

## THE IMPORTANCE OF TRANSIT COUNTRIES IN ENSURING EU ENERGY SECURITY: THE CASE OF BALKAN REGION

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### ABSTRACT

European Union is characterized by a high level of energy dependency from Russia. In order to minimize dependence on Russia, the EU should strengthen its ties with other energy sources, where the Caspian region can play a key role. Access to new sources does not imply that the EU can meet its demands, because Russia will remain an important source of energy, but on the contrary, by diversifying the EU will be more 'immune' to pressure from Russia. Regarding the diversification of EU energy sources, the energy projects of transit countries play a very important role. The Balkan region, due to its geo-strategic position, can play a vital role in this matter. Security and stability is directly related to ensuring EU energy security. The case of Ukraine clearly shows the importance of transit countries in having energy security; therefore the EU should pay special attention to the potential and the importance of the Balkan region. The implications of the Trans Adriatic Pipeline project (TAP) will be analyzed as an integral part of the Balkans role in this regard. The data used in the context of this paper refers mainly to data International Energy Agency (IEA), British Petroleum (BP), European Commission (EC) and the TAP project.

**Keywords:** Energy security, European Union, Balkan region, TAP.

### CASPIAN REGION AS AN ALTERNATIVE OF ENERGY SOURCE DIVERSIFICATION IN THE EU

Due to its significant reserves of oil and natural gas energy sources, the Caspian region can play an important role in ensuring energy security for Europe and beyond, followed by a series of geopolitical implications.

Figure 2: Natural Gas Reserves, 2012 (tcm)



Source: BP Statistical Review of World Energy, 2012.

As shown by BP data, the Caspian region and the Middle East have an estimated total in natural gas reserves of 101.3 TCM. This amount is more than 3 times the Russian natural-gas reserves. If the Caspian region is presented as an alternative found of energy source to

Europe, natural gas in particular, this would effectively reduce Russian dependency. On the other hand, such an interaction between the EU and the Caspian countries would affect the security of these countries, for which "the main security problem is strengthening and ensuring political and economic independence" (Belet, 2014, 89).

Table 1: Natural Gas: Proved reserves & Production of the Caspian region

<i>Countries</i>	<i>Proven Reserves (Trillion cubic metres)</i>	<i>Share of Total World Reserves (%)</i>	<i>Production (Billion cubic metres)</i>	<i>Share of Total World Production (%)</i>
Azerbaijan	0.9	0.5	16.2	0.5
Kazakhstan	1.5	0.8	18.5	0.5
Turkmenistan	17.5	9.4	62.3	1.8
Uzbekistan	1.1	0.6	55.2	1.6
<b>Caspian region</b>	<b>21</b>	<b>10.8</b>	<b>152.2</b>	<b>4.4</b>

Source: BP Statistical Review of World Energy, 2014.

The total gas reserves in the four Caspian countries; Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan, constitute about 11% of proved global gas reserves. But as seen in the above data, the current production remains at low levels. Outdated infrastructure is one of the key factors in this respect. Therefore, possible assistance from the EU can bring mutual benefits to both parties. In the long run, these data on significant quantities of natural gas reserves in the Caspian region take an even greater importance since in coming decade's gas demand are thought to increase significantly. Thus, the XXI century is considered as the golden age of gas (IEA, 2011).

This will be a trend that will affect the majority of the globe, mainly China, India and the EU. Countries with substantial energy sources are developing a series of projects to enable safe transport of oil and natural gas towards consumer countries, making energy security the main variable in the energy policy of the XXI century (Belet, 2014, 91). In order to transport natural gas from the Caspian region into the European markets, a series of pipelines are designed to pass through several Balkan states territories. One of the main pipelines, which will transport gas from Azerbaijan into the European market, is the Trans Adriatic Pipeline (TAP).

### **THE IMPORTANCE OF TAP AND THE ENERGY SITUATION IN THE BALKANS**

According to the official site of the project, TAP is an energy project with a special significance, which will serve for the transportation of natural gas from the Caspian region to the European market. Connected to the Trans Anatolian Pipeline (TANAP) in the Greek-Turkish border, TAP will pass through northern Greece, Albania and the Adriatic Sea up to southern Italy where it will be connected to the Italian network natural gas. The project is still in the implementation phase and construction is scheduled to begin in 2016. TAP, as part of the Southern gas corridor will provide a direct and cost-effective passage to transport gas from the Caspian Sea to Europe. TAP is a project that includes a number of important companies, such as SOCAR, Statoil, BP, Fluxys, Enagas and Axpo.

The project's initial capacity will be 10 bcm per year, which is thought to double over time. Beside TAP's importance for the European market, this project will have a direct impact on transit countries. Greece, Albania and Italy will have strategic benefits from TAP, by insuring an important position in the European energy map. They will benefit even in other fields, such as tax revenues, employment and investment in areas where the project will pass. For

Albania TAP will be the largest Foreign Direct Investment up to date and will also affect EU integration through increased regional and geo-strategic importance. TAP also might improve the Albanian internal energy market.

Such a project will directly affect the diversification of EU energy sources and it will reduce Russian gas dependency, a necessary element for increasing the level of energy security for the EU. This does not mean that the EU will be independent of Russian gas in the future, but that it can serve as a tool to negotiate prices, to lighten Russia's monopoly and influence, and at the same time it would increase the Balkan's geopolitical importance. Since the reduction of gas reserves in the North Sea, one of the main sources of energy for Europe, the diversification of energy sources for Europe has become a necessity and the Caspian region can play a key role in this aspect. The planned energy projects, whereby gas will be transported from this region to Europe, will pass through the Balkans territory. This would increase the Balkans role and importance in the European energy map.

These projects will have implications on two main aspects; geopolitical and economic implications. Geopolitical implications are associated with the increased importance of the Balkans to the EU, which will serve as a motive for a greater approach between the two parties so as to have a full integration. On the other hand, regarding the economic aspects, it should be highlighted that since the Balkan countries are transit countries, they will have direct revenue as a result of taxes, an access to a power source with a more favorable price, a medium and long term employment etc. Geopolitical and economic implications will be associated with a direct impact on other aspects related to the stability, development and prosperity of these countries.

The situation in Ukraine and its consequences for ensuring energy security for Europe may serve to raise EU's awareness to the importance of energy in transit countries. For the EU, it is now clear that having an infrastructure for energy transport is a major element in ensuring energy security and it is directly linked to the stability of the countries from which this infrastructure passes, together with their political, economic, social and environmental problems. Taking into account all these elements, the EU should be careful in relation with the Balkan countries and it should have a clear and realistic integration strategy that would serve as an important instrument in this matter. In this way, the EU would weaken Russian influence in the region. Such a geopolitical composition will improve both the position of the EU and the Balkans in the international arena, and would have a direct involvement in ensuring energy security for the EU.

Among the key issues that Balkan states must confront are: high dependence on imports, low level of diversification of energy sources, outdated energy system, high losses in the network, and low level of regional cooperation and lack of long-term national strategies for ensuring energy security. Russia's strategies as the main supplier of energy, its monopoly position in the region, its use as a tool in the political sphere, and EU weakness to oppose Russian influence are important factors that have influenced this situation (Ralchev, 2012). Beside these issues, the Balkan countries have some geo-strategic advantages, which are not yet properly exploited. Balkans is situated in an area which serves as a bridge between energy producing countries and European countries that are major consumers of energy products. The advancement on the path of European integration and the planned construction of gas pipelines, which will reduce Russian influence in the region, will have direct implications for the Balkan countries and for the EU.

The power system in the Balkan countries, which continues to be mainly a state monopoly, is highly dependent on weather conditions and it needs investments that exceed the real possibilities of these countries. For this reason, privatization, market liberalization, regional cooperation, the EU and the USA support, and foreign investment would serve as effective tools to improve the situation. It should be clear to Western countries that the only way to reduce Russian influence in the region is a more concrete and tangible commitment from their part, where help in ensuring energy security will play a key role in this regard. In order to ensure energy security, the Balkan countries should strengthen their capacities in domestic output. Major oil refineries in this region are located in Croatia and Serbia. Albania and Macedonia have refineries for oil production; also Bosnia-Herzegovina has a refinery owned by Russia. Oil is imported from Russia via the Druzhba pipeline and by sea; while gas passes through pipelines from east Bulgaria and Hungary from the north. These are indicators of the Balkan energy dependence on Russia, which translates into a significant political and economic dependency. Russia has implemented its strategy by threatening to interrupt the power supply, the investments in the energy sector, the funding of political parties or individuals (Ralchev, 2012). By means of this strategy Russia manages to preserve and strengthen its influence in the region, in the energy sphere and also in the economic and political one.

By following such a policy towards this region, Russia manages to secure its dominion in the Balkans, it manages to maintain and strengthen its monopoly position in the energy sector, to impede market liberalization and diversification of energy sources in the Balkan countries. TAP Passing through Balkan territories is not a solution to these problems. If the project does not advance further through connections with other energy projects, then its importance for the Balkan countries would be minimal and, on the other hand, countries of Central and Eastern Europe will remain under Russia's energy dependence and will not have access to the energy sources of the Caspian Region.

Figure 3: Southern Gas Corridor



Source: TAP (<http://www.tap-ag.com/the-pipeline>).

In order to overcome these problems, the Balkan countries and the EU should cooperate in an intense and strategic way. This will be associated with mutual benefits for both parties. Among the main steps to be taken in this regard are: Firstly, the operationalization of the Southern Gas Corridor, part of which is also the TAP. This means that this corridor is connected not only with the Caspian region's energy sources but also with the Middle East and the Mediterranean sources. Secondly, the construction of natural gas storage infrastructure in Albania, TAP connection with regional networks and gasification of the

energy sector in this country. The construction of Ionian Adriatic Pipeline (IAP), which is designed to connect to the TAP, will have implications not only in the energy security of the EU, but also in the security of Central and Eastern Europe countries.

Thus, their dependence from Russian sources will decrease significantly, which implies minimizing the Russian influence in these countries. Although EU should be more present in the energy sector in the Balkans, it has taken some concrete steps in this direction which will have a great impact on long-term prospects of the region but also on the EU itself. The Energy Community Treaty of 2005, which was signed as an integral part of Athens Process, is a milestone in this regard. Its aim is the creation and establishment of common rules for the energy market in the region, by preparing it to become part of the European energy market.

## CONCLUSIONS

Due to considerable reserves of energy sources, mainly natural gas, the Caspian region can play an important role in fulfilling EU objectives. Access to EU countries in these sources will be achieved through the construction of gas pipelines, which will pass through the Balkans territories.

The Balkans has a very favorable geographical position, since it serves as a bridge between Europe and Asia. The benefits that can come to these countries in their role as energy transit are not only associated with economic benefits but also geopolitical benefits, by increasing their importance and role in the international arena. In other words, on one hand the Balkan transit countries will play an important role in ensuring energy security of the EU, but on the other hand they themselves will have some benefits.

Given the importance of the Balkan countries, given the experience with the situation in Ukraine, the EU should regard as a priority its relation with these countries. Stability, development and prosperity of the Balkan countries are EU's direct interest. The TAP project together with the IAP, under the Southern Gas Corridor, will serve as a way to reduce EU's dependency from Russian energy sources, thus ensuring energy security for the EU.

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