

Turkey's Energy Security Strategy in the Emergent Global Energy Outlook

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ABSTRACT *Since the beginning of the 2000s the global energy landscape has undergone constant change. Various factors have affected both the demand and supply sides of the global energy security outlook. As a result, both consumer and producer states have constantly felt the need to adapt to emergent market conditions. Hence, this paper first aims to highlight the continuous changes within the global energy market and simultaneously present and evaluate Turkey's determined search to fulfill the requirements of its energy supply security strategy.*

What's New about the Global Energy Market?

Since the 2000s, the global energy landscape has undergone constant change. Various factors have affected both the demand and supply side of the global energy security outlook. In this regard, the period between 2000 and 2014 can be considered as the first turning point; most energy experts are in agreement, describing it as a revolutionary time. This period has become known for the emergence of new, independent energy powers making excessive demands for energy, and for the rise of new independent en-

ergy sources, especially the North American shale revolution. This revolutionary 'on the ground' change in the energy field has also transformed previous energy routes as well. As a result of the introduction of new technology in energy explorations in the oil and gas sectors that started at the beginning of the 2000s, the entrance of more hydro-carbon into to both global and regional markets has been guaranteed. In contrast to the situation for developing countries, the Euro-Atlantic world made progress in the field of energy efficiency and this, coupled with the effects of the slowing economies in Europe, resulted in lower levels of energy consumption in the EU. During the same

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period, the rising demands of emergent independent energy powers in Asia coincided with the effects of shortages of hydro-carbon supplies in countries like Libya, Iraq and others, that stemmed from the instability of the Arab Spring and its aftermath. Global oil production could not keep pace with the increasing demand and hence the price of Brent crude oil spiked at around US \$115 per barrel. However, the price of oil since 2010 has remained quite stable for 5 years at around US \$100.¹

The world witnessed a new tide of change in the global energy market especially after mid 2014 when the price of Brent crude oil dropped nearly 50 percent to \$52 per barrel on January 5th, 2015. “This drop in oil prices was associated with four factors. First, the rise in the supplies of oil and gas production came into a being because of oil companies’ investments in new exploration techniques like drilling high water, as well as the introduction of the new technique of horizontal drilling and hydraulic fracturing. Of course, one cannot also deny the effect of OPEC’s continuous reluctance to cut down production in 2014, which can be counted as a third factor that has led

to the accumulation of the present oil supplies in the energy market.”² The other reason why oil supplies in the global market have increased is related to accomplishments in energy efficiency measures that were previously introduced in the Euro-Atlantic world, and have successfully resulted in 60 percent lower consumption in the IAE countries. Lastly, the Western countries’ intense efforts to diversify their energy mixes, which have resulted in reducing the share of fossil fuels and increasing the share of alternative energy sources, like renewables and nuclear, naturally led to an increase in the hydro-carbon sources supplies available in the global market.³ Consequently, both the main producers and consumers in the global energy market, in the face of these radical changes, have been obliged to adjust both their economies and their energy strategies in order to retain their positions. During this process of adaptation, some major importers of hydro-carbons have been relieved by the falling prices, where others, including the major producing countries, have been hurt by these changes.

A third major breakthrough in the global energy market is expected to occur after the finalization of the Iranian nuclear deal. Recently, the sustainability of the constant flow of hydro-carbon supplies to European addresses has become a renewed concern for the EU, especially in the aftermath of the Ukrainian situation, and the residual security problems that resulted from the weakening states in the post-unfinished Arab

Spring. The ongoing civil war in Syria and the current instability in Iraq and Libya have barred the flow of oil and gas supplies from these places. Currently, the geopolitical fault lines that have been manufactured along sectarian and religious lines in the aftermath of the counter-revolutionary Arab revolts have unfortunately given way either to the eruption of continuous brutal civil wars in the MENA region, or led to radical jihadist groups filling the power vacuum resulting from the weakening of central governments in this part of the world. Thanks to the availability of sufficient oil supplies from the North American shale revolution and the introduction of new supplier countries and drilling technologies, oil supplies in the global market have not yet been negatively affected. As a result of the nuclear deal that was reached with Tehran on the 14 July 2015 in Vienna, a new window of opportunity has arisen for the future, though not anticipated before the second half of 2016. Presumably, after the realization of the proposed sanctions relief, Europeans may now find new access to Iranian untapped large gas and oil reserves. This would be a new, alternative source of diversification, which the EU hopes will rescue it from its dependency on Russian gas imports. Under the present crucial geopolitical shift between the West and Iran, especially after the signature of the 2015 nuclear deal, the EU anticipates finding additional sources of gas to feed the Southern Gas Corridor (SGC) by extending the capacity of TANAP. However, before getting too optimistic, this oppor-

tunity has two prerequisites. Firstly, Iranian sanctions needs to be lifted to a certain extent and secondly the requisite investments in the Iranian hydro-carbon sector must be put in place.

Following the Iranian nuclear deal, there has been a positive expectation that the return of Iranian oil to the oil market will soon be achieved. However, it is still too early to assess any the positive returns from Iranian oil supplies into the global market because of Tehran's present lack within the hydro-carbon infrastructure sector. Iran urgently needs to address various energy issues and this process certainly will take time. Energy experts and economists, in light of the growing demand from Asian markets for fossil fuels, anticipate a fall in oil prices. However, these experts also assert that the price of oil will soon rebound again, although not to \$100 per barrel as it did previously.⁴ Given these forecasts, countries within the present energy equation need to make necessary arrangements in advance. This paper will therefore present and evaluate Turkey's present and future energy stance in the midst of the emerging global energy outlook.

Turkey's Energy Security Strategy: What the Future May Bring?

Over the last two decades, Ankara's economic development and Turkey's importance in the energy market have been on the rise. According to the International Energy

A trader working in the New York Stock Exchange on August 3, 2015, when oil prices has dropped below \$50 and a barrel stocks have plunged nearly 100 points

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Agency (IEA), energy use in Turkey is expected to double over the next decade, while the demand for electricity is expected to increase at an even faster pace.⁵ Turkey currently imports nearly 70 percent of its energy from abroad, at an annual cost of nearly 60 billion dollars. Thus, one can easily describe Turkey as an energy dependent country. Ankara, in the face of today's security energy requirements, thus needs to meet its energy demands from a reliable and environmentally friendly source, at a reasonable cost, and without any interruption. So, with the aim of regulating this growing energy demand, Turkey has introduced a strategy of diversification of its energy mix, via the development of its own indigenous resources. Ankara truly believes that these indigenous sources could, in time, become major preventive measures in reducing the cost of

continued increases in its domestic energy consumption. Hence, it is no surprise that Ankara, acting in accordance with its stated Energy Strategy Plan of 2010-2014,⁶ declared that by 2030 it would meet 30 percent of its electricity needs from renewables, specifically by promoting the future use of its hydro, wind and solar energy sources.

In knowing that 70 percent of its energy requirements currently rely on imported fossil fuels, Turkey has decided to authorize the gradual commissioning of nuclear power into its energy base. Similar to the case of renewables, Ankara in this respect envisages producing 10 percent of its electricity needs from a nuclear capacity of more than 10.000MV by 2030. In keeping with this new approach, Turkey first signed an intergovernmental agreement with the

Russian Federation that is expected to bring about both the construction and operation of a nuclear power plant at the Mersin-Akkuyu site. A second nuclear energy power plant, a joint venture between French and Japanese firms, will be built in Sinop, the completion of which is estimated for 2017. Furthermore, Ankara, with the aim of decreasing the pace of energy demand and hence reverse or at least stem its current energy dependency on imported fossil oils, has also decided to take measures that would guarantee energy efficiency.⁷

Despite Turkey's efforts to diversify its energy base with renewables and nuclear energy, the Turkish economy still relies heavily on fossil fuels. Turkey's total liquid fuels consumption averages 734,800 bbl/d and more than 90 percent of the crude oil is imported. According to the IEA, Ankara's crude oil imports are expected to double over the next decade.⁸ Since Turkey has modest on-shore oil reserves that are situated in the south-eastern region of the country, oil imports are expected to continue in the foreseeable future. Unfortunately, Turkey's new oil exploration efforts both in the sea Black Sea and the Mediterranean over the last few years have not yet yielded to any substantial outcomes. The same holds true for shale oil and gas explorations. Presently, the Baku-Tbilisi-Ceyhan (BTC) pipeline and the Iraq-Turkey (Kirkuk-Yumurtalik) line are the two operating oil lines in Turkey.

Over the last three decades, the share of natural gas in Turkey's energy mix

Ankara, via the help of the current and potential pipelines aimed and hoped to construct new relations based on the concept of a 'good-neighborhood' between Turkey and her immediate neighbors and even beyond

has substantially increased. Ankara's gas consumption between 2003-2013 years doubled from 20.9 bcm to 45.6 bcm. The reality of having very limited gas reserves means Turkey continues to import its gas requirements from abroad. Currently, Turkey imports its gas supplies either via pipelines from resource countries like Russia, Iran, and Azerbaijan, or acquires it in LNG form from Qatar, Algeria, Nigeria and Norway. In 2012, Turkey's share of gas imports from Russia was about 56 percent, making Russia the primary source country in terms of bulk; imports from Iran totaled 18 percent with 8 percent coming from Azerbaijan. In 2011, Turkey's remaining gas requirements were met either via LNG (16 percent) or Turkey's domestic resources (1 percent). Like other energy dependent countries in the international system, Turkey naturally needs to diversify its energy sources. While doing so, Ankara also seeks to benefit from its unique geopolitical situation, which provides the most cost-effective means of transformation by connecting the countries located on the demand and the supply

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side of energy, a region in which energy transportation routes can carry hydrocarbons from the Middle East and the Caspian basin to the European Union.

Turkey, within the changing geopolitical environment, has tried advance its Energy Security Plan of 2010-2014⁹ via three declared aims; the first aim for Ankara in this regard was to meet its own energy demands, the second was related to the prospect of becoming a 4th alternative partner state in the EU's strategy of meeting its hydro-carbon demand.¹⁰ Thirdly, Ankara, via the help of the current and potential pipelines –since they are able to transcend various borders– aimed and hoped to construct new relations based on the concept of a 'good-neighborhood' between Turkey and her immediate neighbors and even beyond. That is why Ankara has tended to interpret the Russian origin pipelines as non-rival projects, especially in regard to the future of SGC. Hence, Turkey regards the possibility of all pipelines running through the east-west corridor or north-south axis, including those originating in Russia, as positive. It is no wonder that Ankara, with this mindset, in

2005 completed the Blue Stream gas pipeline with Moscow, to bring gas to across the Black Sea to Turkey. Likewise, once the TANAP project was finalized, Turkey did not hesitate in 2011 to grant approval for the South Stream pipeline project which aimed to transport natural gas to Europe by passing through Turkish territorial waters, through Ankara's exclusive economic zone. Similarly, when the cancellation of the South Stream pipeline project was proclaimed by Russian President Putin during his visit to Turkey, Ankara, acting in accordance with its gas security supply strategy, naturally welcomed Russia's proposal to replace the South Stream pipeline with the Turkish Stream pipeline which now is planned to reach to the Thrace region of northwest of Turkey instead of Bulgaria, after passing through Black Sea.

Turkey in the Emergent Geo-political Environment: What's Next?

Turkey, under the existing permissiveness of the geopolitical conditions and recognizing its massive indigenous hydro-carbon production deficit in the face of fast growing domestic consumption, is determined to overcome or at least reduce its reliance on foreign imports and has decided to apply a strategy that would both assure diversifying its energy mix together with diversifying its hydro-carbon source suppliers. What is more striking, is that the Russian annexation of Crimea in 2014 triggered the EU to reassess the SGC project

as an important diversification measure that could be helpful in by-passing Russia. Following the 2006-2009 Ukrainian crises, the EU announced in a Green Paper that it was determined to bypass the Moscow option by adopting diversification strategies. Nabucco was originally among these plans, but has since been replaced by the TANAP/TAP pipeline project. The EU's decisiveness in using SGC as one means of diversification dovetails with Ankara's crucial priority of supporting the SGC via the TANAP project.

In the aftermath of the 2014 Ukrainian crisis, the EU once again started investigating whether there are enough potential gas resources ready for the use of the SGC around Turkey. The aim of the EU was to find available sources that could join the SGC, and which would help the Union avoid ongoing reliance on Russian gas imports. The EU has already underlined the need for access to the resource-rich countries that are located in Turkey's vicinity. Countries from the Middle East and the Caspian basin, such as Azerbaijan, Georgia, and Turkmenistan, together with Iran and Iraq –which will be able to come on board only after the political conditions improve– were all mentioned as important potential sites of diversification via the SGC project.

Ever since the extraction of new gas reserves in the Mediterranean came to the fore, the EU has considered the possibility of joining the Mediterranean gas to the SGC. However, this option failed due to the breakdown

of negotiations in Cyprus. Though the Cyprus negotiations have now resumed and some crucial achievements have been attained in the confidence building measures, the two sides are still far from achieving any substantial results in relation to the Cyprus conflict that could bring an opening in energy issues. Likewise, after the December 2015 agreement, the international community witnessed an improvement in relations between the Iraqi Central Government and the Kurdistan Regional Government (KRG) about the sharing of oil revenues. However, the two sides have recently fallen into a new disagreement, which ended with KRG cutting off oil supply to Baghdad. Naturally, since then, the prospect of 8-10 bcm Iraqi gas reserves joining the SGC has become a distant option. Similarly, the possibility of joining Turkmen gas to SGC is premature. Turkish diplomatic contacts with the Turkmen government in this regard have not yet yielded any substantial success.

Presently, due to the current crises and instability in the Levant and the Middle East, Azerbaijan and its rich gas reserves seem to be best available alternative for TANAP/TAP, which aims to carry Azerbaijani gas via Turkey to TANAP's starting point, namely Greece. However, Azerbaijani gas sources will not be arriving in Europe until before 2019. Turkey has already stated that it will play a central role in the transportation of 100 billion cubic meters of gas to Europe over the next twenty years. With this determination, Ankara wishes

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to increase the phases of TANAP's capacity from a projected 16 billion cubic meters in 2018 to 31 percent and 50 percent respectively. Most of the leading energy experts just before the signature of the Iranian nuclear deal were in agreement that the prospect of bringing gas from countries in Turkey's vicinity to the SGC between 2014 and up to 2020-2025 would be almost an impossible job. That is why Azerbaijan's gas reserves are thought to play an exceptional role and hence Baku's gas supplies in this regard were thought to be the first lines of reserves in line with the aim of expanding the capacity of the TANAP project. Despite this positive expectation, it is true that Azeri 10 bcm gas supplies will not be transported to Europe via the TANAP/TAP line before 2019 at the earliest. The good news is that now, a new window of opportunity seems to be opening up since the signing of the nuclear deal between Tehran and P5+1. Following the sanctions relief, the Ankara government hopes to revive its overall trade relations with Tehran. Fortunately, the likelihood of achieving mutual benefits, especially in the energy sector is predicted to be high. There is already talk of several possible pipeline routes that would

carry Iranian gas to Europe via Turkey. The increase in the capacity of the Tabriz-Ankara pipeline and the construction of the Iran-Turkey-Pars pipeline has been posited as the two possibilities in this regard. The EU's long term diversification efforts that have relied on sourcing additional gas resources from around Turkey's vicinity seem to be gaining new momentum within the prospects of tapping the Iranian hydro-carbon sources sometime in the future. The Tehran government has already stated that it is interested in this kind of outcome. Yet, the issue is still in a nascent stage and is unlikely to be realized before the second half of 2016. Currently, obstacles, like the much-needed foreign investment in Tehran's hydro-carbon infrastructure, must be tackled before Iranian gas can join the SGC. The best hope for Turkey is to see that the Iranian hydro-carbon projects are realized, once the current problems blocking them are resolved.

Conclusion

It is certain that Turkey's energy dependence will continue to shape the main contours of its already declared 2010-2014 Energy Strategy Plan.¹¹ Ankara, in this regard will seek to both diversify its energy mix with indigenous resources, and continue to diversify the hydro-carbon resource countries around its vicinity. Since Turkey does not consider the passage of pipelines as a zero-sum game, it will continue to support the continuation of its multiple pipelines strat-

egy that may either go through the east-west corridor or the north-south axis, as long as geopolitical conditions permit. The excessive efforts made by the AK Party in the energy field throughout the past 13 years have naturally yielded certain results. Projects like the SGC and TANAP, the Baku-Tbilisi-Ceyhan oil pipeline, and the Baku-Tbilisi-Kars railway project are certainly set to increase Turkey's role in tomorrow's energy markets, not only in its immediate region but beyond. ■

Endnotes

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