"Turkey and Regional Energy Geopolitics"

"Kostis Palamas" Building

January 25, 2018

A Presentation by
Dimitris Mezartasoglou
Head of Research, IENE

INSTITUTE OF ENERGY
FOR SOUTH EAST EUROPE

Contents

An Introduction on Energy Geopolitics (I)

- Energy security has historically been linked to oil.
- The concept of energy security first gained global attention following the 1973 Arab-Israeli war, during which Arab oil-producing countries imposed an oil embargo on the western countries including the US in retaliation for their support of Israel.
- Before this event, a reliable flow of oil from this region was taken for granted and threats to oil supplies were few and far between. In the following decades, the legacy of the oil embargo shaped global energy policy in a big way – with the **Organization of Petroleum Exporting Countries (OPEC)** defending the rights of oil producing countries and the **International Energy Agency (IEA)** representing consumers.
- Analysts and policymakers have since debated and discussed many dimensions of energy security. The concept covers security of supply as well as security of demand.
- Consuming countries want to be assured of their energy supplies without any interruption. At the same time, producing countries seek reliable demand and stable markets for their petroleum products.

An Introduction on Energy Geopolitics (II)

- According to IEA, a comprehensive definition of energy security includes four components:
  1. availability of energy sources
  2. these energy sources should be available at a reasonable price
  3. they should be socially acceptable
  4. they should be politically accessible

- In other words, political conflicts should not block the free trade in petroleum products in any way. Geopolitics is about analysis of the influence of geographic factors on state's policy and its interaction with other states.
  - Not undermining such determinants as population, economics, technology and military strength, which may change over time, however size, location, natural resources and communications of a country have to be underlined.

- **Energy became the main tool for geopolitics in Eurasia and the Caspian Sea region – its pivot**.

The Caspian Sea Region Defined

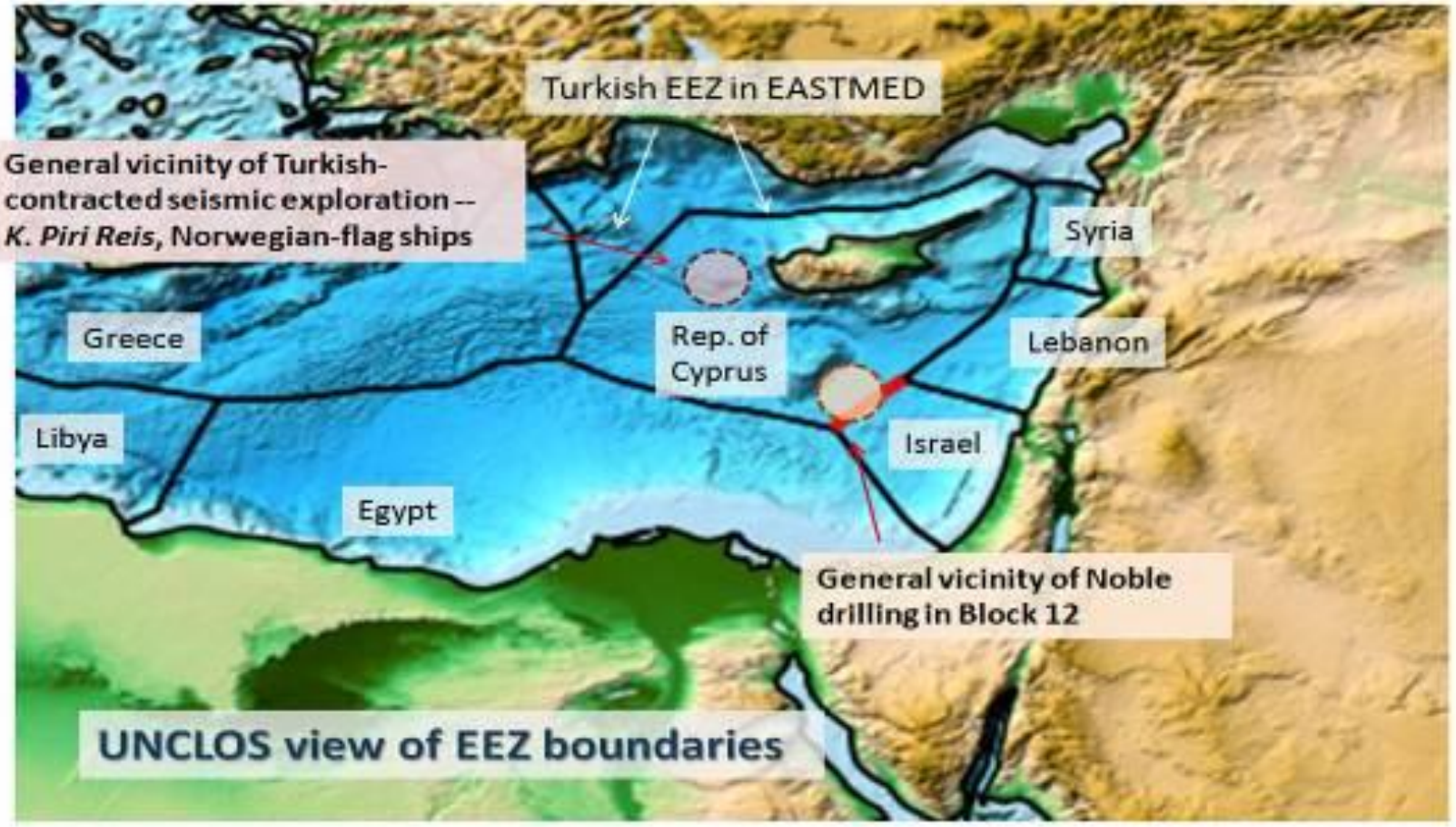
Source: U.S. Energy Information Administration, U.S. Geological Survey, IHS EDIN

The Case of Turkey (I)

- There can be little doubt that Turkey has a **most advantageous geographical position** which enables it to play a pivotal role for the delivery of oil and gas to European markets and beyond.
- Located between the energy rich countries of the East and energy thirsty Europe, Turkey has over the last ten years emerged as a natural energy bridge. Hence, the huge interest that Turkey attracted from outside players when the South Corridor plans were first elaborated by European Commission technocrats almost 15 years ago. But Turkey's unique position as a **"transit country"** and a **"regional energy hub"** had been identified well before that.
- In this context, Turkey has played and continues to play a major role in the planning and implementation of infrastructure projects that aim at improving the security and diversification of energy supplies destined to EU consumers but also globally.
- Lately, Turkey is fully involved in the **transiting of Caspian gas to European markets** through the TANAP-TAP system of pipelines but also through the Russian backed Turkish Stream, which aims to bypass Ukraine, and hence provide a southern secure gas route of Russian gas first to Turkey and later to European markets.

The Case of Turkey (II)

- However, **territorial disputes** over natural gas and the newly discovered

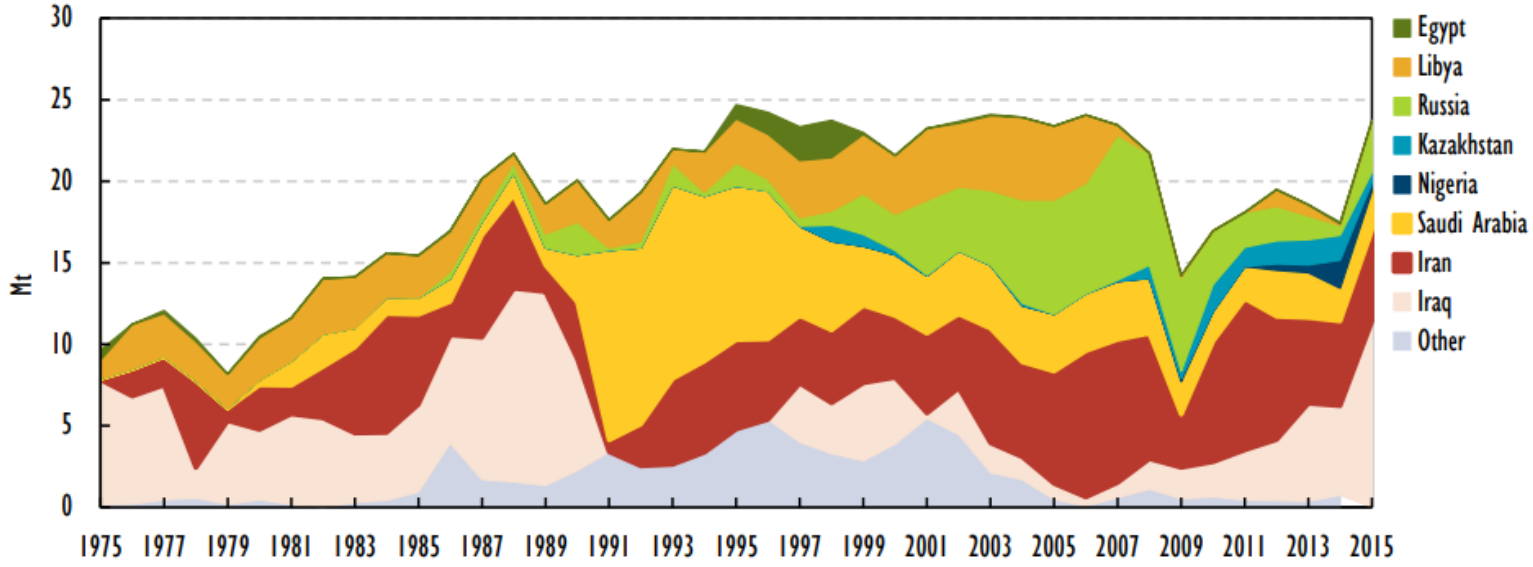


compared to Azerbaijan's 1.0 tcm, according to latest USGS data.

Turkey's Crude Oil Production and Imports

- Turkey's **crude oil production** has been declining. In 2015, Turkey produced 2.5 Mt of crude oil, less than half the peak production of 4.4 Mt in 1991, mainly in the regions of south-east Anatolia, in the Batman and Adiyaman provinces (IEA, 2017).
- Turkey **imported** 25.1 Mt of crude oil during 2015, sourced mainly from the Middle East – Iraq (45.5%), Iran (22.3%) and Saudi Arabia (9.5%) – as well as from Nigeria (2.1%), Kazakhstan (2.6%), Russia (12.4%) and smaller quantities from other countries.

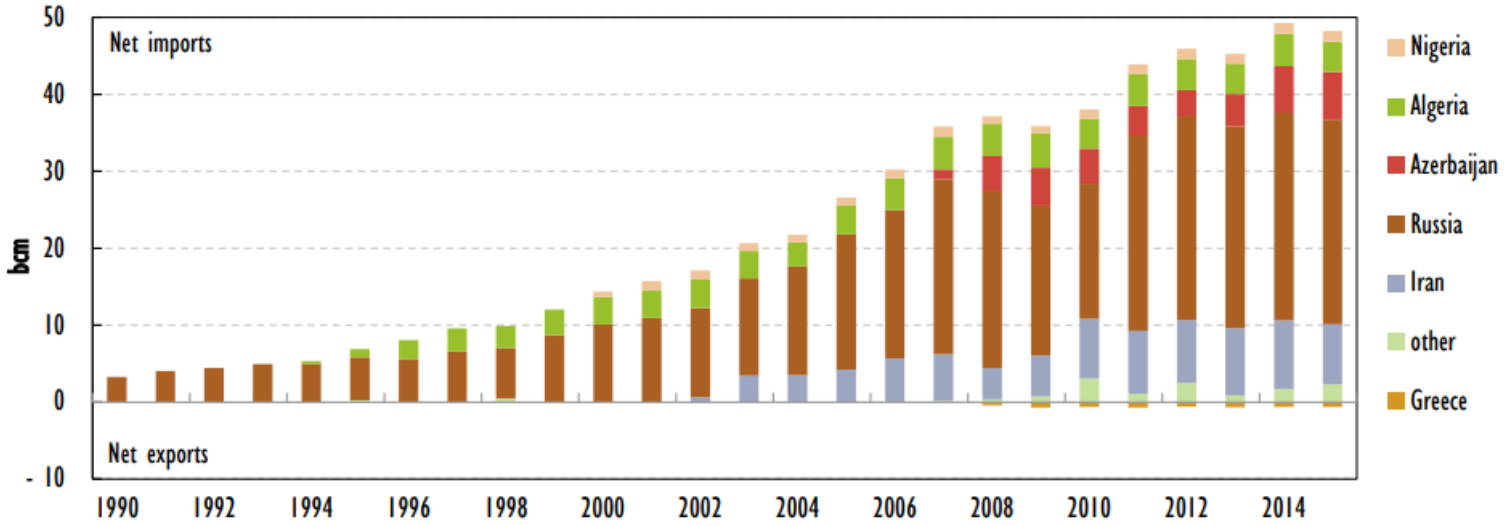
Figure 5.1 Crude oil imports by source, 1974-2015



Source: IEA

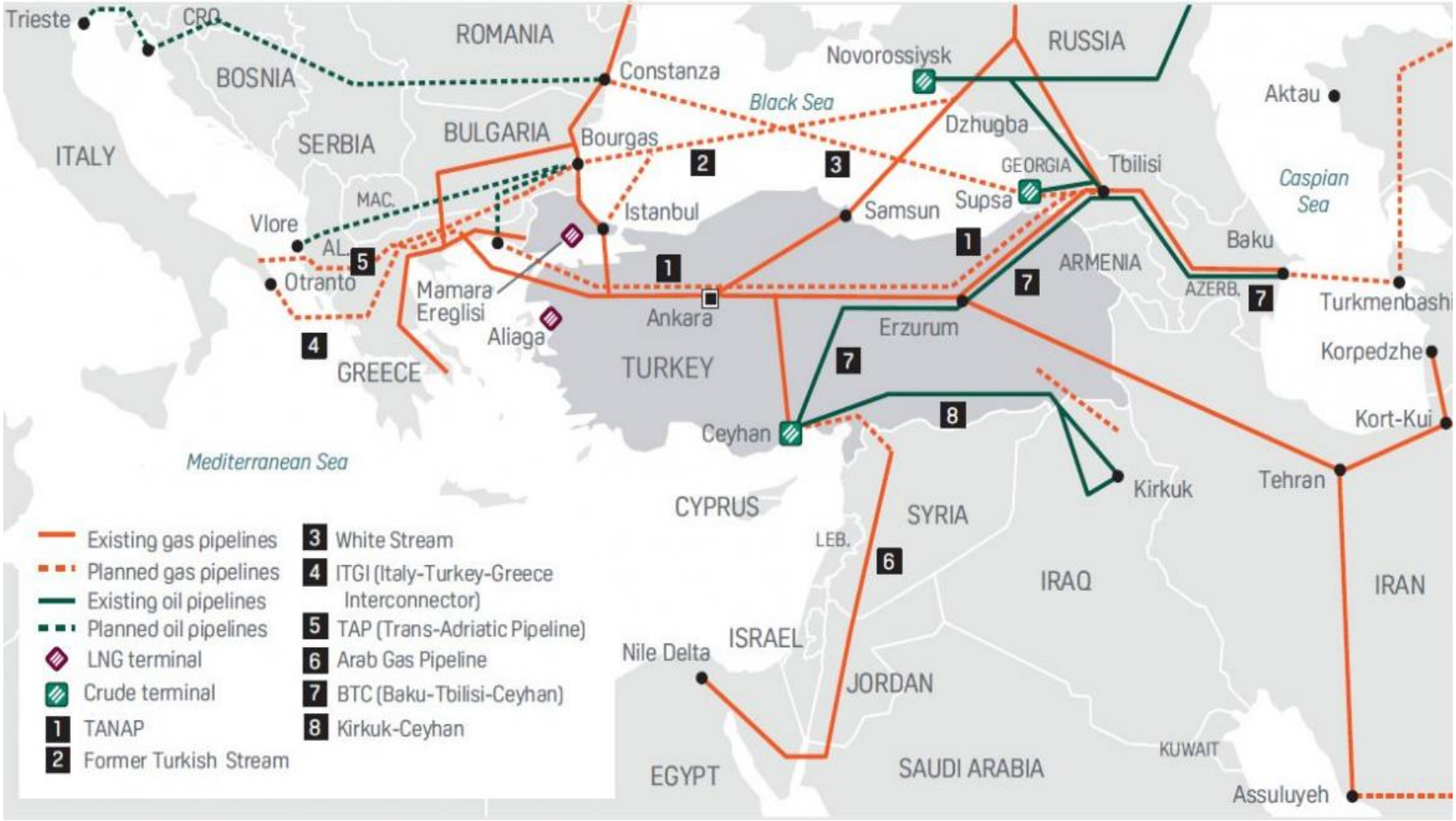
Turkey's Gas Production and Imports

- Turkey's **gas production** has seen a sharp decline, down from 1.017 bcm in 2008, to 0.4 bcm in 2015, representing less than 1% of domestic gas demand.
  - Most of the gas is produced by TPAO in the Black Sea. Turkey's remaining gas reserves are small with a total of 5.4 bcm in 2013. The government estimates that around 551 bcm of recoverable shale gas potential is available in Turkey, notably, in the south-east, the Anatolian Basin and the Dadas formation and, in the north-west, the Thrace Basin and in the Siva and Salt Lake Basins (IEA, 2017).
- Turkey's **gas imports** in 2015 were 48.2 bcm, originating mostly from Russia (55.1% of the total), Iran (16.2%), Azerbaijan (12.3%), Algeria (8.1%), Nigeria (2.9%) and others.



Source: IEA

Turkey's Oil and Gas Infrastructure



Source: Platts

The Role of Kirkuk-Ceyhan Oil Pipeline (I)

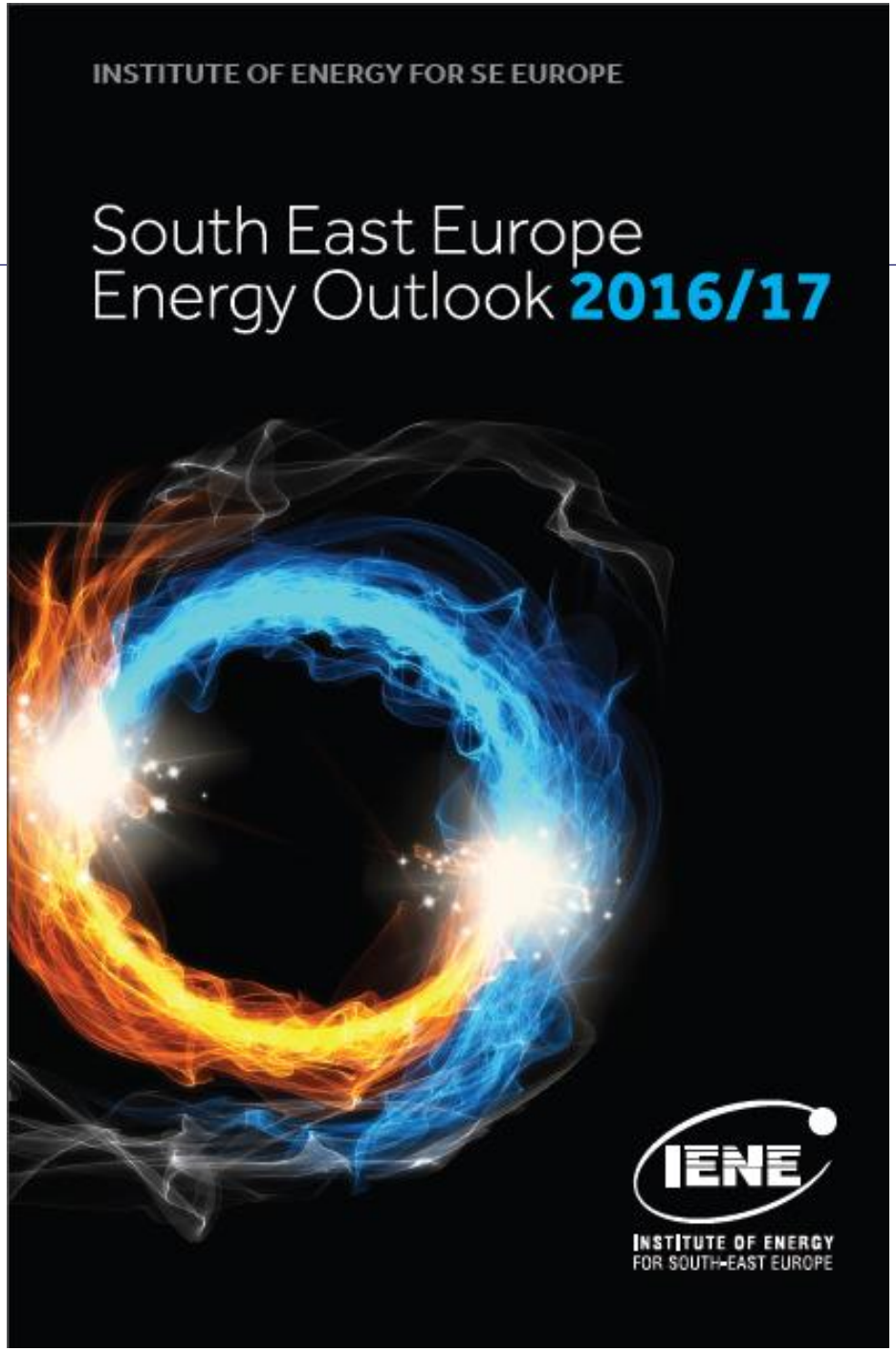
- The Kurds in Iraq are suffering from their loss of the lucrative Kirkuk oil fields, which the central government retook by force in mid-October 2017.
  - Kirkuk has more than 35 billion barrels in oil reserves and a production capacity ranging from 750,000 to 1 million barrels per day. It is not easily realized that this fundamental shift is affecting Turkey in more ways than one.
- On the one hand, Turkey is pleased that Kirkuk was once again under Baghdad's control, particularly because of the 600-mile-long Kirkuk-Ceyhan pipeline.
- On the other hand, this change does not necessarily ensure long-term viability of this oil route. This line, with a daily capacity of more than 500,000 barrels, was being used only sporadically, and the flow halted altogether after the September independence referendum conducted by the Kurdistan Regional Government (KRG). **After Baghdad took over Kirkuk, Turkey hoped the flow would resume and serve Turkey's economic interests, but it hasn't**.

The Role of Kirkuk-Ceyhan Oil Pipeline (II)

- According to Al-Monitor, Iraq feels it owes Iran a debt of gratitude for Tehran's support against the Islamic State. On December 9, Iraqi Oil Minister Jaber al-Luaibi announced that **Baghdad had signed an agreement to move the Kirkuk oil through Iran - which came as a major blow to Turkey**.
  - The agreement calls for pumping initially some 30,000-60,000 barrels of oil daily to Kermanshah, Iran with the prospect of this amount expanding considerably in the long term to be facilitated by the construction of a new pipeline.
- The deal could well change the energy calculus of the broader region. Arez Abdullah, a senior member of the Patriotic Union of Kurdistan (PUK) party in the Iraqi parliament, and also chairman of the parliamentary Oil and Gas Committee, said Iraq is keen to develop its oil and trade relations with Iran. Abdullah noted that with this agreement, the **existing Kirkuk-Ceyhan pipeline could become irrelevant and inoperative**.
- In November 2017, **Iraq's Oil Ministry announced that it will build a new pipeline from Baiji to Fishkabur, enabling Kirkuk oil to be exported to Turkey's Ceyhan port through an independent route fully controlled by Baghdad**.
  - According to oil experts, the new oil pipeline will guarantee uninterrupted supplies to Ceyhan and thus will prevent Turkey's marginalisation, but it will need at least 2 years for it to be constructed and become functional.

Discussion

- **Turkey plays an important role as a "transit country" and a "regional energy hub"**, one of the most unique in the world.
- With the help of tankers through the Bosporus and Dardanelles, more than 2 million barrels of Caspian and Russian crude oil are carried per day.
  - The Baku-Tbilisi-Ceyhan pipeline pumps 1.2 million barrels per day, as well as the Kirkuk-Ceyhan and KRG pipelines with a capacity of 1.5 million and 700 thousand barrels per day, respectively.
  - About 5% of global oil production runs through Turkey.
- Lately, Turkey is fully involved in the transiting of Caspian gas to European markets through the TANAP-TAP system of pipelines but also through the Russian backed Turkish Stream.
- **However, the fact that Baghdad recently signed an agreement to move the Kirkuk oil through Iran and not through Turkey using Kirkuk-Ceyhan pipeline came as a major blow to Turkey. Turkey is worried that this will have a negative impact on its hydrocarbon transit status.**
- Extra volumes of gas from Azerbaijan, beyond the Shah Deniz 2 field, may be available in the second half of 2020 when the second stage of the Absheron and Umid/Babek fields will come online. However, for the short- and mid-run, it seems that there will be no gas imports into Turkey from northern Iraq and the EastMed region, which are potential new sources, given the political, geopolitical, security and commercial constraints.


INSTITUTE OF ENERGY FOR SE EUROPE
South East Europe
Energy Outlook 2016/17
IENE
INSTITUTE OF ENERGY
FOR SOUTH-EAST EUROPE

INSTITUTE OF ENERGY
FOR SOUTH-EAST EUROPE

Thank you for your attention

www.iene.eu