

# TPQ ROUNDTABLE

## A CRITICAL JUNCTURE FOR THE SOUTHERN CORRIDOR: WILL ALL PIPELINES LEAD TO TURKEY?\*

*TPQ convened a discussion on the Southern Gas Corridor (SGC) this Fall to assess geostrategic and economic dynamics of this route, for which the first foundations were laid in Baku on 20 September 2014. The speakers stressed the strategic importance of the SGC for European energy security in light of the impetus to diversify sources of natural gas imports and reduce energy dependence on Russia. The realization of the Trans Anatolian Pipeline (TANAP), which will carry Azerbaijan gas to Turkey and via Turkey to Europe, was identified as a development that renders Azerbaijan and Turkey new regional energy leaders. Speakers of the event also discussed the viability of additional natural gas resources from Azerbaijan, Cyprus, Iraqi Kurdistan, and Turkmenistan joining the SGC. The following analysis reviews the main arguments and comments made by the speakers and participants.*



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**O**n 15 November 2014, Turkish Policy Quarterly (TPQ) hosted a roundtable discussion in Istanbul titled “A Critical Juncture for the Southern Corridor: Will All Pipelines Lead to Turkey?”<sup>1</sup> The speakers, along with nearly 100 participants, discussed topical regional and global energy developments, including the state of Russian-EU relations, the current status of the Southern Gas Corridor (SGC), the possible threat that the Islamic State of Iraq and the Levant (ISIL) poses to the development of energy resources in the south, and relations between Turkey and the Kurdistan Regional Government (KRG).

### *The Southern Gas Corridor: Europe’s Salvation?*

All of the panelists identified the SGC’s strategic importance for the EU in light of Russia-West relations. Matthew Bryza, the first speaker and former US Ambassador to Azerbaijan, emphasized the specific significance for the EU by referring to the SGC as a “very clear signal to Moscow” that shows Europe is “going to take care of its own strategic interests on energy whether or not Russia likes it.” He stressed that this contrasts with the EU’s position in 2004-5, when the biggest European allies were reluctant to “stand up against Russian bullying in the region” because of their dependence on Russian natural gas imports.

Bryza, who is a member of the board of directors of Turcas Petrol, stated the strategic value of the SGC is undeniable, representing a clear reflection of the EU’s concerns regarding Russia’s reliability as an energy supplier. However, it should be underlined here that the 10 bcm amount of natural gas that the Corridor will be annually carrying to European markets by 2019 represents only around two percent of Europe’s energy needs.<sup>2</sup> Currently, as Director of Communications at BP Turkey Murat LeCompte stated, “the amount of natural gas that is being imported by Europe is 180 bcm annually.” At present, the EU is dependent on Russia for around 40 percent of its natural gas imports, which amounted approximately to 25 percent of its total natural gas consumption as reported by US Energy Information Administration (EIA) data.<sup>3</sup> Furthermore, as LeCompte noted, according to BP’s Energy Outlook Report for 2035, “Europe will need to import more than half of its gas requirements, which are steadily growing.”

1 This event was made possible with the sponsorship of BP Turkey and held in academic partnership with the Caspian Center for Energy and Environment (CCEE) of ADA University, and supported by the Trans Adriatic Pipeline (TAP). See the press release of the roundtable “A Critical Juncture for the Southern Corridor: Will All Pipelines Lead to Turkey?,” *Turkish Policy Quarterly*, September 2014, <http://www.turkishpolicy.com/article/1005/a-critical-juncture-for-the-southern-corridor-will-all-pipelines-lead-to-turkey-15-october-2014-istanbul/>; Complete video of the roundtable can be accessed at: <http://www.iqtv.tv/haber/genel/turkish-policy-quarterly-tpq-roundtable-discussion-part-1.aspx>

2 David Koranyi, “The Southern Gas Corridor: Europe’s Lifeline?,” *IAI Working Papers*, Vol.14, No.7 (2014).

3 “Annual Energy Outlook 2014,” *Energy Information Administration*, [http://www.eia.gov/forecasts/aeo/pdf/0383\(2014\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2014).pdf)

In light of this information, one can argue that at its current planned capacity the SGC will not contribute significantly to European energy security and the EU's aim to diversify away from Russia. However, as External Affairs Director of the Trans Adriatic Pipeline (TAP) Michael Hoffmann explained, instead of taking European energy needs as a whole, the focus should be on the downstream countries that the SGC will supply:

One of the things that is often asked is, does TAP makes a difference? If you look at the countries that TAP is going to supply – Greece, Bulgaria, Italy – actually it does makes a difference. That 1 bcm into Greece and Bulgaria represents approximately 1/3 of their gas demands.

Indeed, big European consumers such as Italy, the UK, and the Netherlands have well-diversified energy import options. However, Eastern European countries such as Bulgaria, the Baltic States, and Bosnia-Herzegovina are dependent on Russian natural gas. Bulgaria, for example, imports nearly 90 percent of its natural gas supplies from Russia. Considering its low levels of consumption, even 1 bcm of natural gas will make a significant difference.



Hoffmann also commented on how the current composition of SGC – South Caucasus Pipeline (SCP-X), Trans Anatolian Pipeline (TANAP), and TAP – makes economic sense. While acknowledging that “in a project of 3500 km long and involving seven countries, geopolitics cannot be ignored,” he asserted, “Politics does not necessarily build pipelines; you need customers, you need demand, and you need the ability to pay.” He backed his claim by stating that among all competing pipeline projects only the ones that are most commercially viable were selected to be built. This fact points to the important role of market dynamics in the energy sector. If decisions are not in correspondence with market realities they will fail, as exemplified by the

Nabucco project – the very first form that the SGC was envisioned to take. Tracing the development of the Southern Gas Corridor from its 2002 origins to 2019, when the first gas is likely to reach Europe, Hoffmann reiterated that it has been a “long, hard, and exciting journey.”

LeCompte summarized the progress that the SGC project has undergone, noting that it has evolved from “sheets of paper to sheets of steel,” which is a testament to the progress that has been made since the investment decision for the Shah Deniz II project was finalized. The materialization of the SGC – along with the expectation that supplies of liquefied natural gas (LNG) will come from the US to Europe within a few years, and the European Commission’s aim to establish a unified European energy market – can definitely be seen as an important step towards Europe’s goal of reducing its energy dependence on Russia.



### *The SGC and the Evolution of Azerbaijan’s Energy Policies*

Another topic taken up by the speakers was the significant role of Azerbaijan in the SGC, the only current supplier for the Corridor. Ambassador Bryza referred to Azerbaijan as an “economic miracle that happened because of oil exports.” He cited the decision to open its oil and gas sectors to international companies in 1994, dubbed the “Contract of the Century,” as a critical turning point in Azerbaijan’s foreign policy. In this sense, Bryza explained that natural gas is not only a source of revenue for Azerbaijan, but also a way for Azerbaijan to ensure its existence as an independent state. Being physically tied to Turkish and EU markets will solidify Azerbaijan’s sovereignty.

Elnur Soltanov, Chair of the Caspian Center for Energy and Environment (CCEE), argued that in the 1990s Azerbaijani authorities put the country's energy policy first in order to focus on its development, sometimes to the detriment of other foreign policy interests such as the conflict over Nagorno-Karabakh. He asserted that it was not possible to protect Azerbaijan's territorial integrity while investing in its energy policy. Azerbaijan prioritized building a strong energy policy, reckoning that investing successfully in its energy policy would serve the overall goals of the country in the long run.



Soltanov commented that former Azerbaijani President Abulfaz Elchibey's removal from power, and the unsuccessful *coup* and assassination attempts made against Heydar Aliyev in the 1990s, were a result of Baku's adamant pursuit of its energy policy. Indeed, the assassination attempt against Aliyev upon returning from signing the "Contract of the Century" in Washington has largely been perceived to be linked to Moscow.

In the 2000s, with revenues flowing in from energy developments, Azerbaijan was able to develop its international relations and human resource capacity to support its independence.

Explaining that the US had showed leadership during the Clinton administration (1993-2000) by supporting the Baku-Tbilisi-Ceyhan pipeline (BTC) project, Soltanov pointed out that the EU had not been successful in its advocacy of the Nabucco project for Caspian natural gas reserves in the 2000s. Soltanov then posed the question of which state is the leader now. For the first time, with SCP-X and TANAP, Azerbaijan and Turkey have emerged as leaders of energy development in the region, he argued. This has been possible because Baku has "more financial resources than ever," and because Baku-Ankara relations have settled on firmer grounds by now. However, he warned that assuming leadership means shouldering the burdens of managing the project as well, pointing to the fact that in the 1990s,

during the construction of BTC, it was the US who took the leadership position in dealing with the discontent of the multinational companies. It is yet to be seen whether Turkey and Azerbaijan as leaders will have trouble in managing the process.

During the lively Q&A session following the speakers' presentations, participants raised a number of topical issues, ranging from the implications of the situation in Kobani for the Turkish-Kurdish peace process, to the potential of Russia-China cooperation in energy exports. A participant raised a question regarding the role of democracy and human rights in cooperation between Azerbaijan and the West, asking whether the West is turning away from its core values in return for having a reliable energy partner. Bryza responded by stating that "for the energy companies the main concerns are 'can you build your project, can you earn your returns, can you get your product to market.'" However, he also pointed out that without democracy and human rights, political legitimacy cannot be ensured and long-term stability is at risk. Therefore, it is also in the interests of energy companies that political legitimacy based on democracy be established. Reflecting the complexity of the debate on these issues, Bryza pointed out that progress should not necessarily be expected to occur concomitantly. In other words, progress in economic cooperation should not be halted because of pending democracy and human rights problems; they may end up having to move forward at different paces.

### ***Will All Pipelines Lead to Turkey?***

In the final section, speakers discussed future development scenarios for additional gas supplies in the region. Murat LeCompte emphasized Azerbaijan's key role as the main supplier of the SGC, referring to the development of Shah Deniz II field as its "first mover." However, he noted that the SGC would need to receive additional natural gas resources besides the resources Shah Deniz II can provide. LeCompte clarified the potential for additional supply to be generated by Azerbaijan fields joining the SGC:

There are a few fields that are currently not developed yet in Azerbaijan; under Shah Deniz II there is another field we are calling Shah Deniz Deep. There is also another field that lies under current oil field Azeri-Chirag-Guneshli (ACG), which we are calling ACG Deep. There is Shafaq-Asiman gas field which we are going to be developing jointly with SOCAR in the coming years.

Hoffmann echoed LeCompte's expectations of Azerbaijan's future additional supply prospects. He reminded the audience that the Absheron Field, which is led by Total, along with partners GDF Suez and SOCAR, may be the source of additional gas to

feed the Corridor, adding that the “only reliable supplier [of the SCG] seems like Azerbaijan in the near future.” However, John Roberts, Energy Security Specialist and Senior Partner at Methinks Ltd., projected a different scenario, claiming that “the timeframe is not right for any immediate further addition to Azerbaijani supplies to or through Turkey.” He backed this claim by stating that there is a shortage of rigs in Azerbaijan currently that could provide further supplies. Even if the pace of development of new rigs accelerates, Roberts argued that the exportation of significant natural gas volumes from Azerbaijan to Turkey would not occur before 2025.



The speakers also assessed the prospects of newly discovered Eastern Mediterranean gas joining the SGC. Roberts claimed that chances are very low, presenting two main reasons: the Cyprus problem and the “outlines of an Israel-Egyptian agreement in which gas would go to fill the currently disused LNG plants that are being operated by BG Group.” George Stavri, Visiting Researcher at Dundee University’s Centre for Energy, took a closer look at the potential for Eastern Mediterranean natural gas to become a future supplier of SGC. Stavri was skeptical about this perspective. When it comes to Cypriot gas joining the SGC, Stavri underlined that a solution for the Cyprus problem, although unlikely in the near future, stands out as a prerequisite for the possibility of Eastern Mediterranean natural gas to reach Turkish coasts. Stavri elaborated on the problem:

We're stuck between these two different views of how to solve the Cyprus problem. The management of the energy deposits of Cyprus could be a joint, bi-communal arrangement, but it's really hard to do this with Turkish vessels just outside the southern coast of Cyprus. We need an "honest powerbroker" to do this and I don't think we have one at this point.

The Greek Cypriot public fears that Turkey would use any pipeline carrying Cypriot natural gas to Turkey as leverage against the Republic of Cyprus. This risk, Stavri explained, is a main obstacle standing in the way of Cypriot natural gas flowing to Turkey.

According to Stavri, it is highly unlikely that Cyprus will be a real energy player in the region in the next 5 to 10 years, as undertaking the project of developing its own resources is "overwhelming for the Republic of Cyprus."

Next, speakers assessed the viability of the Trans-Caspian pipeline which has the potential to provide up to 30 bcm of natural gas from Turkmenistan to the SGC. During the 2000s the project was shelved due to political reasons. However, Bryza projected that "a Trans-Caspian gas pipeline from Turkmenistan is now increasingly likely." Along the same lines, Roberts claimed that Petronas' purchase of Statoil's Shah Deniz stake could be interpreted as a sign of Petronas' intention to move towards including Turkmen Gas in the SGC. Roberts explained: "Petronas would be in a position to export some 5-10 bcm of gas westwards from its own Block One concession off of Turkmenistan's Caspian coast within a short time, if a Trans-Caspian gas pipeline were to be available to carry it 300 kilometers to the current entry point of the Southern Gas Corridor at Sangachal, near Baku."

He explained the reasons behind Ashgabat's rationale for exploring opportunities to export its natural gas to the West: "The prospective loss of sales to Russia had previously been the biggest commercial obstacle stopping Turkmenistan from transporting its gas westwards." Moreover, according to Roberts, the Turkmen administration's concern that China would end up being its sole export partner is one of the factors that pushed Turkmenistan to explore new routes through different markets such as Europe.

Roberts claimed that there is interest in both Turkmenistan and the EU for a route that could carry Turkmen natural gas to Europe. However, Russia and Iran's opposition to this prospect – using reasons such as the potential for an environmental disaster that building an underwater pipeline across the Caspian would create, the unresolved legal status of the Caspian Sea, and the issue of demarcation of the Caspian

Sea bed between Azerbaijan and Turkmenistan – constitute important impediments to the Trans-Caspian project, at least in the near future.

Moving on to northern Iraq’s potential as an energy supplier to the SGC, Bryza stated that while ISIL presents a threat to regional stability, for the major energy companies invested in Iraq, it does not change much. He claimed that although companies are pulling back their non-essential personnel from Iraq, investments continue to be made and the projects are moving forward. He also underlined that “energy exports from northern Iraq into Turkey not only matter commercially for Turkish companies, but are also important strategically as a way for Turkey to bring the Iraqi Kurds under its wing and thereby facilitate the reconciliation process.” However, Bryza raised several important questions, the answers to which will be decisive in determining the future of Turkey-KRG relations:

Could autonomy for Syrian Kurds undermine the sustainability of Turkey’s Iraq rapprochement policy? If things continue as they are, will this policy of normalization between Ankara and the rest of Turkey’s Kurdish population collapse? Will that be the end of oil exports and gas exports? Or, will Turkey act, as it has a chance to now, with its allies and prevent a genocide in Kobani?

Certainly, as Roberts also contended, the outcome of the situation in Kobani will shape relations between the Turkish government, the KRG, Turkey’s Kurdish population, and the Syrian Kurds. At the same time, Roberts pointed out that the KRG



is in “acute financial straits,” which will considerably slow the development of its fields, since the monetization of natural gas resources takes longer than the oil fields’ development. Combined with the present uncertainty of prices, these factors all put northern Iraq’s involvement in the SGC in question in the near future.<sup>4</sup>

Regarding Iran’s natural gas resources joining the SGC, Roberts emphasized Iran’s good prospects by touching on the managing partner at Atieh International Bijan Khaehpour’s analysis.<sup>5</sup> In his analysis, Khajehpour predicts a substantial surplus of Iranian gas production over domestic consumption within 18 months, thanks to its giant South Pars field. Nevertheless, Roberts stated, “For Iran, everything depends on the nuclear agreement and of course investment in getting gas from third parts to Asavaya, on the coast, and then to expanded pipelines – which cannot be done easily – up to Turkish border.”

### ***Conclusion***

As emphasized by many of the participants, the SGC is strategically significant. Nevertheless, for the SGC to reach its full potential there is still a long road ahead. Turkey sits at the center of the opportunity and many, if not all, of the related pipelines could end up leading to Turkey.

Turkey’s own natural gas consumption is expected to rise to 70 bcm annually from the current 45 bcm annually, according to the estimates made by the Ministry of Natural Resources of Turkey. And Turkey sits geographically in a location conducive for transit of supplies from the neighborhood to the EU.

However, it remains to be seen whether Turkey can maximize this potential; this will depend on how it manages its relations with its neighbours, how it situates itself *vis-à-vis* Russia-West relations, and how it grapples with conflicts in the region that it has little ability to steer.

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4 Stephen A. Elliott and Louis B. Beryl, “Natural Gas Development in Kurdistan: A Financial Assessment,” *Belfer Center*, 2012, [http://belfercenter.ksg.harvard.edu/publication/22787/natural\\_gas\\_development\\_in\\_kurdistan.html](http://belfercenter.ksg.harvard.edu/publication/22787/natural_gas_development_in_kurdistan.html)

5 “The Future of Petroleum Sector in Iran,” *Legatum Institute*, September 2013, [http://www.li.com/docs/default-source/future-of-iran/the-future-of-iran-\(economy\)-future-of-the-petroleum-sector-in-iran-pdf.pdf?sfvrsn=2](http://www.li.com/docs/default-source/future-of-iran/the-future-of-iran-(economy)-future-of-the-petroleum-sector-in-iran-pdf.pdf?sfvrsn=2)