

TURKEY AND REGIONAL ENERGY SECURITY ON THE ROAD TO 2023

The vision of being a top-10 economy in the world by 2023 implies that Turkey will undertake a remarkable economic transformation in the years to come. Supplying sustainable oil and gas for its booming economy over the coming decades will be one of Turkey's greatest challenges. As a result of its geopolitical environment, Turkey faces many important challenges and opportunities related to energy. Of these, the Southern Gas Corridor is most likely close to the top of the list. BP and its partners in Azerbaijan are developing a giant natural gas project, Shah Deniz Stage 2, which will open up the Southern Corridor and, for the first time in history, deliver gas from the Caspian Sea to Europe.

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It is often said that the big challenges in accessing energy resources are not below the ground, but rather, above it. Geopolitics has become the key challenge in access to energy supplies globally. According to the BP Statistical Review of World Energy, much of the world's oil and gas reserves are located in certain parts of the world: the Middle East, North Africa, the Caucasus, and the Commonwealth of Independent States (CIS) account for nearly 80 percent. If we look at countries in specific detail, six countries produce half of the world's oil, and three countries produce half of the world's gas.

On the other hand, the countries that consume these reserves are much more diversified. The supply of energy is critical for OECD countries in Europe and the Pacific region. The trading of energy supplies has become much greater in terms of volume and more global in its scope. The world's geopolitical situation has brought out a greater need for interdependence and cooperation between producer countries and consumer countries. As we all know from current events, accidents, military conflicts, and terrorist attacks cause problems for the supply and transport of hydrocarbons, especially in critical transit points.

Thus, energy security has become an important priority for many countries, since it is seen as vital for economies. Energy security has several different definitions, ranging from supply source diversification, to reliability and availability, to physical energy infrastructure security. To provide much needed energy to fuel economic growth, countries strive to achieve access to energy resources. This has become one of the cornerstones of the global economy. However, energy security does not always mean self-sufficiency. Many countries have realized that energy security can only be achieved through the use of open and transparent global energy markets.

Which brings us to Turkey. Most of us have witnessed Turkey's tremendous economic growth in the last 10 years. To be able to continue with its impressive track record, Turkey's fundamental need is to secure reliable energy to fuel its economic development. Turkey's demand for energy is increasing in line with its economic growth. To illustrate this, Turkey's Ministry of Energy and Natural Resources estimates that the country's demand for electricity will increase at an annual rate of six percent between 2009 and 2023, and that Turkey needs to make 120 billion dollars worth of investment in the energy sector to meet this growing demand. Similarly, Turkey's consumption of natural gas has grown dramatically over the last few years. With the country's vision of becoming a top-10 economy by 2023, it is clear that the strategy is to continue economic transformation and development. High economic growth, however, requires a high amount of energy consumption.

On the road to 2023, the centennial anniversary of the Republic of Turkey, one important imperative for Turkey is to have access to a local energy market that adheres to internationally accepted market principles. Introducing competition into the local energy market will allow consumers to receive right amounts of energy at reasonable prices. The recent draft law on natural gas liberalization, which was published by the Ministry of Energy and Natural Resources earlier this year, is a significant step in the right direction. Introducing more competition through market liberalization can potentially improve service, increase efficiency, and stabilize or reduce prices. Turkey, with strong prospects for growth, is an attractive energy market and increased liberalization will open up opportunities for new entrants.

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Turkey must import most of its oil and gas needs, usually from countries in the immediate region. With the country’s 2023 vision, one of the greatest challenges in the coming years will be supplying sustainable energy for its developing economy. According to statistics published by the Ministry of Energy, Turkey’s natural gas consumption will nearly double by 2030. This fact makes Turkey one of the fastest growing gas markets in the world. In the near region, the Caspian, and in particular Azerbaijan, has one of the largest gas reserves in the world. With such resources nearby, it is easy to assume that Turkey can access the necessary supply for its market. However, many challenges remain; among these are geopolitical considerations. Turkey, being located with a geopolitical advantage at the crossroads between Asia and Europe, has played its role in the region successfully so far. Turkey has also been successful at energy diplomacy, and being an influential trading partner with most of its neighbors. The next step is to ensure that the country has increased interconnections with both Europe and the Middle East and Caspian regions; and thus become the main route for energy transportation. This will mean that Turkey will not only be able to increase its supply sources, but also contribute significantly to Europe’s energy security.

While striving to improve its energy security on the road to 2023, Turkey, as a result of its geopolitical environment, faces many important challenges and opportunities. The Southern Gas Corridor is close to the top of the list. It is an important piece of Turkey’s aspirations to become an energy hub and a corridor, strategically placed

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between resources in the East and consumer markets in the West.

One reason why Turkey wants to play an essential role in supplying gas to Europe is to become an essential regional actor. The European Union will most likely import an increasing amount of natural gas in the future, due to its decreasing domestic production over the next few decades. Furthermore, it is expected

that natural gas will take on greater significance in the European energy mix. Given the rising demand in EU countries, Europe will have to import additional volumes of natural gas. It is important for EU strategic interests that gas from the Caspian region flows to Europe as promptly and efficiently as possible.

Over the last 20 years, Azerbaijan has built an impressive and successful track record as an innovative and reliable oil and gas supplier. Azerbaijan, Georgia, and Turkey host the well-known Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline, bringing Azerbaijan’s oil to world markets. BTC has proved to be one of the largest and most successful engineering projects in the world. Now, Azerbaijan is emerging as one of the world’s large natural gas producers, and has huge potential to bring a range of new gas sources to markets over the coming decades.

Turkey is the key to unlocking the significant gas export potential of the Caspian. This is an important time for both Azerbaijan and Turkey. The shortest route to Europe is through Turkey, which makes the country an important transit point. BP and its partners in Azerbaijan are developing Shah Deniz Stage 2, a giant gas project which will open up the Southern Corridor. In addition to Shah Deniz Stage 2, further gas sources in the Caspian will come online in future years.

Shah Deniz, discovered in the late 1990’s, is one of the largest gas fields in the world, and in fact, the largest in BP’s portfolio. Since 2006, Shah Deniz Stage 1 is producing nearly nine billion cubic meters of natural gas per year. This is consumed in Azerbaijan, Georgia, and Turkey, transported by the South Caucasus Pipeline (SCP).

BP and its partners are now working intensively to develop the Shah Deniz Stage 2 project for first gas delivery in 2018. The project involves drilling multiple wells, building two linked offshore platforms and facilities, constructing 500 km

of underwater pipelines, and expanding the current Sangachal Terminal. In addition to this work in Azerbaijan, the SCP pipeline will be expanded, and two brand new international pipelines will be built, to transport the gas across Turkey and into Europe.

End to end, it is estimated that the total cost of these projects will be over 40 billion U.S. dollars. The project will produce an additional 16 billion cubic

meters of gas per year (bcma) in addition to the Stage 1 gas. Six bcma of this will be sold to Turkey, while the remaining 10 bcma will be transported to European markets. It is this 10 bcma that enables the pipeline corridor to Europe to be established.

In June of 2012, the TANAP (Trans-Anatolian Natural Gas Pipeline) Inter-Governmental Agreement was signed between Turkey and Azerbaijan. This agreement provides the framework of how the gas will be transported across Turkey. And in June of this year, the selection of a European pipeline was finalized. The Trans-Adriatic Pipeline (TAP) will take the gas from Turkey's Western border, into Greek and Italian markets.

Led by BP, the Shah Deniz partners are working with the State Oil Company of the Azerbaijan Republic (SOCAR), reviewing the feasibility and plans of TANAP. TANAP is led by SOCAR, and is a strategic part of the Southern Corridor. It will play a key role in Turkey's development as a gas hub, taking the gas from Turkey's Georgian border in the east to the western border. As the operator of Shah Deniz, BP has agreed in principle to take a 12 percent equity stake in TANAP.

From Turkey's western border, TAP will deliver Shah Deniz gas to customers in Europe making up the last part of the Southern Corridor. TAP is devised to transport the Shah Deniz Stage 2 gas to Italy *via* Greece and Albania. The Shah Deniz partners decided on which European pipeline route to choose on the basis of eight previously published and transparent criteria. The criteria consisted of standard commercial, financial, and operational considerations, plus strategic considerations for the future such as expandability. The selection of TAP as the European pipeline for Shah Deniz gas is an important milestone in developing Stage 2. BP holds a 20 percent equity stake in TAP. Towards the end of 2013, the final investment decision will be made by the Shah Deniz partners that will kick-start the whole process.

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It is also important to understand that there are other prospects in the Caspian that will, in time, increase the amount of gas flowing from the region. Therefore, it is essential that pipelines built today to carry Shah Deniz Stage 2 gas be scalable for the future. The current ACG (Azeri-Chirag-Guneshli) oil field, which supplies most of the oil of the BTC pipeline, sits on a deeper reserve of gas which was discovered in the 1980s, a prospect called ACG Deep. In 2007 BP discovered another gas field lying right beneath the giant Shah Deniz gas field. In the future, SOCAR and BP will be exploring the Shafag-Asiman field. SOCAR has plans to explore fields named Umid and Babek. Total, one of the Shah Deniz partners, announced last year a discovery of significant amounts of gas offshore in the Absheron field. All of these discoveries and potential prospects show that there are many vast gas fields in Azerbaijan, which will come online in time as they are developed.

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Shah Deniz Stage 2 can be considered the “first mover” in a series of projects that will make a significant contribution to Europe’s energy security. It is the project that will open up the Southern Gas Corridor, a concept that has been discussed in international energy circles for many, many years. It also illustrates BP’s confidence in the potential of the Caspian region, and that along with our host governments and partners, we have

all the experience and capability needed to deliver such a project to the highest standards. Immense investment of resources and capability are required to build the Southern Corridor.

As BP, we believe that the governments of Turkey and Azerbaijan have a great vision for creating a new Silk Road in the region. We feel that BP can make a genuine difference in helping this vision be realized in several key areas: technology, investment, and experience. The Caspian Sea is one of the most demanding drilling environments in the world. With three drilling rigs now dedicated to the Shah Deniz field, we bring expertise to ensure that these wells are both safe and successful.

Shah Deniz Stage 2 will require substantial investment, in terms of both financial and human resources. The project will provide jobs for many people. Beyond Azerbaijan, the expansion of the South Caucasus Pipeline (SCP) and the building of TANAP and TAP will generate jobs across all the pipeline countries, such as Turkey, Greece, and Albania. On the financial side, such a significant investment

requires that the projects be coordinated in every way. Our experience in similar projects across the globe gives us background and knowledge that we will use to ensure very good communication and cooperation between parties. This is the primary reason that BP plans to take equity in TANAP, as well as its existing share in the Shah Deniz consortium, SCP and TAP.

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In terms of experience, BP has developed many major oil and gas fields in basins across the world. However, it is the substantial experience we have in the Azerbaijan, Georgia, and Turkey region that gives us genuine confidence that we can help realize the Southern Corridor project. In the past we have successfully developed the Azeri-Chirag-Guneshli (ACG) field, Shah Deniz Stage 1, and the BTC and SCP pipelines. The success of these operations today inspires us to take on tomorrow’s challenge of building the Southern Corridor.

According to the BP Statistical Review of World Energy, global energy demand growth will continue to come mostly from non-OECD countries. Most of the world’s energy will still be sourced from oil and gas and other fossil fuels, despite continued growth in renewable energy in the years to come. As more reserves are explored and developed availability, reliability and supply security will become ever more important. Projects like the Southern Gas Corridor will become increasingly significant. With these types of projects, multi-country cooperation is key; and development must result in a win-win for both producer and consumer countries, as well as exploring and producing companies. In this example, Azerbaijan will be able to export its gas economically and timely, and Turkey will be able to access another reliable energy source, transit the gas safely and securely, and contribute to Europe’s energy security.

BP and its partners in Shah Deniz are working towards a final investment decision of the Stage 2 project by the end of this year. The selection of TAP as the European transport pipeline was yet one more significant positive step towards this goal. There is still a lot more to do, but the timetable we are on and the progress we have made so far indicate the serious intent of all the parties involved. The next few months are crucial, as we work towards this investment decision. We are looking forward to the day when the Southern Gas Corridor will not just be lines drawn on a map, but a successful reality.



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