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Prospects for Development of Ukraine’s Energy Market as Part of the “Intermarium” Project

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Abstract

In the globalized world, the issue of establishing new forms of cooperation in Ukraine’s energy sector with the countries of Central Europe is becoming urgent. With this in mind, the prospects of the project of "vertical" economic integration from north to south, from Scandinavia and the Baltic to the Balkan countries with access to the Adriatic Sea have been considered. The project of the Baltic-Black Sea alliance that is made up on the basis of security motives and includes the development of energy cooperation has been analyzed. It has been proven that with its powerful energy potential, Ukraine is able to integrate into the energy space using its own resource base and diversify the supply of fuel and energy resources within the energy space on a competitive basis. The scientific concept of the polarized space for the region’s development with a resource potential for the development of Ukraine’s economy in the context of globalization and European integration has been proposed.

Keywords: globalization, energy security, gas, energy space

Introduction

In the context of the need to overcome energy dependence and ensure energy security, the diversification of the ways of supplying fuel and energy resources on the basis of market mechanisms is a challenge of immediate interest to Ukraine’s economy. Given the processes of globalization, the prospects of the „Intermarium” project should necessarily be considered by Ukraine for a strategic analysis of the opportunities and threats to its participation in the potential alliance. Practical projects related to the possibility of cooperation in the energy dimension, which Ukraine could join, is the integration of gas transmission systems in terms of construction of new LNG terminals.

In the current context, the development of the energy market requires new forms of cooperation among market actors and the search for investment sources for the development of own resource potential. Therefore, the development of guidelines on the formation of spatial poles of economic growth in determining the list of innovative technologies at the poles of the region’s growth within the

existing priority areas for the development of Ukraine's science and technology with the aim of improving the quality of the economic space, as well as proposals for the introduction of relevant indicators in the system of parameters of socio-economic programs for the development of the region and its territories in terms of the new cooperation of economic systems is a topical and debating point of the day.

When examining scientific research results of domestic and foreign scientists, it should be noted that the existing theoretical positions and the methodology for the formation of polarized space in the region's economy do not take into account the current peculiarities of development of a fair share of regions with poor economic space, in particular, the breadth and underdevelopment of areas, low density of energy resources, underdeveloped infrastructure, etc. The formulation of the issue of shaping a polarized energy space in regions of this type requires the development of scientific thought since it has high practical significance for multiple regions.

Current Threats to Ukraine's Energy Security

In recent years, the level of energy security has declined due to Ukraine's dependence on external monopoly suppliers of natural gas, oil and nuclear fuel; high energy intensity of the country's economic sectors, including the fuel and energy complex (FEC), as well as the social sphere; structural and price distortions of the country's energy balance; inefficient FEC management system; non-market and non-transparent relations in FEC, in particular administrative regulation of prices; cross subsidies between certain categories of consumers and FEC sectors; non-transparent privatization, monopolization of regional energy markets; payment crisis and poor financial condition of FEC; absence of state strategic reserves of fuel and energy resources (FER); inefficient state policy of energy saving and energy efficiency; destruction of scientific and technological potential and low innovative activity of FEC; high level of harmful impact of FEC on the population and environment, as well as the growing risk of manmade disasters from FEC's activity.

The Need for the Implementation of the „Intermarium” Project

Today, when two blocs of states – the European Union and the Eurasian Economic Union – have emerged in the West and East of Greater Europe, there is an urgent need to create a “middle” union – the Baltic-Black Sea alliance – composed of the states of Central and Eastern Europe, which could become a sub-regional component of the European Union and NATO.

The nucleus of the Baltic-Black Sea alliance could be a confederated state consisting of Ukraine, Poland, Lithuania and subsequently Belarus. The active participation of the Eastern European countries in the BBSU would meet the

interests of all European countries, since that would contribute to further strengthening of Europe as a powerful geopolitical center. On the other hand, the development of the BBSU would to a certain extent meet the American concept of strengthening the “young Europe” (Volovych, 2016).

The article “Another Achievement in the Development of the Intermarium 1 Infrastructure” (2018) states that Ukraine is ready to take part in the project of forming a new gas corridor Croatia –Hungary–Ukraine. This gas pipeline involves the use of the LNG-terminal capacities on the Croatian coast. The gas pipeline project is listed among the initiatives of the Croatian President Kolinda Grabar-Kitarović on the formation of the Central European vertical of cooperation “Adriatic – the Baltic – the Black Sea” and involves not only the organization of fuel supplies, but also the possible integration of the gas transmission systems of the region’s countries. The development of a common energy and transport infrastructure is one of the main dimensions in the integration processes aimed at achieving the integrity of the Intermarium.

According to (Cazzulani, 2016), the European Union has no common position on energy issues. Germany, Italy and France have close ties to the energy business in Russia, although the European Commission implements a policy of diversification in order to reduce the energy dependence of the European Union on Russian gas. The Central and Eastern European region calls for a common EU energy policy and opposes bilateral energy projects with Russia and some members of the European Union such as the Nord Stream 2. Together with the already existing first stage, the trans-Baltic pipeline system will have a total capacity of 110 billion cubic meters, bypassing Poland, the Baltic countries, Ukraine, and will increase the EU’s dependence on natural gas supplies from Russia. Given the crisis, the European Union requires thorough reforms in order to act more efficiently, choosing between two ways – regionalization and federalization. The Intermarium countries are highly interested in the implementation of projects aimed at improving energy security in Central and Eastern Europe through the implementation of the EU North-South Gas Corridor from the LNG terminal in Świnoujście in Poland to the LNG terminal on the Island of Krk in Croatia. The author (Cazzulani, 2016) emphasizes that the regional alliance of the EU member states of the CEE region cannot be strong and effective enough without Ukraine – the state that historically and culturally belongs to Europe and resists military aggression on its territory defending the European perspective.

Strengths of the „Intermarium” Project for the Development of Ukraine’s Energy Sector

Given its effective gas transportation system, Ukraine is a reliable transit link in the supply of natural gas and energy resources to the European Union. Fighting against the Russian army in the Donbas, Ukraine actually defends not

only its territorial integrity, but also the European borders. Thus, the Intermarium can be the fastest way to reform the European Union and promote the renewed Eastern Partnership, with the aim to integrate Ukraine into the Euro-Atlantic Community.

The project of the Baltic-Black Sea alliance has been created on the basis of security motives. Its strengths include:

- Favorable geostrategic and compact location of the Intermarium countries on the way of crossing transport and energy corridors, complementarity of economies, long historical contacts and interaction, simplification of doing business in the common economic space as part of common energy, logistics and infrastructure projects that will contribute to the region's economic growth;

- Revival of transit-transport, economic, energy, financial, trade and social cooperation among the countries of the Baltic-Black Sea region will enable them to enhance their economic and defense potential. In the economic dimension, the project of the Baltic-Black Sea Union can only be viable if it is an integrated part or subregion of Greater Europe and enjoys US support.

- Over the next few years, the Baltic-Black Sea region can become a zone of wide-scale trans-regional cooperation between the countries of Europe, the Caucasus, Central Asia and the Middle East. The efforts of the countries that will be included in the BBSU should be aimed at transforming this interstate union into a powerful regional structure, should foster the filling of its activities with real economic content through the formation of a free trade zone, implementation of common transport and energy projects, development of the Euro-Asian transport corridor, cooperation in the transport of Caspian, Iranian and Iraqi energy resources to the European market.

- The implementation of the Baltic-Black Sea union project will contribute to the activation of the TRACECA (Transport Corridor Europe-Caucasus-Asia) interregional program for the development of the transport corridor from Europe through the Black Sea, the Caucasus and the Caspian Sea with access to the countries of Central Asia and China. A very promising project is the restoration of the Silk Road along the route the Baltic Sea – Poland – Ukraine – the Black Sea – the Caucasus – Central Asia – China – the Yellow Sea.

- The creation of the BBSU can give a new impetus to the development of transnational energy projects in the space between the Baltic Sea, the Black Sea and the Caspian Sea. Among them is the idea of creating the Euro-Asian Oil Transport Corridor (EAOTC) on the basis of the Ukrainian Odessa-Brody pipeline (with a new line built from Brody to Gdansk).

- The installation of a transcontinental gas pipeline “Iran-Europe” through the territory of Ukraine.

- Among the promising large-scale Polish-Ukrainian common projects, special mention should go to the idea of joining the Ukrainian gas transmission

system (GTS) to the European North-South Gas Corridor through the construction of the Ukrainian-Polish interconnector, which will grant Ukraine access to the European gas market, as well as to the capacities of the Polish LNG terminal near Świnoujście (Volovych, 2016).

The Baltic-Black Sea union project could neutralize Russia's attempts to view the post-Soviet countries as a sphere of its special interests and play a messianic role in the post-Soviet space.

The Concept of a Polarized Space for the Development of the Region with a Resource Potential

The formation of geospatial structures of the global energy market is a manifestation of its polarization, with the scale of said structures determined by financial, investment, innovative, information and technology capacities, as well as the development of energy flows. Spatial polarization defines the global energy market polarization as an objective process of the formation of world centers and zones with different levels of concentration of energy potential and capital. For the concept of spatial polarization of the world energy market, the statement on the international division of labor is of paramount importance. The single global energy market, which has a heterogeneous spatial structure and features a three-tier pyramid "Center/Semi-Periphery/Periphery", results from the international division of labor and is affected by various factors. This model allows to proceed to the creation of logistics hubs, information technology parks, international investment projects, etc.

The Internal Platform of Measures to Counter Threats to Ukraine's Energy Security

Given the accumulated problems in Ukraine's energy market, the following ways to increase the level of Ukraine's energy security have been considered taking into account the Gimer's (2010) proposals:

- Reformation of property relations in the energy sector;
- Creation of a single operational and public system of strategic planning, statistics, monitoring of production and consumption of energy products;
- Formation of public balances of supply and demand for energy products both for individual regions and the country as a whole;
- Creation of state strategic reserves of oil, oil products, natural gas, nuclear fuel (natural uranium concentrate) and coal;
- Development of competitive relations in energy markets: liberalization of natural gas and electricity markets in accordance with EU principles;
- Establishment of market pricing rules for FER;
- Creation of favorable conditions for attracting effective investors for the modernization and development of FEC;

- Development of domestic power engineering, instrument engineering, energy design and construction and installation complexes on an innovative basis as a prerequisite for the competitive capacity of Ukrainian businesses in energy projects, including abroad;
- Optimization of the country’s fuel and energy balance through structural changes in the production and consumption of energy resources subject to a decrease in the share of energy-intensive industries and natural gas and an increase in the share of coal, increased use of nuclear energy, alternatives & renewables, as well as subject to FER supplies in foreign markets, the price and geopolitical situation;
- Elaboration of detailed mechanisms for the financial support of long-term programs for the development of all FEC sectors;
- Creation of a system of guarantees for the rational use of natural resources based on the observance of the country’s national interests and the preservation of resources for the generations to come; the formation of an energy-saving world outlook in society;
- Activation of exploration and increase in production of own energy carriers;
- Diversification of sources, suppliers, routes and ways of transporting energy carriers to Ukraine;
- Maximum utilization of the geographic and geopolitical location of Ukraine with the purpose of further development of energy transit systems both for the transit of energy products and for own energy supplies and advancement of the energy export potential (mainly by means of electricity through integration into the EU energy system and services for storing natural gas for the EU market);
- Active involvement in international energy projects, including the development of oil and gas fields and oil and gas infrastructure abroad.

Conclusion

For Ukraine’s energy market, the “Intermarium” project can be useful in overcoming threats to energy security as it allows for simplified business doing in the common economic space as part of common energy, logistics and infrastructure projects that will contribute to the region’s economic growth; enhancement of capabilities of transit-transport, economic, energy, financial, trade and social cooperation; implementation of common transport and energy projects, cooperation in the transport of Caspian, Iranian and Iraqi energy resources to the European market; as well as gives a new impetus to the development of transnational energy projects in the space and allows to neutralize Russia’s attempts to view the post-Soviet countries as a sphere of developing its own strategies using its influence in the post-Soviet space.

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