

TPQ ROUNDTABLE: THE NEW GAME OF ENERGY IN TURKEY AND ITS NEIGHBORHOOD*

On 31 October 2012, Turkish Policy Quarterly (TPQ), in conjunction with the Friedrich Naumann Foundation (FNF), hosted a roundtable discussion on the evolving dynamics of energy politics in Turkey's neighborhood, which took place in Istanbul. The discussion aimed at enlightening how Ankara is playing its geo-strategic hand in relation to the energy power play, how the European Union's common energy policy is evolving, and how the prospective pipelines might affect regional politics. This article reviews the main arguments and points made by the panelists, as well as further issues raised by the audience.



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On 31 October 2012, Turkish Policy Quarterly (TPQ), in conjunction with the Friedrich Naumann Foundation (FNF) and with the sponsorship of BP Turkey, hosted a roundtable discussion titled “The New Game of Energy in Turkey and its Neighborhood.”

Speakers of the event were Matthew J. Bryza, former U.S. Ambassador to Azerbaijan and current Director of the International Centre for Defence Studies in Tallinn; Reha Aykul Muratoğlu, Head of Transit Petroleum Pipelines in the Ministry of Energy and Natural Resources of Turkey; and Jean-Arnold Vinois, Acting Director for Internal Energy Market of the Directorate General for Energy at the European Commission. The event was attended by journalists, academics, diplomats, energy investors, and civil society representatives.

In her opening remarks, TPQ’s editor-in-chief Nigâr Göksel, who chaired the discussion, pointed out that TPQ has been organizing roundtable meetings on the Southern Corridor annually, for the past three years. She noted how much had changed in the debates since last year’s event. At that time, the Trans-Anatolian Gas Pipeline (TANAP) project was barely on the agenda, transportation of northern Iraqi resources to Europe through Turkey seemed a distant prospect and natural gas reserves had not been discovered in the Eastern Mediterranean. The recent bombings of pipelines in Turkey also brought the issue of energy infrastructure security more to the forefront.

Indicating that regional geopolitical developments are intricately related to pipeline politics, Ms. Göksel noted that the discussion would try to bring into the fold Turkey’s relations with countries such as Russia, Azerbaijan, Iran, Iraq, Syria, and Israel. In addition to assessing recent developments regarding the Southern Corridor, she noted that this event aims to assess how Turkey is playing its geostrategic hand, how the EU’s common energy policy is evolving, and what role the U.S. might play for the realization of the Southern Corridor.

The Southern Corridor - Options and Challenges

Ambassador Matthew J. Bryza began his speech by stating that the Southern Corridor and TANAP are inevitable realities. TANAP makes commercial and geopolitical sense, he argued, for it would enable Azerbaijan’s natural gas, as well as possibly Turkmenistan’s offshore gas, to reach the well-paying European markets. Furthermore, once Iraq and Turkey’s natural gas needs have been taken

care of, the Southern Corridor can transport gas from northern Iraq to European markets.

Moreover, Bryza asserted that TANAP would strengthen the links between Turkey (as well as some of its key neighbors) and the Euro-Atlantic community. This would also mark a dramatic and historic shift in the geopolitics of Iraq. The only remaining questions are not whether, but how quickly the route will be completed, how it will be expanded in the future, and which route will transport this gas deeper into Europe.

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Bryza addressed the issue of which export route beyond TANAP –Nabucco West or the Trans-Adriatic Pipeline (TAP)– will be selected to carry the gas from Turkey into Europe. The Ambassador opined that Baku favors Nabucco West, because it “wants to develop an export route that goes as deeply into Europe as possible.” He added that Azerbaijan would like to have greater control over the export route as the key investor, otherwise it “may not be able to expand its production capacity, or may have less negotiating leverage.”

Ambassador Bryza also addressed the potential transfer of Eastern Mediterranean gas from Cyprus and Israel to Europe. He emphasized that Cyprus is in need of an affordable energy solution. The most economic export route would be from the Republic of Cyprus to the northern part of the island, followed *via* a pipeline to Turkey and into Europe through Greece. Such a solution could also catalyze progress on a political settlement of the Cyprus question, which is of great interest to the EU and Washington. The Ambassador admitted, however, that “economic interests will not drive a resolution of the Cyprus dispute, but it can offer a push.” Furthermore, in order for this idea to be developed, the current deadlock in Turkish-Israeli relations would need to be overcome.

Mr. Bryza moved on to explain three potential obstacles to Turkey’s energy security. His first point was loss of strategic focus. Different bureaucracies, he said, naturally have different goals. This is the case with Turkey’s state-owned oil and gas company BOTAS, the Ministry of Energy, and the Foreign Ministry. Nevertheless, the Ambassador said these institutions, along with the Prime Ministry, have

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made significant progress compared to a few years ago.

Ambassador Bryza identified the second obstacle as Turkey’s overdependence on Russia. To illustrate his point, he provided three key statistics: 33 percent of all energy consumed in Turkey consists of natural gas; the country imports 98 percent of its natural gas; and 57 percent of its gas imports come from Russia, with a majority belonging to Russian state energy company Gazprom. Bryza admitted that Gazprom has proven to be a reliable supplier; however, he asserted that this situation is a liability nonetheless.

The final obstacle presented by Ambassador Bryza concerned Syria. He began this point by emphasizing the significant and positive change in Ankara’s approach to the Kurdish Regional Government (KRG) in northern Iraq over recent years, an issue he elaborated on in depth in his article published in TPQ’s Summer 2012 issue.¹ That said, Bryza argued that this progress could be jeopardized depending on how KRG approaches the prospects of an independent Kurdish state in northern Syria.

Speaking about energy infrastructure security, Ambassador Bryza asserted that Turkey has “proven to be absolutely adept at repairing its pipelines.” Counting recent attacks, he said that the BTC pipeline had been bombed on 4 October, the Iran-Turkey pipeline was bombed on the 8th and again on the 18th of the same month. “Turkey is prepared for such eventualities,” Bryza argued, and this issue is “not a vital vulnerability for the country’s economic security.”

Mr. Bryza also addressed Iran and its relationship with Azerbaijan. Explaining that the latter is a “prosperous” country whose political system is “modernizing,” the Ambassador argued that as Azerbaijan succeeds, it provides a powerful guiding example for societal development for the people of Iran.

¹ Matthew J. Bryza, “Turkey’s Dramatic Shift toward Iraqi Kurdistan: Politics before Peace Pipelines,” *Turkish Policy Quarterly*, Vol.11, No.2 (Summer 2012), <http://www.turkishpolicy.com/article/809/turkeys-dramatic-shift-toward-iraqi-kurdistan-politics-before-peace-pipelines-summer-2012/>

Ankara's Priorities

Reha Aykul Muratoğlu began by explicitly stating that the Energy Ministry's first priority is to secure Turkey's energy needs in a timely and affordable manner in order to meet its citizens' demands. The second priority, he said, is to establish energy links between upstream and downstream interest holders.

Dr. Muratoğlu argued that Turkey's geo-strategic importance depends more on its ability to be a gas transit route rather than for oil. The latter can be transported relatively freely *via* land and sea, thereby less dependent on pipelines. Furthermore, Turkey is an expanding market for natural gas. In 2011, gas consumption was 44 billion cubic meters, estimated to rise up to 80 bcm by 2030.

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Summarizing the evolution of negotiations regarding the transport of natural gas from Azerbaijan to Europe through Turkey, Dr. Muratoğlu said that previously the demand side had been driving the pipeline processes. This was the case in the Interconnector Turkey-Greece-Italy (ITGI), as well as in Nabucco. With TANAP, however, for the first time, the supply country is at the forefront. For this project, Dr. Muratoğlu stated, two sets of agreements –i) intergovernmental agreement, between the governments of Turkey and Azerbaijan; and ii) host government agreement between project company and the government of the Republic of Turkey– were finalized over a period of six months. Subsequently, these two sets of agreements were signed on 26 June 2012, during which the leaders of both countries expressed their dedication to a stand-alone gas pipeline.

Dr. Muratoglu then moved on to recent developments concerning TANAP. He said Turkish participants in the project (BOTAŞ and/or TPAO) have started to negotiate the respective shareholders agreement, which will enable them to commercially integrate into the TANAP project company. On the other hand, soon the State Oil Company of the Azerbaijan Republic (SOCAR) will carry out negotiations with potential partners, the latter who are likely to be from among the Shah Deniz phase-II partners.

Dr. Muratoglu emphasized that the Nabucco concept is “not dead at all.” However, if the Shah Deniz partners decides to “go with TAP instead of Nabucco-West, then [progress] will slow down.” He added that Nabucco has a wider scope than its alternative, TAP, and may also involve Iraqi gas.

Dr. Muratoğlu also brought up the critical issue of sanctions against Iran. He stated that unlike the rest of Europe, to which there is no physical flow of Iranian gas, Turkey does not have the option to stop importing this gas in the near future. The reason, he said, is “Iranian gas forms 20 percent of natural gas consumption of Turkey, and Turkey is not in a position to leave this gas over a night.” It would be contractually and physically (supply security) problematic, he underlined.

Commenting on Iraqi gas, Dr. Muratoğlu argued that it is potentially one of the most important resources for both Turkey and Europe. Right now, Iraqi gas also plays a role in the market dynamics. “From a governmental perspective,” he said, “our expectation is to create more competition by using the Iraqi gas, which may give a message to other gas suppliers to Turkey such as Russia and Iran, with the exception of Azerbaijan since they provide the cheapest gas supply to Turkey for the time being.” Furthermore, Dr. Muratoğlu confirmed that nuclear energy is needed as a base load in electricity generation and therefore still on the agenda. At the same time, he added, enhanced usage of renewable sources and energy efficiency are still among the priorities.

Dr. Muratoğlu also explained what measures the Turkish government has taken in order to protect its energy infrastructure from terrorist attacks. He emphasized that one “cannot fully protect or minimize the risks to zero, as these pipelines stretch for hundreds of kilometers.” Dr. Muratoğlu said that permanent gendarmerie stations, and patrolling forces as well as private security forces, currently provide the security for these pipelines in a coordinated manner.

The EU perspective – Less Consumption, More Diversification

Jean-Arnold Vinois began his speech by noting that the consumer side is as important as the producer side in the energy issue. Indeed, Europe is the second largest gas consumer in the world after the United States. He mentioned the EU’s 2050 roadmap for energy, which outlines the trajectory of energy consumption

for the EU's the next 40 years.² “This is a subject which has created some irritation with Russia,” he said, “because the prospects for gas consumption in the EU are not that what they were expected to be.”

Mr. Vinois pointed out the three pillars of energy policy of the Union: reducing overall energy consumption; diversification of its energy portfolio – which includes the promotion of renewable energy sources; and finally, in light of global warming, decreasing carbon emissions. He added that the EU aims to create a competitive market of gas prices without monopolies. The importance of this was demonstrated in 2009 when gas flow to Eastern Europe through Ukraine was cut off. “Just ask Finland,” he said, “they are 100 percent dependent on one supplier,” which is Russia.

“The three pillars of energy policy of the Union: reducing overall energy consumption; diversification of its energy portfolio – which includes the promotion of renewable energy sources; and decreasing carbon emissions.”

Specifically, the EU aims to reduce its consumption by 20 percent before 2020. And, as Mr. Vinois explained, considering recent developments in renewable energy sources, such as solar and wind the EU could head towards these additional resources in order to satisfy its demand. He gave Germany as an example, which produces 50 gigawatts of energy from solar panels, equivalent to approximately 50 nuclear reactors. The use of alternative sources of energy depends, however, on whether more affordable options for natural gas will surface.

As for the EU's current energy portfolio, Mr. Vinois provided a breakdown: 35 percent oil, 25 percent gas, 16 percent nuclear, 16 percent coal, and 6-7 percent renewable. He added that the Union plans to decrease nuclear energy production as well as coal consumption. It also is looking to the Southern Corridor in order to expand its portfolio by importing up to 90 bcm.

Mr. Vinois also addressed the future of Nabucco. He argued that its big weakness was that it was driven only by consumers. However, Mr. Vinois added,

² “Energy Roadmap 2050,” *European Commission*, 2012, http://ec.europa.eu/energy/publications/doc/2012_energy_roadmap_2050_en.pdf

the Inter-Governmental Agreement (IGA) ratified in 2009 between Bulgaria, Romania, Hungary, Austria, and Turkey is valid for 50 years, thus the concept “lives legally.” Moreover, Nabucco West is currently being discussed, and “all that is being done for Nabucco is valid for Nabucco West.” He added that the TANAP pipeline “looks like the Nabucco idea for crossing Turkey,” and the project’s IGA ratified by Turkey and Azerbaijan in June 2012 has been “inspired by the Nabucco IGA [ratified in 2009].” Mr. Vinois stated that the EU has “always supported” the Nabucco concept for it is “solid in legal terms and benefits everybody.”

Mr. Vinois was asked how China and India could affect the energy security structure of the West. He referred to a speech by U.S. Secretary of State Hillary Clinton at Georgetown University, saying that it describes all the stakes regarding energy diplomacy.³ Mr. Vinois then contended “we need to go beyond competition for resources because at the end we will all have to address the issues.” Indicating that China and India are major consumers of coal, he asserted that it is “clear that China has a major problem of pollution,” and suggested that Beijing may switch to gas in the future, in which case they would rely on Turkmenistan. Mr. Vinois stressed, however, that the EU has a very “deep” and “good” dialogue with India and China. “We are not at war with them,” he said, “we are all competing for resources but in a civilized way.”

³ Hillary R. Clinton, “Energy Diplomacy in the 21st Century,” speech given on 18 October 2012, Washington, D.C., <http://www.state.gov/secretary/rm/2012/10/199330.htm>