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THE BLACK SEA REGION: ECONOMIC AND GEO-POLITICAL TENSIONS

Draft 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 civil conflict and a welter of clashing interests that conspire to hamper trade and investment in the region. Russia's ongoing conflict with Ukraine is 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 enjoy greater security and a higher level of economic growth as a result. 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 judges that it is better to have border lands paralysed by tension, civil war, and frozen conflict rather than 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 occupied Transnistria in Moldova in 1991, 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 its military presence along the Black Sea, most apparently in Crimea, which has been massively militarised since the occupation.

5. In all of these occupied regions, human rights violations have soared, and already weak economies have grown significantly more fragile under the heavy hand of the Russian state and the kind of corruption it tends to nourish and instrumentalise. Western sanctions in response to Russian aggression have also hit these economies.

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 is, by contrast, quite compact in its opposition to Russia's aggressive revanchism in its embrace of Western norms and values and enjoys a high level of institutional development, the Black Sea is far more divided, 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 also provides one explanation for why Russia has moved with such aggression in the region.

8. Indeed, even the region's NATO members – Bulgaria, Romania and Turkey – have significantly different views of how best to engage and deter Russia. They also align differently with those non-NATO countries that have been most affected by Russian aggression, namely Georgia and Ukraine (Joja, 2019). While both of these countries have long-term aspirations for EU membership, they are particularly focused on deepening their ties to NATO precisely because both are victims of ongoing Russian aggression. Georgia and Ukraine both recognise NATO as a powerful deterrent to any future Russian aggression.



Map of the region – Source : <http://ontheworldmap.com/oceans-and-seas/black-sea/>

II. RUSSIA: FROZEN CONFLICTS, REGIONAL MILITARISATION IN THE BLACK SEA, AND CORRUPTION

9. 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, September 2019). It has effectively declared the Azov Sea an internal waterway, and its military build-up aims to turn

the Black Sea into something approaching an internal waterway – a development that is utterly opposed by other littoral countries and the international community in general. But opposition to Russia's grand scheme is not the same thing as achieving a unity of purpose, which continues to elude the littoral countries. This has had spill-over effects within NATO. More effective strategies are 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, as well as reaching out to and supporting partners like Ukraine and Georgia is also essential. On many of these fronts the European Union can also make an important difference.

10. Russia's challenge to the Black Sea region is not simply military in nature. The Kremlin is clearly engaged in an effort 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 war, economic pressure, and hybrid tactics in different ways in different littoral countries to foster doubt and uncertainty about Western goals and practices, and to promote the notion of Russia's allegedly benign intentions. It is also engaged in a mission to discredit the most important currency of the West: its commitment to democratic values. It has used all manner of subterfuge to undermine public trust and confidence in core democratic institutions in the region, including elections and judiciary systems, and has unrolled disinformation campaigns, corruption, organised criminal networks, propaganda distributed by Kremlin controlled media, social media, and cyber-attacks to further these aims (Spaulding et al).

11. These kinds of campaigns have helped foment discord even in the most developed democracies in the West. Their impact on newer, more vulnerable democracies has had even more adverse consequences. This is a shared challenge for 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, Russia plays on anti-Western sentiments in some sectors of that society while seeking to exacerbate differences between government and opposition. In Ukraine and Georgia, the disinformation campaign is significantly more intense and seeks to promulgate the notion that Western democracy is a hoax, that NATO is an aggressor and an unacceptable option for these countries, and that, in the end, there is no viable alternative to submission to Russian political and economic hegemony.

12. Of course, there is an alternative and it is very important that the West ensures that this far superior proposition is kept alive. This is as true in the Black Sea Region as elsewhere in the West.

13. 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 and even works assiduously to pit NATO members against each other. It sees any dissension within NATO over its role in the region as a victory, and its policy aims to achieve as many small victories as possible as long as these contribute to its greater long-term ambition of undermining Western coherence and solidarity.

14. Russia's illegal occupation of Abkhazia and South Ossetia, and its subsequently illegal annexation of Crimea marked a critical juncture in the post-Cold war strategic evolution of the Black Sea Region. Russia's overt aggression has injected enormous tension into an already

divided region, and that tension, in turn, has had a range of adverse political and economic consequences. Russia's seizure of Crimea and the significant upgrading of its military presence on that large peninsula has turned the Black Sea into a far more strategically unstable and dangerous region.

15. Russia has deployed very sophisticated and powerful anti-access/anti denial systems on the Peninsula that give it a powerful hand in thwarting NATO efforts to project force in 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 falsely has claimed as territorial waters (Brzozowski, June 2019). Those actions represent an important violation of the concept of Freedom of the Seas, which is a pillar of the international legal order and parallel 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).

16. 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).

17. Russian aggression with regards to Ukraine and Georgia 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. With Turkey, it has a more nuanced approach as Turkey is a strong regional actor which, by virtue of the 1936 Montreux Convention, controls access to the open seas through the Bosphorus and Dardanelles Straits. That convention also imposes limits on non-littoral naval war ships operating in the Black Sea and effectively denies the deployment, for example, of Western aircraft carriers in those waters as they exceed treaty dictated tonnage restrictions. One of the impacts of the convention was effectively to cede to the Soviet Union a dominant naval position in the Black Sea, although the Convention also limits its capacity to move its Black Sea fleet into the Mediterranean.

18. Russia, however, must contend with Turkey because of its important role in as the guardian of the straits and because 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 and security experts have not welcomed either initiative.

19. Russia's regional military build-up has 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 place 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 squelch alternative suppliers, its ambitions will more likely be fulfilled.

20. 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 population of that peninsula 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).

21. 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 placed a burden on 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. That 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.

22. Crimea's economy has become dependent on significant subsidies from Moscow, which range between USD 1 billion and 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 welcomed the annexation as an act of patriotism. That said, Russia's Public Opinion Foundation recently reported that only 39% of Russian citizens believe that the 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, the occupation has isolated the economy and has resulted in several rounds of US, EU, and Canadian sanctions. Russia now seems to be looking to the East and South to help Crimea build new markets as it has lost access to its natural Ukrainian markets.

23. 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 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.

24. The Russian occupation has transformed Crimea from a region with the potential for economic development to an isolated military redoubt dependent on Russian transfer payments, which now plays a key role in a Russian project to project force throughout the entire Black Sea region. The number of naval personnel in Sevastopol doubled from 12,500 in 2014 to 25,000 in 2017, and the number of naval ships based in that port has increased significantly.

25. Russia has also constructed an anti-air anti-access bubble that is extremely worrying to its neighbours in the region and to NATO itself which is now compelled to factor in this build-up in its own defence planning. But it is not only this build-up that concerns other governments in the region, it is perhaps more important that Russia 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).

26. Obviously, Ukraine has suffered an important loss as a result of this occupation. It 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, and have, for example, risen from an average of seven hours in June 2018 to more than five days in

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 of the ports 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 the Kerch Strait in November 2018.

27. That Russia itself is now subject to a range of sanctions has further undermined the potential of the region. Russia's tit for tat response has only increased the cost 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 Centre for Economic and Financial Research and the Russian Presidential Academy of National Economy and Public Administration (The Moscow Times, 2019). In January 2020, the United States placed new sanctions on Russian-backed officials in Crimea and a railway company connecting Russia with the 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.

28. 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 meant that Russia has not come close to achieving its potential, which has consequences not only for the Russian people but also for Russia's neighbours. Russia's failure to carry out an effective liberal economic transition has meant that it relies on carbon energy exports to generate income for the state, which, in turn, expends an inordinate amount of that wealth to underwrite military adventurism rather than invest in the country's economic future. This dynamic seems unlikely to change over the medium term and other countries in the region need to factor in this sad circumstance in both their economic and security planning. For NATO, this poses a security challenge and requires the implementation of an active deterrence strategy for the region as a whole.

29. Of course, the region would confront other challenges even without Russian adventurism to contend with. Corruption, for example, has long constituted a barrier to economic development in the Black Sea region. It is, of course, 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 that problem. Russian leaders chronically fail to recognise wealth generating international commerce as an end in itself and consistently subsume economic relations to strategic ambitions. Accordingly, 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 many purposes. It not only creates a compliant political class in neighbouring countries, it also helps Russia undermine the narrative of good governance in Western democracies. The Russian propaganda machine then engages in massive disinformation campaigns to hammer this message home.

30. 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 falls. 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. Despair in the Western project mounts even in societies that have long been enthusiastic about their membership in the Western community of nations – membership that was achieved through

exceedingly hard work and societal dedication to democratic liberal market values. It nourishes the growing perception that Black Sea societies are ruled by oligarchs determined to undermine the kind of meritocratic promises that make democratic governance possible. Those despairing of growing 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

31. 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 the greatest concern here as well. It has not only seized territory in violation of international law, but it has also outright 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.

32. 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 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 annexation of Crimea has not only proven a boon to Russia's military forces in the Black Sea region, it also meant that Russia now claims sovereignty over energy rich waters while depriving Ukraine access to assets that are rightfully its own (Joja, 2020). Moreover, Russia's military expansion in the Black Sea, like its intervention in the Syria conflict, can both be interpreted as elements of a greater strategic ambition to control Europe's access to vital energy supplies.

33. 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. 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. Throughout the Black Sea region, a kind of great game has been unfolding for some time, and its most visual expression may well be the network of pipelines laced throughout the region and under the region's waters.

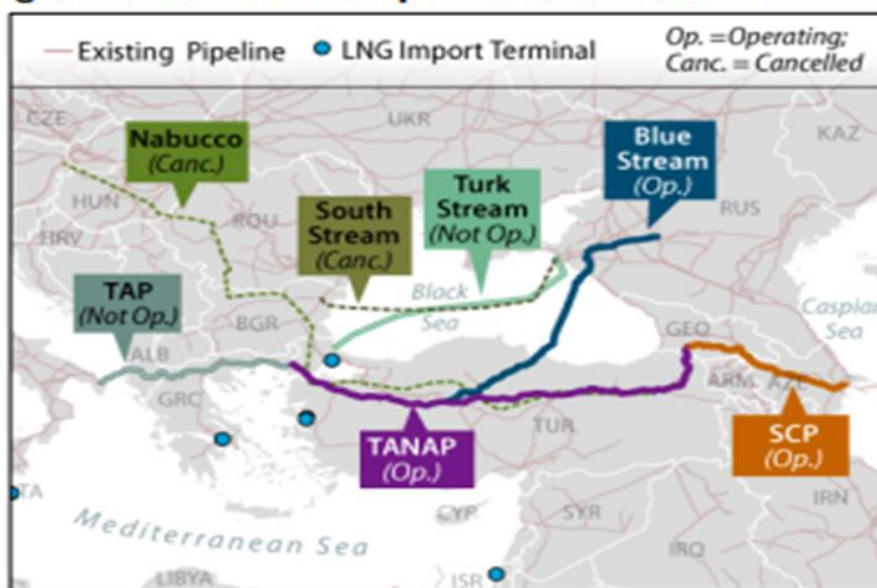
34. Inaugurated in January 2020, the TurkStream gas pipeline running from Russia through the Black Sea to Turkey is emblematic of the security dimensions of pipeline architecture in the Black Sea region (Figure 1). The idea for this 930km length pipeline project gathered momentum after the 2014 cancellation of Russia's South Stream project, launched in 2007 to transport Russian natural gas across the Black Sea to Bulgaria and further 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.

35. This Gazprom-led venture is viewed as a counterweight to the Western-backed Southern Gas Corridor project (SGC) (Congressional Research Service, 2020), an initiative launched by the European Commission 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 TransAnatolian Pipeline (TANAP) that runs through Turkey, and the TransAdriatic Pipeline (TAP) now under construction that will link Greece and Italy.

36. The problem is that with Nord Stream 2 soon set to go online and 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 problem 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).

37. Blue Stream is the world's deepest undersea pipeline and carries natural gas from Russia to central Turkey. Prior to the opening of Blue Stream, which became operational 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.

Figure 1. Southern Europe Gas Infrastructure

Source: Gazprom, edited by CRS.

38. 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.

39. Russia remains the most important supplier of natural gas to Europe, with exports to Western Europe accounting for roughly two fifths of total supplies. That supply is less secure than it once was, as three times since 2014 Russia has cut off gas flowing through Ukraine (The Economist, 2019). Estonia, Finland, Latvia, Lithuania, and Bulgaria are among the most dependent on Russian gas in the EU and Russian behaviour constitutes a direct risk to their national security and economic well-being.

40. About 80% of Russian natural gas exports to Europe transit the Black Sea region, and Turkey is the second-largest gas export market for Russia. According to the US Energy International Agency, Turkey's natural gas dependency on Russia is roughly 70-80%, although some Turkish sources suggest that this is dramatically overstated (Furuncu, 2020). Beyond meeting domestic energy needs, Turkey is also aiming to establish itself as a major transit energy hub. Half of the Russian gas transiting through the newly completed TurkStream pipeline between Russia and Turkey will go to Turkey, and the rest will move into other European markets including Bulgaria and Serbia.

41. Turkey, however, is not only working with Russian suppliers. The 1,841 km Trans-Anatolian Natural Gas Pipeline (TANAP) is the central portion 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 project thus moves a substantial amount of non-Russian gas directly to Europe and is generally seen as enhancing European energy security.

42. Although the Black Sea has become a vital route for moving crucially needed energy to Europe, it has also become 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. Russia's illegal accession can thus be seen as part of a broader effort to undermine Ukraine's plans to develop a domestic conventional and unconventional energy and gas industry and eventually to wean itself off of dependence upon Russian gas by 2020 (Umbach, 2014).

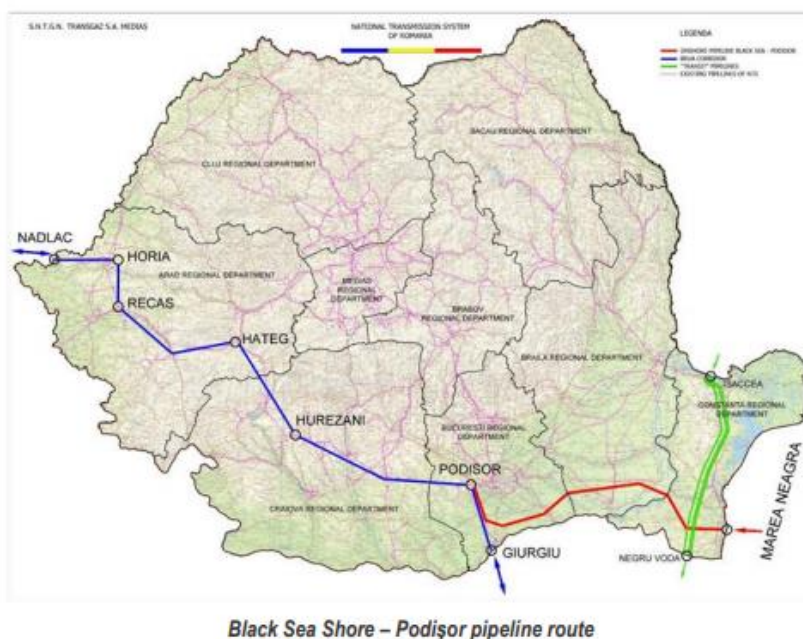


43. Moreover, as the Black Sea is a key transit corridor for energy resources, Russia's militarisation of these waters has endowed it with a greater capacity to disrupt the flow of energy to Europe. Maritime security in the Black Sea is thus inextricably linked to broader energy security challenges. 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. The 2019 incident on the Strait of Hormuz, a vital shipping route for the Gulf oil trade, and Iran's repeated threat to close that Strait in the event of a military attack by the U.S., is a timely reminder of how control over energy transit routes can be used as a weapon.

44. It is worth noting that three percent of the world's oil – primarily from Russia and the Caspian region – transits the Turkish Bosphorus and Dardanelles Straits, as well as substantial amounts of Russian and Kazakh grain (Yackley, 2016). 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 a vulnerability even in strictly geographic terms. But they become more of a concern, for example, at a moment of heightened Russian-Turkish tensions arising out of the conflict in Syria.

45. 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 interconnections 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. It will include a 308.4km long 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 Vlasin area, and the interconnection point with the gas compressor from Podisor station located west of Bucharest (Industry Europe, 2019).



46. 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 (PCI) are eligible for EU financial support through the Connecting Europe Facility (CEF) program (European Commission, 2017).

47. 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 that country can now handle reverse flows, enabling much greater flexibility in deliveries compared to just two years ago (Harrison and Princova, 2015).

48. Although 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 to Turkey without shipping it through the Bosphorus. There are believed to be reserves of up to ten billion barrels in the region, and a number of companies are exploring underwater oil and gas reserves. In 2012, the Romanian well, Domino 1, represented the largest discovery of gas ever tapped under the Black Sea. Significant drilling projects have also

been underway off the Bulgarian and Turkish coasts as well. Some of the world's largest 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). Geopolitical risk is another factor 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 of Naftohas Ukrainy, Chornomor Naftohaz, 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 claims 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

49. There is, of course, a gap 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 early years of the post-war transition, 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 several non-member countries aspire to deeper relations with the EU including Turkey, Georgia, and Ukraine, although for various reasons, membership for any of the three is not likely soon. Turkey itself is a major regional power, a NATO member and a centre of gravity in its own right. Russia, of course, is the strongest military player in the region and is 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.

50. 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 focused on petroleum trade, while the Bulgarian Ports of Vrna and Burgas and Constanta in Romania play critical roles in linking their respective countries to European and global markets. Istanbul is obviously the critical port through which all sea-borne commerce in the region must pass, and the Danube links this entire region deep into the Balkans, Hungary, and Austria.

51. With so many countries along the littoral even more dependent on access to these waters, regional cooperation and some degree of 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.

52. 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 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 Caucuses – a region of 325 million people engaged in USD 187 billion of annual intra-regional trade. BSEC seeks to build cooperation across a range of fields including

trade, transport, energy, small and medium business, finance, organised crime, customs, digital technologies, education, environmental protection, healthcare and pharmaceuticals, tourism, science and technology, and emergency preparedness.

53. BSEC organises its agenda around summit meetings in which Heads of State and Government of member states lay out the strategic direction of the organisation while 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.

54. In a sense, 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 BSEC. But this list of countries alone illustrates the problem of heterogeneity and conflicting interests. While there are strong economic reasons why the region's 350 million inhabitants would stand to benefit economically from deeper cooperation, rivalries and tensions simply prevent this from happening.

55. While the end of the Cold War opened new opportunities for integration, it also unleashed forces that would revive old divisions. Regional conflicts in the Balkans, Moldova, Abkhazia and South Ossetia, Nagorno-Karabakh, Chechnya, Crimea, and the Donbas fluctuated between violence and frozen conflict, but all have injected uncertainty to the regional outlook and put up new barriers to cooperation that organisations like BSEC simply are not positioned to overcome. 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 conflict values on matters such as human rights, social justice, democratic governance, and definitions of national security (Kunt Akin).

V. THE INTERNATIONAL COMMUNITY AND THE BLACK SEA

56. Two EU members, Bulgaria and Romania, border the Black Sea, and this automatically makes it a region of vital importance to the European Union. This is a critical part of the European neighbourhood, but it is also a borderland beset with friction and insecurity. The region's stability and prosperity are critical objectives for the EU, and its regional policies aim to contribute to both. The EU imports a significant share of its energy from the countries of the region, and this is slated to rise over the next three decades.

57. The EU also has a vested interest in cultivating close political and commercial ties with its neighbours and recognises their stability and democratic development as a core foreign policy objective of the Union as a whole. 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 both marine and maritime issues.

58. The EU has a clear stake in closer 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 Horizon2020 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.

59. 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 regional cooperation on border issues. The littoral countries have developed functioning maritime border cooperation through the Black Sea Border Coast Guard Cooperation Forum. This is coordinated 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.

60. The environment is another area where 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.

61. 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 went into a deep crisis. The command economies of the Warsaw Pact, of course, never factored the cost of pollution into the policy mix, and their legacy was one not only of misallocated resources but also of very serious environmental degradation. One of the great trans-national success stories in the Black Sea region has been a sustained effort to overcome this legacy. A critical part of the problem was nitrogen emissions into the waterways leading to the Black Sea. A major post-Cold War international effort to reverse these trends led to a decrease in nitrogen emissions of 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-fertilization 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).

62. Ten World Bank projects with support from the Investment Fund for nutrient reduction began to address the problem in 2002. The projects also engaged Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia, and Turkey, and included the introduction of wastewater treatment, the restoration of wetlands, restoring degraded land, and addressing the problem of land erosion and water quality monitoring among other initiatives. 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 other funds. It has proven a great success in restoring waters that were on the edge of dying.

63. 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 partner for Black Sea allies Bulgaria, Romania, and Turkey and for partners like Ukraine and Georgia. As such, US forces are a key element in Western deterrence in the region. The United States has also strongly advocated for sanctions on Russia as a price of its occupation of Crimea and for the 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 continues to see as part of Ukraine and continues to consider 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 a number of Crimean officials engaged in the Russian occupation of that peninsula.

64. NATO itself has been challenged to forge a common position in the Black Sea region because 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, which has recently become a matter of tension between Greece and Turkey. As this draft report has suggested, varying energy concerns and strategies are also a source of division despite efforts to cobble together European-wide approaches to energy security. Finally, the varying level of commitment to defence spending and defence investment is also a factor in determining NATO's posture in the region. All of this can condition collective approaches to critical regional security challenges including how best to respond to Russian aggression in Ukraine and Georgia and establish a credible deterrence posture that contributes to broader regional security.

65. In response to the Crimean invasion, cyber-attacks launched against Ukraine and other NATO member states, and the Russian attack 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, a number of 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, in particular, 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.

66. 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 based 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 helped build stability and cooperation premised on democratic values in Europe, and aspirant countries must subscribe to these values to advance their case for membership. 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

67. As this draft report has suggested, the Black Sea region 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 challenged the region in recent years. The region's resilience will be tested in a way it has not been before, and the political and economic impact will likely be felt long after the pandemic is over.

68. 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, and there is no doubt that the political, social, and economic resilience of the entire region is being put to a very serious test.

69. 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 certainly continue to shape Turkey's dialogue with Europe on the matter of sharing the refugee burden. As of 9 July, Turkey had registered 208,938 cases of COVID-19 and 5,282 deaths (Worldometer, Turkey, 2020).

70. For its part, 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 9 July, Romania has registered 30,789 COVID-19 cases, while 1,834 had died of the disease. Bulgaria, which has a population roughly three times smaller than Romania's, had 6,672 cases and 262 deaths (Worldometer, Romania, Bulgaria, 2020). Both have had to redirect precious resources to build in greater systemic resilience in the face of the pandemic, and each has had to do so at a moment of serious economic crisis. Romania has had many of its citizens working in both Spain and Italy, which have been two of the hardest-hit countries in Europe. These workers typically repatriate part of their earnings but the burgeoning economic crisis in Europe is sure to lower this important source of income.

71. 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 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 6 July 2020, Russia had registered 681,251 cases of COVID-19 and 10,161 deaths (Worldometer, Russia, 2020).

72. Russia's economy has taken a significant hit due, in part, 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 only exacerbated the problem. That dispute has since been resolved, and prices have stabilised, although at a low level of roughly \$40/barrel in early July 2020. The gas industry has been less affected by the pandemic, although prices have fallen here as well. By 29 May, spoke 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 remaining very low.

73. 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. 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, and this would strike at the heart of the Russian economy if it fails to diversify its industrial base.

74. 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 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, 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.

75. Russia's fiscal and monetary prudence has strengthened its capacity to weather the energy price shock linked to the pandemic. 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 aims to cover budget deficits when energy prices are low.

76. 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 resulted in any substantial corporate investment due to broader economic uncertainty. Indeed, Russia will likely 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 will put a cap on longer-term growth prospects.

77. Russia has also 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.

78. As of 9 July, Ukraine had registered 52,043 proven cases of COVID-19 and 1,346 deaths (Worldometer, Ukraine, 2020). 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. It currently has 83 ventilators per million inhabitants compared with 302 per million in Germany (Miranda and Upton, 2020). Ukraine also lacks qualified medical personnel, and roughly 25% of its doctors are now at the age of retirement. The lack of medical and personal protective equipment only undermines 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).

79. 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 been slowed due to the crisis. Ukraine's underfunded national health system has been further

undermined by the war in its eastern regions. Indeed, fighting continues between government forces and Russian-backed rebels in Donetsk and Luhansk.

80. Ukraine has also confronted significant foreign debt repayments in 2020. Negotiations with the IMF for financing had been held up due to its failure to move with sufficient haste on banking and land reform. On 25 May, the government announced that the negotiations with IMF were near completion. Ukraine is expected to receive USD 5 billion over 18 months to help it cope with the pandemic. The IMF board 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). 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.

81. 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 of 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.

82. 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 dollar (USD) 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.

83. 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. The virus 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.

84. 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 and 13,000 have been killed (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 are now closed. This is suggestive of 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 hygiene deliveries to help fight the pandemic in the warzone. COVID-19 testing in the warzone 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).

85. There had been some hope that the COVID-19 crisis might inspire Russia to show greater flexibility in finding 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 a conclusion 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 was overly optimistic thinking. 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.

86. 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. But President Putin has demonstrated time and again that his personal political interests are tied to keeping this conflict simmering and unresolved (Pifer, 2020).

87. 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 6 July, it had registered 28,936 cases and 491 deaths (Worldometer, Armenia, 2020). 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).

88. 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 6 July, it had registered 20,324 cases and 250 deaths (Worldometer, Azerbaijan, 2020). 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).

89. Georgia responded quickly and relatively efficiently to the COVID-19 crisis but some government measures to contain the virus have had an economic cost. The government 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 has done well to contain the spread of COVID-19. There has been a controversial debate on the matter of religious gatherings, and warnings from experts that these could become an agent of disease spread. That said, as of 6 July, Georgia had registered only 953 cases and 15 deaths (Worldometer, Georgia, 2020).

90. 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 the slowdown 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).

91. The health care systems of the Russian-backed territories of South Ossetia and Abkhazia are particularly vulnerable to COVID-19 as their access to aid is limited by their unrecognised status. 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. Georgia has opened Rukhi General Hospital near the dividing line with Abkhazia and 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).

92. The COVID-19 pandemic has coincided with some interesting developments regarding the Russian occupied region of Abkhazia. The de facto leadership of Abkhazia recently signalled a readiness for contacts through the Geneva International Discussions (GID) to resume the work of Incident Prevention and Response Mechanism. This is a way for Georgia, Russia, and the de facto local security officials to discuss security matters. In May, however, the de facto South Ossetian leadership reasserted its refusal to accept international support to prevent the spread of COVID-19 unless this aid passes from the Russian border (International Crisis Group, 2020). In aggregate, however, the pandemic itself is unlikely to induce a major breakthrough in these frozen conflicts.

VII. CONCLUSIONS

93. 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 policy stance aligns well with the stance of the EU and its nonrecognition of the illegal annexation of Crimea.

94. 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, it 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 continue 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. Finally, NATO needs to increase its support for key partners like Georgia and Ukraine, which in turn, need to remain focused on genuine democratic reform.

95. 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 are essential and 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 approach to energy security and also has enormous environmental benefits.

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 misinformation 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. BSEC continues to uphold the principal of fostering dialogue and achieving agreements on matters of shared concern among the countries of 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 a number of 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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