

TURKEY IN THE UNFOLDING NEW CHAPTER OF THE BIG ENERGY GAME

The Russia-Georgia war, which sent shock waves across Europe, impacted regional geostrategic and energy calculations. Regarding gas policies, it not only increased the political engagement of the EU but also led to a readjustment in the Turkish, Azeri and Turkmen positions. In addition, the global economic crisis and the fall in oil prices might hamper Russia's "petroconfidence", and its assertive policies. Although recent developments seem to have played into the hands of Turkey, it remains to be seen how Turkey's aspirations to be a key player in global energy will unfold.

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The demise of the Soviet Union has unfolded a new chapter in the old great game for the vast energy sources of Central Asia and the Caucuses, making way for the entry of a new player in the game: Turkey. With the rise of the newly independent republics in the region with which it has cultural and linguistic ties, Turkey endorsed the strategy of making use of its geostrategic position to become a natural energy bridge and a transit point between the main oil and gas producing countries and the consumer markets in Europe.

Turkey inevitably became Russia's rival as its quest for being an energy bridge implied a central role in the efforts to break the Russian monopoly in the region. However, paradoxically the fall of communism has also led to intensive economic and political cooperation between Russia and Turkey, making the latter increasingly dependent on the former for energy supplies, especially with the construction of Blue Stream, the pipeline constructed under the Black Sea to carry Russian gas to the Turkish port of Samsun.

On the other hand, the construction of the Baku-Tbilisi-Ceyhan oil pipeline not only the first successful result of Turkey's strategy of becoming an energy bridge on the East-West corridor, but also a major blow to Russia's grip over the region's energy sources. Turkey's main ally in its regional energy policies has been the United States, the support of which has been significant in the realization of the Baku-Tbilisi-Ceyhan pipeline. Contrary to the U.S. stance, the majority of European countries and European Union have remained largely indifferent to Turkey's quest of providing an alternative energy route.

2006 Crisis a Turning Point in EU Energy Thinking

However the 2006 energy dispute between Russia and Ukraine proved to be an important turning point in European energy thinking. When Russia turned off the gas to Ukraine because of a pricing disagreement it sent shivers across Europe where customers are largely dependent on Russia to keep warm. Alarm bells were set off with the concern of whether Russia could be a reliable energy supplier.

From that time on, the European Union became increasingly focused on the Nabucco project, a planned natural gas pipeline connecting the Caspian region and the Middle East via Turkey, Bulgaria, Romania, Hungary, with Austria and further on with Central and Western European markets. The 3,300 km pipeline project is run by a consortium of Turkish BOTAS, Bulgaria's Bulgargas, Romania's Tansgaz, Hungary's MOL and finally Germany's RWE which only recently became a shareholder.

In 2004 the European Commission, the EU's executive body, had identified Nabucco as a priority project. But it took three years for the European Council, the EU's political body to officially endorse this identification and designate Nabucco as a priority project of European interest. As a concrete sign of its commitment the EU named former Dutch foreign minister Josias van Aartsen as the official European Commission coordinator for Nabucco.

EU Internal Divisions Stall Nabucco

However, the realization of the Nabucco project has been stalled due to the lack of common energy policy within the European Union and the fact that Turkey raised the stakes.

Suspicious about the feasibility of the Nabucco project, some EU member countries have not fully thrown their weight behind the project. The challenge of finding enough supplies for the pipeline that is planned to carry 31 billion cubic meters per year by 2020 led some to question the project.

The EU cannot count on the Iranian gas due to the standoff on Tehran's nuclear energy policies while Iraqi gas is also omitted from the short and medium term planning due to the security situation in the country. This leaves Nabucco partners with only the Azeri and Turkmen options. However, being extremely cautious on their energy cooperation with Russia, both have until recently been hesitant in committing their gas to Nabucco.

They were however not alone in their prudence in avoiding to antagonize Russia. Anxious about securing their energy demands, some EU member countries, including even those among Nabucco partners, also gave their backing to a rival project, the "South Stream" which envisages building a gas pipeline under the Black Sea from Russia to Bulgaria and then branching out to Austria and Italy. The South Stream together with the northern pipeline route under the Baltic Sea to northern Germany is seen as an option that would cement Russia's grip over the European gas market as well as its effort to undercut Nabucco.

Those EU member countries which were still inclined to trust Russia as a reliable energy supplier and doubting that Moscow would use its energy dominance as a political tool were answered with the Russia-Georgia conflict in the summer of 2008.

Although Georgia is also to be blamed for the conflict, Russia's disproportionate military assault was not just an answer to Tbilisi's policy towards the two break-away provinces. Russia's use of this opportunity to increase its military presence

in the region was also seen by many as a counter offensive to projects designed to weaken its energy monopoly.

War in Caucasus Accelerates Nabucco

Many analysts predicted that the war would increase doubts about the security of investing in a turbulent region, weakening the chances of Nabucco. But to the contrary, the war which sent shock waves across Europe has not just brought about an increased political engagement on the part of the EU; it has also led to a readjustment in the Turkish, Azeri and Turkmen positions.

By mid-2000s Turkey changed its rhetoric of becoming an energy transit point to an energy hub. In the minds of the Justice and Development Party (AKP) government, this roughly translates into refusing to contend with just taking a transit fee from the pipelines that cross Turkish territory. Eager to secure its own energy needs, Turkey wants to divert 15 percent of Nabucco's gas for cheap domestic use, a demand rejected until recently by the EU. Turkish pressure on Baku on the other hand to buy its gas for cheaper prices has angered the Azeri government which has been dithering between competing Russian and EU bids for its gas exports, crucial to bring Nabucco on line in 2012.

As their only export route, Russia has been buying Central Asian gas below international market prices. But recently the Russian gas company Gazprom has approached both Azerbaijan and Turkmenistan with an offer to buy their gas from international market prices. On top of that, Russia is also "offering a deal" regarding the Nagorno-Karabakh problem, a frozen conflict between Azerbaijan and Armenia. The latter has so far been enjoying clear Russian support in its standoff against Azerbaijan. By hosting a summit in November between Azerbaijani and Armenian leaders in Moscow, the Russian government tried to use Azerbaijani resentment about the recent Turkish-Armenian rapprochement in its quest to convince Baku for a gas deal.

Eager to get rid of the international pressure for the recognition of World War I killings of Armenians at the hands of the Ottomans, Turkish President Abdullah Gül's visit to Yerevan in September to watch a football match between the two countries' national teams started an official diplomatic process for reconciliation between the two long time foes. This in turn has angered Azerbaijan which has been counting on Turkey as a counterweight against Russia, further aggravating the negative atmosphere in energy talks between Ankara and Baku.

In addition to the stalemate over the price for future gas procurement, Turkey's Botaş's demand for a price hike in the transit fee for the Baku-Tbilisi-Ceyhan oil pipeline has brought the two countries' relevant companies on the brink of referring the issue to international arbitration, a move averted recently only with the intervention of the political leaders.

The talks have taken a different turn, however, in the aftermath of the Russian-Georgian war. While the Azerbaijanis have become more wary of Russian intentions, the Turkish side also fine tuned its negotiating position. In this sense, the visit of Andris Piegrabs, the EU energy commissioner to Turkey last November, seems to have opened the way for a breakthrough. While the EU appears to have become more sensitive to Turkish concerns over its own energy supply security, Turkey seems to have backed down from leading separate negotiations with Azerbaijan. The two sides decided to form the Caspian Development Cooperation which will lead talks with Baku on behalf of all the Nabucco partners. Work has also accelerated to sign the intergovernmental agreement by January next year, to set the legal framework among Nabucco partners.

Meanwhile, the trilateral summit initiated by Turkey between Turkish, Azeri and Turkmen presidents in Turkmenistan late November will further serve to break the ice between İlham Aliyev and Gurbanguly Berdimukhammedov, both of which inherited mutual distrust, a legacy of the late Azerbaijani President Haydar Aliyev and the late Turkmen President Saparmurad Niyazov. Berdimukhammedov became the first Turkmen President to visit Azerbaijan when he went to Baku last May and Aliyev responded by an official visit just before the trilateral summit.

The recent improvement in relations between Azerbaijan and Turkmenistan could solve their long-standing differences regarding the Caspian Sea's legal status and remove a major obstacle to the exploitation of Caspian Sea energy reserves which in turn could become the major source of supply for the Nabucco pipeline.

It remains to be seen what the reaction of Russia will be to these developments. The aftermath of the war, the global economic crisis and the fall in oil prices might hamper Russia's "petroconfidence", and its assertive policies. As news is out that President Gül envisages an official visit to Moscow in weeks ahead, it will not come as a surprise to see an offer on the table to revive the idea of constructing a parallel pipeline to Blue Stream.

The project called Blue Stream II was shelved because Moscow wanted to use it to export its gas to Europe whereas Turkey wanted it as route to carry gas

to Israel and India. The Turkish side also turned a cold shoulder to the project frustrated by the lack of Russian commitment to carry its oil via the new pipeline to be constructed between the Turkish northern port of Samsun and Ceyhan. As the energy ministers of Turkey, Israel and India are set to meet in the coming months, the revival of Blue Stream II can also strengthen Turkey's strategic energy position.

Although the recent political developments seem to have played into the hands of Turkey, it remains to be seen what the impact of the global economic crisis will be on the major pipeline projects through which Turkey aspires to become a key player in the energy world.