TANAP AND THE SEMI-ENCIRCLEMENT OF IRAN: PROGRESS AND PARADOXES IN TURKEY’S ENERGY DIPLOMACY

The Trans-Anatolian Natural Gas Pipeline (TANAP) will alleviate Turkey’s considerable dependence on its geopolitical rival Russia for natural gas imports. Ankara’s energy diplomacy to secure suppliers for TANAP besides its partner Azerbaijan has also succeeded in creating a framework to contain the influence of Turkey’s other geopolitical rival and second largest gas supplier: Iran. Turkey’s efforts to secure gas supplies from the Kurdistan Regional Government in Iraq and Turkmenistan have resulted in an arc of strategic energy relationships that constitutes Iran’s semi-encirclement. However, Turkey’s gains are susceptible to Iranian and Russian interference, likely prompting Turkey to mitigate the risk by attempting to reduce Iran’s threat perception by encouraging some form of Iranian participation in TANAP.

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The Trans-Anatolian Natural Gas Pipeline (TANAP) is a cornerstone of Turkey’s energy diplomacy and Ankara’s answer to the strategic paradox that 56.7 percent of Turkey’s natural gas comes from one of its principal geopolitical rivals: Russia. The central pillar in Turkey’s plan to diversify its natural gas supply mix, the 11 billion dollar TANAP project, is slated to transport natural gas from Azerbaijan’s offshore Shah Deniz field across the length of Turkey for sale in both Turkey’s domestic gas market as well as in the EU.

The product of Turkey’s far-sighted, strategic energy partnership with Azerbaijan, TANAP will initially transport 16 bcm annually from the Shah Deniz field’s second phase of development via the expanded South Caucasus Pipeline (SCPX) extending across Azerbaijan and Georgia to the Turkish border. However, TANAP will ultimately transport 60 bcm annually, with capacity expansion and the inclusion of additional suppliers. Building on its energy partnership with Azerbaijan, Turkey’s efforts to secure other suppliers for TANAP has also succeeded in creating a framework to contain the influence of Ankara’s other principal geopolitical rival: Iran. Paralleling the strategic paradox with Russia, Iran constitutes Turkey’s second largest supplier of natural gas, accounting for almost 20 percent of Turkey’s import supply mix. Turkey’s efforts to secure natural gas supplies from the Kurdistan Regional Government (KRG) in Iraq and Turkmenistan for TANAP has resulted in the creation of an arc of strategic energy relationships with states and political entities bordering Iran, effecting the virtual encirclement of Iran north of about 35 degrees north latitude. For Turkey, this is an important strategic gain in light of the expected expansion of Iranian regional influence with the anticipated lifting of international sanctions against Iran in 2016.

Although Turkey has made significant strategic progress against its two main geopolitical rivals through its energy diplomacy based on TANAP, this article suggests that paradoxes remain. Its geopolitical analysis of the proposed pipeline projects with Turkmenistan and the KRG reveal that Turkey’s gains are fragile and susceptible to interference from Iran as well as Russia. Turkey’s long term interests in supply diversification would be best served by using its temporary strategic advantage to mitigate the risk posed by Iran through measures aimed at reducing Iran’s threat perception of Turkey’s TANAP diplomacy. The article concludes that aside from engaging new potential suppliers (such as Israel), Turkish energy diplomacy is confronted with the strategic imperative to encourage some form of Iranian participation in TANAP.

1 In 2014, Turkey imported 27.3 billion cubic meters (bcm) from Russia; “Turkey unlikely to manage without Russian gas,” RT, 12 October 2015, https://www.rt.com/business/318354-russia-turkey-gas-erdogan/
TANAP AND THE SEMI-ENCIRCLEMENT OF IRAN

TANAP and Turkey’s Outreach to Iranian Frontline States

Against the backdrop of Russia’s 2014 annexation of Crimea, continued sponsorship of low-intensity conflict in eastern Ukraine, Black Sea naval build-up, and ongoing presence in the Georgian breakaway regions of Abkhazia and South Ossetia, the creation of a Baku-to-the-Bosphorus energy transportation corridor has assumed a new strategic urgency. With the September 2015 advent of Russia’s direct intervention in the Syrian conflict, placing a significant Russian combat presence on Turkey’s southern border in addition to its northern maritime border, this strategic urgency has become even more heightened. This is particularly the case as Russia’s gas exports to Turkey have become part of the diplomatic tug-of-war between Ankara and Moscow resulting from Russia’s military presence in Syria. At the time of writing, Turkey shot down a Russian fighter jet and the issue of Turkey’s Russian gas imports is likely to be at the forefront of the ensuing tensions. The gas supply diversification provided by TANAP, which will become operational in 2019, will ultimately allow Turkey greater freedom of maneuver in its energy policy options toward Russia.

In addition to the progress made in creating the opportunity to ease Turkey’s dependency on Russian natural gas, Turkey’s energy diplomacy based on TANAP has also achieved the significant strategic gain of creating an arc of energy relationships with the frontline states and political entities spanning Iran’s western and northern borders – the KRG, Azerbaijan, and Turkmenistan. Demonstrating a forward-leaning posture in its energy diplomacy, Ankara’s outreach will serve to curb the expansion of Tehran’s influence in the post-sanctions environment. While Turkey’s “frontline” energy diplomacy has accrued several advantages for Ankara; it has also led to a fundamental strategic paradox: More than Azerbaijan, Turkey’s leading alternative suppliers for TANAP are vulnerable to Iranian and even Russian interference.

TANAP’s long-term viability requires the participation of other states. TANAP’s export volume is expected to increase at least 1 bcm per year. Slated to transport 23 bcm by 2023, 31 bcm by 2026 and, with infrastructure expansion, ultimately 60 bcm.

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4 Through the oil sector, Turkey’s outreach has recently arrived to Iran’s eastern border with Turkish Petroleum’s agreement to invest in Afghanistan’s oil exploration efforts; Furkan Naci Top, “Turkish Petroleum to take part in Afghanistan oil search,” AA Energy NewsTerminal, 19 November 2015, http://aenergyterminal.com/news.php?newsid=6847356
TANAP’s increasing capacity has important geopolitical ramifications as the pipeline will need to transport gas from other regional producers besides Azerbaijan. If Baku continues to exploit its existing gas reserves at the current pace, it will completely deplete its reserves in 40 years. Therefore, despite facing price competition from additional suppliers in the short term, transporting gas from other nations via TANAP is in Azerbaijan’s long-term economic and strategic interests. Likewise, expanded gas deliveries to Turkey via TANAP are important for the Turkish economy, as Turkey’s consumption rate will likely continue to increase over the next decade.

Geopolitically, Turkey and Azerbaijan consider TANAP’s success a matter of vital national interest, albeit for different reasons. For Turkey, TANAP, as the transit route for new sources of natural gas to reach the EU, forms the foundation of Ankara’s strategic policy to become an international energy transportation hub. For Azerbaijan, TANAP is the foundation of Baku’s strategic policy to develop international stakeholders in Azerbaijan’s political sovereignty through the construction of energy infrastructure.

**TANAP and Turkmenistan**

Among Azerbaijan’s neighboring Caspian littoral states, Turkmenistan is an essential additional supplier, particularly if Iran does not transport gas through TANAP. With the world’s fourth largest proven reserves, Turkmenistan represents an important alternative source of natural gas for both Turkey and the EU as they seek to alleviate their dependency on Russia. Thus, Turkmen gas exports via TANAP form a critical policy objective for Turkey and Azerbaijan. Ankara has declared its intention to incorporate 5-6 bcm of Turkmen natural gas into TANAP.

The export of Turkmen gas exports to Turkey and the EU via TANAP involves the construction of a 5 billion dollar, 300 km undersea Trans-Caspian Pipeline.

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(TCP) between Turkmenistan and Azerbaijan. The TCP’s construction requires a political reconciliation between Turkmenistan and Azerbaijan, divided over the disputed Serdar (Turkmen)/Kyapaz (Azeri) hydrocarbon field located 145 km from Azerbaijan’s coast. Absent a boundary settlement, Baku and Ashgabat would need to either compartmentalize the issue or expediently agree to joint development terms.

An additional hurdle to the TCP’s construction is Turkmenistan’s traditional policy commitment to avoid involvement in external pipeline projects or assume any obligations for gas disruptions abroad.9 With Turkmenistan willing to do little more than deliver gas to its border, the TCP’s construction has required concerted effort from the other interested parties to advance the project.

To this end, Maroš Šefčovič, the European Commission Vice President in charge of Energy Union, participated in the 1 May 2015 Ashgabat quadrilateral summit of the EU, Turkey, Azerbaijan, and Turkmenistan. Resulting in the Ashgabat Declaration outlining the parties’ next steps for bringing Turkmen gas to Europe, the European Commission Vice President emerged from the summit asserting “Europe expects supplies of Turkmen gas to begin by 2019.”10 The summit also empowered the W-Stream Company, a reconfiguration of the White Stream Pipeline company, to carry the TCP project forward as the parties search for IOCs join a TCP consortium.11

The advances made toward the TCP’s realization, to a large degree, have been facilitated by Turkey’s continued mediating role between Baku and Ashgabat, which witnessed a major breakthrough with the convening of the first ever trilateral meeting of the foreign ministers of Turkey, Azerbaijan, and Turkmenistan on 26 May 2014. Focused on enhancing energy and security cooperation, the foreign ministers agreed to hold trilateral meetings biannually and develop a two-year “action plan.”12 Indicative of the effect on Ashgabat’s policy orientation, one month later Turkmenistan has recently shown signs of changing this policy, see: Micha’el Tanchum “ Turkmenistan Pushes Ahead on TAPI Pipeline – The Central Asia country is hoping to outpace post-sanctions Iran,” The Diplomat, 23 September 2015, http://thediplomat.com/2015/09/turkmenistan-pushes-ahead-on-tapi-pipeline/


Trans-Caspian Pipeline, http://www.w-stream-transcaspian.com/


“Turkmenistan represents an important alternative source of natural gas for both Turkey and the EU as they seek to alleviate their dependency on Russia.”
Turkmenistan’s President Gurbanguly Berdymukhammedov signed a decree to open an embassy in Georgia.\textsuperscript{13} With the declared goal to promote the further development of their Turkmenistan-Georgia relations, the action was an acknowledgment of the increasing importance of TANAP for Turkmenistan, as Georgia constitutes the critical transit state with the SCPX traversing Georgian territory to connect the western Caspian shore and TANAP.\textsuperscript{14}

From the development of high-level ministerial cooperation between Turkey, Azerbaijan, and Turkmenistan and the development of stronger diplomatic relations between Georgia and Turkmenistan in 2014 to the Ashgabat Summit in 2015, the TCP project has witnessed important diplomatic advances. Nevertheless, the greatest obstacle to the TCP’s construction remains Iran’s and Russia’s consistent opposition to the project. Iran has offered itself as a transit state for Turkmen gas to reach Turkey and the EU market.\textsuperscript{15}

Presently, Iran lacks sufficient capacity to transport commercially significant volumes of Turkmen gas and would have to undertake a massive infrastructure expansion requiring a minimum of five years, assuming Tehran obtained the prerequisite financing.\textsuperscript{16} While Iran may be incentivized to acquiesce to the TCP’s construction, it remains unclear whether Russia will relent in its opposition to the pipeline, particularly in the current climate of diplomatic confrontation with Turkey.\textsuperscript{17}

\textbf{TANAP and the KRG}

In contrast to Turkmenistan, a contractual agreement already exists for Turkey’s importation of natural gas from the Kurdish Regional Government (KRG) in Iraq. On 25 March 2013, Turkey concluded a commercial framework agreement for the


\textsuperscript{14} Hasanov (2014).


minimum annual import of 10 bcm from the KRG.\textsuperscript{18} Depending on the ultimate gas supply agreement to be concluded between Ankara and Erbil, the annual volume may reach as high as 20 bcm.\textsuperscript{19} The signatories to the commercial framework agreement were the KRG and the “private” Turkish Energy Company (TEC) that is wholly owned by Turkey’s state-owned gas company BOTAŞ. Construction on the Turkish segment of the pipeline, which will run from Bismil to Mardin and then to Silopi, located on the Turkish side of the border, has already been undertaken by BOTAŞ.

However, the gas pipeline faces severe security challenges on both sides of the border. Along the Turkish segment of the route, Silopi and other locations in the Kurdish-dominated Şırnak province, such as Cizre and Uludere, have been sites of severe civil unrest and Kurdistan Workers’ Party (PKK) militancy. On 29 July 2015, PKK militants bombed the Kirkuk-Ceyhan oil pipeline in the Cizre district near Silopi.\textsuperscript{20} The financial loss resulting from the attack on the pipeline, which transports oil from the KRG to the Turkey’s Mediterranean Ceyhan port, is estimated at 250 million dollars.\textsuperscript{21} During the period from 1 July to 17 August 2015, the Kirkuk-Ceyhan pipeline suffered a total of 501 million dollars in losses due to ongoing sabotage and theft.\textsuperscript{22}

Unrest in the region is ongoing. In August 2015, Turkish security forces battled to wrest several of Silopi’s districts from the control of PKK-affiliated urban youth militias barricaded with homemade trenches laden with improvised explosive devices.\textsuperscript{23} In September 2015, Mardin witnessed a PKK bomb attacks against police.\textsuperscript{24} In October 2015 in the run-up to Turkey’s November 1 parliamentary elections, both

\begin{quote}
"Turkey has created an arc of strategic energy relationships with the KRG, Azerbaijan, and Turkmenistan that is tantamount to the semi-encirclement of Iran."
\end{quote}

\textsuperscript{19} Turkey’s segment of the pipeline currently under construction has an annual maximum capacity of 20 bcm.
\textsuperscript{20} One day prior the Iran-Turkey gas pipeline was attacked in Doğubayazıt in Turkey’s Ağrı province on the Iranian border
\textsuperscript{22} Lee (2015). The flow of the pipeline was subsequently halted temporarily on 24 September 2015 due to an act of theft on the segment near Şanlıurfa.
Mardin and Silopi had been placed under curfew. The intensification of civil conflict after the elections suggests that additional measures to secure the gas pipeline will be required and Turkey needs to factor these measures into the overall cost.

Similar measures will need to be taken by the KRG along its segment of the pipeline. The 492 km highway route from Erbil to Bismil passes through Mosul. While the KRG segment of the pipeline will presumably circumvent areas controlled by the Islamic State of Iraq and the Levant (ISIL), the pipeline’s safety will be affected by the overall security environment in northern Iraq.

"Turkey has an interest in encouraging Azerbaijan to sell an equity stake in TANAP to Iran."

According to KRG law, the speaker of the Parliament, currently Yousif Mohammed Sadiq from the Gorran (Change) party, is supposed to become acting president. In October 2015, the ongoing peaceful protests against the KDP in Gorran strongholds turned violent with arson attacks against KDP offices. Sadiq has been prevented from attending Parliament sessions and social media was temporarily shut down.

At the time of writing, protests have become more widespread and reflect a general discontent with the functioning of the KRG. Both the main opposition party the Patriotic Union of Kurdistan (PUK) as well as Gorran maintain strong relations with Iran. Should the Barzani-led KRG not sufficiently accommodate Iranian interests, Tehran could shift the political balance in the KRG through increased support of the PUK and Gorran or by augmenting its military presence in regions controlled by the PUK.

Perhaps, the most important concern for Turkey is the 260 dollars per 1,000 cubic meters price it will pay for natural gas from the KRG. When BOTAS, through TEC, finalized its commercial framework agreement with the KRG, the average monthly price for crude oil was 102.61 dollars per barrel and BOTAS’ average gas

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27 The price is calculated by taking the simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh. “Crude Oil (petroleum) Monthly Price - US Dollars per Barrel,” *Index Mundi*, [http://www.indexmundi.com/commodities/?commodity=crude-oil&months=60](http://www.indexmundi.com/commodities/?commodity=crude-oil&months=60)
price was approximately 435 dollars per 1,000 cubic meters. However, the average monthly price for crude oil in September 2015 was only 46.29 dollars per barrel. Consequently, Turkey should be able to renegotiate a lower price. Given that the KRG’s energy relationship with Turkey provides the KRG with vital revenue for its survival, it is likely that Turkey and the KRG will arrive at a mutually acceptable accommodation.

Concluding Remarks

In seeking to diversify its import supply mix of natural gas through TANAP, Turkey has conducted some deft energy diplomacy with potential suppliers in addition to Azerbaijan. Ankara has facilitated the advancement of gas pipeline projects in Turkmenistan and the KRG. Through its energy diplomacy based on TANAP, Turkey has created an arc of strategic energy relationships with the KRG, Azerbaijan, and Turkmenistan that is tantamount to the semi-encirclement of Iran. While an important geopolitical gain for Turkey in advance of the expanded regional influence Iran is likely to exert with the 2016 lifting of international sanctions, these pipeline projects are subject to Iranian, as well as Russian, interference.

Because of the vulnerabilities inherent in the Turkmenistan and KRG pipeline projects, Turkey faces two strategic imperatives for its future energy diplomacy. To ensure its security of supply and diversity of import routes, it is in Turkey’s interest to pursue – if it can achieve a sufficient level of strategic confidence with Israel – the development of an undersea pipeline from the Leviathan natural gas field to Turkey. At the same time, to ameliorate the possible threat Iran poses to the realization of the Turkmenistan and KRG pipeline projects, Turkey has an interest in encouraging Azerbaijan to sell an equity stake in TANAP to Iran.

In April 2015, after the five permanent members of the United Nations’ Security Council plus Germany (the P5+1 nations) and Iran announced the Comprehensive Framework Agreement in Lausanne, Rovnag Abdullayev, the president of TANAP’s lead stakeholder the State Oil Company of the Azerbaijan Republic (SOCAR), acknowledged SOCAR was prepared to consider an Iranian bid for an equity share in TANAP after sanctions end. SOCAR previously announced its willingness to sell


29 Both Iran’s NIOC and Russia’s Lukoil are each 10 percent stakeholders in the second phase development of Azerbaijan’s Shah Deniz field.


up to eight percent of its 58 percent stake in TANAP to a new shareholder.\textsuperscript{32} Iran’s Ambassador to Azerbaijan Pak Ayeen indicated Iran’s interest in acquiring an equity share in TANAP.\textsuperscript{33} Turkey’s then-Minister of Energy Taner Yıldız subsequently declared Ankara’s openness to Iran joining TANAP.\textsuperscript{34}

Engaging either Israel or Iran, and especially both concurrently, will pose exacting challenges for Turkey. However, the strategic logic of Ankara’s heretofore successful energy diplomacy based on TANAP has made the option of engagement almost ineluctable.

\textsuperscript{32} “Iran May Hold Talks with TANAP Shareholders Putting Forward Useful Proposals,” \textit{APA}, 5 May 2015, http://en.apa.az/xebir_ambassador__iran_may_hold_talks_with_ta_226670.html; Kenan Yavuz, the chairman of SOCAR’s Turkish subsidiary SOCAR Turkey Energy announced that the subsidiary would purchase 7 percent of SOCAR’s stake in TANAP. Since this share remains within the SOCAR family of companies, the same percentage could be sold to Iran. See “Turkey Energy to Purchase Stake in TANAP,” \textit{Natural Gas Europe}, August 27, 2015, http://www.naturalgaseurope.com/socar-turkey-energy-to-purchase-stake-in-tanap-25173

\textsuperscript{33} “Iran May Hold Talks with TANAP Shareholders Putting Forward Useful Proposals” (2015).