GLOBAL TURKEY IN EUROPE

EU-Turkish Energy Relations in the Context of EU Accession Negotiations: Focus on Natural Gas

by David Koranyi and Nicolò Sartori

Atlantic Council Dinu Patriciu Eurasia Center and Istituto Affari Internazionali (IAI)

December 2013

WORKING PAPER 05

Stiftung Mercator | IAI Istituto Affari Internazionali | IPC ISTANBUL POLICY CENTER SABANCI UNIVERSITY STIFTUNG MERCATOR INITIATIVE

EU-Turkish Energy Relations in the Context of EU Accession Negotiations: Focus on Natural Gas

David Koranyi and Nicolò Sartori*

EU Turkey Energy cooperation Natural gas

Abstract

The European Union (EU) and Turkey have been on a divergent path over the past five years, but energy security is one of those sectors where the two partners would clearly benefit from closer cooperation. This paper explores energy relations between Turkey and the EU in the context of EU accession talks, focusing on natural gas as a strategic component of these relations. Turkey is in an ambiguous situation when it comes to its role as a strategic transit hub for energy supplies to Europe due to its strong geographic location on the one hand and its heavy dependence on gas imports on the other. As Turkey's decision-makers are squeezed to secure additional quantities of gas supplies, short-term political and economic considerations (securing price discounts) often trump strategic considerations. The EU is to a large degree responsible for pushing Turkey into such a position. The continuous stalling and ambiguity on the part of the EU as regards the opening of the energy chapter of Turkey's accession negotiations may encourage a less cooperative energy policy from Ankara that is in the interests of no member state. At the same time, Turkish foot-dragging on the Energy Community further precludes elevating EU-Turkish energy cooperation to a more strategic level. Ankara should recognize that thinking long-term, acceding to the Energy Community and thus adopting the energy acquis at the earliest possible occasion will ultimately benefit Turkey and act as a safeguard against regional suppliers abusing their dominant positions, without undermining Turkey's negotiating positions with Brussels on eventual EU membership.

Introduction: The State of EU-Turkey Relations

The European Union (EU) and Turkey have been on a divergent path over the past five years. The EU has been preoccupied with its own financial and economic crisis, while struggling with enlargement fatigue. Turkey, buoyed by its own dynamic economic growth, has been increasingly alienated from the EU. Accession negotiations have been practically frozen over the past three years. The alienation of the partners escalated after the police crackdown on the Gezi Park protests in Turkey in May/June 2013, when criticism on the EU's part was met with indignation and hostility on the part of Prime Minister Recep Tayyip Erdogan and other leading Turkish government officials.[1]

Tensions have been reduced markedly since. The passage of the German elections in September – coupled with the more amenable administration of President François Hollande in France since last year – have helped to create a calmer, mildly more supportive atmosphere towards Turkey within the EU. While Turkey's economy is slowing down, Ankara's ambitious political and market expansion strategy towards the Middle East and North Africa is increasingly under threat from an escalating turmoil in Syria, Egypt and Iraq in particular.

Turkey has therefore also been prompted to reconsider its cooling relations with the EU. Indeed, on 23 October the EU announced that it will rekindle accession talks with Turkey in early November. The announcement is a cautious, yet encouraging sign that EU-Turkish relations may return to a more constructive path after years of misgivings and mutual accusations.

Energy security is one of those sectors where the two partners could benefit from closer cooperation. In April 2013, Commissioner Füle, responsible for enlargement and European Neighborhood Policy, called for the opening of the energy chapter in the accession negotiations between Turkey and the EU.[2] A few months later, the

* *David Koranyi is Deputy Director of the Atlantic Council Dinu Patriciu Eurasia Center, Washington. Nicolò Sartori is Researcher in the Security and Defence Department at the Istituto Affari Internazionali (IAI), Rome.*

1 "Erdogan Lashes out at EU, UN over Egypt v Turkey Unrest Reaction," in *RT News*, 28 July 2013, http://rt.com/news/erdogan-slams-eu-reaction-egypt-695.

2 "EU Commission calls for opening of energy chapter in Turkish accession process", in *Hurriyet Daily News*, 16 April 2013, http://www.hurriyetdailynews.com/?pageID=238&nID=45042&NewsCatID=351.

Commission highlighted that "Turkey is a […] a strategic partner for the European Union. Turkey, with its large, dynamic economy, is an important trading partner for the EU and a valuable component of EU competitiveness through the Customs Union. *Turkey has a strategic location, including on energy security*, and plays an important regional role." [emphasis added][3]

In this paper we will explore energy relations between Turkey and the EU in the context of EU accession talks. The paper focuses strongly on natural gas as a strategic component of these relations.

Turkey's Energy Policy

Turkey's total primary energy consumption has more than doubled over the last two decades as a result of its exceptional economic performance, passing from roughly two quadrillion British thermal unit (Btu) in 1990 to five quadrillion in 2011. Today, the country is one of the fastest-growing energy markets in the world, and it tops the list of members of the International Energy Agency (IEA) as for total energy consumption.[4] In terms of increase in natural gas and electricity demand, over the last decade, Turkey was second only to China.[5]

Turkey is heavily dependent on external hydrocarbon supplies in order to meet its growing demand as a result of the limited indigenous conventional fossil fuel resources available under its soil.[6] Today, external resources meet 75 percent of the country's total energy demand. The country imports around 90 percent of its total liquid fuels consumption and - according to the IEA - its imports are expected to double over the next decade, though a slowing economy and improvements in energy intensity rates might mitigate that growth. Turkey relies almost exclusively on imports to meet its domestic demand for natural gas, which nearly tripled in the decade between 2001 and 2011 and is expected to almost double again by 2030. Natural gas has overtaken oil in the Turkish energy mix, becoming the most important fuel in terms of volume consumed (45.3 billion cubic meters (bcm) in 2012) and contributing to roughly half of the country's electricity generation.[7]

The pillars of Ankara's strategy to meet such an extraordinary consumption increase are: "(i) diversify its energy supply routes and sources; (ii) increase the share of renewables and include the nuclear in its energy mix; (iii) take significant steps to increase energy efficiency; (iv) contribute to Europe's energy security."[8] Over the last decade the Turkish government has developed an ambitious external energy policy. Thanks to a fortunate position – surrounded by producing countries to its north, east and south as visualized in figure 1 in the Annex – and to its new pivotal regional role, Turkey has been able to implement a successful energy policy, which has secured significant volumes of hydrocarbons and attracted huge investments for the realization of ambitious energy transportation projects.

Turkey has managed to develop a diverse portfolio of external gas suppliers. As of 2011, Russia is the main gas supplier with 24 bcm delivered annually, followed by Azerbaijan (6 bcm), Iran (5 bcm), Algeria (4 bcm via liquefied natural gas (LNG)) and Nigeria (1.2 bcm via LNG). With the completion of the Baku-Tiblisi-Ezurum (BTE) pipeline in 2006, Turkey achieved the objective of transporting westward the gas resources available in the Caspian region. At the same time, the construction of the Blue Stream undersea pipeline – volumes of which add to the Russian gas transported via Romania and Bulgaria through the Trans-Balkan pipeline – ensures secure and direct access to additional Russian resources, and cements the energy partnership between Ankara and Moscow. The Baku-Tiblisi-Cehyan (BTC) oil pipeline that bypasses both Russian territory and the congested Bosphorus Strait, the Kirkuk-Ceyhan oil pipeline from Iraq and the Tabriz-Ankara gas pipeline from Iran complete the Turkish international pipeline network. In total, there are two international oil pipelines in operation, with a total annual handling capacity of 2.6 million barrels per day (mb/d), and four gas import pipelines,[9] with a total capacity of 46.6 bcm.[10]

Yet, as the bulk of gas supplies come from Russia and Iran at a high price,[11] the effects of which are further amplified by a low Turkish lira, Turkey is determined to secure additional sources of lower-priced supply. Turkey's energy bill makes up the bulk of the current account deficit endangering its dynamic economic growth; for this reason, decreasing its dependence on expensive Iranian and Russian gas and developing a better negotiating position *vis-á-vis* external suppliers are considered strategic goals.

Turkey's primary strategic interest is, therefore, to further diversify and increase access to gas resources in order to satisfy its skyrocketing gas demand. At the same time, Ankara hopes that this effort will help to put Turkey at the core of a regional energy trading system, and have the potential to transform it from a transit country into a strategic energy hub. The already-planned Trans-Anatolia gas pipeline (TANAP), which is expected to bring gas from the Caspian fields to the EU border, a gas pipeline possibly connecting Iraq and Turkey and sourcing gas primarily from the Kurdistan Region of Iraq (KRI), and potential gas linkages with Israel/Cyprus and Iran are the hallmarks of this ambitious strategy.

Turkey's own structural weakness – the heavy dependence on foreign energy resources – has become a driver for closer cooperation between Ankara and the neighbouring resource-rich countries. Moreover, as repeatedly stressed by government officials and policy-makers, contributing to Europe's energy security is one of the country's strategic objectives in the energy domain. Nevertheless, satisfying domestic demand enjoys primacy under any circumstances. Turkey's own dynamic increase in gas demand may affect the country's role as a crucial transit state to Europe, as significant quantities of gas could be "caught" in Turkey.

The two sides would benefit from enhanced energy cooperation. On the one hand, the EU would gain a reliable alternative supply route to access Caspian and potentially Eastern Mediterranean, Central Asian, Iraqi and perhaps even Iranian volumes, with the result that it would further diversify its imports from Russia. Turkey, on the other hand, would benefit from transit fees and other energy-generated revenues. Even more importantly, closer energy cooperation could demonstrate the fundamental role of Turkey as partner for, and eventually as a member of, the EU. In theory, the centrality of Turkey's position in the EU energy diversification strategy gives Ankara strong political leverage in its relationship with Brussels. In practice, however, the

3 European Commission, *Enlargement Strategy and Main Challenges 2013-2014* (COM(2013) 700 final), 16 October 2013, p. 21 and 40, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=celex:52013dc0700:en:not. See also European Commission, *Turkey 2013 Progress Report* (SWD(2013) 417 final), 16 October 2013, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=swd:2013:0417:fin:en:pdf.

4 The IEA is composed of a total 28 members. For a complete list of members, see the IEA website: http://www.iea.org/countries. For further details on Turkey, see IEA, *Energy Policies of IEA Countries. Turkey 2009 Review*, Paris, IEA, 2010, http://www.iea.org/publications/freepublications/publication/name,3909,en.html.

5 Turkish Ministry of Foreign Affairs website: *Turkey's Energy Strategy*, http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa.

6 According to the U.S. Energy Information Administration (EIA), Turkey has a potentially significant shale oil and gas resource base, exploration of which started recently. For details, see Ch. 26 in: EIA, *Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States*, Washington, U.S. Department of Energy, June 2013, http://www.eia.gov/analysis/studies/worldshalegas.

7 IEA, *Oil and Gas Security Emergency Response of IEA Countries. Turkey 2013 update*, Paris, IEA, 2013, http://www.iea.org/publications/freepublications/publication/name,38110,en.html.

8 Turkish Ministry of Foreign Affairs website: *Turkey's Energy Strategy*, cit.

9 There is a fifth existing international (undersea) pipeline that is used to ship gas from Turkey to Greece. This pipeline is called the Turkey-Greece Interconnector, and was inaugurated in 2008.

10 IEA, *Oil and Gas Security Emergency Response of IEA Countries* …, cit.

11 "Turkey to sue Iran over natural gas price", in *Today's Zaman*, 14 March 2012, http://www.todayszaman.com/news-274244-turkey-to-sue-iran-over-natural-gas-price.html; see also Alex Jackson, "Turkey puts Pressure on Iran over Gas Prices", in *Natural Gas Europe*, 23 January 2012, http://www.naturalgaseurope.com/turkey-iran-over-gas-prices-.

perception of a drift of Turkey in Europe and the increasing irrelevance of the EU in Turkey, the slowness of the accession negotiations and Turkey's own domestic and foreign exigencies may push Ankara into a less cooperative and more self-absorbed energy partnership, to the detriment of the EU's energy security and EU-Turkish relations.

Energy and Negotiations with the EU

Turkey's energy security policy has a strong European dimension, which is expected to play an important role in accession negotiations with the EU. At the same time, however, the uncertain status of those negotiations could negatively impact on the success of EU-Turkey cooperation in the field of energy.

The link between Turkey's indispensable role for European energy security and the EU accession process has been underlined repeatedly by high-level policymakers in Ankara. In 2007, the then Energy Minister Hilmi Güler confirmed such an approach, arguing that "Turkey's membership perspective and the […] accession negotiations with the EU will be a driving force for the realization of joint projects which will enhance the supply security of Turkey and the EU."[12] Under these assumptions, Ankara has announced its availability to go ahead with closer cooperation in the energy sector, stressing that "the opening of the energy chapter [of the EU accession negotiations] will surely pave the way for negotiations with the EU on Turkey's membership to the Energy Community". [13]

Given the diverse perceptions among Members States both of Turkey's accession and of energy security priorities and interests within the EU, the approach on the EU's side has proved to be rather mixed. In 2007, Olli Rehn, then Commissioner responsible for enlargement, stressed that the progressive and well-managed integration of Turkey into the EU should be part of a strategy to manage efficiently, among other things, future energy security challenges.[14] However, his energy counterpart, Andris Piebalgs, preferred to keep the two issues separate, clarifying that the process of energy cooperation with Turkey in the framework of the Energy Community "has nothing to do with the EU accession [and that] the one does not prejudge the other or vice versa". [15]

Since 2005, accession negotiations have been delayed for long periods due to stagnation in the political relations between the EU and Turkey.[16] Within the EU, enlargement fatigue and the preponderance of the Eurozone crisis, allied to increasing criticism of Turkey's democratic development and the continuing standoff over the Cyprus settlement, have resulted in little overall enthusiasm in pursuing Turkish membership in earnest. On Turkey's side, a growing frustration with what it sees as the EU's stalling tactics, and new-found confidence resulting from its dynamic economic development and increasing regional and indeed global clout have led to a reduced willingness to comply with the EU's conditions (regarding for example the democratic reform process).[17]

Energy is technically among the issues on which Turkey and the EU could start negotiations right away, as it is among neither the eight chapters[18] that cannot be opened as a result of the Council Decision of December 2006 adopted in retaliation for Turkey's refusal to implement the 2005 Ankara protocol that would allow Greek Cypriot ships and aircrafts to use Turkish ports and airports, nor the five chapters[19] on which France casted its veto in 2007. Energy has nevertheless not been among the 13 chapters[20] already opened, since Nicosia has threatened to block any attempt to deepen negotiations on energy issues as part of its unilateral blockage of the opening of six chapters[21] since December 2009.

The Commission, and Commissioner Füle in particular, are determined to revive the accession process on topics that are of strategic interest to both parties, including energy. Commissioner Füle called for the opening of the energy chapter in Turkey's EU accession negotiations in April 2013, on the basis of the success in – theoretically at least – allowing for the opening of the negotiations on Chapter 22, which was supported both by France (that blocked it earlier) and Germany.[22] The final aim of the Commission is to implement and enforce the EU energy *acquis* which, according to Chapter 15, "consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (opening up of the electricity and gas markets, promotion of renewable energy sources), energy efficiency, nuclear energy and nuclear safety and radiation protection".[23]

Commissioner Füle's initiative represents the last institutional attempt to strengthen energy cooperation between the EU and Turkey, finally – and explicitly – linking it to the accession negotiations. One year before, in May 2012, Brussels launched the "Positive EU-Turkey Agenda" as an effort to find a way around the Cypriot veto. The Commission repeatedly emphasized that the Positive Agenda was not aimed at replacing Turkey's accession process, but instead at supporting the country towards integration into the EU energy system. Nevertheless, the launch of the Positive Agenda initiative was perceived by many Turkish stakeholders as a European attempt to dissociate energy cooperation from the thorny issue of Turkey's accession to the EU, as earlier attempts to accelerate EU-Turkish cooperation on energy had proved.

Furthermore, the 2009 negotiations between the EU and Turkey on the country's accession to the Energy Community – which would have transposed most of the energy acquis into Turkish law – ended in failure. In fact, already in 2007, the Turkish side argued that such an arrangement may suit countries that are not eligible for membership, but not an EU candidate, which expects the European "energy *acquis* "as part of its accession negotiations, not as part of some alternative

12 EU-Turkey Joint Press Release: *Turkey and the EU: Together for a European Energy Policy. High Level Conference in İstanbul on 5 June*, İstanbul, 5 June 2007, http://www.avrupainfo.isomertest.com/Files/File/jointprelease-en.pdf.

13 Turkish Ministry of Foreign Affairs website: *Turkey's Energy Strategy*, cit.

14 "Olli Rehn: Turkey membership 'vital' for EU", in *EurActiv*, 23 October 2007, http://www.euractiv.com/enlargement/olli-rehn-turkey-membership-vital-eu/article-167807.

15 Andris Piebalgs, *EU and Turkey: Together for a European Energy Policy*, Speech at the conference "Turkey and the EU", Istanbul, 5 June 2007 (Speech/07/368), http://europa.eu/rapid/press-release_SPEECH-07-368_en.htm.

16 For in-depth analyses of this political stagnation, see several contributions published in the *Global Turkey in Europe* series, http://www.iai.it/content.asp?langid=2&contentid=778.

17 Senem Aydın-Düzgit and E. Fuat Keyman, "EU-Turkey Relations and the Stagnation of Turkish Democracy", in *Global Turkey in Europe Working Papers*, No. 2 (December 2012), http://www.iai.it/pdf/GTE/GTE_WP_02.pdf.

18 These eight chapters are 1-Free Movement of Goods, 3-Right of Establishment and Freedom to Provide Services, 9-Financial Services, 11-Agriculture and Rural Development, 13-Fisheries, 14-Transport Policy, 29-Customs Union and 30-External Relations. For details, see Council of the European Union, *2770th Council Meeting General Affairs*, Brussels, 11 December 2006 (16289/06 Presse 352), p. 8-9, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/gena/92122.pdf.

19 These five chapters are 11-Agriculture and Rural Development, 17-Economic and Monetary Policy, 22-Regional Policy and Coordination of Structural Instruments, 33-Financial and Budgetary Provisions, and 34-Institutions. See Turkish Ministry of Foreign Affairs website: *Turkey-EU Relations*, http://www.mfa.gov.tr/relations-between-turkey-and-the-european-union.en.mfa.

20 These are 4-Free Movement of Capital, 6-Company Law, 7-Intellectual Property Law, 10-Information Society and Media, 12-Food Safety, Veterinary and Phytosanitary Policy, 16-Taxation, 18-Statistics, 20-Enterprise and Industrial Policy, 21-Trans-European Networks, 25-Science and Research, 27-Environment, 28-Consumer and Health Protection, and 32-Financial Control. Chapter 25 has been provisionally closed. See *Ibidem*.

21 These chapters are 2-Freedom of Movement for Workers, 15-Energy, 23-Judiciary and Fundamental Rights, 24-Justice, Freedom and Security, 26-Education and Culture, and 31-Foreign, Security and Defence Policy. See *Ibidem*.

22 For an analysis of the impact of the opening of Chapter 22, see: Szymon Ananicz, "A new impetus in relations between Ankara and Brussels", in *CeWeekly*, No. 314 (23 October 2013), http://www.osw.waw.pl/en/publikacje/ceweekly/2013-10-23/a-new-impetus-relations-between-ankara-and-brussels.

23 See European Commission website: *Chapters of the acquis* (last update: 27 June 2013), http://ec.europa.eu/enlargement/policy/conditions-membership/chapters-of-the-acquis.

process".[24]

The continuous stall of the accession negotiations and the ambiguity around the opening of the energy chapter represent a serious barrier to the deepening of EU-Turkish gas cooperation and have practical repercussions on Turkey's role as a key state for the transit of natural gas resources to Europe. As circumventing Turkey is difficult both physically and commercially, this might constitute a serious impediment to the EU's efforts to bring additional gas supplies from the Caspian, Iraq and beyond.

The Southern Gas Corridor: A Test Case for EU-Turkish Energy Cooperation

The diversification of oil and gas transit routes is one of the key objectives of the EU's external energy strategy. In this context, the development of the Southern Gas Corridor represents a policy priority and a fundamental test case for energy cooperation between Brussels and Ankara. The Corridor is a transit route running from the gas-rich Caspian basin to the EU, bypassing Russian soil. In the initial plans of the Commission, the Corridor was to be based on "the integration of multiple pipeline systems which would [have] transport[ed] gas not from a single supplier but from multiple sources, including Caspian countries, Iran, Iraq and the broader MENA region".[25] While the objectives and nature of the Corridor itself have been reviewed on a number of occasions over the years for political, geographical, industrial and commercial reasons, the role of Turkey as a key transit country has never been called into question.

In the original plan conceived back in 2002, Turkey was to be crossed from east to west by Nabucco, a 3825 km-long pipeline implemented by national midstreamers, connecting the Turkish gas hub in Erzurum with Baumgarten in Austria, and delivering 31 bcm/year of gas to Southeast and Central Europe. Yet despite the strong political support of the Commission, and the backing of successive US administrations, the "Grand Nabucco" concept essentially failed, largely on account of the financial weakness of the consortium and the commercial shortcomings of the project (i.e. a lack of sufficient supplies in the early years, and a lack of sufficient demand in the Central European target markets).

Nevertheless, in May 2012, the Nabucco consortium revised its original plan, putting forward a shorter, cheaper, and less capable pipeline – Nabucco West - to transport Azerbaijani gas from the Turkish-Bulgarian border to Central Europe. The modifications proposed, however, were not sufficient to convince the Shah Deniz partners of the viability of Nabucco West, and in July 2013 the producing consortium selected the Trans-Adriatic pipeline (TAP), which is expected to deliver Azerbaijani gas to Italy via Greece and Albania.

The Southern Gas Corridor in general and Nabucco in particular played a central role in Ankara's conception of its strategic relations with the EU. As highlighted by Turkish Deputy Undersecretary for Energy and Natural Resources Yusuf Yazar, "the 'energy corridor' role has strengthened Turkey's position in the accession period [...]. In terms of European vital interests, the EU must shorten and ease the accession period to guarantee both the realization and operation of this 'energy corridor'."[26] In 2009, Prime Minister Erdogan confirmed this approach, saying that "If we are faced with a situation where the energy chapter is blocked, we would of course review our position [on Nabucco]".[27]

Similarly, the Turkish Minister of Energy Taner Yildiz argued that "with Nabucco, we believe we deserved [to be a member of] the EU".[28] This – though to a much more limited degree - was echoed within the EU. In 2008, Jozias van Aarsten, EU coordinator for Nabucco, stressed that the success of the pipeline was to be considered a "stepping stone" toward Turkey's EU membership.[29]

The reasons for Nabucco's long delay and eventual failure are manifold,[30] and Turkey's role was not insignificant in the final outcome. The lack of an agreement on gas cost and transit across Turkey has long been a significant obstacle to the EU's Southern Corridor initiative. Since April 2008, when talks between Ankara and Baku started, the Turkish government proved to be a tough negotiator. The parties, in fact, were not able to fix a gas price, with Turkey willing to keep the price of $120 per 1,000 cubic meters set in 2001, while their Azerbaijani counterparts expected to be able almost to double that price. Turkey's 2008-09 normalization initiative with Armenia also possibly encouraged Azerbaijan's intransigence. The parties were able to reach an overall[31] agreement only at the end of October 2011, meaning that there had therefore been a three-year period of uncertainty about the future of the supplies for the Corridor.

Turkey also revitalized its energy dialogue with Russia, with significant results. On 28 December 2011, the parties reached a deal allowing the Gazprom-led South Stream pipeline to pass through Turkey's Exclusive Economic Zone (EZZ). In exchange, Ankara secured significant price concessions from Gazprom, as Moscow agreed to renegotiate long-term oil-indexed gas contracts. The decision to negotiate transit access for cheaper prices, however, was criticized by the EU: the success of South Stream, in fact, was clearly perceived as a vital risk for the feasibility of the Nabucco project and – more generally – for the Southern Gas Corridor initiative. Turkey's reliability as an energy partner of the EU was thus called into question.

Turkey also played an active role in the materialisation of what can be considered the ultimate killer of "Grand Nabucco": TANAP. The signature of a Memorandum of Understanding creating the TANAP pipeline consortium was almost simultaneous with the South Stream deal (26 December 2011), but its effects were much more dramatic for the future of the Nabucco project TANAP is a pipeline expected to transport Azerbaijani natural gas from the Georgian-Turkish border to the Turkish-European border. SOCAR, Azerbaijan's national energy company, is the initial promoter and founding member of the consortium, with a controlling 80 percent stake.[32] Turkish firms BOTAŞ and TPAO are junior partners, with 15 percent and 5 percent stakes respectively. A major breakthrough in the realization of the Southern Gas Corridor, TANAP came about after it became apparent that the original Nabucco consortium was in no position to implement the project. Upstreamers, first and foremost SOCAR and key Shah Deniz consortium members BP and Statoil, took center stage. Turkey – eager to secure additional volumes of gas at a lower price from Azerbaijan – played along and agreed to take part in TANAP, albeit with a diminished role.

Turkey's move was instrumental in supporting Azerbaijan's attempt to acquire a much greater role throughout the whole Southern Gas Corridor value chain. Perceiving that deeper energy cooperation

24 Katinka Barysch, "Turkey's role in European energy security", in *CER Essays*, December 2007, p. 6, http://www.cer.org.uk/publications/archive/essay/2007/turkeys-role-european-energy-security.

25 Tolga Demiryol, "The Geopolitics of Energy Cooperation between Turkey and the European Union", in *L'Europe en Formation*, Vol. 54, No. 367 (Spring 2013), p. 109-134 at p. 16.

26 Yusuf Yazar and Hasan Hüseyin Erkaya, "Whither Turkey's Energy Policy?", in *Insight Turkey*, Vol. 9, No. 4 (October- December 2007), p. 7-22 at p. 18, http://files.setav.org/uploads/Pdf/yazar-erkaya.pdf.

27 "Turkey tries to revive EU drive", in *BBC News*, 19 January 2009, http://news.bbc.co.uk/2/hi/europe/7837145.stm.

28 Cited in Tolga Demiryol, "The Geopolitics of Energy Cooperation between Turkey and the European Union", cit., p. 120.

29 "EU official says Nabucco gas pipeline project is now 'more of a reality'", in *Kiyvpost*, 18 February 2008, http://www.kyivpost.com/content/world/eu-official-says-nabucco-gas-pipeline-project-is-n.html.

30 For a detailed analysis of why TAP eventually won, see Matthew Bryza and David Koranyi, "A Tale of Two Pipelines: Why TAP has won the day", in Natural Gas Europe, 2 July 2013, http://www.naturalgaseurope.com/southern-corridor-strategic-imp ortance-tap-nabucco. See also Nicolò Sartori, "Energy and Politics: Behind the Scenes of the Nabucco-TAP Competition", in *IAI Working Papers*, No. 13|27 (July 2013), http://www.iai.it/pdf/DocIAI/iaiwp1327.pdf.

31 A partial agreement on purchase and sale was reached in April 2011, while decisions concerning transit were agreed in October.

32 To be reduced to a - still controlling - 51 percent stake after the Shah Deniz II consortium members BP and Statoil take a 12 percent stake and Total a 5 percent stake in the near future.

with the EU was unlikely to produce any significant – short-term – advantage (e.g. a gas price reduction), Ankara – exasperated by the lack of support from the EU for its accession, and also facing the commercial shortcomings of Nabucco – opted to pursue its own interests, turning to Azerbaijan (rather than to Brussels, which was mired in divisions between Member States) for leadership. The TANAP deal effectively gave impetus to the realization of the Southern Gas Corridor, but in doing so relegated the EU to the role of passive spectator, with potentially disadvantageous long-term consequences for both Turkey and the EU.

Turkey's Role as Strategic Gas Transit Corridor to the EU in Jeopardy?

The regional gas supply picture today is in stark contrast with that of five years ago, when – as mentioned above – one of the key weaknesses of the grand Nabucco concept was the lack of sufficient resources. Additional supplies of gas available for export to Europe from the Eastern Mediterranean, Iraq, Central Asia and Iran may come online over the next five to ten years, a significant portion of which could be – at least theoretically – shipped to Europe through Turkey. Though the availability of these resources for export cannot be taken for granted as the political obstacles to their export in particular are daunting (the Iranian nuclear dossier, the unresolved legal status of the Caspian Sea, the lack of a Cyprus settlement, among other things), they all potentially enhance the centrality of Turkey as a natural gas transit hub.

Recent major gas discoveries in the Eastern Mediterranean (offshore Israel, Cyprus and potentially Lebanon and Syria) may be sourced to supply the Turkish market and transported beyond to Europe, should the underlying geopolitical frictions – first and foremost the Israeli-Turkish relationship – be sorted out. There are discussions over gas deliveries from Israel's Leviathan field to Turkey via an undersea pipeline to Mersin or Ceyhan which could amount to up to 8-16 bcm per year in the second half of the decade. A direct pipeline from Cyprus to Turkey seems utterly unfeasible short of a – currently distant-looking – settlement of the Cyprus problem, but cannot be excluded in the long-term. This would potentially bring additional volumes of Cypriot gas to Turkey (subject to further successful exploration around the island). On mainland Turkey, these pipelines could connect to the Turkish gas grid and potentially TANAP.

The rapprochement between the Kurdistan Regional Government in Iraq (KRG) and Turkey in recent years has opened up the option of gas supplies from Northern Iraq. The KRG's strong support was key in launching the still fresh and fragile "Kurdish opening" within Turkey, which already has the largest share of foreign direct investment in the KRI, including investment in many energy projects. Opening up KRG and Iraqi energy resources to the growing Turkish market, while diversifying oil and gas export routes to Europe and the world beyond, would contribute to the stabilization of Iraq and the region. The KRG could play a large part in supplying Turkey with natural gas, and, given its huge gas reserves, it could also become a supplier of Europe in the long run.

KRG estimates put its gas reserves between 2.8 and 5.6 trillion cubic meters (in addition to 45 billion barrels of oil). The KRG has already announced its plans to sell Turkey at least 10 bcm of gas annually beginning in late 2016 or early 2017 under a prospective gas sales agreement.[33] The KRG leadership talks of further quantities being available for export to Turkey and perhaps Europe, though even the first 10 bcm could be politically problematic due to the rise in domestic Iraqi demand provoked by additional needs for electricity generation. Furthermore, the KRG is facing a delicate balancing act: there is strong opposition from both the Iraqi federal government and the US to KRG gas exports to Turkey. Erbil prefers an agreement that grants a share of all exported Iraqi resources as opposed to only those from the KRI, but is using the prospect of independent export routes to put pressure on Baghdad to resolve the outstanding dispute over the sharing and management of hydrocarbon revenues. A comprehensive resolution is unlikely before the Iraqi elections next year, and will depend on the complex and evolving power relations between various Iraqi domestic and external actors. In any case, the KRG wants to press ahead with capitalizing on its natural resources, and Turkey is a hungry customer for its relatively cheap onshore gas.

Related to Iraqi gas exports to Turkey is the question of Iran. It is worth recalling that the original Nabucco concept, conceived in 2002, planned on shipping Iranian gas to Europe. As the nuclear stand-off with Iran intensified, the option of Iranian gas for Europe became a no-go. In the context of a potential resolution of the nuclear issue – a big if – Iran is still eyeing exporting gas to Europe via Turkey. At the same time, Iran is not interested in seeing Iraqi gas shipped to Turkey as it would compete against its own, and is therefore putting pressure on the (Shiite-led) Iraqi government to put off gas exports from the KRI.

A long sought-after source of European gas supply diversification is Central Asia, primarily Turkmenistan, but also Kazakhstan and Uzbekistan. In devising the Southern Gas Corridor concept, the EU counted on supplies from at least Turkmenistan. Yet China is proactively buying up most supplies from all Central Asian suppliers and thus likely precluding supplies to Europe for the foreseeable future. In addition, the realization of the Trans-Caspian Pipeline has long been stalled and will likely remain elusive in the coming years due to the disagreements between Azerbaijan and Turkmenistan as well as the legal uncertainty surrounding the status of the Caspian Sea. Nevertheless, some gas from offshore Turkmenistan might make it to Europe should the completion of a Southern Gas Corridor with expanded capacities change the calculus in both Baku and Ashgabat.

As far as European exports of the above resources are concerned, TANAP could act as an impediment but also an enabler. The original Nabucco concept had a strategic advantage for Turkey and the EU inasmuch as it was a pipeline which was to be regulated by intergovernmental agreements that complied with EU rules throughout the entire length of the pipeline, including those on Third Party Access and unbundling. This is not the case as far as TANAP is concerned. Since Turkey is neither a member of the Energy Community, nor at the moment is planning to transpose the EU energy *acquis* into its legislation in the context of the EU accession negotiations, Azerbaijan, with a 51 percent stake in TANAP, will enjoy control over gas transits via the pipeline in Turkey, and will be able to allow the transit of additional gas volumes from other sources and to set transit tariffs. This is indeed an enviable position, one that Gazprom was longing for but unable to achieve in the past two decades in Ukraine.

Whereas the initial 10 bcm of gas is now locked down for European consumers for a period of 25 years (starting in 2019),[34] the transit of additional gas volumes from the wider region to Europe via TANAP can effectively be blocked by Azerbaijan, if Baku deems that these supplies compete against its own gas shipments to Europe. In the 2020s, Baku plans on shipping additional quantities of gas to Europe beyond the initial 10 bcm from Shah Deniz 2 from prospective Caspian offshore fields such as Absheron, Umid or ACG Deep, and may want to keep TANAP open to those volumes. Feeding East Med gas into TANAP and onward to Europe may not therefore be an option, and this might lead to the development of a separate, dedicated pipeline infrastructure to ship Iraqi and perhaps Eastern Mediterranean gas to Europe at significantly higher prices. On the other hand, TANAP may well prove to be an enabler if additional non-Azeri gas is transited through it in order to make the expensive pipeline more bankable with the help of early transit fees. It is worth mentioning that at the time of writing of this paper, the exact size and throughput capacity of TANAP was undecided as a result of disagreement between the consortium members. Options range from a pipeline with an initial capacity of 16

33 "Iraqi Kurdish Autonomy to start exporting gas to Turkey in 2016", in *The Journal of Turkish Weekly*, 20 June 2013, http://www.turkishweekly.net/news/152167.

34 BP, *Shah Deniz Major Sales Agreements with European Gas Purchasers Concluded*, 19 September 2013, http://www.bp.com/en/global/corporate/press/press-releases/shah-deniz-major-sales-agreements-with-european-gas-purchasers-c.html.

bcm, scalable to between 24 bcm and 60 bcm.[35] This last figure would enable additional quantities of gas to be transferred to Europe, but would add significantly to the costs of TANAP, to which the private shareholders, especially BP and Statoil, which have no upstream projects beyond Shah Deniz II, object.

To be sure, TANAP does not sink once and for all Turkey's ambition to become a transit hub, nor does it preclude additional gas volumes reaching Europe later on. Other existing pipelines (through the revamp of Botas's aging network) could be used, or new, dedicated pipelines could be built. But that would in all likelihood add significantly to costs and preclude or limit gas shipments to Europe at competitive prices. Thus TANAP may end up being a missed strategic opportunity for both Turkey and the EU in terms of the realization of the Southern Gas Corridor as a strategic project that goes beyond transporting gas from Azerbaijan and becomes the fourth gas superhighway to Europe.

Conclusions

Turkey is in an ambiguous situation when it comes to its role as a strategic transit hub for energy supplies to Europe that defines its strategic posture in negotiations with the EU as well as regional suppliers. On the one hand, Turkey is in a strong position due to its geographic location. Turkey is also by far the fastest growing natural gas market in Europe and thus an important buyer of gas. On the other hand, its heavy dependence on gas imports, an expected increase in gas demand, exposure to high gas prices, scarce financial resources and lack of strategic focus weaken its ability effectively to leverage its role as gas transit hub with the EU and regional suppliers. As Turkey's decision-makers are squeezed to secure additional quantities of gas supplies, short-term political and economic considerations (securing price discounts) often trump strategic considerations.

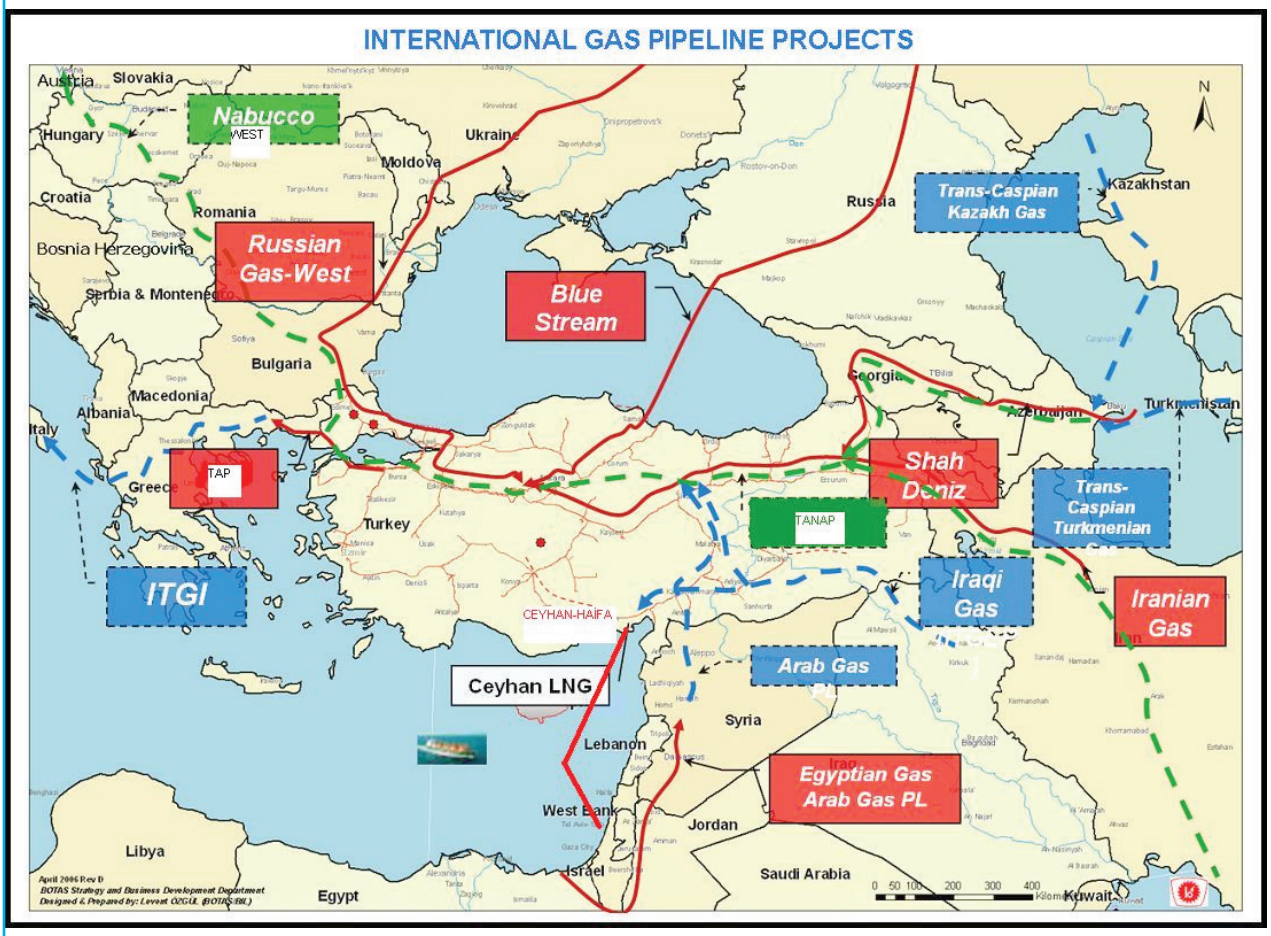
35 Vladimir Socor, "Turkey Sees Opportunity in Trans-Caspian Gas Pipeline Project", in *Eurasia Daily Monitor*, Vol. 9, No. 164 (11 September 2012), http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=39826.

The EU is to a large degree responsible for pushing Turkey into such a position. Its reluctance to proceed with the accession negotiations and the energy chapter in particular significantly reduced its ability to drive the development of the Southern Gas Corridor and to influence Turkey's stance. The continuous stalling and ambiguity on the part of the EU as regards the opening of the energy chapter of Turkey's accession negotiations may encourage a less cooperative energy policy from Ankara that is in the interests of no member state. At the same time, Turkish foot-dragging on the Energy Community – though the misgivings are understandable – further precludes elevating EU-Turkish energy cooperation to a more strategic level. Ankara should recognize that thinking long-term, acceding to the Energy Community and thus adopting the energy *acquis* at the earliest possible occasion will ultimately benefit Turkey and act as a safeguard against regional suppliers abusing their dominant positions, without undermining Turkey's negotiating positions with Brussels on eventual EU membership.

To be sure, Turkey still has a very long way to go in terms of accession. It has opened only 14 of the 35 chapters and closed only one. The major stumbling blocks remain in place: low support in the public opinion of crucial EU member states such as Germany and France, the lack of a Cyprus settlement and slow progress and even relapse in terms of domestic reforms in Turkey. But reenergizing the accession process and the opening of the regional policy chapter is a positive step. This momentum should be seized by both Turkey and the EU to make progress in the realm of energy as well.

Annex

• Figure 1 | International Gas Pipeline Projects



Source: BOTAŞ website, http://www.botas.gov.tr/images/icerik/harita/BotasProjeE.jpg.