POLICY **BRIEF**

GLOBAL POLITICAL TRENDS CENTER (GPoT)

TURKEY'S STANDING IN GAS PIPELINE GAMES

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ABSTRACT Since September 2011, the Eurasian gas market has been facing shocking bi-monthly announcements: on September 23, British Petroleum (BP) announced the South East Europe Pipeline (SEEP); on December 26, Turkish and Azeri authorities announced their joint agreement for the Trans-Anatolian Pipeline (TANAP); and on February 26, the Shah Deniz II Consortium announced it was undertaking exclusive negotiations with the Trans Adriatic Pipeline (TAP). The shock wave intensified when the Turkish Energy Minister hinted that a new agreement allowing Russia to build its own South Stream pipeline under the Black Sea using Turkish territorial waters was in the works. Now the ultimate question of the Eurasian energy market is: "Which of these projects will be built?" This Policy Brief seeks to answer this question by analyzing Turkey's standing in Eurasian energy diplomacy in the perspective of energy transit projects competing for building the Southern Energy Corridor of gas transit from the Caspian zone to Europe. First, I present a short review of Turkish strategy in Eurasian energy diplomacy. Secondly, I detail the driving forces behind Turkish energy policy. I then conclude with some remarks about different scenarios of Turkish energy policy in the framework of the Southern Energy Corridor.

Turkey's Standing in Eurasian Energy Diplomacy

Becoming a "bridge" between the East and the West is the central concept of Turkey's new foreign policy, and this is also echoed throughout Turkish energy policy. In addition, with the revival of the southern wing of the east-west energy axes, the quest for dominance in east-west energy transit roads is high on Turkey's agenda.

The southern wing of the east-west energy axes is a project of building a corridor running from the Caspian Zone and the Middle East to Europe via Turkey. Discussions of these energy corridors began after the Russia-Ukraine gas crisis of 2006. The EU member countries affected by this crisis reconsidered their established energy supply roads. Their dependency on northern gas routes dominated by Russia has been identified as an energy security vulnerability. Since then, the EU has begun backing a series of strategies for the security of energy supply; ITGI, TAP and Nabucco. Russia responded by promoting two different projects; Blue Stream II and South Stream. And very recently BP and SOCAR, as suppliers, changed the game by pushing their own projects: SEEP and TANAP.

EU-backed Gas Pipeline Projects

Since 2006, with the support of the EU European energy companies developed three main gas transit projects: the Nabucco, ITGI and TAP pipeline projects. These three pipeline projects constitute alternatives for the Southern Energy Corridor project backed by the EU, and each appears to present an opportunity for Turkey to fulfill its ambition of being a powerful player in new energy routes of Eurasia. Furthermore, becoming a major energy transit country could also help Turkey to fulfill its desire for EU accession. Turkish public energy companies have already been involved in gas transit pipeline projects supported by the EU, and the Turkish Parliament has already ratified partnership agreements of the Nabucco pipeline project.

The Nabucco project represents a new gas pipeline connecting the Caspian region and the Middle East (via Turkey, Bulgaria, Romania and Hungary) with Austria and further on to the Central and Western European gas markets. The pipeline has been designed to transport a maximum amount of 31 bcm per year. Estimated investment costs including finance costs amount to approximately ten billion Euro. OMV (Austria), MOL (Hungary), Transgaz (Romania), BEH (Bulgaria), BOTAŞ (Turkey) and RWE (Germany) are the shareholders in the Nabucco Gas Pipeline, each holding an equal share of 16.67% in the project. The company estimates that 50% of the pipeline capacity will be reserved for shareholders, with the remaining 50% available to other gas shippers on commercial terms that will later be agreed upon. At the moment, construction of the Nabucco pipeline remains suspended due to a lack of relational strategy with supply countries of the Caspian zone.

The ITGI, or "the Interconnection Turkey Greece Italy," gas pipeline project of Greek DEPA and Italian Edison S.p.A comprises four pipeline sections:

1. the Turkish grid, which will be upgraded in order to enable the transit of gas volumes for Italy and Greece;
2. ITG (Interconnector Turkey-Greece), which has been in operation since November 2007 and has a transport capacity of about 11.5 bcm of natural gas per year;
3. the IGI (Interconnector Greece-Italy) project with a transport capacity of about 9 bcm of natural gas per year; and
4. IGI Poseidon, a 200 kilometer-long offshore pipeline across the Ionian Sea. The EU financed 50% of the cost of technical studies and 29% of the construction costs of the ITGI project.

TAP, a natural gas pipeline project running from Greece to Albania, was offshore (under the sea) in the Adriatic Sea and then came onshore (on the ground) in southern Italy. TAP will initially have a capacity of 10 bcm, which could be expanded to 20 bcm per year. TAP's shareholder structure includes Swiss EGL (42.5%), Norwegian Statoil (42.5%) and German E.ON Ruhrgas (15%). Finally, TAP is recognized as a "Project of Common Interest" by the EU Parliament and Council under the European Union's Trans-European Energy Network, and it has already received two grants for feasibility studies from the trans-European transport budget.

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Energy Corridor project backed by the EU, and each appears to present an opportunity for Turkey to fulfill its ambition of being a powerful player in new energy routes of Eurasia. Furthermore, becoming a major energy transit country could also help Turkey to fulfill its desire for EU accession. Turkish public energy companies have already been involved in gas transit pipeline projects supported by the EU, and the Turkish Parliament has already ratified partnership agreements of the Nabucco pipeline project.

Beside the fact that three of these projects offers an opportunity for Turkey to fulfill its ambition of being a powerful player in new energy routes of Eurasia as well as strengthening relations with the EU, Turkey does not dedicate all its state capabilities exclusively to the EU backed-gas pipeline projects. In fact, Nabucco, TAP or ITGI projects are not Turkey's only options to fulfill its ambitions to become an energy bridge: the Game also has other players. First among these is Russia, who supports South Stream and Blue Stream II pipeline projects in response to pipeline projects backed by the EU. Turkish state and energy companies are also involved in Russian pipeline projects considered as competitors to the EU pipeline projects.

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Gas pipeline projects of Russia

In 2000, when Putin came to power, he initiated a campaign directed at expanding state control in oil and gas. In this sector in particular, Putin has made a strong link between economic and foreign policies. This link was manifest in the 2006 and 2009 Ukraine gas crises.

Russia's strategy in the Southern Corridor issue is based on two pillars. The first one is to avoid cheaper Central Asian gas accessing Europe to protect the virtual Russian monopoly in the European market and its near monopoly as sole buyer of Central Asian gas. The second one is reducing Russia's dependence on Ukraine as main gas transit country by promoting a new reliable transit country: Turkey. That is why besides the current pipeline infrastructure, which is not yet at full capacity, Russia is promoting two concurrent pipeline projects to frustrate European southern corridor initiatives: Blue Stream II and South Stream.

The Blue Stream II gas pipeline project, on the other hand, is an expansion of the Blue Stream I. Inaugurated in 2003, it carries Russian gas across the Black Sea to Turkey by the Samsun-Ceyhan link and by branch to South East Europe. Blue Stream II pipeline's expected transport capacity is 16 bcm per year, and its shareholders are Gazprom, Blue Stream Pipeline B.V. and BOTAŞ.

South Stream is a gas pipeline project that aims to bring Russian gas to Austria in Europe via the Black Sea, Bulgaria and Hungary. South Stream pipeline's expected transport capacity is 63 bcm per year. Gazprom and ENI are equal shareholders of the operator company South Stream AG.

Until September 2011, there was a bipolarization in the Eurasian energy diplomacy between Russia and EU. Turkish signatures were present in projects of both sides. But the game changed after the shareholders of the main gas fields of the Caspian zone, BP and SOCAR, promoted their own gas transit projects.

Suppliers' Projects: SEEP and TANAP

The fist shocking news of the Eurasian gas market arrived on September 27, 2011, when BP, the operating company and the leader of Shah Deniz II gas field consortium, announced the creation of the South East Europe Pipeline (SEEP). The Shah Deniz II gas field is the main supply source of the Southern Energy Corridor. The South-East Europe Pipeline (SEEP) challenges in varying degrees the three pre-existing pipeline projects: Nabucco (from eastern Turkey to Vienna), the ITGI and TAP (also originating in Turkey).

SEEP would use existing pipelines and interconnectors for about two thirds of the 3,800 kilometer route from Central Anatolia to Central Europe. It would require laying only some 1,300 kilometers of new pipelines with a capacity of 10 bcm per year and a cost of 14 billion Euros. In comparison to Nabucco (3,800 kilometers in length, at 31 bcm annual capacity), BP's proposal is a smaller and cheaper transporttation solution for Shah Deniz gas.

Two months later, on December 26, 2011, Azerbaijan, the main supply country, and Turkey, the main transit country, signed the memorandum for Trans-Anatolian Pipeline (TANAP). TANAP is an Azeri-Turkish joint gas pipeline project with capacity at 30 bcm to be operational in 2017. The objective of TANAP is to transit Caspian gas sources to European markets

The Turkish government as well as public and private energy companies have links to the above stated five projects. TANAP, Nabucco, ITGI, Blue Stream II and South Stream and are missing only in two of them: SEEP and TAP.

The multilateral engagements of Turkish actors reveal questions about Turkey's political relevance and its standing in the international competition for dominance of pipeline projects harnessing Caspian and Middle Eastern energy sources. The elucidation of competing agendas in Turkish energy policy requires a consideration of the forces driving Turkish energy policy.

Driving Forces behind Turkey's Energy Policy

The ultimate question concerning Turkish energy policy for the EU, which attempts to counterbalance the Russian energy monopoly, is whether Turkey competes or cooperates with Russia in the world energy market. In fact, it does both. Four often conflicting agendas driving Turkish energy policy contribute to understanding this *état de fait*: full EU membership, trade with Russia, political and economic leadership of the Middle East region, and the growing power of the private energy companies.

One of the most obvious drivers is Turkey's candidacy for full EU membership. In this frame if Turkey is required to be seen as an ally of the EU, it will need to contribute to the realization of the EU backed-projects Nabucco, ITGI or TAP of the Southern Energy Corridor. This Energy Corridor would provide Europe with access to Caspian gas without passing through Russia.

A second driver is that Russia is a strategic neighbor for Turkey and its number one trading partner. Turkey's promotion of alternative corridors bypassing Russia would undermine the energy monopoly power of the Russian state energy companies in the Caspian Region.

A third driver emerges from Turkey's new foreign policy: Turkey's ambition to assume political and economic leadership in Central Asia and the Middle East. If we consider alternatively Iranian or Iraqi gas as supply resources for the Southern Energy Corridor, Turkey has the potential to become an independent moderator in energy deals between west and east.

The final driving force is the growing power of private energy companies. Even though they only gained influence after 2001 with the liberalization of the Turkish energy market, some of these energy companies and contractors have acquired significant strategic po-wer. The impact of this power will be soon affect external energy policy, as Russian investors are showing inte-rest in securing stakes in these emerging Turkish energy companies. In fact, the liberalization of the Tur-kish energy market, which was introduced to conform with EU stan-dards, ironically serves the interests of Russian investors.

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For Turkey, the success and sustainability of a project is related to the equilibrium of these four main driving forces of Turkish energy policy.

Four Scenarios for Turkish Energy Policy

Until the recent changes that took place in September 2011, Turkey was bound to choose between three alternative of scenarios: supporting European projects, Russian projects, or both.

In the first scenario, Turkey would opt only for Nabucco or any other EU-backed projects and would compete with Russia by rejecting Gazprom's pipeline proposals. In this case, Turkey would sign the European Energy Charter Treaty. Turkey would thus jeopardize economic relations with its most important trading partner for exports, Russia, and their additional agreements regarding nuclear energy cooperation or visa-free travel would also be hampered.

Yet Turkey did not get what it has demanded for the Intergovernmental Agreement of Nabucco pipeline, 15% of the pipeline's gas for domestic use acquired and the opening of the Energy Chapter in the EU accession process. Official statements like that of former European Commissioner for Energy Andris Piebalgs also indicate that it is not realistic to expect any more political gain for Turkey in the case of exclusive commitment to EU pipeline projects: "Turkey-EU energy coope-ration is a process that… has nothing to do with the EU accession – the one does not pre-judge the other or vice versa… They both stem from the under-standing that further cooperation is needed between the EU and Turkey in a number of fields."[1] In addition to harming its relations with Russia, by committing exclusively to EU-backed pipeline projects Turkey will not necessarily improve its EU accession process.

In the second scenario, Turkey would cooperate with Russia and give exclusive support to the South Stream pipeline project. As a result, Turkey would withdraw its signature from the Interna-tional Governmental Agreement on Nabu-cco, the Russian energy monopoly would be strengthened, and Turkey-Russia eco-nomic and political relations would be reinforced. At the same time, the price of Russian gas would become more compe-titive for Turkey, and Turkey's energy

[1] Speech delivered at the conference "Turkey and the EU," Istanbul, 5 June 2007.

market would fall under significant Russian control. On the European side, the EU would equivocate on Turkey's accession talks. Despite the favorable conditions of negotiations, the EU accession process would continue on its own rhythm independent of energy cooperation. The Energy Chapter would remain suspended, because this blockage is not related to energy policy issues. Turkey would refrain from signing the Energy Charter Treaty, jeopardizing energy interconnectivity in Europe. In addition to unstable dependency relations between East European countries and Ukraine, Greece, Bulgaria, Romania and Italy would also become dependent on Turkey, an energy transit country that does not have strengthened political relations with the EU. The EU's energy security would thus remain vulnerable, and its presence in the Black Sea weakened.

In the third scenario, Turkey would show stoic resignation towards this rivalry and avoid making boldly explicit claims about either project. It would lay the ground for both and wait before lending its full support to the project which would be implemented first. In this frame, Turkey would sign agreements to allow use of its territories for either pipeline. Conversely to what is expected under the other scenarios, neither relations with Russia nor relations with the EU would deteriorate. Both would maintain smooth economic and political relations with Turkey and make efforts to avoid obstacles for their pipeline projects.

Since September 2011, Turkey's energy policy actions most resembled this third scenario. Yet the emergence of the SEEP and TANAP projects created the opportunity for a fourth scenario, in which Turkey has the opportunity to cooperate only with operators of the sources, an option that allows all shareholders to maximize their commercial profits thanks to less costly investment and cheaper gas.

The Shah Deniz II Consortium's announcement to undertake exclusive negotiations with TAP and BP's acknowledgement that it is only considering Nabucco and SEEP means that the leader of the Shah Deniz Consortium did not give any priority to the TANAP Azeri–Turkey joint project. As a result, the fourth scenario has become clearer.

BP, as the operator of the Shah Deniz II gas field, would opt for his own project SEEP to bring gas from Azerbaijan to Western border of Turkey. This would be the first leg of Southern Energy Corridor. The second leg concerns circulation among Europe. Considering the announcements of February 2012, TAP would complete a first pillar of this second leg running in southern Europe, from Greece to Italy. Now, the question is whether Europe needs a second pillar for gas transport in Northern Europe to Baumgarten hub in Austria. If the need persists, would Nabucco meet this need?

Concerning Turkey's standing, if Turkey opts for SEEP, the Shah Deniz II consortium would bring gas to the western border of Turkey, with Turkey earning transit fees and related gas shares. The Consortium would then sell this gas on its own range. The Nabucco pipeline project would be revised to start at the Bulgarian border. As the length is reduced, the consortium would overcome the funding barrier, and the project would be achieved. All the shareholders of Nabucco, including Turkey, would maximize the return on their investment. Gazprom would build South Stream and sell Russian gas to Southern Europe. The two different gas supply roads, SEEP and South Stream, would meet with the new Nabucco pipeline starting at Bulgarian border. Concurrence between the South Stream and SEEP would also regulate gas market to the benefit of European consumers.

Conclusion

All in all, Turkish standing in Eurasian energy diplomacy must be analyzed in the context of competing energy transit projects: Nabucco, ITGI, TAP, South Stream, Blue Stream II, TANAP and SEEP. If the ultimate question of Eurasian energy market is which of these projects will be built, for sustainability of regional peace the answer should be built on political consensus and multi-partite equilibrium between the main players: the suppliers, Russia, Azerbaijan; the consumers, European countries; and the transiting countries, Ukraine and Turkey. Bipolarization in energy diplomacy blocks investments and brings about deadlock in economic relations for all.

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