of its energy from the countries of the broader region, and this is slated to rise over the next three decades. The Black Sea region is thus a critical part of the European neighbourhood, but it is also a borderland beset with friction and insecurity. Contributing to the region's stability and prosperity are EU objectives, and its regional policies aim to achieve this. The EU also has a vested interest in cultivating close political and commercial ties with its neighbours and recognises that their stability and democratic development represent a core objective of the Union as a whole.

55. The European Commission is engaged with the region across a range of policy areas including capacity building, development, trade, security, and cross border and transnational cooperation on environmental, marine, and maritime issues. The EU also has a clear stake in Black Sea regional integration insofar as this is possible in the wake of Russia's illegal occupation of Crimea. It has, for example, created a Facility for Blue Growth, a financial mechanism in which regional stakeholders are supported to identify shared priorities for maritime cooperation in the sea basin in areas like transport, environment, food security, research, and innovation. Funding comes from a range of EU programmes including the Instrument for Pre-accession Assistance, the Horizon 2020 SME Instrument, and the European Neighbourhood Instrument (European Commission, "Sea Basin Strategy"). Black Sea Synergy is part of the European Neighbourhood policy and has become an institutionalised but flexible forum for EU cooperation with the littoral countries on a range of issues.

56. Because the Black Sea region is a bridge between Europe, Asia, and the Middle East, border issues are critical to maintaining security and exercising proper controls over commerce and migration. The EU has accordingly sought to foster deeper regional cooperation on border matters. The littoral countries have also developed functioning maritime border cooperation through the Black Sea Border Coast Guard Cooperation Forum. This is carried out at the Border Coordination and Information Centre in Burgas, Bulgaria. The Black Sea Synergy effort has made migration, fighting cross-border crime, human trafficking, and irregular migration all matters for trans-national cooperation.

57. The environment is another area in which the EU takes a keen interest. It has observer status in the Black Sea Economic Cooperation and the Commission for the Protection of the Black Sea Against Pollution. Here there have been some success stories. Both the Danube Basin and the Black Sea, to which it is linked, were highly polluted, and over the course of the 1970s and 1980s, the ecosystem around these waters fell into an ecological crisis. The command economies of the Warsaw Pact, of course, never factored the cost of pollution into the policy mix or pricing mechanisms, and their legacy was one not only of misallocated resources and sub-optimal economic performance, but also of very serious environmental degradation. One of the great trans-national success stories in the region has been a sustained effort to overcome this burdensome legacy. A critical part of the problem was nitrogen emissions into the waterways leading into the Black Sea. A major post-Cold War international effort helped lower nitrogen emissions by roughly 20%, and a fall in phosphorus use approaching 50%. This helped restore life to ecosystems that were on the edge of total collapse due to the over-enrichment of water systems with organic matter – known as eutrophication. Over-fertilisation of farmland, pesticides, heavy metals, and the destruction of wetlands and habitats all contributed to the problem, with 49 hotspots initially identified in Bulgaria, Georgia, Romania, Russia, Turkey, and Ukraine (The World Bank, n.d.).

58. Ten World Bank projects with support from the Investment Fund for Nutrient Reduction also helped to address the problem in 2002. These projects also engaged Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia, and Turkey, and included the introduction of wastewater treatment, the restoration of wetlands and degraded land, while addressing problems

linked to land erosion and water quality. The projects were organised under the rubric of the Global Environment Facility Strategic Partnership on Black Sea and Danube Basin and engaged the World Bank, the UN Development Program, the UN Environment Program, the concerned countries, and several environmental funds. It has proven a great success in restoring waters that were on the edge of dying.

59. Although the EU is the West's most important economic player in the Black Sea region as a whole, the United States remains a critical security actor for its Black Sea allies Bulgaria, Romania, and Turkey and for partners like Ukraine and Georgia. US forces are critical to regional security and play an essential deterrence function there. The United States has also strongly advocated for sanctions on Russia as a price of its occupation of Crimea and for other transgressions of international law it has committed in the region, including the illegal occupation of parts of Georgia and the recent violation of international law committed by Russia near the Kerch Strait. The United States, like its European allies, has never recognised Russia's claim on Crimea, which it sees as part of Ukraine just as it recognises Abkhazia and South Ossetia as part of Georgia. The United States has ratcheted up sanctions on Russia at several intervals, most recently in January 2020 when it blacklisted Crimean officials engaged in the Russian occupation of that peninsula.

60. NATO member governments hold a broad array of perspectives about the challenges in the region and the best way to resolve them. While some countries, including the Baltic States and Poland, readily identify Russia as the key problem, others are more worried about issues such as mass migration. As this report has suggested, varying energy concerns are also at play although there are efforts within the EU to cobble together European-wide approaches to energy security.

61. Despite these differences in response to the Crimean invasion, cyber-attacks launched against Ukraine and other NATO member states, and the Russian strikes on Ukrainian naval vessels operating in international waters, NATO has altered its force posture in the region. It has bolstered its land, air, and maritime forces, increased patrols, and conducted more regional exercises. However, many security experts believe more needs to be done to build a credible deterrent force in the region. Russia, of course, strenuously objects to these measures, but its aggressive policies have made them essential. NATO's strong response has not been universally welcomed, even among regional allies, and Bulgaria has called for a softer approach (Brzozowski, March 2019). Despite these apparent differences, in April 2019, NATO Foreign Ministers agreed measures to enhance allied situational awareness in the Black Sea region and to extend support for Georgia and Ukraine. This included enhanced training of maritime forces and coast guards, port visits, exercises, and enhanced information sharing. Moreover, at 2020 April NATO Foreign Ministerial, Allies agreed to support Georgia and Ukraine in areas such as exercises in the Black Sea region, countering hybrid warfare and sharing additional air traffic data. On 12 June 2020, the North Atlantic Council recognised Ukraine as an Enhanced Opportunities Partner. This status, which is part of NATO's Partnership Interoperability Initiative, deepens cooperation between Allies and partners that have made significant contributions to NATO-led operations and missions. This will enable Ukraine to participate in planning NATO operations. As for Georgia, it was among five partners (along with Australia, Jordan, Finland, and Sweden) that were granted an enhanced Opportunities Partner status at NATO's Wales Summit in 2014 when the Alliance launched the Partnership Interoperability Initiative. NATO allies renewed this status for Georgia in 2017 and 2020.

62. NATO's open-door policy remains highly relevant to the Black Sea region, as it respects the right of every country to choose its own security arrangements, including national decisions to join an alliance. This fundamental principle is enshrined in international agreements, including the Helsinki Final Act and the Charter of Paris for a New Europe. NATO's "open door policy" is premised on Article 10 of the Alliance's founding document, the North Atlantic Treaty (1949). The Treaty states that NATO membership is open to any "European state in a position to further the principles of this Treaty and to contribute to the security of the North Atlantic area". NATO

enlargement has fostered stability and cooperation based on democratic values in Europe, and aspirant countries must subscribe to these values to advance their case for membership. NATO enlargement has advanced Euro-Atlantic security and as expected new members have made important contributions to collective security. This has made NATO stronger and more resilient. Maintaining NATO's "Open Door Policy" is thus critical to regional and Euro-Atlantic security. The roadmap for membership to NATO and the EU is indeed challenging, but there are numerous benefits for those countries that begin to follow it.

## **VI. COVID-19: THE LATEST CHALLENGE TO THE COUNTRIES OF THE BLACK SEA REGION**

63. As this report has suggested, the Black Sea region had already confronted a range of security, economic, social, and environmental challenges prior to the onset of the COVID-19 pandemic. COVID-19 will be a defining crisis for the Black Sea in the short and medium term, possibly even more so than the political and military crises that have struck the region in recent years. The region's resilience is now being tested in new ways, and the political and economic impact will likely be felt long after the pandemic is over. If anything, the spread of the virus has only made matters worse for all the countries of the region, including Bulgaria, and Romania, which are firmly embedded both in the EU and in NATO, and NATO member Turkey. The public health and economic impacts could well be transformative.

64. Although resilience in the face of the disease varies considerably across the region, virtually every country has vulnerabilities that are worth considering. Turkey, for example, has a reasonably strong health care system. But it also hosts roughly four million refugees, many from Syria, and now must cope with the very real challenges of meeting the health requirements both of its own citizens and of these very vulnerable people. It has made great efforts in this regard and responded with generosity. But the burden it faces should not be discounted. Indeed, this public health crisis will continue to shape Turkey's dialogue with Europe on the matter of sharing the refugee burden. As of 22 September, Turkey had registered 306,302 Covid-19 cases and 7,639 deaths (Worldometer, Turkey).

65. Romania dedicates roughly 5% of GDP to its health care system, while Bulgaria allots 8.2% as compared with an EU average of 9.8% (Visan, 2020). As of 22 September 2020, Romania had registered 114,648 COVID-19 cases, while 4,503 had died of the disease. Bulgaria, which has a population roughly three times smaller than Romania's, had 19,123 cases and 767 deaths (Worldometer, Romania, Bulgaria,). According to the European Commission, Bulgaria's economy is worryingly projected to shrink by 7.1% while unemployment has soared to 9%, in large measure due to the pandemic (Petkova, 2020). Both countries have had to redirect precious resources to build in greater systemic resilience in the face of Covid-19, and each has had to do so at a moment of serious economic crisis. Romania, for example, has had many of its citizens working in both Spain and Italy. These workers typically repatriate part of their earnings, but the burgeoning economic crisis in Europe is sure to lower this important source of income.

66. The COVID-19 virus has struck Russia particularly hard, and the state response has not been notably effective. Russia, along with the United States, Brazil, and India, has had one of the world's highest infection rates. President Putin erroneously claimed in March that the disease was under control and even exported ultimately unusable medical equipment to the United States to help it cope with its crisis (Klein, 2020). The failure to move quickly to contain the disease has triggered a disastrous epidemic with the case load expanding quickly in June. As of 22 September 2020, Russia had registered 1,122,241 cases of COVID-19 and 19,799 deaths (Worldometer, Russia). In August, Russia approved a vaccine it had developed, but which had not gone through vital phase three trials. These trials test the drug on substantial numbers of human subjects to demonstrate its safety and efficacy. The decision has been highly criticised in medical circles as a dangerous step, which establishes an unsafe precedent that other countries might be tempted

to follow. Critics of the decision have noted that Russian developers have provided inconsistent data and suggest that Russia is moving too quickly without proper screening. This could erode essential public trust in vaccines at a time when some politicians are trafficking in medical fantasy and misleading their publics both about the virus and policies needed to cope with the challenge (Deutsch and Martuscelli, 2020)

67. Russia's economy has taken a significant hit due, in large measure, due to the collapse in global demand for oil and gas and the resulting fall in energy prices. Russia's ill-conceived oil price war with Saudi Arabia in March only exacerbated the problem. The dispute has since been resolved, and prices have stabilised, although at a low level of roughly \$45/barrel in early September 2020. The gas industry has been less affected by the pandemic, although prices have fallen here as well. By 29 May, gas prices had fallen below \$33 per thousand cubic meters on the Dutch Hub. 60% of Gazprom's contracts are linked to European hub prices. Gazprom currently sets its planning on a target of \$100 per thousand cubic meters. It had sought to cut deliveries to Europe to tighten up the market, but European storage facilities are flooded with gas and prices remain very low.

68. In the face of this market turbulence, Russian energy companies have been compelled to cut back on capital expenditure and to focus investment only on top priority areas like LNG, oil refining and petrochemicals. They are also competing for state protection and tax write-offs to weather the storm. Because many industrialised countries and the European Union are looking at the pandemic as an opportunity to nudge national economies towards greener practices, long-term structural changes in demand for Russian energy in Europe could be one longer-term consequence of the current crisis, despite the recent fall in prices. It had already been estimated that Russian energy exports and contribution to budget revenues could fall by 15% and 17% respectively by 2040. The pandemic could accelerate this process. This will strike at the heart of the Russian economy if it fails to diversify its industrial base.

69. The Kremlin has decided to run a pared down budget to manage the significant fall in earnings and tax revenues. Russia's 2020 budget balances at a price of \$42 a barrel, the lowest break-even level in more than ten years (Scribner and Connolly, 2020; Andrianova, 2019). Significant fiscal pressure, in turn, could ultimately impinge on Russia's imperial adventurism and will at least put pressure on the Kremlin to strike new balances between domestic spending needed to maintain stability at home and defence and security spending, some of which obviously underwrites Russia's massive military build-up in the Black Sea region, including military operations on Ukrainian and Georgian territory. Prior to the current crisis, Russia's economy was forecast to grow by 3.1%-3.2% in 2021 and 2022 respectively (Stephens, 2020). The Russian Central Bank now forecasts a 6% fall in GDP in 2020 --an 11-year low-- while the Ministry of Economy predicts GDP growth of 2.8% in 2021 and 3% in 2022 (Aris, 2020). Even this lower rate of predicted growth could be optimistic.

70. The impact of COVID-19 on economic activities in Russia was limited in Q1 2020 and mostly channelled through a sharp reduction in trade and commodity prices. With the introduction of lockdown measures at the end of March, Russia slipped into recession hit by domestic supply and demand shocks against a backdrop of already weak external demand. In April, contraction in the output of five basic sectors totalled 9.9 %, which is on par with the contraction of this indicator in 2009, during the global financial crisis (World Bank Group, 2020).

71. Russia's fiscal and monetary prudence has strengthened its capacity to weather the energy price shock linked to the pandemic. Over the past decade, it has accumulated significant budget and foreign exchange reserves, which provide the government some financial space as it copes with what could be a 60% fall in export income and a 30% fall in tax revenue. The Kremlin has used rouble devaluation to build up its reserves. It currently holds \$550 billion in gold and foreign exchange reserves and 10% of its GDP is held in the National Welfare Fund which can be used to help cover budget deficits when energy prices are low.

72. On the monetary side, Russia's Central Bank has cut interest rates and has the space to do so given its low rate of inflation. Rates were cut by 50 basis points in April. On 19 June, the bank announced an additional 100 basis point cut to 4.5%. So far, this has not triggered any substantial corporate investment activity due to broader economic uncertainty. Russia will continue to be plagued by a declining work force, overreliance on energy exports, outdated capital stock, poor governance, deep-seated corruption, and low productivity growth (Smith, 2020) and these factors put a cap on longer-term growth prospects.

73. Heightened global risk aversion, capital flight to quality assets, and a slump in oil prices have all contributed to an 11% fall in the Rouble since the beginning of the year. The unemployment rate rose to 5.8% in April and 6.1% in May from 4.7% and 4.5% in the same months of 2019, respectively (World Bank Group, 2020). In 2020, overall household consumption is expected to shrink by 4.9%, and gross fixed capital investment by 8%. Export contraction will have a particularly negative impact on Russian growth. Numerical forecasts for the period ahead, however, are highly uncertain (World Bank Group, 2020). From a low base in 2020, export growth is expected to pick up in 2021 on the back of higher global demand. But as suggested above, GDP levels are unlikely to return soon to pre-pandemic levels (World Bank Group, 2020).

74. Russia has had to wrestle with the economic fallout of the COVID-19 pandemic at a time when it faces a range of sanctions tied to its illegal occupation of Ukrainian territory and annexation of Crimea. Crimea has become a serious burden on Russia's budget, and the Kremlin will confront new pressures to reduce its spending on that heavily militarised peninsula, which is already suffering due to the pandemic, a fall in tourism, international sanctions and inadequate water supplies, among other things.

75. As of 22 September, Ukraine had registered 181,237 proven cases of COVID-19 and 3,642 deaths (Worldometer, Ukraine). So far, it has not managed to turn its case curve downward. The country has confronted shortages of critically needed medical equipment, including masks, protective suits, and ventilators. In early summer, it had 83 ventilators per million inhabitants compared with 302 per million in Germany (Miranda and Upton, 2020). Ukraine also lacks a critical mass of qualified medical personnel, and roughly 25% of its doctors are now at the age of retirement. The lack of medical and personal protective equipment has only undermined Ukraine's limited capacity to respond to the pandemic. As much as 20% of those infected by May were health care workers, and this dramatically undercut the system's capacity to provide care (*Médecins Sans Frontières*, 2020).

76. The crisis has corresponded with what was supposed to be the inauguration of a series of reforms aiming to streamline the country's medical system. That much-needed reform has slowed due to the crisis. War in its eastern regions has placed additional strains on Ukraine's underfunded national health system. Fighting continues between government forces and Russian-backed rebels in Donetsk and Luhansk.

77. According a recent survey by the European Business Association of Ukraine, 82% of companies surveyed have reported income losses, with 33% (mainly SMEs and independent businesses) having suffered losses of 50-75% (Nista, 2020). Low savings and inadequate budget financing have left Ukraine particularly vulnerable to the pandemic's economic shock. The government is forecasting a 4.8% fall in GDP this year. The OECD reports that the yield on Ukraine's long-term (2028) Eurobond has jumped 150 basis points, and this jump has all but locked Ukraine out of international debt markets. By mid-May, the Ukrainian Hryvnia (UAH) had fallen by 12% against the U.S. dollar since the beginning of the year (Miranda and Upton, 2020). Like many emerging economies, Ukraine has suffered from a "flight to quality" asset sell-off with investors moving money into Western bonds, equities, and cash to ride out the storm.

78. Ukraine has also been compelled to cope with significant foreign debt repayments in 2020. Negotiations with the IMF for financing were initially held up due to Ukraine's failure to move with sufficient haste on banking and land reform. But on 25 May, the government announced that those negotiations were near completion. The IMF board finally approved the loan on 9 June after the Rada adopted legislation to end a moratorium on the sale of agricultural land and to safeguard nationalised banks from efforts by former owners to regain control - two conditions of the IMF stand-by agreement (Pifer, 2020). Ukraine is expected to receive USD 5 billion over 18 months to help it cope with the pandemic. The IMF credit was needed before Ukraine could secure additional loans from the World Bank and the EBRD. It was generally felt that an IMF arrangement is needed to lower the risk of a sovereign default.

79. The European Commission has also signed a Memorandum of Understanding (MoU) with Ukraine on macro-financial assistance (MFA). It is part of the €3 billion MFA package that the Commission proposed for ten enlargement and neighbourhood partners to limit the economic fallout from the pandemic. The EU has mobilised an assistance package of €190 million in grants to help Ukraine respond to the health crisis and to mitigate socio-economic impacts (European Commission, 2020).

80. Ukraine's unemployment rate in 2019 was above 9% and the country has a relatively high number of informal workers, who are particularly vulnerable to the fallout from the pandemic as they do not have access to the same benefits as those working in the formal sector. Ukraine's economy already confronted a range of structural challenges prior to the onset of the pandemic. The situation now is significantly more dire because of the measures the government has had to take to contain the virus and the global recession which has undermined trade and demand for Ukrainian goods. In early March, the government imposed a three-week nationwide quarantine, closed schools, and blocked public events engaging more than 200 people. Ukraine's unemployment rate quickly shot up to roughly 15% (Duszynski, 2020). The serious economic downturn has meant that Ukraine needed greater external support to cope with the crisis both economically and medically.

81. In early May, the Prime Minister eased some containment measures while others remained in place. He warned that Ukraine would confront very serious economic problems even if the virus were not spreading in Ukraine itself. Covid-19 only adds to the considerable burden Ukraine currently shoulders as a result of the global economic crisis and the war in Eastern Ukraine. As much as two thirds of the assistance it has requested from the international community is slated to go to Eastern Ukraine where wartime conditions prevail.

82. Eastern Ukraine is a region in which many war weary inhabitants suffer from a range of health problems and are therefore more vulnerable to the ravages of COVID-19. Over 1.5 million people have been displaced in that region since 2014 while 13,000 have been killed in the fighting (Duszynski, 2020). As many as a million people made permitted contact line crossings each month to collect social and pension payments, to visit family or to work. Those crossings, however, are now closed. This demonstrates the degree to which the COVID-19 pandemic is worsening already deep divisions in Eastern Ukraine. International aid groups like the UN's refugee agency, UNHCR, and the International Committee of the Red Cross, ICRC, have been compelled to resurrect food and medical deliveries to help fight the pandemic in the warzone. COVID-19 testing there is unreliable, and there are obvious problems in tracking and tracing. Moreover, because of the poor health infrastructure, crowding out non-COVID-19 patients is pervasive, and this only adds to the public health disaster. Water supplies are also limited in the warzone and this undermines sanitary conditions and makes the region more vulnerable to the spread of disease in general and COVID-19 in particular (Hyde, 2020).

83. There had been some hope that the COVID-19 crisis might inspire Russia to help find a solution to this enduring conflict. The thinking here was that the combination of energy price falls, sanctions, medical emergency, and economic crisis would lead the Kremlin to conclude that the

status quo on Eastern Ukraine could not endure. It is worth noting here that in March, the UN Secretary-General Antonio Guterres called “for an immediate global cease-fire in all corners of the world”, “suggesting that “it is time to put armed conflict on lockdown and focus together on the true fight of our lives.” (Boychenko, 2020) Unfortunately, this has not transpired. Russia appears to have only doubled down on its Ukraine strategy. Its proxy forces continue to fight, and Western governments have not applied a great deal of additional pressure on Russia to change course. Between 4 and 24 March when both Ukraine and Russia were beginning to address the pandemic, 10 Russian troops were killed and 46 wounded, while 4 Ukrainian troops were killed and 24 were wounded. Shelling continued throughout the region.

84. In short, the security emergency in Eastern Ukraine has continued, and the pandemic has only made matters worse. Ukraine has no alternative but to defend its territory while Russia is engaged in a war of choice. But in ever-harsher economic, social, and medical conditions, the Kremlin may find it increasingly difficult to justify the sacrifices Russian people are making for an offensive and illegal war. President Putin, however, has demonstrated time and again that his personal political interests are tied to keeping this conflict simmering and unresolved (Pifer, 2020).

85. The three South Caucasus states registered their first cases of COVID-19 in late February and early March 2020. Armenia has the least developed health care system of the three countries and has suffered the worst consequences. It initiated a shutdown but ended it while the rate of infection was still rising. This, in turn, led to a sharp spike in infections. As of 22 September, it had registered 47,667 cases and 938 deaths (Worldometer, Armenia). The failure to contain the pandemic has had a range of adverse economic impacts, and Armenia’s GDP will fall significantly in 2020 not only due to the pandemic but also because of the sharp slowdown in Russia which is an important source of remittances as well as tourist and trade income. An enduring recession would likely undermine the Pashinyan government’s promise to engage in much-needed reforms (Pollakova, 2020). In May, the IMF forecast that Armenia’s GDP could shrink by 1.5% this year.

86. Azerbaijan is also burdened with a weak health care system and it used its security forces to impose a draconian lockdown to contain the virus spread. Still as of 22 September 2020, it had registered 39,378 cases and 578 deaths (Worldometer, Azerbaijan). As a major energy exporter, Azerbaijan is already feeling the impact of significant price falls. Energy generates 90% of the country’s foreign exchange earnings and its economy will fall by at least 3% in 2020 (Pollakova, 2020). The government has presented ten support packages amounting to AZN 2.5 billion (EUR 1.3 billion) to counter the pandemic’s adverse impact on the economy (Nista, 2020).

87. Georgia responded quickly to the COVID-19 crisis, but some government measures to contain the virus have imposed a high economic cost. The government, for example, banned all foreigners from entering the country and suspended flights with high-risk countries. The impact of these measures was immediately felt. Georgia is particularly vulnerable to reductions in trade and tourism and is forecast to undergo a fall in GDP of 5.5% in 2020. Of course, the cost of failing to contain the virus would have been far greater and so Georgia initially did well to contain the spread of COVID-19, although the case load more than doubled over the summer of 2020. As of 22 September, Georgia had registered 3,913 cases and 23 deaths (Worldometer, Georgia). To counter the increasing numbers of infections in Georgia, the government has undertaken a virus adaptation and management plan to minimise health risks to Georgian citizens and to ensure a rapid economic recovery.

88. The IMF Executive Board approved a disbursement of US \$200 million for budget support to help Georgia meet urgent balance of payments and fiscal needs linked to the COVID-19 pandemic. The European Investment Bank Group and the Bank of Georgia have signed a guarantee agreement of up to €60 million backed by the InnovFin SME Guarantee Facility. The InnovFin Guarantee covers 50% of every loan disbursed by the Bank of Georgia and targets small and medium-sized enterprises and mid-caps that require investment and working capital to finance research, development, and innovation activities (European Investment Bank, 2020).

89. Despite political tensions with Russia, Georgia maintains an important trading relationship with that country which accounts for roughly 19% of Georgian exports. Trade will be adversely affected by the Russian recession as well as slowdowns in Europe and Asia. The EU has offered an additional Euro 500 million in aid to Georgia conditional on it carrying out needed electoral reform (Pollakova, 2020).

90. The health care situation of the Russian-occupied territories of South Ossetia and Abkhazia are particularly vulnerable to COVID-19 as their access to aid is limited due to Russia's closure of the occupation line. The Russians have long sought to limit Georgia's influence in these regions, and so Tbilisi is not positioned to provide full support to the inhabitants, the care of whom Georgians see as part of their national responsibility. Prime Minister Giorgi Gakharia has said that Georgia "will do our utmost to protect the health of our citizens on both sides of the dividing line." (Visan, 2020). Georgia has opened the Rukhi General Hospital near the occupation line of Abkhazia region to treat inhabitants of the occupied region and has provided humanitarian assistance and worked with doctors in the region to help tackle the spread of COVID-19.

91. The onset of the pandemic has coincided with some interesting developments regarding the Russian occupied region of Abkhazia. Representatives of the occupation regime in the Abkhazia region recently signalled a readiness for contacts with the government of Georgia, while there has been no progress in resuming the work of Incident Prevention and Response Mechanism (IPRM) meetings in Gali which have been suspended for almost two years. This is a mechanism under the umbrella of the Geneva International Discussions in which Georgia, Russia, and representatives of the occupation regime in South Ossetia can discuss security matters. In May, however, authorities in Tskhinvali refused to accept Georgian or international support to prevent the spread of COVID-19 unless this aid entered through the Russian border (International Crisis Group, 2020). In aggregate, the pandemic itself is unlikely to induce a major breakthrough in this unresolved conflict. Russia has not stopped its provocations in the midst of the current pandemic, but rather has intensified the so-called borderisation process, continued to kidnap, illegally detain and, in some cases, shoot innocent people, and has obstructed medical evacuation to Georgia. Russia has also spread destructive misinformation about Georgia's Richard Lugar Center for Public Health Research that is a part of Country's National Centre for Disease Control and Public Health. The laboratory has been a target of Moscow's propaganda campaigns for years, but the disinformation attack has mounted in the midst of the COVID-19 pandemic. Russian media has propagated the blatantly false narrative that the center was a source of the Coronavirus outbreak and that it has developed pathogens for military purposes.

## VII. CONCLUSIONS

92. NATO member governments should continue to insist upon respect for international law in the Black Sea region, including the principles of independence, sovereignty and territorial integrity, and the United Nations Convention on the Law of the Sea, including freedom of navigation. This position aligns well with the stance of the EU and its nonrecognition of the illegal annexation of Crimea.

93. Along these lines, NATO member governments and parliaments should maintain the sanctions regime on Russia. In no way should Russia's serious violation of international law be normalised. To the contrary, Moscow should pay a high price for these actions. Indeed, Russia has only ratcheted up tension in the region since the illegal annexation of Crimea, for example, by employing military force against three Ukrainian vessels and their crew in the Kerch Strait and Black Sea in November 2018. NATO needs to reinforce deterrence in the region to protect allied littoral states. By working toward NATO spending and investment goals, allied nations will enhance their capacity to carry out these essential functions. NATO should also enhance support for key

partners like Georgia and Ukraine, which in turn, need to remain focused on genuine democratic reform.

94. The effort to build flexible energy infrastructure in the region and throughout Europe should continue to minimise the capacity of any one power to cut off energy or use energy to exercise diplomatic suasion. Diversification strategies should include ambitious efforts to move toward sustainable energy, the building of LNG port facilities, and nuclear power among other things. Of course, increasing energy efficiency can be a highly effective way to enhance energy security and obviously has enormous environmental benefits.

95. The EU can do much to enhance connectivity on the Black Sea, for example by supporting a Black Sea underwater electricity transmission line between Georgia and Romania; and establishing shipping and ferry connections on the Black Sea linking Georgia, Bulgaria, Romania and Ukraine. Such efforts could advance the goals of peace, cooperation, and development. Diversification of international transportation routes and international trade echo the priorities spelled out in the EU's neighbourhood policy, in particular, the Eastern Partnership and the EU Strategy for Central Asia. An initiative launched by Azerbaijan, Georgia, Romania, and Turkmenistan in March of 2019, which aims at developing the Black Sea-Caspian Sea Freight Transport Corridor connecting the EU with the Central Asia, would also be welcome.

96. Allied countries also need to counter Russian disinformation campaigns in the region and should adopt more forceful communications policies for doing so. Exposing Russian disinformation campaigns can help bolster democratic forces in the region. Most of this work, however, must be done by the region's civil societies and governments. NGO's like Ukraine's STOPFAKE empower citizens to be more discerning in the face of mass disinformation campaigns designed to unsettle fragile democracies and national solidarity. In transition societies, in particular, this can be a pillar for building trust and instilling democratic commitments to truth and democratically controlled governance.

97. Despite serious tensions in the region, cooperation efforts are needed where possible. The BSEC, for example, continues to uphold the principle of fostering dialogue and achieving agreements on matters of shared concern among the countries of the region. Shipping, environmental stewardship, and fisheries policies are areas where dialogue among all littoral states will continue to be needed and welcome. Building a sustainable "blue economy", for example, is in the interest of all the countries in the broader region. This was reaffirmed at a Bucharest ministerial meeting of the littoral countries and a Moldova meeting in May 2019 following similar meetings in May 2018 and May 2019. These ministerial meetings all demonstrate that there is room for region-wide cooperation in maritime affairs and fisheries, with the aim of building a sustainable blue economy (The European Council, 2019). Shipping matters, however, are likely to remain tricky as Russia has undertaken myriad policies aiming to hinder free access to international waterways. Its positions on these issues need to be steadfastly challenged in order to uphold the principle of free access to international waters. The international community should join with the littoral countries to advance and defend these principles.

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