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**The Role of Turkey in the
European Energy Market
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The Role of Turkey in the European Energy Market

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I. Introduction:

This paper aims to examine the role of Turkey in the European energy market in the context of European Energy Security ¹.

In the paper we will attempt to answer two main questions:

1. What will the future role of Turkey be in the global energy market? As is usually argued, can Turkey play a leading role as an energy hub or an energy corridor/transit land in the European Union's energy security? Can Turkey satisfy expectations of the EU for its energy security in the future? Is Turkey irreplaceable as a transit land, through which natural gas and oil from Russia, the Middle East, the Caucasus and Central Asia, are brought to the global energy markets? Who are other political and economic competitors in the region?

¹ *The author would like to thank the Alexander von Humboldt Stiftung for granting this research project. My thanks go also to the Stiftung Wissenschaft und Politik (SWP) for providing me with excellent research facilities and working environment during my stay in Berlin. I would like to thank to Dr. Adnan Vatansever, Carnegie Endowment, for his criticism and comments.*

2. It has been tirelessly argued by Turkish politicians and experts that the new role of Turkey in the energy markets would help it become a full member of the EU. Is this a realistic view or wishful thinking?²

II. European Energy Security ³:

The energy supply of EU/27 is currently based for the most part on fossil energy sources: The total primary energy consumption is covered by 36 percent crude oil, 24 percent natural gas, 18 percent coal, 13 percent nuclear energy and 8 percent renewable energy. Since the EU/27 can only cover 3/5 of coal consumption through its own domestic production, it is heavily dependent on imports of oil and gas with 83 and 60 percent, respectively. According to the baseline-scenario, the EU's import dependency will increase until 2030 continuously and reach 94 percent in the oil and 83 percent in the gas sector. In other words, unless the EU can make domestic energy more competitive, in the next 20 to 30 years around 70% of the Union's energy requirements, compared to 50% today, will be met by imported products – some from regions threatened by insecurity. Energy reserves are concentrated in a few countries and today, roughly half of the EU's gas consumption comes from only three countries (Russia, Norway, and Algeria). Following current trends, gas imports would increase to 80% over the next 25 years.⁴

2 For an interesting paper closely related to the topic, see: Kramer, Heinz, 2010a, "*Türkei als Energiedrehscheibe*", (Berlin: SWP).

3 See for statistical data on energy: Eurostat, 2009: *Energy Yearly Statistics 2007*, (Luxemburg: . For energy forecasting of the EU Commission, see: European Energy and Transport, 2008: *Trends to 2030 - Update 2007*, (Luxemburg:). For further information about the EU's energy policy, see: Commission of the European Union, 2006: *The Green Paper: European Strategy for Sustainable Competitive and Secure Energy*, pp. 4-5. Geden, Oliver; Dröge, Susanne, 2010: "Integration der Europäischen Energiemärkte", in: *SWP-Studie*, (Berlin:).

4 Barossa, José M., 2009: "Political Guidelines for the Next Commission", EU Commission, Brussels 3rd September 2009, p.31.

III. Turkey's Energy Sector:

Turkey is a gas and oil-importing country and its energy consumption depends heavily on the imports of crude oil and gas from the region. Turkey imports around 22 million tons of crude oil annually, whose cost to the Turkish economy was (together with gas and petroleum products) around US \$ 31 billion in 2009. But the demand for crude oil has had a decreasing tendency due to the world financial crisis and it has dropped from 23.4 million tons in 2007 to around 15 million tons in 2010.⁵ The demand for gas imports as an energy resource points to the same picture. According to projections, gas imports rose from 8 billion cubic meters (bcm) in 1995 to 54 bcm by 2010 and will rise to 66.6 bcm by 2020, of which 41.8 bcm have already been secured by purchasing agreements.⁶ This figure indicate that Turkey is going to be one of the most attractive energy markets for oil and gas producers of the Caspian Basin and the Middle East in the future.

Russia is the main energy supplier (natural gas and crude oil) of the Turkish economy. The energy sector, one of the main fields of economic co-operation between the two countries, has been making a significant improvement in the last years. Turkey imports around 68 percent of its gas and one-third of its oil from Russia. It is important to note that almost 50 percent of Turkey's electricity can be produced by natural gas and a substantial amount of coal is imported from Russia. At the same time, the increasing demand for energy resources all around the world and specifically the increasing energy dependency of consumer countries on suppliers force European countries, including Turkey, to secure the imports of energy resources and diversify energy routes in order to reduce their dependency on Russian suppliers.

5 www.dpt.gov.tr "Main Economic Indicators", October-December 2010.

6 www.botas.gov.tr/index.asp 19 February 2010.

With its geo-strategic location between the major oil consumers in Europe and the enormous natural energy reserves in Central Asia, the Caucasus and the Middle East, where the world's largest oil and gas fields and reserves are located, Turkey emerges as an important partner in addressing the challenge of securing the uninterrupted transportation of energy to the global markets.⁷ Pipelines can become tools of political leverage in times of both peace and conflict. A country such as Turkey with historically close ties to the West and the East bears the potential to shape the balance in favour of stability.

Turkey's attention on oil and gas producing countries in the region can be explained by three main factors:

- Firstly, Turkey wants to close the huge gap between the demand for fuel oil and natural gas and the supply of energy resources in the domestic market by importing energy sources from neighbouring countries. As a matter of fact, the Turkish side has attached particular importance to Azerbaijan, Kazakhstan, Russia, Turkmenistan, Iraq, and Iran because of their huge oil and gas reserves.
- Secondly, another complementary reason might be that Ankara seeks to lessen the Turkish economy's increasing dependence on Russia step by step. This means that Turkey wishes to substitute Russian gas and oil by energy resources from the Middle East and the new Turkic Republics in order to insure its energy demand for the future.
- Thirdly, there is severe competition not only between producer countries, but also among consumer countries over the transportation of Caspian and Central Asian oil and gas to Europe. Ankara hopes that with the construction of new gas pipeline from the Caspian Sea to Europe (Nabucco project), the Turkish economy will gain revenues from royalties and

⁷ This paper will not be focussing on the demand and supply conditions of natural gas and oil reserves in the world as well as in the Russian Federation, the Caucasus, Iran, Central Asia and the Middle East. For detailed information about oil and gas production and estimated reserves see British Petroleum, 2009: *Statistical Review of World Energy June 2008*, (London) , pp.6, 8, 22 and 24.

transportation fees and will be able to use part of the imported oil for its own consumption and energy production. In this respect, the EU's energy security policy and Turkey's ambition to become an energy actor in the region complement each other.

IV. Where does natural gas come from?

The energy cooperation between Turkey and the Russian Federation started in Soviet times, in February 1986. The two gas companies Botas and Gazeksport signed an agreement over the supply of 6 bmc from the Soviet Union through the eastern Balkans to Turkey, which was supplied in 1987. Additionally, the second gas agreement between the Turkish firms Botas & Gama and the Russian firm Gazprom, which established a joint venture named Turusgas via the Balkan pipelines began in December 1997 and lasted for 23 years (Russian Federation-Westward).⁸

An important step concerning the Turkish-Russian gas cooperation was taken on 15 December 1997. During PM Victor Chernomyrdin's visit to Turkey, two gas agreements were signed: The first agreement focused on building the undersea gas pipeline Blue Stream in cooperation with the Italian energy cooperation ENI. The pipeline takes the route Izobilnoye-Dzhubga-the Black Sea-Samsun-Ankara and is 1213 km long, including 392 km running under the Black Sea. The Blue Stream gas pipeline was completed in 2002 and the official "Blue Stream opening ceremony" was held in November 2005 with the participation of the Russian, Turkish and Italian leaders. Through the Blue Stream pipeline, Turkey is now receiving 16bmc from Russia. The second agreement was based on the supplies of Russian gas to Turkey via the Blue Stream gas pipeline, by which the annual pumped gas should have been increased from 2bmc to 16 bmc (2007).

8 See table www.botas.gov.tr

Besides Russia, Turkey imports natural gas from two other sources: The Baku-Tiblisi-Erzurum (BTE) or South Caucasus Pipeline (SCP) began transporting natural gas from Shah Deniz, which has been in operation since 2006 with a maximum capacity of 6.6 bcm. It is being planned that Trans Caspian Kazakh gas and Trans Caspian Turkmen gas shall connect with the SCP. The realisation of this latest project seems to be highly questionable since Turkmenistan and Russia signed a 25 year sales agreement providing a maximum capacity of 80 bcm to Russia in 2003. The second line, Iranian gas, is carrying gas from Iran to Turkey and has a maximum capacity of 10bcm since 2001.⁹

V. Recent Developments in the Energy Sector:

Russian Prime Minister Vladimir Putin visited Turkey on the 6th of August 2009 to deepen and strengthen the bilateral economic and political cooperation between the two neighbouring countries. His visit to Turkey as Russian President on the 5th and 6th of December 2004 was the first of its kind in 32 years.¹⁰ Putin and Turkish PM Erdogan met ten more times in the five following years. The Turkish President Gül visited Russia and the Autonomous Republic of Tatarstan in February 2009.

The Turkish Prime Minister Recep Tayyip Erdogan and his Russian counterpart Vladimir Putin signed, on August 6 2009, a series of agreements on cooperation in the fields of oil, natural gas and nuclear energy.¹¹

The final communiqué released by Ankara and Moscow after

9 Turkey and Iran signed a Memorandum of Understanding (MoU) for transporting Iranian Turkmen gas to Europe. See Arinc, Ibrahim S., 2007: “The EU-Russian Gas Interdependence and Turkey”, in: *Insight Turkey*, 9, 4: p.27.

10 During his first visit to Turkey, Putin signed six agreements in the field of military and economic cooperation.

11 The Italian PM, Silvio Berlusconi joined the ceremony in Ankara. The Italian company ENI broke ground on the trans-Anatolian oil pipeline this year. ENI and Gastrom have planned South Stream for a long time.

the meeting made the following points. Only time will tell whether these agreements will actually lead to tangible results.

1. Turkey allows the Russian company Gazprom to carry out feasibility studies in its territorial waters for the **South Stream** pipeline which rivals the Nabucco project, backed by the EU and the US. The South Stream pipeline, which will cost approx € 24 billion, for a 63bcm/y gas pipeline, will transport natural gas from Russia via the Black Sea to Bulgaria and finally Europe and into two main streams to Italy and Austria.¹²
2. In return, Russia will provide oil to a pipeline stretching from the Turkish city of Samsun, on the Black Sea coast, to the town of Ceyhan, on the Mediterranean coast. The accords signed between the two countries will support Ankara's ambitious goal of becoming a regional energy hub.¹³
3. The planned **Blue Stream II** aims on the one hand at transporting Russian gas through Turkey to Hungary (South European Gas Pipeline) and on the other hand at carrying Russian gas via Turkey to Israel, Lebanon, Syria and Cyprus.
4. Turkish and Russian delegations also discussed cooperation in nuclear energy. A consortium led by the Russian firm Atomstroyexport, controlled by Gasprom, placed the sole bid in the tender to build a 4.000-megawatt nuclear plant and operate Turkey's first **nuclear power plant** near Mersin on the Mediterranean coast. However, the negotiations on the price of the electricity to be sold to the Turkish state have been under way for some time, and the local authorities have not announced a final ruling on the tender yet.
5. Russia wants to build large gas storage facilities near the Tuz Lake near Ankara and a liquefied natural gas terminal (**LNG**)

12 Winrow, Gareth, 2009: "Turkey, Russia and the Caucasus: Common and Diverging Interests", in: *Briefing Paper*, (London: Chatham House).

13 According to EuroActv.de (21.10.2009), the Russian state-owned energy companies Transneft and Rosneft will guarantee to transport the required amount of crude oil from Samsun to Ceyhan. The Italian energy company ENI and Turkish firm Çalık Holding will also participate in this project.

in Ceyhan.

VI. International Gas Pipeline Projects:

Concerning the oil and gas transportation from the region through Turkish territory to Europe, several projects, agreements, protocols, and official statements are on the agenda, but of the cost and benefits of all these projects we know very little. There is some estimation by various institutions, but the cost sharing among participating countries is not clear-cut or well-defined.¹⁴ For example, the total cost and contribution of each partner country to the Nabucco project is still unclear.

According to BOTAS (Petroleum Pipe Line Cooperation), there are currently 6 Gas Line Projects on the agenda. For a detailed description of the project see www.botas.gov.tr¹⁵

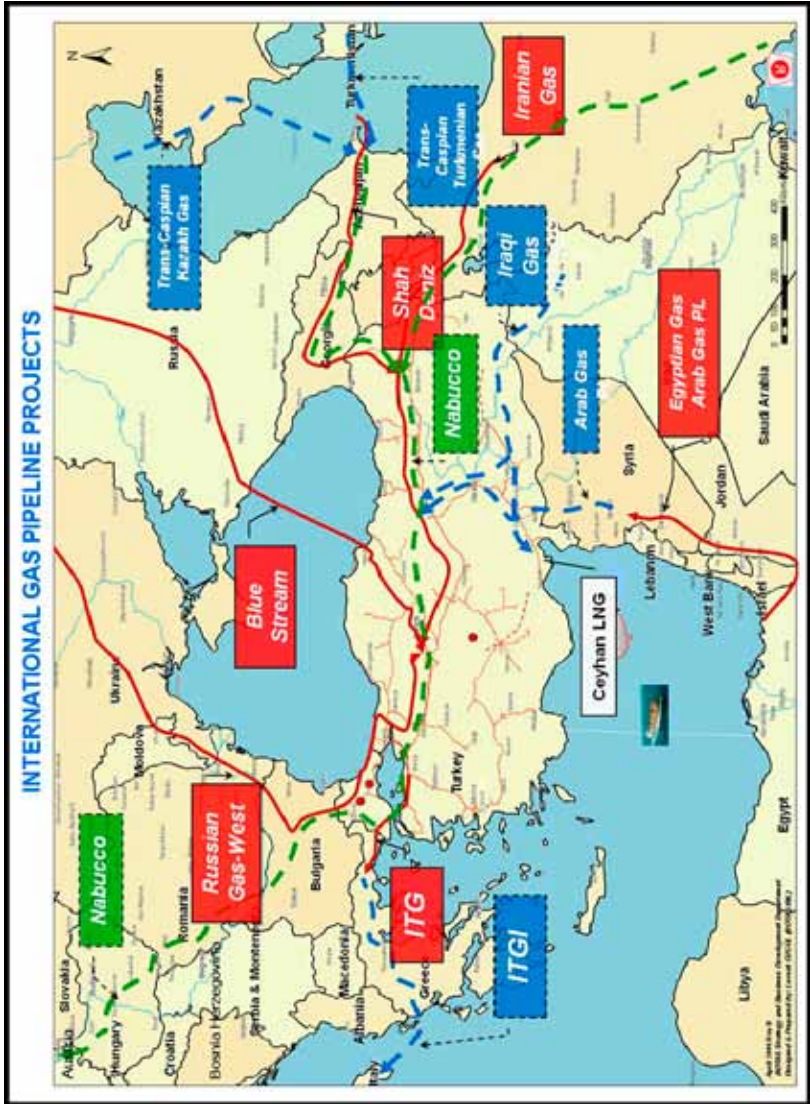
1. Turkey-Greece-Italy Natural Gas pipeline Project (ITGI);
2. Trans-Caspian Turkmenistan-Turkey-Europe Natural Gas Pipeline Project;
3. Egypt-Turkey Natural Gas Pipeline Project;
4. Iraq-Turkey Natural Gas Pipeline Project;
5. Nabucco Natural Gas Pipeline Project ;
6. Natural Gas Underground Storage Projects

¹⁴ For the relative cost advantages of Turkish energy transport see Tekin, Ali; Williams, Paul A., 2009: "Europe's External Energy Policy and Turkey's Accession Progress", in: *Center for European Studies Working Paper Series*, 170, Harvard University, pp.10-12.

¹⁵ See www.botas.gov.tr

MAP 1: INTERNATIONAL GAS PIPELINE PROJECTS

Source: www.botas.gov.tr



VII. Special Case: Nabucco Natural Gas Pipeline Project

Ankara signed an important pipeline agreement and thus drew the attention in the headlines of international media. One of these agreements was an inter-governmental transit agreement called the “Nabucco Pipeline” (named after the opera by Verdi) signed between Turkey, Bulgaria, Romania, Hungary, and Austria on July 13 2009. The Nabucco pipeline, which is supported by the EU and the USA, is an alternative route to Russian deliveries to Europe via the Ukraine. The 3,300 kilometre pipeline aims to bring Caspian gas to western European energy markets and to diversify the current natural gas suppliers and delivery routes for Europe, by pumping gas from Erzurum in Turkey to Baumgarten an der March in Austria.¹⁶ It is estimated that the pipeline will have a total cost of around €9 billion; the capacity lies at approximately 30 bcm of natural gas yearly with the expectation that the pipeline will be in operation by 2014-15.¹⁷ Meanwhile discussions have focused upon connecting the Caspian countries’ huge natural gas reserves to the Nabucco pipeline in order to export their gas to Europe. It is argued that South Stream and Nabucco are two competing projects aiming at carrying natural gas from the Caspian basin and exporting it to the same destination, namely the European markets.¹⁸

16 Ankara aims to use 15% of the natural gas crossing Turkish territory for its own domestic consumption.

17 See EurActiv, 6 July 2009, p.1. The Nabucco consortium consists of leading European Energy companies: OMV of Austria, MOL of Hungary, RWE of Germany, Bulgargaz of Bulgaria, Transgaz of Romania and Botas of Turkey. Interestingly, three consortium members -OMV, MOL and Bulgargaz- have already signed up to Gazprom’s South Stream pipeline. Ironically, the German politicians seem to be keenly interested in gas business: Ex Chancellor Gerhard Schröder was appointed as chairman of the board of North Stream which is a Gazprom pipeline project bringing gas from Russia via the Baltic Sea to the northern German coast. Now the Nabucco consortium has contracted former German Foreign Minister Joschka Fischer as a senior consultant for the project.

18 Baran, Zeyno, “Oil Oligarchs and Opportunity: Energy from Central Asia to Europe: Testimony to the US Senate”, *Committee on Foreign*

The fundamental question remains open: how will the Nabucco pipeline be filled and from where will sufficient quantities of gas be secured in order to close the gap in European long-term demand for natural gas? On the one hand the BTE would transport about 10-15 bcm per year of Azeri gas to Europe which would equal an insignificant part of European future consumption of 700 bcm. But on the other hand, although it seems paradoxical, in June 2009, Azerbaijan signed a deal with Gazprom to sell gas to Russia from 2010¹⁹ and Turkmenistan signed a 30 year agreement with China for exporting natural gas. Iran has agreed (accepted with price reservation) to sell 10 million tons of *liquefied natural gas* (LNG), equivalent to 14 bcm of natural gas, to China.²⁰ It is obvious that both gas supplier countries and Turkey play a double game on energy security between the West and the East.

VIII. Where does oil come from?

While Turkey's demand for oil can partly be satisfied through domestic oil production (around 4.45 million tons a year maximum), it remains an oil importing country and its energy production depends heavily on oil imports. Since the 1970s, however, Turkey has begun playing an active role in the oil industry.

1. The first steps were taken to construct twin oil pipelines

Relations, Washington DC, 12 June 2008. . Interestingly, Zeyno Baran, a Turkish-American expert of Hudson Institute, Washington DC argued that "...If South Stream is built, Nabucco will not be, at least not for Caspian gas...all that Caspian gas is going to pour into it..." See euobserver.com: "Turkey plays a double game on EU energy security" by Valentina Pop 07.08.2009.

- 19 On the 29th of June 2009, Russian President Dimitry Medvedev signed a deal in Baku to import Azerbaijani gas to Russia from January 2010. See Euractiv 6 July 2009.
- 20 Götz, Roland, "Europa und China im Wettstreit um Ruslands Erdgas?" *SWP-Aktuell* (18 April 2006): 6.

between **Kirkuk- Ceyhan (Yumurtalik)** on the Mediterranean coast of Turkey. The first part was put in operation in 1977; the second in 1987. Both pipelines carry 400 000 bbl/d around 14 million barrels of crude oil. Iraq has the third largest crude oil reserves in the world with around 115 billion barrels. Due to the Iran-Iraq war and American-British intervention in Iraq in the 1990s, the transportation of the crude oil from Iraq has been interrupted several times and recently been reopened again.

2. The **Baku-Tbilisi-Ceyhan pipeline (BTC)** is a 1,768 kilometres (1,099 mi) long *crude oil* pipeline established in 2006 and transporting 1 million barrels (160,000 m³) of oil per day from the *Azeri-Chirag-Guneshli oil field* in the *Caspian Sea* via Tbilisi (Georgia) to Ceyhan by the *Mediterranean Sea*.²¹
3. The so-called “**Trans Anatolian/Samsun- Ceyhan**” Project by-pass oil pipeline will have three basic advantages for Turkey:
 - Around 3.7% of the world’s daily oil consumption is shipped through the Turkish Straits. The amount of oil and oil products transported through the Strait of Istanbul has increased dramatically from 60 million tons in 1996 to almost 150 million tons in 2007. The Samsun-Ceyhan Pipeline will reduce the oil transportation by oil tankers and the Straits will be relieved from the seaborne transportation of oil in the Black Sea²². The number of ships sailing through the Bosphorus is also three times higher than the traffic on the Suez Canal, for example.
 - Consequently, the Turkish government has enforced some new regulations by modifying the Montreux Convention (1936) regarding the Straits, in order to secure marine traffic and to afford safety for the 15

21 Partner enterprises are: BP, SOCAR, Chevron, Statoil Hydro, TPAO, Eni, Total S.A., Itochu, Inpex, ConocoPhillips, Hess Corporation.

22 The number of oil tankers and other dangerous cargo vessels passing through the Strait of Istanbul rose by 90% in the last 7 years alone from 4,248 in 1996 to 10,054 in 2007. Similarly, the amount of hazardous cargo increased from 60.1 million tons in 1996 to 143.9 million tons in 2007, which is an increase of 130%.

million inhabitants of Istanbul. Ankara's intention, by these measures, is to by-pass the Straits and to effect a final decision on pipeline routes. With this step, Ankara has wanted to impose restrictions on the passage of shipping, especially vessels carrying oil and nuclear waste, through the Turkish Straits. The new regulations stipulate that tankers should notify the Port Authority, be given pilotage assistance, and that passage fees should be adjusted.²³

- The Samsun harbour would be the main energy cross junction for oil and gas from Russia, Caucasus and Kazakhstan. In that case, Ceyhan would be upgraded to an "International Oil Market" in the Mediterranean Region. It has been estimated by the UN Economic Commission for Europe that Turkey may transport 6-7 percent of global oil production by 2012.

IX. External Factors:

Turkey's role in the global and European energy market as energy hub or as a transit country will be closely connected not only with economic factors but also with the external and internal political and economic development both in and around Turkey. Now we will look at external and internal determinants which may influence the role of Turkey in the energy market through the setting of transit routes of energy resources from the region to Europe.

The successful implementation and realisation of all these projects depend on external and internal economic, political and security factors: The Middle East and the Caucasus are among the world's most unstable and unreliable regions in

23 The 1936 Montreux Convention regulates and guarantees free passage for international shipping through the Straits except in wartime. During the Cold War period there was no serious dispute on the Straits and Turkey seemed to be ready to accept the international role of the Soviet Union and its allies as a military power. It can be argued that both sides were satisfied with the implementation of the Montreux Convention until 1992.

which friends and enemies can change overnight without any notice. As evidence of this fact, Turkey's role in energy transportation will strongly depend on political balances, outcomes of conflicts and alliances.

X. Caucasus:

Oil and gas producers have four options for the transport of gas/oil from the Caspian basin: (1) Transportation of gas and oil from the Caspian region and Azerbaijan via Georgia and Turkey to the Mediterranean Sea. In this respect, Georgia is very important as a land corridor connecting Turkey with Azerbaijan and the Caspian region. If the Russian-Georgian conflict re-escalates, the transportation of oil and gas from the Caspian basin and Azerbaijan would be endangered. (2) Secondly, the possibility of a route of the gas pipeline running across Armenia does not look hopeful as long as the Nagorno-Karabakh dispute between Baku and Yerevan remains unsolved. (3) The construction of the pipeline from the Caspian region across Iran to the Gulf Sea would be another alternative which would enable natural gas to be transported to world markets. This could enable especially Azerbaijan to be less dependent on transportation routes through Russia and Turkey. For the time being, this possibility seems to be unrealisable due to the American-Iranian dispute over Iran's nuclear power program. (4) Both Nabucco and the South stream pipelines plan to transport natural gas from the Caspian region passing through Georgia and Turkey as well as Russian territory to the European markets.

Turkey's main interest in relations with Baku lies in the possibility of transporting Azeri oil from Baku through Georgia to Turkey and to the Mediterranean Sea (BTC). Russia and Turkey and partly Iran are three important players in the Caucasus. Now Washington, as an active and powerful player, joined the game. The U.S. administration aims to reshape the post-communist era by gaining influence in and around the Caspian Sea. With

this step, Washington will create an overall balance of power between Russia and Iran in the region, whereas the other countries, mainly Armenia, Georgia and Azerbaijan, are given secondary roles and do not play as independent actors in the game.

Turkey's interests in the Caspian region can be summed up in four main points:

- Unquestionably, Russia has been regarded as an “energy super power “and its economy is mainly based on energy exports to Europe, the main destination of Russian energy resources. Russia still has the leading role and is the only truly great power in the region. Ankara is now aware of the Russian influence existing in the region and Turkish officials have finally understood that Moscow is highly sensitive concerning the issue of its exclusiveness and direct intervention into the internal affairs of the recently independent countries. In other words, Ankara at last realised that the Russian presence and influence in Transcaucasia cannot be erased in a short time. Any attempt to displace Russia's military, political, and economic dominance in the region will cause an aggressive overreaction from Russia.
- One of the main issues and controversies between Ankara and Moscow concerns the transit routes of oil and gas from Central Asia and the Caspian Sea to the world market. Moscow was adverse to the construction of BTC and insisted that the new oil and gas pipeline should cross Russian territory. Currently, Russia seems to be determined to continue to control this important economic weapon so as not to lose the economic benefits of the oil and gas business.
- For relations between Turkey and the Central Asian states, Transcaucasia has been seen as a passageway and plays the role of a bridge. Therefore, peace and stability in the three countries, namely Georgia,

Armenia, and Azerbaijan will best serve Turkey's economic and political interests. As a result, Ankara believes that this aim can only be achieved by decreasing the hegemonic power of Russia through close mutual economic cooperation. Although Russian and Turkish interests are bound to clash in the region, Ankara is not in a position to change nor is it interested in changing the status quo or in solving conflicts through direct military intervention which could lead to the escalation of conflicts.

- Nevertheless, the main field of economic cooperation between Turkey and Russia will be the energy sector. In spite of some controversies between Ankara and Moscow concerning the transit routes of oil and gas from Russia, Central Asia and the Caspian Sea to the world market, both countries have intensified their relations in the field of energy transportation.

XI. Iran:

Iran could be taken into consideration as one of the possible transport routes, both to Turkey and the Gulf. For the transportation of Iranian natural gas to Turkey by a gas pipeline, Necmettin Erbakan, the former Turkish Prime Minister, signed a US\$23 billion gas supply deal with Iran, committing Turkey to a 20-year contract and the construction of a 1000-mile pipeline between the two countries. The gas deal has been strongly criticised in the American press and is regarded as a direct challenge to one of the Clinton administration's central foreign policy goals, which aimed at isolating Iran as a state that sponsors terrorism and seeks nuclear weapons.²⁴ For these reasons Washington, with the help of the D'Amato Act, wanted to penalise foreign companies that invest US\$40 million or more a year in the oil and natural gas sectors of such a country.

²⁴ See *The New York Times* (13 August 1996) and *Financial Times* (9 August 1996).

The gas deal with Iran was important for two reasons: Firstly, Turkey is heavily dependent on the import of energy and demand for energy is increasing very rapidly as a result of industrialisation. It is estimated that the Turkish economy will not be able to cover the increasing demand for energy with its own resources in the next 15-20 years. Thus, Ankara is keenly interested in signing gas deals not only with Iran but also with Turkmenistan, with which it has already signed an agreement two years ago, and with other gas exporting countries. Secondly, Turkey's main gas supplier is Russia and therefore Ankara wants to reduce its dependency on Russian gas exports by diversification of its gas supply.

Teheran has had a lot of experience in the energy sector and the technology for the production and transportation of oil and gas. But there has been strong American resistance against Iran. Therefore, Teheran was not able to take a share in the Azeri "Deal of the Century" as a result of the Anti-Iranian policy of Washington.²⁵ Washington's strategy to sustain its dominance of the Middle East/Eastern Mediterranean region rests on two pillars: maintaining the uninterrupted flow of Middle Eastern energy resources to the U.S-Atlantic Alliance and preventing any single power or constellation of hostile powers from dominating the region. The US leadership supports Israel militarily and economically without any restrictions and is only interested in security matters and fighting against anti-terrorist activities. The USA wants to break Russian influence and Moscow's control on energy sources in Central Asia and the Caucasus. The US policy against Iran and its domestic

25 U.S. Undersecretary of State Stuart Eisenstadt underlined in his visit to Paris in February 1998 "We feel very strongly there should be no pipeline across Iran. No ifs, ands, or buts. Iran shall not be given" a chokehold over energy development in the Caspian going west." Instead the United States is "trying to encourage... the creation of an east-west transportation corridor that goes through the Caspian Sea and through the Caucasus". "Europe Said interested in Pipeline Skirting Iran", *Turkistan Newsletter*, (25 February 1998):.

political development and power structure in the country will determine the transportation of Iranian energy to the world market via Turkey.

PM Erdoğan's last visit to Iran and his harsh criticism of Israel's policy against Palestinians in the Gaza strip have created a problem for Turkey's strategic allies as well as the West, by raising questions and doubt over the alliances of Turkey in the region.²⁶ Interestingly, the increasing numbers of critics in the Western media and among experts on Turkey's foreign policy related with Iran and Israel have drawn the attention of Western capitals recently.

PM Erdoğan's meeting with US President Obama in Washington on December, 7th 2009 according to the BBC news meant that "... the US wants Turkey to use its ties with Tehran to deliver tough messages, not just sign gas and trade deals..."²⁷ The most interesting comment came from two American experts on Turkey who supported the AKP's domestic policy and its new neighbouring policy advocating "zero problems with neighbours". Morton Abramowitz and Henri J. Barkey analysed Turkey's foreign policy which has been followed since 2002. The authors warned the present Turkish government, headed by PM Erdoğan, that Ankara was crossing the line of what is politically advisable and doable.²⁸

26 See some increasingly critical voices: Strauss, Delphine: "Turkey's Ottoman Mission", *Financial Times* London (23 November 2009); Schenker, David: "A NATO without Turkey", *Wall Street Journal Europe*, (5 November 2009), "Looking east and south" (29. Oct. 2009); Lerch, Wolfgang G., "Neuer Osmanismus", *Frankfurter Allgemeine Zeitung* (11 November 2009).

27 Chattis, Kim: "Can President B. Obama still count on Turkey?" *BBC news* (7 December 2009).

28 Abramowitz, Morton; Barkey, Henry J. (2009): "Turkey's Transformers", *Foreign Affairs*, Volume 88, No:6 (November/December):pp.1-7

XII. Iraq and the Gulf states:

The Iraq-Turkey gas pipeline project is one of the attractive projects on the agenda. Nevertheless, because of present and future economic and political uncertainties in Iraq after the planned withdrawal of the American forces from Iraq in 2011, it is not possible to make any predictions on the development in Iraq. The country has been divided into three parts and there is no consensus on the distribution and exploitation of energy sources among the federal states. Therefore, the oil and gas transportation from Iraq via Turkey to Europe through the Nabucco pipeline seems to exist only on paper for the moment. On the other hand, Gulf producers are transporting their oil and gas by using sea routes and therefore they do not show any interest exporting their products overland.

XIII. Internal Factors: Political and Economic Conditions

An important truism of international relations is that political and economic interests are intertwined. To a large extent, overlapping mutual economic interests will constitute a platform from which sustainable political relations can be launched. Consequently, the ability of a country to offer sizeable and stable economic opportunities is a prerequisite to enter into sustainable international economic relations. Therefore, the capacity to create and maintain a stable domestic economic structure is of utmost importance.

One of the dimensions of that capacity is the existence of political structures, which can be achieved only with long-term-oriented stable macroeconomic policies within an open economy. In other words, the envisaged leading role in the region cannot be successfully achieved without considerable national economic effort in creating sustainable economic growth and macroeconomic stability. Therefore, it seems useful and necessary to discuss the economic development and performance of Turkey and its international economic relations in recent years in order to find out whether Ankara is able to fulfil and justify the expectations for a leading political role

in the region. The resolving of the so called “Kurdish issue” is vitally important to transport gas and oil from Eastern and south-eastern Anatolian to European markets. If the PKK targets gas pipelines in the eastern and south-eastern part of Turkey, the continued fighting between the PKK and military forces may damage Turkey’s prospects of becoming a key energy transport land to Europe.²⁹

XIV. Conclusion

We can draw the following lessons from the discussion of the role of Turkey in the newly emerging energy routes and its impact on Turkey’s full membership of the EU:

1. Turkey is poor in energy sources, it is not an oil and natural gas producing country, and therefore heavily dependent on imports of oil and natural gas from abroad, mainly Russia. Turkey is the third largest importer of Russian natural gas after Germany and Italy. Turkey is thus one of the major customers of Russian natural gas and partly crude oil supplies.
2. It is plausible to base Turkey’s energy policy on two goals: Firstly, the nation wants to satisfy its increasing demand for energy resources through diversification of gas and oil imports from the different suppliers in order to reduce its one-sided energy dependency on Russia. Secondly, Turkey wants to play an important role in the global energy market as an energy transit country for one simple reason: Turkey’s proximity to regions with 70 percent of the world’s proven oil and gas reserves. According to statistics, around one-third of worldwide crude oil production and almost one-fifth of worldwide natural gas production (excluding Russia) were exploited in the region in 2008. In the same year it is estimated that two-third of worldwide crude oil reserves and currently half of the natural

²⁹ Until now Russian had a powerful “gas lobby” in Turkey, but now the new domestic companies such as “Calik Holding” and “Ciner Holding”, which are owners of some influential media firms in Turkey, will surely act as new players and they will try to change the power structure in Turkey’s energy sector.

- gas reserves lay in the Middle East.
3. No doubt gas and oil producers from the Middle East, the Caucasus, Central Asia and Russia develop energy projects to increase their gas and oil export via transit countries to European and world markets. Above all, each consumer/producer country aims to diversify the import/export of gas from/to different regions in order to reduce its dependency on a single country. Russia wants to diversify its gas transportation routes by bypassing Ukraine and Belarus. Moscow further intends to replace Ukraine as the main transit route for gas exports mainly to Europe by establishing North and South Stream Gas pipelines. At the same time, the EU countries want to break their own dependence on Russian gas supplies by transporting non-Russian gas through Turkey and through non-Russian territory.
 4. “Energy security” has become a catchword in the EU states, particularly in Brussels after the gas cut to the Ukraine by Gazprom on December 31, 2005 and the oil cut by Transneft to the transit country Belarus in January 2007. The EU has correspondingly intensified efforts at diversifying energy suppliers, sources, and transportation routes. Brussels consequently prepared its own new project “Southern gas corridor” (Nabucco), transporting Caspian natural gas to Europe via Turkey. The economic interests of producer and consumer countries thus largely overlap. In other words, both sides follow a policy of reducing dependency by diversifying transit routes. Due to its geographical and geopolitical position, both producing and consuming countries consider Turkey as a favourable transit route for the transport of oil and gas through its territory to Europe.
 5. The critical question is: What might the role of Turkey be in the global energy market? Turkish policy makers in Ankara strongly believe that Turkey is going to become a leading and dominating energy hub through the transportation of natural gas and oil from the Caspian region, Iran, Iraq and the Gulf states to the European and world markets. Yet, for two reasons

the role and influence of Turkey in the world energy market is clearly limited. Firstly, Turkey is unable to set the natural gas prices in the global energy market. It is a price taker and so far it is not able to regulate prices and quantities demanded and supplied in the market. Additionally, Turkey has neither the necessary infrastructure for the transportation of natural gas and crude oil, nor the sufficient capital to become an important actor in the international energy market. Therefore Turkey is forced to take on the role of a transit country between consumers and suppliers by collecting transit revenues, royalties, and satisfying its own energy demand.

6. Interestingly enough, in spite of the above limitations, Ankara strongly believes that the new energy corridors will facilitate Turkey's bid for full membership of the EU. Turkish policy makers have been trying to connect Turkey's new role as an energy corridor (Nabucco) with EU membership.³⁰ Part of their argument stems from EU representative's frequent stress on the importance of Turkey for European energy security.³¹ Of course Turkey's role in European energy security may be significant³² and energy routes through Turkey are one of the main arguments of European opinion makers who favour Turkey's accession to the EU. But it seems to be inadequate and too early to establish any link between the Turkish accession process with European energy security. Perhaps it could be considered as one of the positive arguments and supporting factor for Turkey's membership in the EU. But it is interesting

30 Ali Tekin & Paul A. Williams "Europe's External Energy Policy and Turkey's Accession Process" (2009), CES Working Paper Series.No:170; Winrow, Gareth (2009) "Turkey, Russia and the Caucasus: Common and Diverging Interests", *Briefing Paper*, (London: Chatham House).

31 Winrow, Gareth, op.cit., pp. 12-14.

32 Former Foreign Minister and current President of Turkey Abdullah Gül stated that "Turkey's membership perspective and the ongoing accession negotiations with the EU will be driving force for the realisation of joint projects which will enhance the supply security of Turkey and the EU." See joint press release 2007: "Turkey and the EU: Together for European Energy", Istanbul, 5 June.

to note that despite the serious disputes between Moscow and Kiev concerning gas transportation, the Ukraine is still the most important transit country for the European energy market. Additionally, the Ukraine is keenly interested in becoming a full member of the EU. It is obvious that Ukraine's exporting of Russian gas to Europe through its own territory would not have helped Kiev to be declared at least a candidate country. For the time being, it is advisable for Ankara not to overestimate and exaggerate its role in the global energy market.

7. The energy giant Gasprom aims in the long term to dominate not only the domestic but also international energy markets.³³ According to the long term strategy presented at Gasprom's annual meeting on the 29th of June 2007, the Russian multinational company plans to achieve two main strategic objectives: First, it aims to increase the natural gas production by exploiting new gas fields in the Jamal peninsula in North Siberia, Field Bovanenkova and Field Charasavej, in order to satisfy both the domestic and the foreign demand for gas. Second, the high level of investments in the exploitation of gas fields and building of new pipeline routes indicates that Gasprom is trying to prevent the entrance of competitors into the energy market.

8. It seems to be uninterested in competition with other producers and strives for becoming an "Energy Super power".³⁴ Gasprom is obviously following a double strategy: on the one hand, it absorbs (imports) gas from Central Asia for the demand of its domestic market and on the other hand, it supplies European consumers. With help of this strategy, Gasprom can take energy markets under its own control and establish a monopoly

33 Götz, Ronald, 2007: "Gasproms Zukunftsstrategie: Marktbeherrschung und Expansion", in: *SWP-Aktuell* 39, (Juli), 1-4.

34 Westphal, Kirsten, (2007): "Russland-Energie Großmacht", paper for the conference *Russland in der internationalen Politik-Rückkehr einer Großmacht?*, SWP-KAS and DGO, Berlin, 24-26 January.

position in the European energy markets, determining the price of gas in the European energy market as long as the gas price is closely linked with the oil price. Additionally, with the construction of the “North Stream”, South Stream and extension of Blue Stream II, Gasprom intends to weaken the negotiation positions of transit countries such as Belarus, Ukraine and Moldova.

9. It is interesting to note that Gasprom wants to dominate the energy market in the transit and consumer countries. In the case of Turkey, the gas business is based on the “take and pay” rule.³⁵ Therefore, the consumer country has a limited negotiation space and resisting capacity against Gasprom. On the other hand, Gasprom has expressed interest in buying or participating in the still existing energy firms in the importing countries. In the case of Turkey, Russian investors failed because Turkey would not allow Russian investments in the sensitive telecommunication and energy sectors.³⁶ Russia signed an agreement with the national gas companies of Italy, Serbia, Bulgaria, and Greece in May 2009 for the construction of the South Stream. It was a deal between Gasprom and Eni/Italy to increase its originally planned capacity.³⁷

To sum up: Besides Azerbaijan, Iran and Iraq are the most promising countries in the region. Iran possesses the largest gas reserves in the world after Russia and Turkmenistan with

35 This means the obligation to receive the amount of gas as set down in the contract, with a simultaneous ban on its re-export.

36 See detailed information on the business story in CES Report op.cit. part II Warsaw, July 2007, p.80.

37 An interesting article about the gas business of Russian firms with Western Balkan countries, especially between Russia and Serbia, is published by SWP, see Reljic, Dusan (2009): “Russland Rückkehr auf den Westbalkan” *SWP –Studien 2009/S17 17*, (Juli 2009) pp. 24-30.

its nearly 28 trillion cubic meters of proven gas reserves³⁸. Due to the political conflict between Iran and the USA, for the time being, transporting Iranian and eventually Turkmen gas via Turkey to Europe does not seem possible.³⁹ There are two other options: the possible construction of gas pipelines from Turkmenistan, Kazakhstan and Uzbekistan in the Caspian region. The second one is the transportation of gas from Iraq and from the Gulf states. Such transportation of gas from Iraq and the Gulf states will be heavily dependent on what the political structure of Iraq will look like after the withdrawal of American forces from the country in 2011. The Gulf states can transport their gas and oil by sea; moreover, for the time being, they do not seem to be keenly interested in transporting gas and oil overland to the world market.

In the short run, Russia will continue playing a dominant role in the European and Balkan energy markets as long as the main oil and gas suppliers Iran and Irak remain out of the game. Turkey is not a major energy producer and heavily dependent on importing two-thirds of its natural gas from Russia. For the time being, the future of the Nabucco pipeline will be determined by these major factors: First, the main source of the Nabucco pipeline would convey only about 10-15 bcm annually of Azeri gas to Europe, a fraction of the EU's predicted future annual consumption of 700 bcm.⁴⁰ Secondly, problems

38 British Petroleum (BP), 2009: *Statistical Review of World Energy*, June (London:), pp. 24, 27.

39 Ian Lesser, an analyst of the German Marshall Fund argued that "The [Obama] administration is far more sensitive to what Turkey does with Iran." See "Russia and Turkey-Old Rivals, New Partners", *economist.com* (Aug 13 2009): In his article "Erdogan pflegt in Theran die Freundschaft mit Iran" in *Neue Züricher Zeitung* (29.October 2009) Jürg Bischoff reports that interestingly, the Turkish Minister of Energy Yildiz announced that Turkey will invest the amount of around \$4 billion to exploit the Iranian gas fields South Pars.

40 Roberts, John, 2004: "Turkish Gate: Energy Transit and Security Issues", in: CEP, Brussels, 2-3.

with Baku over the Ankara-Erivan rapprochement and its impact on Nagorno-Karabakh, gas pricing, and re-export issues would jeopardise the construction of the pipeline. As far as can be predicted, Russia will continue to satisfy the European demand for natural gas by diversifying transportation routes in the coming decades. For the time being, Turkey can take part in Gastrom's energy policy and European energy security as a transit country and in the meantime cover its own consumption demand for energy.



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Prof. Bahri Yilmaz (2nd from left) at the 30th Malta Information and Training Seminar for Euro-Med Diplomats in May 2011. (L to R) Dr. Andreas Marchetti, ZEI, Univ. of Bonn, Germany; Prof. Bahri Yilmaz, Turkey; Dr. Dereck Lutterbeck, MEDAC Deputy Director and Lecturer, Malta; Prof. Zafiriz Tzannatos, Senior Advisor for the Arab States, ILO, Beirut, Lebanon.

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Abstract: The essay in this Med-Agenda aims to examine the role of Turkey in the global energy market within the context of European Energy Security. In the essay we have attempted to answer the following questions: What will the future role of Turkey be in the global energy market? As is usually argued, can Turkey play a leading role as an energy hub or an energy corridor/transit land in the European Union's energy security? As conclusion we may argue that Russia will continue to match the European demand for natural gas by diversifying transportation routes in the coming decades. For the time being, Turkey can take a part in Gastrom energy policy and European energy security as a transit land and in the meanwhile can cover its own consumption demand for energy.

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