

Regional Energy Equations and Turkish Foreign Policy: The Middle East and the CIS

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ABSTRACT

Turkey has become an important east-west and north-south gas and oil transit route and an energy hub, thanks to the Turkish straits, and the existing and proposed pipelines that run through its territory. Economic opportunities, however, can present diplomatic liabilities. In a tough and complicated region, Turkey finds itself caught between the interests of competing superpowers and regional players. As the world's 16th largest economy, Turkey's thirst for energy will only increase. Satisfying this thirst requires not only diversification of sources and routes, but also good relations with all neighbors, in addition to traditional partners. An analysis of Ankara's options and new foreign policy vision shows that Turkey has little choice but to use greater caution and engagement. Following its own national interests and security concerns will drive Turkey to new openings in Syria, Iraq, Iran, Armenia and other CIS countries. Energy will be one of the main pillars of Turkey's policy of engagement and integration in the region.

Thanks to the recent gas crisis between Ukraine and Russia, a global ratio of tight supply and high demand, and the location of oil and gas markets in some of the most volatile regions of the world, the geopolitics of energy has made a spectacular return to the international political agenda. Both Europe and the key transit countries at the crossroads of Eurasia such as Ukraine and Turkey have learned the hard way the importance of more systematically incorporating energy security into foreign policy. For too long these two tracks have been separate, and the energy and foreign policy worlds have hardly spoken to each other. Now countries are increasingly committing themselves to pursuing energy security as part of their national security agenda. A broad assessment of the foreign policy dimensions of energy security is at the center of many nations' new foreign and security calculations. For many countries, energy security is already a top foreign policy priority. Turkey is

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one of them. The new Turkish foreign policy outlook envisages that the country can work for a world in which the interests of energy consumers and producers are increasingly aligned rather than apart. At the same time, based on the example of Russia, it is clear that energy initiatives can significantly advance a country's broader foreign policy agenda.

As energy geopolitics gains prominence, Turkey has been experiencing various energy and foreign policy challenges, such as the Russian-Georgian war of August 2008, problems encountered with Azerbaijan as a result of the initiation of rapprochement with Armenia, and Turkey's efforts to deepen energy cooperation with Iran amidst the Iranian nuclear standoff. To address these new challenges, Turkey has no choice but to adopt a new proactive energy diplomacy more in line with its own interests, rather than following strictly the requirements of its traditional alliances.

Turkey's Changing Foreign Policy Vision and Energy Connections

Turkey's new activism in the Middle East, the CIS and other regions is a fully rational and pragmatic attempt to seize the new opportunities presented by globalization and regional reordering. With the Europeans virtually absent from key geopolitical issues in the region and the new Obama Administration just starting to chart its new course of action in Iran, Iraq, Palestine and Afghanistan, Turkey is emerging as a self-confident and balancing actor trying to find solutions through mediation and facilitation in many foreign policy issues¹ such as between Israel-Syria, Bosnia and Serbia, Syria and Iraq, Afghanistan and Pakistan, and Iran and the P5+1.

The Turkish foreign policy elite sees engaging the immediate geopolitical neighborhood as complementary, rather than contradictory, to Turkey's more traditional Western strategic alignments. A case in point is Iran. Turkey believes that without a dialogue there will be no chance to convince Iran to cooperate with the international community, and especially with the P5+1, based on the international commitments asked by the Nuclear Proliferation Treaty (NPT) regime and the International Atomic Energy Agency (IAEA).

Four main principles² are driving Turkey's new foreign policy goals of security, stability and prosperity in the region through the establishment of sub-regional institutions and cooperation-integration schemes to mitigate political conflicts and differences. The characteristics that Turkey wants to see in the emerging regional and global orders are as follows:

- 1) Regional security and freedom for all, which requires a common understanding of what 'security' entails.
- 2) Inclusive, high level political dialogue and negotiation through newly established strategic council meetings of cabinet ministers, and joint cabinet meetings with neighboring countries like Syria, Iraq, Russia, Greece and possibly Azerbaijan in the future.
- 3) Economic interdependence is seen as the best way to sustain peace. There are new drives for abolishing visa requirements with some Middle Eastern and CIS countries including Russia.
- 4) Multilateral inclusiveness which suggests that if Europe wants to remain politically relevant and culturally vibrant, and avoid the clash of civilizations, Muslim Turkey must be in the EU.

Based on these principles, Turkey has adopted a policy of “zero problems with neighbors” in formulating its regional policies. Furthermore, according to Minister of Foreign Affairs Ahmet Davutoğlu, these relations must be transformed into “maximum mutual-interest-based ones”³ that are interdependent and integrated, in order to best preserve peace and promote prosperity.⁴ In this vision, reducing the relevance of borders is treated as an instrument of fostering regional peace. This is the rationale behind the rapprochement policy and the protocol signed with Armenia in October 2009.

Economics proves to be one of the main drivers of Turkey's new foreign policy. Eurasia and the Middle East present excellent entrepreneurial opportunities for the Turks, notably in areas where the West lags behind.⁵ And economic links can spill over into the political arena: relations with Russia were developed because of business relations and strong lobbying in Turkey. Such trade links have helped propel Turkey to become Europe's sixth largest economy with a market of 75 million people. As the state minister responsible for economy, Zafer Çağlayan, mentioned in his presentation at the Center for Strategic and International Studies (CSIS) on May 20, 2010, trade with neighbors has doubled six times over the past seven years. For instance, the share of imports from Turkey's near and extended neighborhood rose from 23.6% in 2002 to 35.5% in 2008. During the same period, the EU's share in Turkey's imports dropped from 54.7% to 40%.⁶ Between 1999 and 2008, however, the EU consistently accounted for 56% to 58% of Turkey's exports, which makes it a crucial economic partner.

While growth stalled in 2009, between 2002 and 2008, the Turkish economy grew almost 6% annually. Its per capita GDP has almost tripled in the last six

years.⁷ Indeed, Turkey is projected by OECD to be the third fastest growing country after China and India by 2017.⁸ In summary, Turkey's new foreign policy is no longer reactive, but rather proactive and visionary. Energy cooperation is certainly seen as the key policy with which to promote interdependency and deepen relations between Turkey and its neighboring countries.

Regional Energy Equations and Foreign Policy: More Interrelated Than Ever

Energy is one of the pillars of Turkey's re-emergence as a regional geopolitical force. Turkey's energy strategy has three main thrusts: (1) to ensure a diversified, reliable, and cost-effective supply for domestic consumption; (2) to liberalize its energy market; and (3) to become a more effective key transit country and energy hub between the energy-producing countries to its east and the energy-consuming countries to its west.

To succeed in its energy strategy, Ankara needs reliable suppliers for its domestic market, especially for its gas market, and for cross-border projects like the Turkey-Greece-Italy Interconnector (TGI), Nabucco,⁹ and the trans-Caspian pipeline. Azerbaijan, Iran, Iraq and Turkmenistan are potential suppliers, but Iran and Iraq are politically problematic. While Azerbaijan is the only readily available source, Turkey's rapprochement with Armenia has proven to be politically costly and an impediment to progress on key energy project developments such as the Shah Deniz Phase II and TGI projects.

One also has to draw attention to improved coordination among bureaucratic institutions in conducting Turkey's energy diplomacy. The increased activism in Turkey's energy diplomacy over the past year is not a coincidence. In May 2009, Ahmet Davutoğlu became Turkey's new foreign minister. In the meantime, Erdoğan appointed his energy advisor and MP Taner Yıldız as the new energy minister. Yıldız, knowing the value of coordination with the Ministry of Foreign Affairs during his long years in advisory position, immediately acknowledged the renewed spirit of cooperation and coordination between the two ministries.

The foreign and energy ministries are now better coordinating their policies thanks to the strong consensus between the two ministers regarding the energy issues and with both favoring more input from the Ministry of Foreign Affairs (MFA) into the making of Turkey's energy diplomacy. Geopolitical issues and international security strategy including international energy security mainly fall within the jurisdiction of the MFA. This inter-ministry cooperation is the key to

the effectiveness of the current and future energy diplomacy. Bringing together the technical and domestic expertise of the energy ministry and the geo-strategic vision and policy making ability of the MFA provides a unique ability to pursue Turkey's national interests and vision of regional stability more effectively.

The Middle East

Iran

While Iran is Turkey's second largest gas supplier after Russia, Ankara's energy and business dealings with Tehran have never been easy. Iran often demands comparatively higher prices while gas quality and quantity often fall below the agreed terms. Iran currently only supplies Turkey with a little over half of its contracted 9.6 billion cubic meters (bcm) of natural gas a year (6.16 bcm in 2007, 5.8 bcm in 2008).¹⁰ In both January 2007 and January 2008, Tehran slashed gas exports to Turkey in the face of high Iranian domestic demand.¹¹

Ankara and Tehran have also come to loggerheads over Iran's failure to respect commercial contracts. In May 2004, the Islamic Revolutionary Guard Corps forced the expulsion of the Turkish construction consortium TAV from Tehran's airport, despite a 15-year service contract. That same year, the Iranian government also cancelled Turkcell's successful bid to enter the Iranian cell phone market. Last but not least, there are political impediments to Turkey pouring large-scale investments into Iran, given Iran's current tensions with the international community over its nuclear activities. Indeed, Iran could become a conflict zone if diplomacy and sanctions fail in the near future.

Still, under Prime Minister Erdoğan's administration, there has been a renewed drive for an energy partnership with Iran. In July 2007, both countries signed a memorandum of understanding (MoU) by which the two sides agreed to build 2,200 miles of gas pipelines (one from the South Pars field, the other from Turkmenistan to Turkey, forming a land connection from Turkmenistan's easternmost and richest gas fields). These are costly, decades-long endeavors which require a long-term engagement. And there are still many unknowns in the details. Financing all these projects is going to be a big challenge. If completed, these projects will transport up to 40 bcm of gas annually to Europe via Turkey.

Iran and Turkey have also agreed to increase cooperation in electricity generation. In this context, they plan to construct natural gas power stations in Eastern Anatolia, where power shortages take a heavy toll on the local economy, especially during the long winter months. The latter investment is supposed to be spear-

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headed by the two countries' private sectors, so that the sanctions on Iran would be inapplicable.

Despite these prospects, Turkey's talks with Iran, particularly regarding development in the South Pars gas field, have been far from conclusive. For example, according to a November 17, 2008 MoU (a continuation of the first MoU of July 14, 2007), the Iranian side agreed to give the development rights of the 22nd, 23rd and 24th phases of the South Pars field in the Persian Gulf to TPAO under a service contract.¹² But two years later, the details of this agreement are still to be worked out by the relevant institutions. Several meetings of the Working Group that was established for this purpose have been convened. However, no agreement has been reached regarding the details mentioned in the MoUs.

Since Turkey's energy policy aims, among other things, at contributing to Europe's energy supply security, Ankara believes that these efforts, albeit in the longer term, will provide an impetus to the Nabucco and other East-West energy pipeline projects. Iranian gas is certainly one of the options that might feed these alternative supply sources. Azeri gas by itself will not be sufficient for the later stages of the so-called Fourth Corridor. The Shah Deniz gas, Iraqi gas, and the trans-Caspian connections will thus continue to be vital, and Turkey's Iran initiative is by no means an alternative to the above sources. On the contrary, it is Turkey's vision that progress in its Iranian negotiations will help to accelerate development of these important supply sources.

There is no doubt that Turkish-Iranian energy cooperation has angered previous US administrations because it undercuts American efforts to isolate the Islamic Republic over its defiance of four UN Security Council sanctions seeking suspension of its uranium enrichment program.¹³ Nonetheless, Erdoğan has repeatedly stressed that Turkey's cooperation with Iran is intended only to diversify Turkish energy supplies. It would be "out of the question to stop imports from either country [Russia or Iran],"¹⁴ Erdoğan said following the Georgian war, especially as Turkey's energy needs grow by almost 5% per year.

Nuclear energy might emerge as an area of cooperation between Turkey and Iran if and when Iran gets its civilian nuclear power station. The same Russian company (Rosatom, the Russian State Atomic Energy Corporation) that provides fuel to Iran is also slated to construct Turkey's first nuclear power station. Turkey stands with the US, the EU and the UN in support of diplomatic efforts to stop the Iranian government from developing nuclear weapons capabilities. The low-

enriched uranium (LEU) exchange deal (1,200 kg LEU in exchange for 120 kg of highly enriched uranium) that Turkey reached on May 17, 2010 together with Iran and Brazil complies completely with that commitment. It seems clear that Turkey will be a continuing interlocutor in nuclear negotiations with Iran in the coming future.

Ankara's energy diplomacy in Iraq has aimed at reaching two goals: enhancing political goodwill between both states, while also securing additional gas for the transit projects through Turkish territory

Energy development projects can take years to put into operation; hence, engagements with Iran today are important for Turkey and other nations in order to secure their long-term energy needs. None of the countries dealing with Iran on energy matters can afford to wait until the Iranian sanctions have run their course. Turkey hopes and believes that one day the international political situation with regard to Iran will change. And on that day, Turkey wants its companies operating in the energy field to be ready to accelerate their activities in that country.

Iraq and Qatar

Since the first Gulf War, Iraq has been the single most important country in terms of affecting Turkey's own national security. The future of Iraq, and preserving territorial integrity and sovereignty of that country with sustainable security and stability were thus the most important foreign policy priority for Turkey. Over the past two years, there has been a general shift away from confrontation to cooperation between Ankara and the Kurdistan Regional Government (KRG).¹⁵ Through the initiation of Strategic Council meetings with the central government in Iraq, Turkey has been able to discuss a wide range of issues and signed 48 agreements with Iraq, ranging from energy to bilateral trade, and from security to water issues. Ankara's vision is to increase the economic integration with that country, along with Foreign Minister Davutoğlu's main principles of Turkish foreign policy. The PKK is the main concern for Turkey and the isolation and marginalization of the PKK in Northern Iraq was Turkey's main goal during this policy shift. Ankara considered economic integration with Iraq essential for preventing the region from devolving into a safe haven for the terrorists.

Turkey has two main problems with Iraq. In the short-term, the security situation in Iraq and the dispute between the KRG and the central government in Baghdad over the distribution of petrodollars mean that Ankara must proceed cautiously with regard to energy investments in Iraq. In the long term, investing

in Iraqi energy projects will enrich the Iraqi Kurds, promoting their interdependency with Turkey – their only outlet and market for energy resources. Turkey has been promoting the development of a gas pipeline through its territory as a means for enhancing relations with the KRG.¹⁶ This is one illustration of the complex nature of Ankara's energy policies. In this respect, Ankara's energy diplomacy in Iraq has aimed at reaching two goals: enhancing political goodwill between both states, while also securing additional gas for the transit projects through Turkish territory.

The MoU that was signed between the Turkish Ministry of Energy and the Iraqi Ministries of Oil and Electricity on August 7, 2007 constitutes an important basis for Turkey's energy relations with Iraq. On July 10, 2008 Prime Minister Erdoğan became the first Turkish prime minister to visit Iraq in 18 years. During that visit, both sides concurred on cooperating in the field of energy by establishing partnerships between Turkish (TPAO, BOTAŞ) and Iraqi companies as well as transporting Iraqi natural resources to the world markets through the most viable export routes. To this end, they also agreed to upgrade and expand the existing capacity of the Kirkuk-Yumurtalik oil pipeline, and to build a pipeline network to transport natural gas from Iraq to international markets via Turkey.

According to the Common Political Declaration signed during Erdoğan's visit to Iraq, a High Level Strategic Council was set up. This joint Council of Ministers first convened during Erdoğan's visit to Baghdad on October 15, 2009.¹⁷ Its focus will be to deal, among other things, with energy issues. This platform also gives an opportunity for the two countries' ministers of energy to have more frequent contacts.

A part of the natural gas to be produced, first from Iraq's Akkas field and later from the Mansuriyah field east of Mousul, has been allocated for Syria, and the remaining amount is designated to be used domestically and allocated to the Arab Natural Gas Pipeline Project (ANGP). Turkey is working to convince the Iraqi government that oil and gas resources can and should be developed in parallel. This would be in the best interest of the Iraqi people and government. The signing of a MoU between BOTAŞ, TPAO and Shell in November 2008 has also been a positive step forward along this policy line. There are some rumors that the ANGP might operate from north to south, after connecting with the Turkish grid. Turkey deems it crucial that the gas flows from south to north.

Private Turkish companies have already made huge investments in Northern Iraq, specifically in the KRG areas and the fields of Tak Tak, Khor Mor and



Photo: A.A. Firat Yurdakul

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Chemical. The efforts of companies like Genel Energy of Turkey, Dana gas of Norway, and Nabucco's chief operating company OMV in the area make it highly pertinent to develop a direct connection to Turkey from Northern Iraq, and to strive for a gas pipeline parallel to the existing Kirkuk-Yumurtalik oil pipeline.

Turkey has strived to develop energy relations with other countries in the Middle East as well.¹⁸ In August 2009, Emir of Qatar, who has developed personal relations with Prime Minister Erdoğan and Foreign Minister Davutoğlu and worked on several foreign policy issues of mutual concern, such as during the Lebanon war of 2006 and Middle East Peace process, discussed extensively energy cooperation with President Abdullah Gül. Imports of gas from Qatar have constituted one potential area of cooperation. There are discussions in the works; for example, the prospect of piping liquefied natural gas (LNG) to Turkey. If Turkey secures its deal with Iran on the development of the South Pars phases 22-24, and runs a pipeline across the Iranian mainland to Turkey, Qatar has indicated interest in connecting to this pipeline. Iraq route is also in calculations. However, given the moratorium on agreeing to any additional LNG contracts until 2016, when Qatar finishes its own evaluation stage, securing new supplies from the Qatari market is very unlikely for Turkey. To complicate matters further, Qatar's contracts with Romania

to supply LNG through the Turkish straits may turn into a very contentious issue between Turkey and Romania.

Similar to Qatar, Turkey has been eyeing to develop closer energy cooperation with Kuwait. Again, either through a pipeline over Iraq or enhancing bilateral cooperation through investments in Turkey's energy infrastructure, Turkey wants to add Kuwait to the list of partners. The construction of a refinery in Ceyhan is only one example aimed at attracting Kuwaiti cooperation and investment. In addition, since there is a new gas pipeline in Iraq coming from the rich gas fields of the south to Baghdad, Turkey is trying to convince the Iraqi government that this major pipeline should continue towards the north, thus enabling the potential for Kuwaiti and Qatari gas (and maybe a parallel oil pipeline) to increase their throughput capacity.

The CIS

Azerbaijan

As a response to Turkey's April 2009 announcement reestablishing diplomatic and economic relations with Armenia, Azerbaijan signed a gas contract with Russia, pledging to export a limited amount of gas (500 mcm) in 2010, with the future upper limit left undefined for now. This has raised Ankara's concerns about filling the Nabucco pipeline with enough gas.

Furthermore, in October 2009, Turkey and Armenia signed a historical accord stipulating a schedule for resuming diplomatic and economic relations. Since the very beginning of the process, Baku has been suspicious about Ankara's policy to open its border and establish diplomatic relations with Yerevan without first addressing the contentious issue of Nagorno-Karabakh (NK). Using energy as leverage, Azerbaijan's president has gone so far as to state that Turkey has been receiving gas through the Baku-Tbilisi-Erzurum pipeline (BTE, also known as the South Caspian Pipeline) at one third of European prices from the Shah Deniz Phase I since July 2007.

Recent events have opened the way for Turkish overtures toward Azerbaijan. Turkey and Armenia have not sent diplomatic protocols to their respective parliaments for ratification. This is largely over the row between Armenia and Azerbaijan over the disputed Nagorno-Karabakh region. Moreover, the US Senate Foreign Relations Committee's March 4, 2010 decision to label the 1915 killings of Armenians as "genocide" also means that Armenian-Turkish talks are not likely to be revived anytime soon. The frozen Turkish-Armenian relations and the ensu-

ing presidential announcement regarding the suspension of protocols have positioned Ankara to win over Azerbaijan. In fact, Turkey and Azerbaijan concluded their gas transit and price agreement in June 2010.¹⁹

Russia and the emergence of a North-South energy axis

Energy cooperation—both in gas and oil—forms the basis of Russo-Turkish economic relations. For over two decades, growing Turkish energy demand has relied heavily on Russia, with Turkey figuring among the three largest clients for Russian gas. Turkey depends on Russia for almost two-thirds of its gas imports (24 bcm)²⁰ via the Western and Blue Stream pipelines, and about a third of its demand for crude oil.²¹ Moreover, Turkey is the third largest importer of Russian coal, spending \$710 million in 2007 alone.²² Should Turkey not tap other major supplies from Azerbaijan, Iraq, and Turkmenistan, then the Russian share of Turkey's gas supply might increase to 80 percent by the early 2020s.

The leaders of both Turkey and Russia have encouraged further bilateral cooperation. On December 5-6, 2004, then Russian President Vladimir Putin paid a visit to Turkey, the first by a Russian head of state since 1972. During the visit, Putin and then Turkish President Ahmet Necdet Sezer signed a joint declaration of cooperation which characterized bilateral relations as a “multilateral strengthened partnership.”²³ From then on, there have been multiple high-level exchanges featuring prime ministers and presidents from both countries. Among other issues, the opening of the Blue Stream pipeline and the nuclear cooperation were dealt with at these meetings.

During President Medvedev's latest visit to Turkey in May 2010, Russia's previous commitments to other energy projects turned into reality. Medvedev characterized relations between the two countries as a “strategic partnership.”²⁴ And the countries jointly initiated a long-awaited agreement for a nuclear energy power plant in Turkey to be built by a Russian-led consortium. Also, Russia agreed to supply crude oil to the TPAO Samsun-Ceyhan oil pipeline (SCP) project. Separately, the Russian state-controlled natural gas monopoly Gazprom has announced that it is in talks with Turkish energy companies for natural gas storage and distribution projects in Turkey.

Gazprom also indicated that there will be a 25% volume reduction in favor of Turkey to avoid costly “take or pay” contractual obligations as demand and consumption has been lower than previously agreed in recent years. During the Medvedev visit both sides also agreed to abolish visa requirement for visits lasting less than a month.

The future of Turkish-Russian energy relations and the north-south corridor depend largely on Moscow's vision of energy security for Europe and the world

Despite this progress in Turkish-Russian relations, however, the hydrocarbon resource transit through the Turkish straits creates serious problems for Turkey. Even as Moscow demands the fulfillment of the 1936 Montreux Convention's guarantee of "free and uninterrupted passage" through the Turkish

straits, Russian officials and energy companies are aware that the current volume of traffic through the Bosphorus is unsustainable. The solution depends on the use of alternative oil export options that bypass the straits.

The Turkish Ministry of Natural Resources and Energy sees the implementation of gas transit projects to third markets through Turkey as a means to strengthen Turkish-Russian energy cooperation. The Blue Stream I and the anticipated second phase of this natural gas pipeline are the primary components of a north-south axis alternative transport strategy.

Russia's August 8, 2008 invasion of Georgia, however, complicated Turkish strategy. Nonetheless, continued progress in bilateral relations and frequent high-level visits to Russia have mitigated complications that might have erupted out of this war. Erdoğan walked a very tight rope during the crisis, explaining to the Turkish daily *Milliyet*, "It would not be right for Turkey to be pushed toward any side. Certain circles wanted to push Turkey into a corner either with the United States or Russia after the Georgian incident... We will act in line with what Turkey's national interests require."²⁵ As Erdoğan's top foreign policy advisor Ahmet Davutoğlu explained, "You can't say that Turkish-Russian relations can be like Danish-Russian relations, or Norwegian-Russian relations, or Canada-Russian [sic] relations. ... Any other European country can follow certain isolationist policies against Russia. Can Turkey do this? I ask you to understand the geographical conditions of Turkey... We don't want to pay the bill of strategic mistakes or miscalculations by Russia, or by Georgia."²⁶

The future of Turkish-Russian energy relations and the north-south corridor depend largely on Moscow's vision of energy security for Europe and the world. Some analysts assert that Russia still has the ability to hold many of these energy projects hostage.²⁷ Although Russian officials often point out that during the Cold War they did not stop supplying oil to the West, Moscow's use of energy as a trump card against Ukraine, Belarus, Latvia, Georgia, Azerbaijan, and the Czech Republic calls into question its reliability as an energy supplier. These instances

only serve to further legitimize Turkey's pursuit of alternative supply routes while stressing the need to positively engage Russia and promote interdependency.

Kazakhstan and Turkmenistan

Despite facing setbacks with their most notable expansion options, Kazakhstan, Turkmenistan and others found alternative transportation corridors when renewed cooperation emerged between Russia and Turkey. Relations between Turkey and Russia have undergone a transformation from strategic competition into cooperation in fields such as energy, construction and tourism.²⁸ Thanks to expanding and deepening economic and energy relations between Turkey and Russia, Central Asian countries no longer fear antagonizing Russia as they deepen relations with Turkey. Now extending the Baku-Tbilisi-Ceyhan (BTC) and the BTE pipelines across the Caspian Sea is a much more feasible option.

Turkey has proven itself an effective mediator between Azerbaijan and Turkmenistan. In November 2008, Turkish President Abdullah Gül managed to convince Azerbaijan's President Aliyev to pay the first ever visit to Turkmenistan. Together with Turkmen President Berdimuhamedov, a trilateral summit was held in Turkmenistan to address the issue of a rapprochement. Two committees on political and energy issues were established, with Turkey playing a facilitating role. Nevertheless, plans to use Central Asian gas to supply Nabucco via a trans-Caspian pipeline have not progressed. Not only are there legal and technical (and thus costly) impediments to building this underwater pipeline, Turkey is also contending with Russia's immense influence over the Central Asian states. The new Turkmenistan-China gas pipeline provides Turkmenistan more leverage and incentive to push for a western route more aggressively, which might be possible in the wake of the June 2010 deal between Turkey and Azerbaijan.

Thanks to Turkey's effective energy diplomacy in the region, Kazakhstan's aspirations now have new hopes. In February 2008, Kazakhstan's state oil and gas company KazMunayGas (KMG) purchased the Batumi oil terminal outright from the Danish-led Greenoak Group and its partners. Greenoak will continue to manage both the oil terminal and the recently modernized port of Batumi for KMG. The terminal, with an annual capacity of at least 15 million tons of crude oil and oil products, can also become a point of origin for tanker oil deliveries²⁹ as a source for the SCP.

The announced delays in the development of Kazakhstan's Kashagan field benefit Kazakhstan in two ways.³⁰ Firstly, the Kazakh government can pressure the consortium to increase KMG's share in the project, and secondly, the increase

Russia views Nabucco as a rival project to the South Stream gas pipeline as it follows a similar gas-delivery route to Europe

in the price of oil boosts the nation's revenues. By 2013 a subsea gas pipeline can be built between Azerbaijan and Turkmenistan, presenting Kazakhstan an opportunity to consider its own subsea oil pipeline connected to the BTC.³¹ To that

end, on October 2, 2009 in Baku, KMG and SOCAR, the Azerbaijan state oil company, signed an agreement to jointly conduct a feasibility study on a trans-Caspian project that would originate in Kazakhstan.³²

The BTC's continued commercial viability hinges on its access to Kazakh oil. Whereas the BTC's projected lifespan is 40 years, the reserves at the Azeri-Chirag-Guneshli (ACG) offshore fields in the Azerbaijani sector of the Caspian Sea are already projected to decline starting in 2015. With a rapidly depleting source of oil, the BTC will become increasingly reliant on Kazakh oil from the Kashagan region whose production is fortuitously set to increase at that time. Given these facts, the Turkish route seems the most likely one to be chosen in the future.

Kashagan production ("early oil") is officially scheduled to start in late 2011, and the consortium must soon decide on a suitable export route. Apparently the best way to transport this early oil is to use tankers and barges from Aktau to Baku. To this end, in February 2009, the governments of Kazakhstan and Azerbaijan agreed to set up a \$3 billion oil transport system across the Caspian Sea that will be fully operational by 2012, suggesting that this is planned for the Tengiz and Kashagan developments.³³ KMG announced that the network will initially be able to ship 500,000 barrels of oil a day, and the operation of the Kashagan oilfield by 2013 will increase this to 1.2 million bpd.³⁴ These developments make the expansion of the BTC capacity, first to 1.2 mbpd and then to 1.6 mbpd, all the more relevant.

Turkey strongly supports transportation options that bypass the highly congested Turkish Straits. It has long argued that the Samsun-Ceyhan Pipeline is the most commercially viable and strategically convenient alternative proposed so far. The Italian company Eni is fully financing the joint project with Turkish Çalık Energy, and construction is set to begin in 2010. With an annual capacity of 60-70 million metric tons (1.2-1.4 million bbl/d), the company also sees oil in its Kazakh, Kashagan and Karachaganak fields as a start to the pipeline throughput.³⁵

Despite Turkey's persistence in seeking support for the SCP, Moscow has continually opted to support other bypass options such as the BAP (the Bourgas-

Alexandropoulos Pipeline through Bulgaria and Greece). However, the new Bulgarian government has put the BAP project on hold. To compound the challenge, Turkey hosted a summit to sign the Intergovernmental Agreement for the Nabucco gas pipeline project in Ankara on July 13, 2009. Russia views Nabucco as a rival project to the South Stream gas pipeline as it follows a similar gas-delivery route to Europe. Hence, three weeks after this summit, Putin paid an official visit to Turkey for the signing of a record number of protocols.³⁶ Both PMs declared that Turkey and Russia were ready to steer in a new period of cooperation, particularly in the energy field.³⁷

Among the ambitious plans was an agreement to establish a working group that would discuss the SCP project in detail. As stipulated in the agreement, Turkey would allow Russia to carry out a feasibility study for the South Stream to pass through Turkey's Exclusive Economic Zone (EEZ) exchange of Russian commitment to supply crude oil to the SCP.

The Russian government's new offer could be interpreted as a reaction to the growing publicity and revival of Nabucco, after the signing of the IGA in July 2009. Nevertheless, on October 19, Turkey, Italy and Russia signed a MoU regarding Russian participation in the SCP and stipulated the commitments of the three partners.³⁸ This new development paved the way for enthusiastic Kazakh commitment to the SCP. During Kazakh President Nazarbayev's October 2009 visit, Turkey signed a "Strategic Partnership Agreement" with Kazakhstan indicating its intention of joining the SCP.³⁹ Addressing his Turkish counterpart in Ankara, Nazarbayev added that Turkey's balanced policy towards Russia and China increases its influence in Central Asia.⁴⁰ Kazakhstan's deal with Turkey is seen as one that will cement the latter's role as a transit hub for oil and gas.

The SCP makes perfect sense for Kazakhstan and gives flexibility to the country's export potential. As mentioned above, the westbound route offers several options for oil shippers from Kazakhstan. They can either use the Baku-Ceyhan pipeline via Georgia, the pipeline to Supsa, or the railways to Batumi and Poti on Georgia's Black Sea Coast (in addition to the Azerbaijani-owned Kulevi terminal near Poti). The SCP is geographically and environmentally the best option to enable the utilization of all these routes.⁴¹

Trends to Watch: Future Determinants of Turkish Energy Diplomacy

Energy relations between Turkey and its neighbors, Russia, Iran, Iraq and Azerbaijan, are headed toward a paradigm shift that will include accelerated and

diversified cooperation with producers (Iran and Russia) and transit and consumer countries (mainly in Europe). The main question and challenge is: will this intense energy diplomacy lead to a shift towards a more balanced energy partnership to avoid over-dependency and lost opportunities?

Opportunity and dangers with new energy diplomacy and some structural changes

As Turkey develops its energy diplomacy with its neighbors, it will be subject to several opportunities, but also challenges. Until recently, Turkey's previous energy cooperation with various partners focused on specific individual projects and over particular issues. The new trend of package deals symbolizes a shift to more complex and integrated energy relations raising the risks and deepening the cooperation perspectives for the future. As mentioned above, Gazprom has long been interested in Turkey's domestic gas distribution and storage opportunities. During Putin's August visit to Ankara, to reap these opportunities Gazprom signed a protocol with AKSA on investing in domestic gas distribution market,⁴² and negotiated with the Turkish authorities on the construction of an underground gas storage facility in Tuzgölü (a salt lake in mid Anatolia). The latest proposal was recently reiterated during President Medvedev's May visit to Turkey. Details of the agreement yet to be finalized.

However, Gazprom's interest in Turkey's domestic market creates opportunities and serious concerns (over-reliance issue) for the future shape of the domestic market in Turkey. It is a well known fact that Gazprom has been eyeing to expand its role in supplying the Turkish domestic market through direct contracts with potential wholesalers. New legislative changes created an awkward situation that, while the Turkish gas sector monopoly BOTAŞ holds its monopoly situation it also has been signing new purchase contracts. Although BOTAŞ has been suggesting that market will be opened for private distributors, its poor performance so far kept the market liberalization far behind the schedule. Nonetheless, Gazprom has already made some headway in acquiring controlling stake in Bosphorus Gas, which has taken over part of BOTAŞ's import contract with Gazprom.

In addition to the over-reliance issue, an additional concern was that deeper cooperation on the South Stream project through allowing the feasibility study might ultimately lead to the merger of Nabucco with South Stream or through Blue Stream II. Such a development ultimately could derail the whole Fourth Corridor idea and remove Nabucco as priority project in Turkish energy policy formulation.

However, the election of a pro-Russian president in Ukraine and his push for dropping the South Stream altogether in favor of using Ukraine as the main Russian transit route may annul these concerns.⁴³ Such concerns have not yet led to the reluctance for cooperation. However, they might have eased the pressure on Turkey's side to cooperate more on the South Stream and allow domestic access to Gazprom. In a nutshell, re-balancing and a recalibration of Turkish-Russian energy relations is still in the making and far from over. And, of course, the risk of dependency based gas relations will be here to stay and difficult to balance.

Nuclear energy has been one central area of intense cooperation between Turkey and Russia. During Putin's August 2009 and Medvedev's May 2010 visits, the Turkish government felt strong pressures to approve Russian participation in the construction of Turkey's first nuclear power plant worth of 20 billion\$ (initial estimate). The two countries have already been working on joint nuclear energy cooperation through a working group focusing on technical matters. After the visit of President Medvedev, it is highly unlikely for Turkey to backtrack from the commitment to award the project to Russia –in the form of bilateral agreement subject to Turkish Grand National Assembly's approval.

Nonetheless, awarding the first nuclear power plant to the Russians and the second one through a March 2010 MoU to the South Koreans does not make much sense in terms of cost effectiveness and sustainability of the fuel supply.⁴⁴ Operating two different nuclear power plants with two completely different technology and maintenance issues (cost and technical requirements) may not be the best way to proceed. The fuel supply to these two plants will also be a challenge and not cost effective since each will require different suppliers with different operating rules. Besides, the Russian reactor proposed for the project has not been given safety approvals by European institutions.⁴⁵

The rise of private sector and energy-lobbies

There is a growing trend of interest in energy sector among Turkey's traditional conglomerates such as Koç and Sabancı Holdings. Reflecting, Turkey's growing trade with its neighbors, Russia in particular, quite naturally new kind of Turkish entrepreneurs have emerged as a viable force that could shape bilateral energy relations as well as Turkey's foreign energy diplomacy. However, these newcomers to the sector have wide range of areas of business interests other than the traditional ones, including media. This might be a regional phenomenon if we take into consideration the Greek example of reflecting the pro-Russian arguments in some of the media outlets which had extensive business relations with Russia,

during the 2009 Ukrainian-Russian gas crisis that affected the South East European countries the most. It is too early to tell whether this is a danger, an impetus to Turkey's energy interests or a regional phenomenon, but worth watching for. For instance, Ciner Holding has been actively lobbying to build Turkey's first nuclear power plant with Russian partnership. Çalık Holding has been the main proponent of partnering with Russian companies to fill its proposed Samsun-Ceyhan projects. Lobbying on energy matters by Turkish businesses has extended to Iraq as well. Genel Energy has already invested hundreds of millions of dollars to the fields of Khor Mor and Tak Tak in Northern Iraq. The company has also formed a partnership with Nabucco's main operator OMV of Austria with the anticipation of selling its gas to this priority pipeline for Turkey which suffers additional supply sources after phase one. The company became a more relevant actor, particularly after KRG secured a deal with Iraqi government launching partial crude oil exports through the Kirkuk-Yumurtalık pipeline in mid-2009.

Private company lobbying for energy projects with foreign partners could be considered as an indication of a healthy competition and Turkey's growing economic role in its region. They shed light about existing projects and their implications for the general public. However, direct links between these groups and the officials might alienate people and raise questions about the primacy of private over national interests. It will be reasonable to expect that international and national energy companies will continue to struggle for capturing better deals and projects via political connections. Such competition might have more of a negative effect overall, by leading the institutions involved in the making of Turkish energy policy to undertake wrong decisions or miscalculate Turkey's options. If this competition is not regulated properly, it might come to hinder the healthy evolution of the future domestic energy market in Turkey.

Conclusion

In both regional and global energy equations and foreign policy calculations, Turkey's energy strategy and the flexibility offered by the east-west and north-south routes make Turkey one of the most viable and desired partners for both energy rich Russia, Caspian and the Middle Eastern countries and the energy hungry markets in Europe. The BTC connection, the SCP project, and the potential Nabucco connection can make the Fourth Corridor to Europe more than an "aspiration;" to the chagrin of critics, it will be a reality.⁴⁶ The emerging north-south axis, more cooperation and new pipeline opportunities with Iraq, Iran and the almost finished Arab natural gas pipeline also play into further integration and interdependency in the regions surrounding Turkey. Such integration is the

sole way to mitigate political differences and defuse conflicts.

As of now, neither the regional countries nor any of the major powers have finalized major energy projects and strategies. However, the mere discussion of these possibilities changes not only the region's geo-economics but also its geo-politics. Both the Caspian Basin oil and gas producers and the Western powers have wanted oil and gas export pipelines from that region that bypass Russia. However, at the same time, they have ruled out Iran as an alternative transit route. Following the successful completion of the BTC and BTE pipelines, and the first leg of the Turkey-Greece-Italy gas interconnector, the US-Turkish "east-west energy corridor" concept envisions extending these pipelines east to Kazakhstan and Turkmenistan via the Trans-Caspian pipeline and west to Europe via the Nabucco pipeline. This would, for the first time, allow the EU to buy Caspian gas without a Russian intermediary. However, the recent paradigm shift in Turkish foreign policy shows that the discussion of alternative energy strategies may bring old allies into conflict while encouraging old enemies to cooperate. Turkish-Russian and Turkish-Armenian relations are cases in point. The recent intensity in Turkish-Russian-CIS-Middle East energy negotiations needs to be viewed through the increasingly multidimensional nature of Turkey's energy diplomacy. This trend for intensity is likely to accelerate in the near future.

Diversification of new energy supply routes remains crucial not only to Turkey's development but also to the West's energy security

Turkey's long-term energy development is important to the US and Europe, even if the West remains from time to time upset at the short-term implications of Ankara's dealings with the CIS and the Middle East. The diversification of new energy supply routes remains crucial not only to Turkey's development but also to the West's energy security. Turkey's new energy diplomacy activism should be seen as a redefinition of its self-interest in the energy business. Rather than merely following Western energy security goals in a loyal and unquestioning manner, Turkey is weighing all options in the new geopolitical landscape. Finding the right balance and bringing all of Turkey's interests – including its longstanding relationship with the West – into harmony is going to be a challenge in the future.

There is a fundamental mistake frequently made by some analysts and policymakers in the West who assume that post-Cold War Turkey follows the general policies of the Western institutions such as the EU enlargement, election process of the new secretary general for NATO, and the Western policies on Iranian nuclear issue or the Caucasus. Another mistake often made by the Europeans in

their dealings with Turkey is that they often think that Turkey's territory is part of their own, so that they can, for instance, attempt to sign contracts with Iran on gas purchases without even consulting with Turkey, while at the same time being hesitant to open the energy chapter negotiations with Turkey. Turkey deserves to have a stand-alone policy, and its possible contribution and nuanced value should be holistically examined. The underlying question should now be: "How can we in the West make use of Turkey's new vision of engagement and active diplomacy to achieve security, prosperity and stability in its region?"⁴⁷

Instead of being perceived as a perennially peripheral country that sits on the outer margins of the EU, NATO or Asia, Turkey needs to be seen as a "central country" – a main contributor and collaborator towards the peace and prosperity of the region. Energy collaboration is the best way to establish this new paradigm.

Endnotes

- The opinions expressed in this article are only those of the author.
- 1. İbrahim Kalın, "Is the West losing Turkey?" *Today's Zaman*, November 5, 2009.
- 2. Ahmet Davutoğlu, from his keynote address during the "Turkish Diplomacy and Regional-Global order in the Early 21st Century," Istanbul, May 15, 2010.
- 3. For an excellent summary of the new foreign policy approach of Turkey, see: Ahmet Davutoğlu, the Speech Delivered at the 28th Annual Conference on US-Turkish Relations Organized by ATC-DEIK: "Turkey-US Relations: A Model Partnership, Global and Regional Dimensions," Washington DC, June 2, 2009.
- 4. Improving relations with neighboring states and playing an increasingly leading role in the Middle East and CIS region seems to be based on real political influence and economic and energy interests, rather than prestige and nostalgia for the old Ottoman Empire, as some suggest. First and foremost it is a correction of an anomalous situation of non-interaction in the Middle Eastern issues. Turkey is returning to its traditional strategic environment.
- 5. Rod Nordland, "Rebuilding Its Economy, Iraq Shuns U.S. Businesses," *The New York Times*, November 13, 2009.
- 6. Mehmet Karlı, "A reality check for Turkey's economic depth," Presentation given at the following meeting: "Turkey's Foreign Policy in a Changing World," Oxford University, May 1, 2010.
- 7. Since Turkey started to use European standards in statistical calculations there was positive effects to the sudden increase in GDP size. See: http://www.treasury.gov.tr/irj/portal/anonymous?guest_user=treasury.
- 8. Egemen Bağış, "A Win-Win relation: Turkey and EU," speech delivered at the Harvard University's Kennedy School of Government on September 24, 2009.
- 9. Turkey and the EU's long-standing, high priority project, the Nabucco gas pipeline, aims to bring natural gas from the Caspian basin to Europe. It has gained increasing importance, as Europe's gas demand will exceed 700 bcm by 2020. BP, *BP Statistical Review of World Energy*, 2008 and 2009; *World Energy Outlook 2008*, IEA. On July 13, 2009, four EU countries (Austria, Hungary, Romania, and Bulgaria) joined Turkey in signing an agreement to construct the 31 bcm/year capacity pipeline by 2014. "Europe Gas Pipeline Deal Agreed," *BBC*, July 13, 2009.

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11. *Reuters*, January 1, 2008.
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14. Gareth Jenkins, "Turkey Determined to Press Ahead with Iranian Gas Deal," *Eurasia Daily Monitor*, October 5, 2007.
15. Tuncay Babali, "Turkey Courts Iraq's Energy-Rich Kurds" *Jane's Islamic Affairs Analyst*, UK, March, 2009.
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17. On October 15, Turkish and Iraqi ministers met in Baghdad under the High-Level Strategic Cooperation Council to discuss opportunities and obstacles between the two countries. During the meeting 48 agreements were signed, ranging from combating the Kurdistan Workers' Party (PKK) to energy cooperation and water resources. Iraq is Turkey's second biggest export market outside Europe; it received \$3.4 billion-net worth of goods in the first eight months of 2009 (trade volume was over 4 billion in 2009), an increase of 48 percent over the same period in 2008, according to the Turkish statistics office (*Hürriyet Daily News*, October 16, 2009).
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19. Şaban Kardaş, "Turkish-Azeri Deal may Herald New Competition in Southern Corridor," *Eurasia Daily Monitor*, Vol. 7, No. 115, June 15, 2010.
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37. For Putin's visit to Turkey see Anadolu Ajansi, August 6, 2009.
38. *RIA Novosti*, October 19, 2009.
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