

The Southern Gas Corridor and Turkey's Role as an Energy Transit State and Energy Hub

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ABSTRACT *With decisions about to be made on major pipeline projects, Turkey could become a vital component of the so-called southern gas corridor. Turkey is aiming to become a significant gas transit state and key energy hub. However, in spite of separate transit deals for Nabucco and the Trans-Anatolian pipeline projects, Ankara has still to establish a proper gas transit regime. Geopolitical tensions and the possible increased risk of attacks on infrastructure could threaten Ankara's ambitions. But energy dependence on Russia will probably not thwart Turkey's plans as Turkish officials seek to facilitate the transportation of gas from northern Iraq and Turkmenistan, as well as from Azerbaijan, to the European market.*

There has been much talk of Turkey becoming an energy transit state and energy hub for the transportation of hydrocarbons, especially natural gas, to Europe along the so-called southern gas corridor. Turkey could here use its geographic location to enhance its credentials as a key regional power, and perhaps boost its prospects for accession to the European Union (EU). However, it seems that the terms “energy transit state” and “energy hub” with regard to Turkey are often bandied about with little discussion of what they actually mean. The terms are sometimes even used interchangeably, but it is necessary to differentiate between the two. There are also different types of energy transit state and energy hub. It is important to emphasize, however, that the primary concern of any government in Ankara is to satisfy Turkey's own energy needs. Ambitions to become a major energy transit state or key energy hub are secondary.

In practice, energy politics are complicated and the realization of pipeline projects has been hindered. Officials in Ankara have struggled to convince Brussels to open the energy chapter in the EU accession negotiations. The

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threat of renewed conflict in the Caucasus, especially over the disputed territory of Nagorno-Karabakh, and repeated attacks on energy infrastructure by terrorists have raised concerns over the security of pipeline networks in Turkey and its immediate neighborhood. Over-dependence on Russia for natural gas imports could restrict Turkey's freedom of maneuver. In spite of Ankara's warm relations with Baku and Ashgabat, the disputes between Azerbaijan and Turkmenistan over the Caspian Sea have jeopardized the prospects for the delivery of Turkmen gas to Europe via Turkey.

It is important to note that concerning oil transportation Turkey is already a significant energy transit state with the Baku-Tbilisi-Ceyhan (BTC) and

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Kirkuk-Ceyhan pipelines and substantial volumes carried by tanker through the Bosphorus. However, Ankara has ambitions of becoming a major energy transit state with regard to gas through the realization of the southern gas corridor. When discussing Turkey's plans to be an energy hub, officials in Ankara have in mind ideas for Turkey to become

a key gas as well as electricity hub. With its focus on the prospects for the southern gas corridor, this study will concentrate on gas issues when examining Turkey's possible role as an energy transit state and energy hub.

This article first discusses Turkey's current and future energy needs. The importance of the realization of the southern gas corridor to meet future energy demand in Europe is then examined. This is followed by a section which analyzes what is meant by an energy transit state and looks at Turkey's track record as such a state with regard to gas. Different types of energy hubs are then discussed and the possibility of Turkey becoming a major gas hub is critically studied. Geopolitical and security concerns are also raised. The key role that Turkey could play in the development of the southern gas corridor is then highlighted.

Turkey's Energy Needs

"Energy security" has been defined by the World Economic Forum as "...the reliable, stable and sustainable supply of energy at affordable prices and social cost".¹ The primary concern of the AKP (Justice and Development Party) administration is to address the issue of Turkey's energy security as Turkey does not have substantial reserves of natural gas and crude oil. Initial drilling in the Black Sea has been disappointing and planned exploration work in the eastern

Mediterranean will not commence in the near future. In spite of the interest shown by the energy majors, Shell and ExxonMobil, it is too early to say if Turkey has extensive recoverable reserves of shale gas. In negotiations over pipeline projects such as Nabucco and the Trans-Anatolian Pipeline (TANAP), Turkish officials sought to ensure that a percentage of gas transiting Turkey would be allocated to the local market. This may reduce dependence on Russian natural gas imports, but could also lead to accusations that Turkey is behaving as an awkward if not “bad” energy transit state.

After suffering in the recession of 2009 Turkey quickly recovered to become one of the world's fastest growing economies. Although weakening internal and external demand led to a decline in growth in the second half of 2012, the Turkish economy is forecast to grow by over 3 percent in 2012 and by 4.5 percent in 2013.² More power must be generated to match economic growth. In April 2010 the Deputy President of the Energy Market Regulatory Authority (EMRA), Vedat Gun, noted that Turkey would have to boost its power production from 45,000 megawatts (MW) to 80,000 MW by 2023.³ There are plans to meet these needs to some extent by making more use of renewables such as wind, solar and geothermal power. Local coal resources will also be further exploited even though these are environmentally damaging. A Russian company will construct Turkey's first nuclear power plant near Mersin on the Mediterranean coast by 2019. There are environmental and technical concerns, however, especially after the Fukushima disaster, and also alarm that Ankara could become even more energy dependent on Moscow as the plant would be fed with enriched uranium from Russia. But, there are plans to build two more nuclear power plants in Turkey by 2023. Companies from South Korea, China, Japan and Canada are interested in constructing a second nuclear facility near Sinop on the Turkish Black Sea coast.

For the foreseeable future gas will remain a crucial form of energy for generating electricity in Turkey. At present, about 50 percent of electricity is produced from gas-fired power stations, which are relatively cheap and quick to build and more environmentally friendly than oil- or coal-powered units. Apart from a brief dip in 2009 with the recession, gas consumption in Turkey has been steadily rising. According to statistics produced by BP, in 2011 Turkey imported 23.5 billion cubic meters (bcm) from Russia via pipelines running across south-eastern Europe and by the Blue Stream network extending across the Black Sea. Turkey's total gas imports in 2011 amounted to 41.7 bcm.⁴ The EMRA has predicted that in 2012 Turkey's natural gas consumption could increase by 9 percent on 2011.⁵

Attempting to reduce its gas dependence on Moscow, the Ministry of Energy and Natural Resources (MENR) in Ankara in its Strategic Plan covering the period 2010-2014 stated that by 2015 Turkey should not be dependent on any

A pressure gauge is seen at a Romanian gas distribution station near Bucharest
REUTERS/Bogdan Cristel

country for gas imports which would meet over 50 percent of the country's energy requirements.⁶ Hitherto, however, clearly Turkey has not been able to curb natural gas deliveries from Russia. Turkey has concluded contracts with other energy producers such as Iran, Azerbaijan and Algeria, which could result in too much gas reaching the Turkish market in the next few years. With limited gas storage capacity, the AKP administration has been seeking to re-negotiate contracts to make take-or-pay obligations less onerous and thus avoid having to pay hefty fines for not importing agreed upon gas volumes. Hence, in December 2011, a deal was struck with Moscow whereby in 2012 Ankara would be allowed to purchase 3 bcm of Russian natural gas that had accumulated within the scope of Turkey's take-or-pay obligations.⁷ But new contracts for natural gas and also liquefied natural gas (LNG) will eventually need to be negotiated as Turkey's energy needs increase. Indeed, it has been suggested that by 2016 Turkey may face an energy crunch as electricity demand rockets and natural gas imports fail to match demand.⁸ In 2009 the Petroleum Pipeline Corporation of Turkey (BOTAS) had indicated that Turkey would need to import 66 bcm by 2020, but without negotiating additional contracts Turkey would only receive about 41 bcm in that year.⁹

The extent of Turkey's dependence on Russia for gas, and also for oil and coal imports, and probably in the future for nuclear energy, begs the question whether Moscow may use this as an attempt to influence Turkish foreign policy. However, Ankara has some leverage over Moscow given the latter's interest in distributing gas within the Turkish market and in transporting Russian crude oil to outside markets across Turkish territory via the planned Samsun-Ceyhan pipeline. Nevertheless, even though gas price discounts were secured and some concessions made regarding take-or-pay obligations, AKP



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officials arguably obtained little in return for giving Moscow permission to go ahead with plans to construct the South Stream gas pipeline across Turkey's exclusive economic zone (EEZ) in the Black Sea.¹⁰ It had been presumed that the transportation of substantial volumes of natural gas from Europe to Russia via South Stream could damage prospects for the further development of the southern gas corridor.

The Southern Gas Corridor

According to the “New Policies Scenario” of the International Energy Agency (IEA) published in 2011—which assumed that governments would implement recent energy policy commitments in a “cautious manner”—with gradually rising gas demand and declining local production, EU member states would have to increase net gas imports from 312 bcm in 2009 to 448 bcm in 2020 and 523 bcm in 2030.¹¹ In practice, though, given unknown future factors and variables it is impossible to predict accurately the EU's energy needs and there are a number of differing forecasts and scenarios produced by agencies and government bodies, including by the IEA itself. In spite of the EU's pledges to exploit more renewable forms of energy, and while taking into account the increased use of shale gas in the United States (US), which will free large amounts of LNG on the global market, there will still be a demand in Europe for piped natural gas for the foreseeable future. EU member states will face stiff competition from markets in Asia for LNG. With serious doubts having been raised over the future of nuclear energy post-Fukushima it seems that natural gas will become an important bridging fuel as Europe gradually moves to use more renewable forms of energy over the next decades.

The EU has been dependent on Russia for around 40 percent of its natural gas imports which amounted approximately to 25 percent of its natural gas consumption. The European Commission in Brussels and EU member states in central and eastern Europe in particular have been eager to diversify the sources of natural gas imports and the routes along which this gas is delivered especially after problems in the transit of Russian gas via Ukraine and the Russo-Georgian War of August 2008. In January 2006 and January 2009

disagreements between Moscow and Kyiv over transit arrangements resulted in reductions in gas deliveries to Europe. States in central and eastern Europe, greatly dependent on Russia for natural gas imports, were especially adversely affected by the gas crises between Moscow and Kyiv.

As an energy conduit, Turkey could become an important element of a southern energy corridor. Seeking to diversify the energy imports of EU member states, the European Commission has announced that the development of a southern gas corridor is one of the most important energy security priorities.¹² This envisioned fourth gas corridor—the other three corridors run from Russia, Norway and North Africa—could transport to Europe via Turkey natural gas produced in the Caspian and Gulf regions. At the time of writing, the only pipeline transporting natural gas westwards from Turkey was the Interconnector Turkey-Greece (ITG) which carried small volumes of Azerbaijani gas. For the foreseeable future gas will not be delivered to Europe from Iran because of sanctions imposed over Tehran's nuclear program. Disputes over hydrocarbon resources between the central authorities in Baghdad and the Kurdistan Regional Government (KRG) and tensions between Baku and Ashgabat over the ownership of gas fields in the Caspian Sea will delay plans to transport natural gas from northern Iraq and Turkmenistan to Europe. Attention has thus focused on how gas which will come on stream in 2017 with the second phase of production at Azerbaijan's Shah Deniz gas field in the Caspian Sea will be transported to EU member states via Turkey.

As of November 2012, the government in Baku and the BP-led international consortium working at Shah Deniz were considering two possible gas pipeline projects to carry 10 bcm annually (/y) westwards to Europe with an additional 6 bcm to be delivered to the Turkish market each year. The Nabucco West or the Trans-Adriatic Pipeline (TAP) projects would become a key component of a southern gas corridor. The aim is to connect one, or perhaps eventually both of these pipeline projects, with TANAP, which is planned to be constructed across Turkey. The Azerbaijani authorities and the Shah Deniz consortium are expected to decide on an export route for the transport of gas to Europe in the first half of 2013.

In February 2012 the TAP project had been selected as a possible route to carry gas from Shah Deniz to southern Europe instead of the proposed Interconnector Turkey-Greece-Italy (ITGI) which would have been an extension of the already built ITG. TAP would consist of a €1.5 billion, 10-20 bcm/y pipeline extending across Greece and Albania and connecting to Italy via a subsea section across the Adriatic. The Norwegian company Statoil, one of the partners in the project, has a 25.5 percent stake in the Shah Deniz consortium. In August 2012, three members of the Shah Deniz consortium, BP, Total and the State Oil Company of Azerbaijan (SOCAR), agreed to fund early engineering and

design work for TAP. The agreement also included an option for shareholders at Shah Deniz to take up to 50 percent equity in TAP.¹³ It was not clear how this would affect Statoil's 42.5 percent stake in TAP.

Nabucco West was chosen by Baku and the Shah Deniz consortium in late June 2012 as the preferred option to carry Azerbaijani natural gas to central Europe. BP's proposed South-East Europe Pipeline (SEEP) was not selected because of the "greater maturity" of the Nabucco West alternative.¹⁴ The latter could make use of the intergovernmental agreement (IGA), the host party agreements and the third party access exemption rights which had earlier been concluded for the much larger and more expensive planned Nabucco pipeline. Instead of carrying over 30 bcm/y from the Turkish-Georgian, and possibly Turkish-Iraqi borders, to Austria via Turkey, Bulgaria, Romania and Hungary, Nabucco West would transport initially up to 10 bcm/y to the Baumgarten gas hub in Austria along a shortened 1,300 kilometer pipeline commencing at the Turkish-Bulgarian frontier. The shareholders of the Nabucco consortium had been struggling to find the necessary volumes to fill the original 31 bcm/y capacity Nabucco pipeline. The deal concluded in December 2011 between Ankara and Baku to move ahead with the construction of TANAP had effectively made the original Nabucco pipeline project redundant.¹⁵

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An essential component of a future southern gas corridor, TANAP would enable Turkey to become a major energy transit state. The first gas could be transported along this \$7 billion pipeline by early 2018, with up to 16 bcm/y being carried by 2020. There are plans to expand the capacity of the pipeline as Azerbaijan develops other gas fields in the Caspian Sea.¹⁶ Steps to move ahead with TANAP may have encouraged the authorities in Ankara to give final approval for the construction of the South Stream pipeline across Turkey's EEZ in the Black Sea. The Russian-backed 63 bcm/y South Stream pipeline had been regarded as a serious threat to the original Nabucco project and the southern gas corridor in general. However, in spite of recent developments over proposed gas pipeline projects in Europe, at the time of writing questions remained over how Turkey may behave as an energy transit state with regard to gas. It was also far from clear if Turkey was destined to become a major gas hub.

Turkey as a Gas Transit State

There has been increasing attention given to the role and importance of energy transit states. Luft and Korin have referred to such states as a "new breed of

countries”.¹⁷ An “energy transit state” refers to a state where pipelines are laid to connect an energy-producing state with an energy-consuming state. Agreements are made between the energy producer and the transit state by which the latter collects transit revenues for allowing hydrocarbons to be transported across its territory. Arrangements may also permit the transit state to make use, perhaps at a discounted rate, of a portion of the oil or gas carried across its territory to satisfy its own energy needs. A “good” energy transit state would not disrupt the flow of energy across its territory and would maintain working relations with both energy-producing and energy-consuming states.

“Bad” energy transit states may unilaterally rewrite agreements and charge higher transit fees, demand further discounts on oil or gas, or could illegally tap into pipelines crossing their territory. A lack of alternative export routes would give the transit state greater leverage, although it would risk tarnishing its image and possibly deter outside investors from supporting its economy. There is no objective means to set a transit fee and no obvious mechanism to ensure that an agreement is properly implemented.¹⁸

Article 5 of the General Agreement on Tariffs and Trade (GATT) referred to free transit for trade along the most convenient routes, but did not specifically mention trade in energy. The World Trade Organization (WTO), the successor to GATT, has a dispute settlement mechanism to which WTO members could apply. The Energy Charter Treaty (ECT) does refer to the freedom of transit and non-discrimination in the trade of hydrocarbons and also has a dispute

settlement mechanism. But attempts to reinforce this instrument through a separate transit protocol to handle issues relating to transit tariffs have hitherto been unsuccessful. There are also EU regulations within the *acquis* and the Third Energy Package which refer to matters of gas transit. In spite of these efforts to regulate the trade in hydrocarbons there is still scope for transit states to create problems for energy producers and consumers.

Although Turkey is not subject to EU regulations, it is a party to the WTO and the ECT. Nevertheless, there is no gas transit regime in place in Turkey detailing the terms whereby natural gas may be transported across Turkish territory. According to the EU’s Progress Re-

port on Turkey published in 2012, “...no development can be reported on a fair and non-discriminatory role for gas transit”.¹⁹ Natural gas transit is not even recognized as a market activity under Turkey’s Natural Gas Market Law of 2001. Thus, transit issues are not mentioned in the Transmission Network Operation Principles of BOTAS which have been effective since 2007.²⁰ Ef-

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forts are under way to amend this law and one would assume that this would incorporate regulations with regard to transit which would align with the EU *acquis* with reference to such issues as third party access, non-discrimination and moves towards the regulation of tariffs. The IGA on Nabucco, for example, had incorporated these provisions with the planned section of the pipeline crossing EU member states and Ankara had also made some commitments on Nabucco as outlined below.

In general, Turkey has become a reliable energy transit state with regard to oil. However, there were delays in renewing the agreement to transfer Iraqi crude to Turkey with problems over transit fees and the upgrading of the pipeline network. The deal struck in September 2010 intended to end the practice whereby the Turkish authorities confiscated Iraqi crude at the Mediterranean port of Ceyhan as payment for debts owed to Ankara by Baghdad.²¹

Turkey's track record hitherto as a transit state with regard to gas is a mixed one. Questions were raised about Turkey's stance during the drawn out negotiations before the signing of the IGA on Nabucco in Ankara in July 2009. Energy officials in Ankara had demanded that Turkey receive 15 percent of gas volumes carried along Nabucco at a reduced price, and were accused of seeking exorbitant transit fees.²² Negotiations only proceeded after the Turkish Ministry of Foreign Affairs intervened, backtracked on earlier demands, and agreed to sign an IGA in return for Turkey receiving 60 percent of all taxes collected for transporting the gas and promises that in the event of a future energy crisis the EU would ensure that Turkey's gas needs would be met.²³ Ankara agreed that a "specific regime, consistent with Turkey's domestic legal situation" could apply to the parts of the pipeline which would cross Turkey.²⁴ This regime, which needs to be clarified, would also cover transit issues.

As Azerbaijan was not a party to the IGA on Nabucco, Ankara and Baku first needed to come to terms on a separate transit agreement before gas from Shah Deniz could be transported to Europe via Turkey along the Nabucco pipeline. After prolonged negotiations, with the substitution of Nabucco West for Nabucco and the agreement to launch the construction of TANAP, officials in Baku and Ankara still had to hammer out terms on a definite transit agreement. As discussed below, it was only in June 2012 that Ankara and Baku eventually concluded a final deal on transit issues with regard to TANAP.

Interestingly, the IGA for the ITGI, which was signed by the governments of Turkey, Italy and Greece in July 2007 but has not been ratified, included a lift-off clause enabling Turkey to take 15 percent of the gas which transited its territory.²⁵ But, the proposed 13 bcm/y capacity ITGI may eventually be abandoned after having failed to be chosen as a possible export route for gas to be produced at the second stage of development of the Shah Deniz field.



A worker tours in a natural gas control centre of Turkey's Petroleum and Pipeline Corporation as he checks the valve gears

REUTERS/
Umit Bektas

Turkey as an Energy Hub

There are arguably at least two recognized types of energy hub. A physical energy hub refers to a state in which there is substantial energy infrastructure—ie., pipelines and facilities such as refineries, storage units, terminals, petrochemical factories, gas liquefaction plants, etc. The Strategic Plan for Turkey covering the period 2010-2014 prepared by the MENR noted that the Turkish Mediterranean port of Ceyhan could become a wholly integrated hub by 2015.²⁶ There are strategic, political and economic benefits for a state which becomes a physical energy hub. But, hopes of making Ceyhan a new Rotterdam have been hit by delays since the government in Ankara in 2007 approved making the area around the port a Special Energy Zone.

In a state which has become a trading energy hub suppliers and consumers meet and trade in hydrocarbons in an open and transparent market. This will only be possible in Turkey after the planned liberalization of the gas market is implemented, when proper legal and regulatory frameworks could then be in place. The necessary infrastructure is also required to store and transport hydrocarbons. At the time of writing Turkey had limited gas storage and its pipeline network had a spare capacity of at most 10 bcm. Initial moves, though, have been made to expand Turkey's gas storage capacity. In November 2011 a deal was struck with China's Tianchen Engineering Corporation to construct by 2019 a 1 bcm underground storage facility near Tuz Golu in central Anatolia.²⁷ Turkey may only become a significant energy hub (physical and/or trading) after substantial investments have been made to upgrade infrastructure.

The first steps are being taken in Turkey towards establishing what may become an important trading energy hub. On July 5, 2012 the state-owned

Turkish Electricity Transmission Company (TEIAS) signed an agreement with the European Energy Exchange to set up an energy exchange in Turkey.²⁸ The aim is to have this energy exchange operational within two years. It is intended that the energy exchange should set the benchmark for all energy commodity transactions in Turkey and the wider region. The plan is for energy suppliers, municipal utilities, grid operators, energy trading companies and industrial and financial entities to participate.²⁹ Government approval would need to be obtained and the current Natural Gas Market Law revised accordingly.

In a genuine trading energy hub, therefore, Turkish officials would simply facilitate commerce in hydrocarbons without attempting to dictate the terms of trade. But, in practice, it seems that in the immediate term Ankara is pushing to secure re-export agreements whereby gas previously sold to Turkey is re-sold to third markets for a profit. Turkey had previously obtained the right to re-export to Greece along the ITG up to 750 million cubic meters (mcm) of gas annually from the over 6 bcm it was contracted to receive each year from the first phase of production at Azerbaijan's Shah Deniz field. It seems that the AKP government has secured re-export rights for the additional 6 bcm/y it will receive from the second phase of development of the Caspian gas field. However, in spite of lobbying, officials at BOTAS have failed to secure similar re-export agreements with Iran and Russia. It appears that Moscow is also not prepared to give re-export rights to Turkish private companies which are about to take over the gas import contract from BOTAS for the annual delivery of 6 bcm of Russian natural gas along a pipeline running through south-eastern Europe.

The AKP government is also hoping in the near term to become an energy hub to receive and export LNG. Recent attention has focused on Turkey's efforts to receive Qatari LNG at its receiving terminal at Marmara Ereğli where the LNG could be regasified and then sent by a new pipeline to Ukraine.³⁰ Moscow no longer appears to be receptive to the idea of sending its natural gas to Ceyhan to be liquefied at a proposed new terminal there. But the northern Iraqi Kurds are open to transporting their gas in the future to an LNG plant at the Turkish Mediterranean port from where it would be exported by tanker to outside markets.³¹

Given the length of time needed to set up the necessary legal, regulatory and also financial framework (banking, international financial services, contract dispute resolution mechanisms, etc.) to set up an energy hub, it has been not-

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ed that officials in Ankara seem to be pursuing a “curious ambition” to make Turkey a key energy center.³² However, it does appear that while aspiring to be a genuine trading energy hub in the longer term, in the short term the AKP authorities are hoping to reap economic, political and strategic advantages from Turkey’s geographical location along the proposed southern gas corridor. This would complement Turkish Foreign Minister Ahmet Davutoglu’s notion of Turkey as a “central country” where a number of regions overlap.³³ Davutoglu has also argued that Turkey is at a crossroads in the global flow of energy located at the intersection of east-west and north-south energy corridors.³⁴ This implied that energy-producing and consuming states in the wider Caspian region, the Middle East, the Gulf, the Balkans and the rest of Europe would need to come to terms with Turkey on energy issues.

The prospects for Nabucco West looked more promising given that the states of central and south-eastern Europe were eager to reduce dependence on Russian gas imports

Geopolitics and Security Concerns

Clearly, in order for Turkey to become a key energy transit state and energy hub there must be a degree of stability and security within the country and in the immediate neighborhood. The safe and uninterrupted flow of energy is an important component of energy security. The threat of sabotage from terrorists or the possibility of conflict breaking out in the region may discourage investors from funding pipeline construction. Pipelines may be laid underground for security reasons (such as the BTC pipeline and the South Caucasus Pipeline (SCP), the latter a gas pipeline connecting Baku with Erzurum in north-eastern Turkey), but above-ground pumping stations, compressor units and valves are still exposed to attack. Regular pipeline security exercises are held by Turkish, Azerbaijani and Georgian special units, but such forces are not able to protect all vulnerable stretches of pipeline and infrastructure.

The conflict between Russia and Georgia in 2008 resulted in the brief closure of the SCP and the shutting down for three months of the oil pipeline linking Baku with the Georgian port of Supsa. Russian forces targeted bridges and railroads and blockaded Georgian ports, thereby impeding Azerbaijani oil exports. These actions seriously called into question the safety of Georgia as an energy-transit state, and cast doubt over the future of Turkey as an energy conduit given that hydrocarbons from the Caspian region were expected to transit Georgia before reaching Turkey. However, Russian aggression forced

politicians in Europe to give more immediate attention to the proposed southern gas corridor to diversify their sources of natural gas imports and reduce energy dependence on Moscow.

At the time of writing, the Caucasus remained a highly volatile region. The dispute between Azerbaijan and Armenia over Nagorno-Karabakh was still unresolved. The International Crisis Group observed that renewed fighting over the enclave could lead to strikes against the BTC pipeline and the SCP, which are less than 20 kilometers from the frontline, where Armenian and Azerbaijani forces confront each other in a tense stand-off.³⁵ Holding large-scale military exercises in October 2012, the Armenian general staff openly declared that they were capable of destroying Azerbaijani energy facilities by missile attack.³⁶

Geostrategic concerns in the eastern Mediterranean may have had at least a limited impact on Turkey's ambitions to become an energy transit state. Commentators had raised the possibility of the laying of an extended gas pipeline to connect Israeli and Cypriot gas fields with Turkey, which would then hook up to pipelines on the southern gas corridor.³⁷ Increased tensions between Nicosia and Ankara over oil and gas exploration rights, which escalated in late 2011 when the American company Noble Energy began drilling in an offshore block for the Greek Cypriots, and the continuing failure to initiate a rapprochement between Turkey and Israel in the wake of the killing of Turkish civilians on the *Mavi Marmara* indicate that it is exceedingly unlikely that such a pipeline will be built. The Greek Cypriots and Israelis are instead considering constructing an LNG plant in Cyprus from where gas could be transferred by tanker to markets in Europe and beyond.

Oil and gas pipelines connecting Turkey with Iran and Iraq have been repeatedly sabotaged by rebels opposed to the central government in Baghdad and by forces of the Kurdistan Workers' Party (PKK). More importantly, the BTC pipeline was closed for over two weeks after an explosion at an above-ground valve in Erzincan province on August 5, 2008. The Turkish authorities attributed this to technical problems, but the PKK claimed responsibility. It appears that the PKK was indeed to blame.³⁸ An attack on the showpiece BTC pipeline in north-eastern Turkey, far from the PKK's usual area of operations in the southeast, called into question the safety of Turkey as an energy-transit state. Although no further attacks on the BTC pipeline have been reported, AKP officials would have been concerned that in May and October 2012 the SCP between Kars and Erzurum was damaged by what appears to have been PKK sabotage.³⁹ Gas flows along the pipeline, through which future production from Shah Deniz may be transported, were interrupted for a total of three weeks. Not surprisingly, the Turkish authorities have sought to downplay the significance of these attacks.

The Importance of Turkey for the Southern Gas Corridor

Given that Turkey's own energy needs must first be satisfied, and that EU member states will continue to seek to diversify their natural gas imports even though gas demand may not rise appreciably in the short term, and assuming that the security situation in Turkey and in its immediate neighborhood does not seriously deteriorate, a number of questions concerning the prospects for the southern gas corridor must still be addressed. The sponsors of TAP and Nabucco West are hoping that Baku and the Shah Deniz consortium in 2013 will choose their project as the export route for gas to be produced at the Azerbaijani Caspian gas field after 2017. Officially, the authorities in Ankara support both projects, but BOTAS, as a member of the Nabucco consortium, will presumably be lobbying to promote Nabucco West. At the time of writing, the prospects for Nabucco West looked more promising given that the states of central and south-eastern Europe were eager to reduce dependence on Russian gas imports.

Turkey can play a more direct role in helping realize the southern gas corridor by facilitating the development of TANAP. It seems that Turkish Petroleum (TPAO) and BOTAS have abandoned their attempts to increase their 15 percent and 5 percent stakes respectively in the project. SOCAR will remain the majority shareholder in TANAP with a 51 percent stake after agreeing in November 2012 to allow BP, Statoil and Total, three key members of the Shah Deniz consortium, shares in the project. And, after intense and prolonged negotiations, it seems that AKP officials have eventually yielded to Azerbaijan's terms with regard to transit issues. Apparently, according to the terms of the agreement between Turkey and Azerbaijan concluded on June 26, 2012, shareholders in TANAP will pay the same transit fees on a non-discriminatory basis while also setting transportation tariffs for other companies which may wish to use the pipeline in future.⁴⁰ It thus appears that SOCAR, and not Turkish companies, will therefore have the final say over the running of the pipeline. In return, Ankara has secured re-export rights for additional gas to be transported to the Turkish market and Baku will charge a preferential rate for gas deliveries to Turkey. There would hence seem to be little scope for Turkey to act as an unreliable or "bad" energy transit state with regard to future gas flows along TANAP.


Serious questions linger over whether states other than Azerbaijan in the foreseeable future will be able to provide gas volumes to help fill the proposed pipelines along the southern gas corridor, and indeed enable the capacity of these pipelines to be expanded. Both TAP and Nabucco West are scalable and could increase their annual capacity from 10 to 20 bcm, while there are plans to raise the capacity of TANAP to 60 bcm/y. Initial hopes to transport natural gas to Europe via Turkey from Iran and Egypt have been dashed after wors-

ening tensions with Tehran over its nuclear program and with the conflict in Syria preventing the completion of the construction of the Arab Gas Pipeline.

Turkey has continued to attempt to mediate between Turkmenistan and Azerbaijan to settle their dispute over the ownership of certain oil and gas fields in the Caspian in the hope that this could kick-start plans to build a trans-Caspian gas pipeline. In September 2012 Turkey's energy minister Taner Yildiz held talks with his Azerbaijani and Turkmen counterparts and with the EU's energy commissioner in Ashgabat.⁴¹ Back in 1998 and 1999 Turkey and Turkmenistan had negotiated provisional deals for the delivery of 16 bcm/y to the Turkish market and a further 14 bcm/y to Europe via Turkey.⁴² But, the immediate prospects for resolving the dispute between Baku and Ashgabat do not look promising and the Turkmen are instead boosting their natural gas exports to China.

Ironically, perhaps, it is more likely that Turkish officials could negotiate terms with officials from the KRG to allow natural gas from northern Iraq to be transported to Europe via Turkey, in spite of Ankara's continuing problems over the Kurdish issue. At meetings in Erbil in May 2012, in which Yildiz held talks with the KRG's President Masud Barzani and Oil Minister Ashti Hawrami, for the first time Turkey pledged to cooperate with the northern Iraqi Kurds on energy issues.⁴³ In a follow-up encounter in Istanbul in September 2012, Hawrami spoke of plans to supply 15 bcm/y to the Turkish market with additional volumes to be delivered to Europe by pipeline or in the form of LNG.⁴⁴ However, it would seem that relations between Baghdad and Erbil must first improve and a new petroleum law agreed upon by the central Iraqi government before the KRG could further develop plans to export gas in large volumes.

At the time of writing, it appeared that, contrary to earlier concerns, Turkey's public backing for the Russian-backed South Stream project will not seriously threaten the prospects for the realization of the southern gas corridor. The Kremlin intended to launch construction in December 2012 and make South Stream operational by 2015. This pipeline would enable Moscow to be less dependent on Kyiv. Ukraine is regarded by Russian officials as an unreliable, or "bad" transit state for gas deliveries to EU member states. It is difficult to imagine



Contrary to earlier concerns, Turkey's public backing for the Russian-backed South Stream project will not seriously threaten the prospects for the realization of the southern gas corridor

Azerbaijani or northern Iraqi natural gas being conveyed along South Stream, but increased Turkmen gas exports to Russia could free more Russian natural gas for transportation to Europe. Arguably, the AKP's backing of TANAP, by which Ankara demonstrated to Brussels its commitment to making Turkey a key component of an overland southern gas corridor, enabled Turkish officials to permit South Stream to be built in Turkey's EEZ.

Conclusion

Satisfying the energy security needs of Turkey will remain the priority of the AKP and any future government in Ankara. Becoming a major gas transit state and a key energy hub are secondary but nevertheless important goals. AKP officials would need to develop infrastructure and fully liberalize the local gas market to enable Turkey to become both a physical and a genuine trading energy hub. Preliminary steps are being taken to realize these objectives and the building of TANAP in particular would be a major milestone. Turkish energy officials have been eager to secure re-export rights, but, with the exception of Azerbaijan, energy producers have been reluctant to allow Turkey to make profits on gas originally sold by them to the Turkish market. Becoming a major energy transit state with regard to gas looks more achievable in the short term, especially given Turkey's support for both TANAP and South Stream, even

though the AKP has struggled to ensure that Turkey has the reputation of a "good" energy transit state after the difficulties over signing the IGA for Nabucco and the delays agreeing on transit terms with Azerbaijan.

Becoming a major energy transit state and possible future significant energy hub would strengthen Turkey's claim to be an influential regional power

Becoming a major energy transit state and possible future significant energy hub would strengthen Turkey's claim to be an influential regional power. The construction of South Stream would give Turkey some potential leverage over Russia. Arguing that in the future, because of TANAP, Azerbaijan could satisfy Turkey with extra gas in the event of an emergency,

Moscow has implied that it may abandon its practice

of supplying Ankara with additional gas volumes in the event of sabotage on the pipeline carrying natural gas to Turkey from Iran.⁴⁵ The Kremlin would presumably be less inclined to withhold gas deliveries to Turkey if it were dependent on the cooperation of Ankara for the transportation to Europe of considerable volumes of gas via Turkey's EEZ in the Black Sea. With the failure to open the energy chapter due to Greek Cypriot opposition, it remains to be seen whether Turkey's EU accession prospects may be looked upon more favorably if Ankara can demonstrate to Brussels that Turkey is a reliable energy transit state and is destined to become a key component of the southern gas corridor.

As of November 2012 it was not clear whether TAP or Nabucco West would be chosen in 2013 to hook up to the planned TANAP. Additional gas volumes to fill these pipelines from possibly northern Iraq and perhaps eventually from Turkmenistan will not be available for a number of years. Nevertheless, AKP officials have initiated steps to secure gas supply agreements with the KRG and open up potential export routes and have continued in their attempts, with little success hitherto, to mediate between Baku and Ashgabat over disputes in the Caspian. In the immediate term, though, and in contrast to earlier behavior, Ankara appears to be playing more of a facilitating role by agreeing to transit arrangements which would suit the interests of both energy producers and energy consumers. ■

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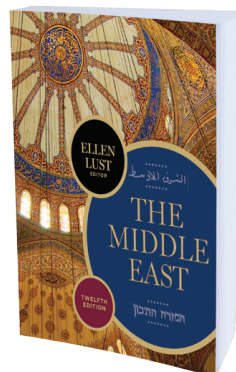
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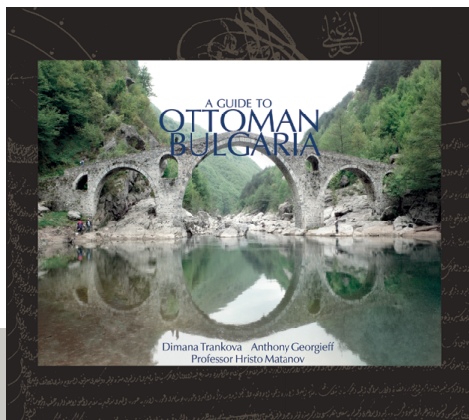
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