Turkey and the Regional Natural Gas Geopolitics. The "Hub Vision" in Light of the Future Prospects of the Southern Gas Corridor

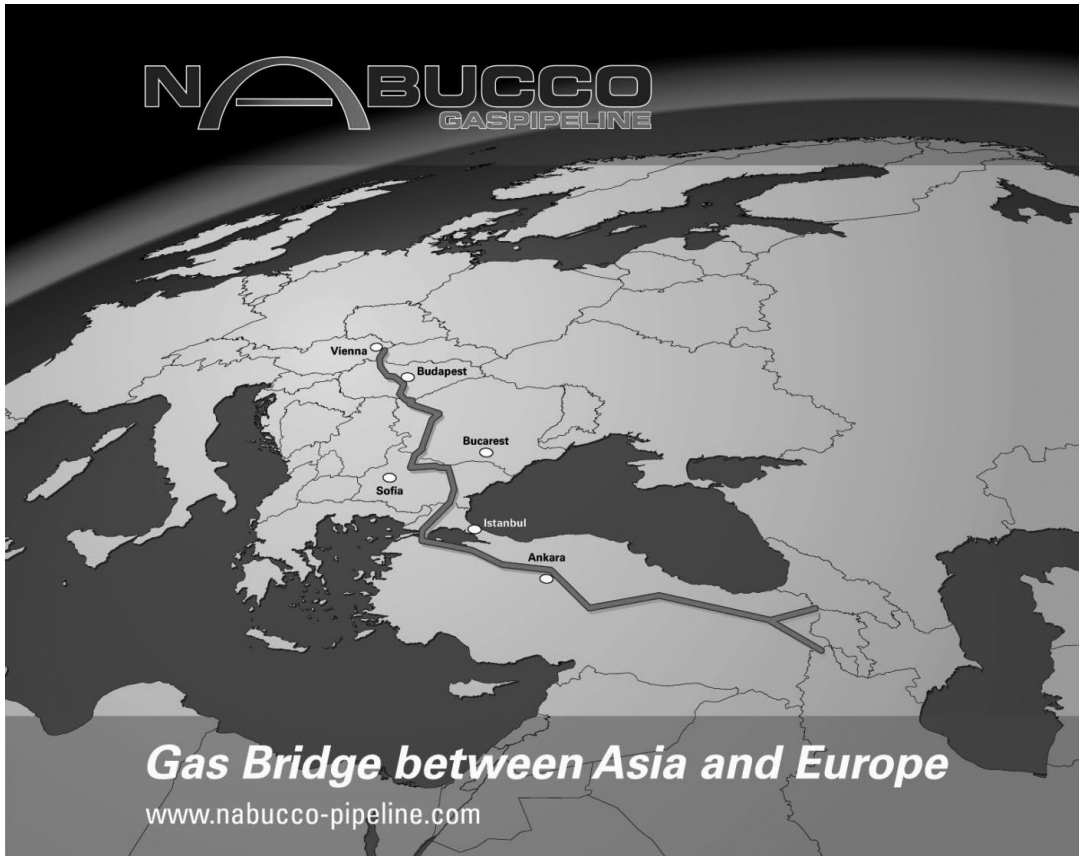
Simone Tagliapietra. Senior Researcher at the Fondazione Eni Enrico Mattei and Visiting Researcher at the Istanbul Policy Center

Until today, Turkey has proven to be a crucial bridge between Europe and Asia. It has appeared as a strong alternative to end the dependence on Russia's gas supply, but new competitors have now emerged in the energy market defying Turkey's predominant role as a gas provider. Countries such as Azerbaijan, Turkmenistan, Iraq, Iran, Israel and Cyprus are also major gas producers and could also become potential suppliers or possible contributors to the Southern Gas Corridor. Although they may not have the same political proximity to Europe as Turkey, they do offer other strategic assets that are capable of reverting this situation of energy dominance, at least in the medium term.

The International Debate on Turkey as a Potential Natural Gas Hub

Over the last decade Turkey has been increasingly associated in the international political and economic debate with concepts such as "energy corridor" and "energy hub". This characterization of Turkey is clearly mainly due to its unique geographical position at the crossroads of the Caucasus, Central Asia, the Middle East and Europe. Furthermore, the international debate on the future role of Turkey in terms of energy transit has particularly focused over the last decade on gas, making Turkey a hot topic of world – and notably European – gas markets.

In particular, this latest trend has been mainly due to the European quest for a new "Silk Road" aimed at diversifying its gas imports away from Russia. The EU launched this policy in 2008, as a response to the energy security concerns that emerged in Europe after the first Russian-Ukrainian-European gas crisis that occurred in January 2006. In order to enhance the EU gas security of supply archi-



The dawn of the Southern Gas Corridor: the original concept of Nabucco (Nabucco Pipeline).

tecture, the European Commission (EC) thus adopted a double strategy. On the one hand, it aimed to enhance the EU internal energy market in order to foster gas flows between EU Member States. On the other hand, it endeavoured to enhance gas source diversification, also through the launch of a fourth energy corridor (generally known as the Southern Gas Corridor) aimed to bring gas from Caspian and Middle Eastern gas producing countries to Europe.

The implementation of this strategy was accelerated after a second major gas crisis between Russia and Ukraine in January 2009. In fact, this crisis was even worse than the previous one, as the transit of Russian gas through Ukraine was completely cut off for two weeks, which resulted in humanitarian crises in several Central and Eastern European countries that were strongly dependent on Russian gas supplies across Ukraine.

The Rise and Fall of Nabucco

The Russian-Ukrainian-European gas crises of 2006 and 2009 not only stimulated the formulation of a new EU gas security strategy but, more specifically, also paved the way for stronger EU

support for a project already launched in 2002 by a five-company consortium: Nabucco, a projected 31 bcm/year pipeline designed to carry gas extracted in Azerbaijan, Turkmenistan, Iraq and Iran to Southeast and Central Europe via Turkey. The project was not only supported by the EU, but also by Turkey and the United States for several reasons.

For the EU the Nabucco project represented a major opportunity to diversify its gas supplies away from Russia. For this reason, Nabucco not only obtained the financial support of the EU but also quickly became the flagship project of the Southern Gas Corridor. For Turkey the project represented a unique opportunity to realize its long-term strategic objective of becoming a key energy corridor between hydrocarbon rich countries in the East and energy importing European markets in the West. For the US the project represented an important geopolitical asset to reduce the EU gas dependency on Russia, exactly as the Baku-Tbilisi-Ceyhan pipeline served in the 1990s to reduce the EU oil dependency on Russia.

Nabucco not only obtained the financial support of the EU but also quickly became the flagship project of the Southern Gas Corridor

Notwithstanding the strong political commitment of the five transit countries and the unprecedented political support of the EU and the US, the Nabucco project ultimately failed, mainly for commercial and financial reasons.

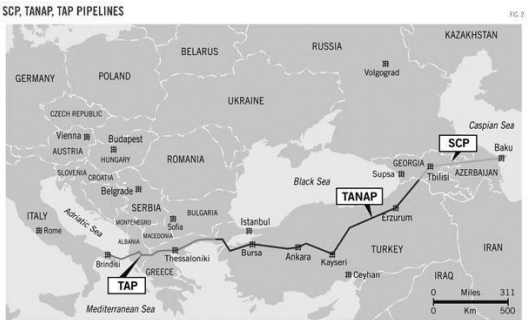
Taking into account the insurmountable commercial and financial barriers that the Nabucco project was facing, Azerbaijan – the gas producing country most interested in the development of the Southern Gas Corridor due to the advanced development of its gas fields – completely reshaped the Southern Gas Corridor game in 2011 by rapidly conceptualizing its own infrastructure project to evacuate gas to Turkey and Europe: the Trans-Anatolian Pipeline (TANAP), a projected 16 bcm/year pipeline designed to connect the existing South Caucasus Pipeline (SCP) with the Turkish-Greek border to supply 6 bcm/year to Turkey by 2018 and 10 bcm/year to Europe by 2019. The entrance of TANAP into the Southern Gas Corridor race in December 2011 gave the *coup de grâce* to the already moribund Nabucco project. In June 2013 the company consortium developing the Azeri Shah Deniz field defined the final shape of the Southern Gas Corridor by selecting the Trans Adriatic Pipeline (TAP) to provide the missing link between TANAP and the European market. TAP, a projected 10 bcm/year pipeline, will thus carry the TANAP gas destined to Europe from the Turkish-Greek border to Italy through Albania and the Adriatic Sea by 2019.

The Southern Gas Corridor between TANAP and TAP: What Is Next?

In addition to the 10 bcm/year by 2019 from Azerbaijan, the Southern Gas Corridor is often expected to carry additional volumes of gas to Europe from the Caspian region, the Middle East and possibly also from the Eastern Mediterranean. But what should we expect with regard to these potential future developments? The only way to provide a proper answer to this question is to focus on the current situation and future prospects of the gas producing countries generally considered as potential contributors to the Southern Gas Corridor: Iraq, Turkmenistan, Iran and Israel.

Iraq

Iraq's gas scenario is radically changing because of the gas reserves currently being discovered in the country's semi-autonomous Kurdistan region. With gas reserves estimated between 3 and 6 trillion cubic metres (tcm), this north-



The final shape of the Southern Gas Corridor: TANAP and TAP (Oil and Gas Journal).

ern region is actually paving the way for the emergence of Iraq as a world-class gas province (just to provide a quick comparison, Azerbaijan owns 1.3 tcm of gas reserves). With these volumes, the Kurdistan region could potentially satisfy its own domestic gas demand and also export significant volumes of gas to Turkey and the EU.

The key barrier to a quick development of Kurdistan region gas resources is of course represented by the unstable political situation that emerged in the country with the unexpected escalation of violence from June 2014

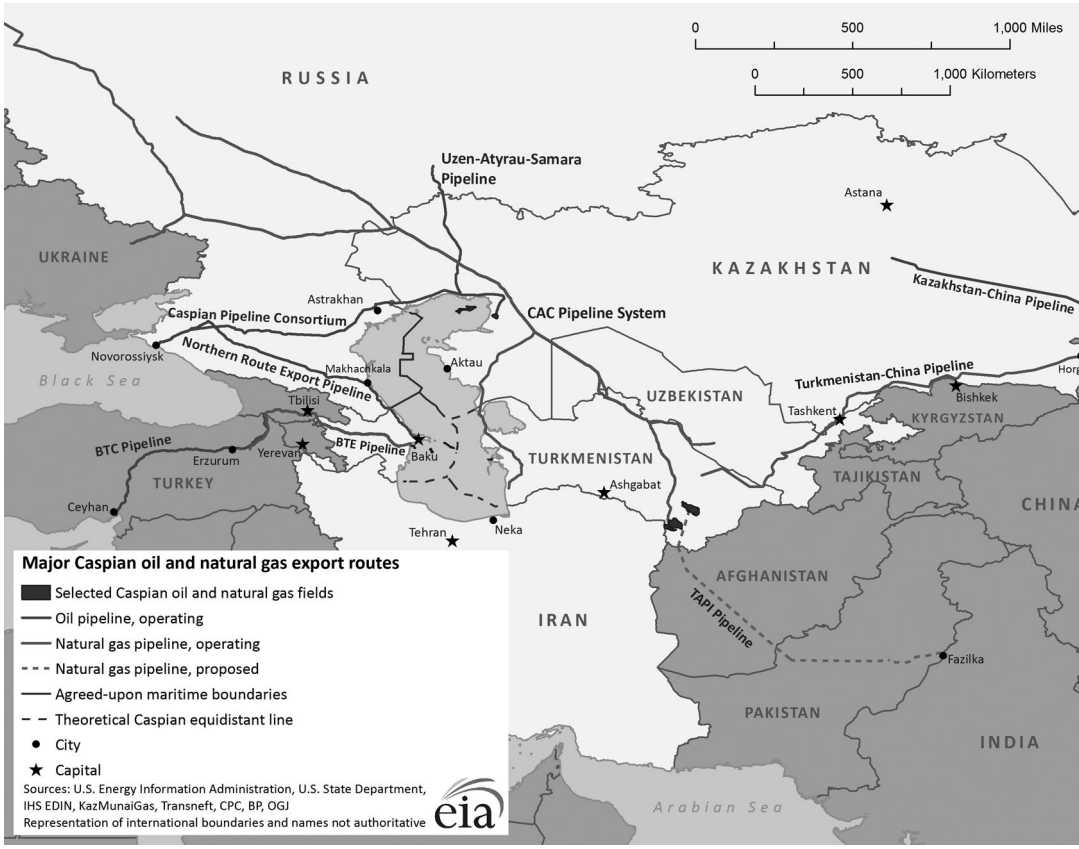
In the short term, the key barrier to a quick development of Kurdistan region gas resources is of course represented by the unstable political situation that emerged in the country with the unexpected escalation of violence from June 2014. In addition to this unforeseeable escalation of events, a long-lasting dispute on state sovereignty between the Kurdistan region in Erbil and the Iraqi Federal Government in Baghdad also continues to remain on the table. This debate also translates into the energy sector, as the governments in Baghdad and Erbil have been unable to resolve their differences over the federal hydrocarbon law. An important interim agreement on this issue was reached between the two parties in November 2014; this first step should now be translated into a full-fledged deal in order to create a stable and sustainable legal framework for the development and export of the Kurdistan region's oil and gas resources.

These recent developments represent a key element for the future prospects of the Southern Gas Corridor, as Iraq – after Azerbaijan – seems to be the only gas producing country that in the medium term could turn its availability of gas resources into deliverability. In fact, the other regional countries traditionally seen as potential suppliers for the Southern Gas Corridor – Turkmenistan and Iran – seem to be very far from being able to eventually supply the Corridor.

Turkmenistan

Turkmenistan owns the world's fourth largest gas reserves after Iran, Russia and Qatar and over the last few years has developed a "special relationship" with China for the delivery of major volumes of gas via pipeline. This liaison is likely to be further consolidated in the future but, considering the size of its gas reserves, Turkmenistan could well be in the position to also supply gas to Turkey and Europe in the future. However, a major barrier will probably make such a development unfeasible, at least in the medium term: the infrastructural problem related to the divergences existing between Russia, Iran and Turkmenistan on the legal status of the Caspian Sea and therefore on the construction of a Trans-Caspian pipeline.

In order to try to bypass this problem, in 2010 a European company proposed to ship volumes of Turkmen gas across the Caspian Sea to the coast of Azerbaijan using a CNG (compressed gas) solution, but the project was halted by Azerbaijan, which did not want Turkmen gas to compete with its own gas.



Major Caspian oil and gas export routes (Energy Information Administration).

Considering this situation, Turkey's and the EU's aspiration to bring major volumes of Turkmen gas into the Southern Gas Corridor would probably need to be revised, at least until the dispute on the legal status of the Caspian Sea is finally resolved.

Iran

Owning the world's largest gas reserves, Iran is often considered as the perennial "elephant in the room" of international gas trade: a country which could, one day, become a major game changer of international gas markets but the potential of which still remains today fundamentally untapped for a number of geopolitical and commercial reasons. The main reason for the current under-exploitation of Iran's gas resources is clearly linked to the difficult political relations that have evolved over the last decades between the country and the West. In fact, the international sanctions progressively imposed on Iran due to its controversial nuclear program have effectively prevented international oil companies from being active in the Iranian oil and gas sector.

However, the history of international relations has shown several times that relations between major actors in the international system

could rapidly shift if the political willingness to do so is there. As a matter of fact, after years of frustration and an impasse in negotiations between Iran and the P5+1, a first interim nuclear deal was reached in Geneva on 24 November 2013. This occurrence certainly represents just a first step towards a truly complete resolution of the Iranian nuclear issue, and the extension of the 24 November 2014 deadline of the nuclear talks confirms the complexity of such an exercise. However, these recent developments could well be seen as a positive sign for the future and if they have an effective follow-up great opportunities could open up in Iran, also with regard to the gas sector.

Since 2010 the Eastern Mediterranean has emerged as a potentially new hotspot in international gas markets. In particular, Israel has played a major role in this field, as it owns the largest gas reserves in the area

It is important to outline that a full resolution of the nuclear issue will not automatically change the Iranian gas outlook in a short period of time, as a number of commercial barriers will likely continue to remain on the table. In fact, in the energy industry there is a general awareness of the difficulty to develop energy projects in Iran, a difficulty mainly due to the complex institutional and regulatory environment of the country. In particular, the struggle for economic independence sought by Iran since the 1979 revolution has led to very restrictive participation opportunities for foreign companies, notably under the so-called buyback scheme. A reform of this regulatory framework will be as important as the lifting of international sanctions in order to attract international companies into the Iranian gas market.

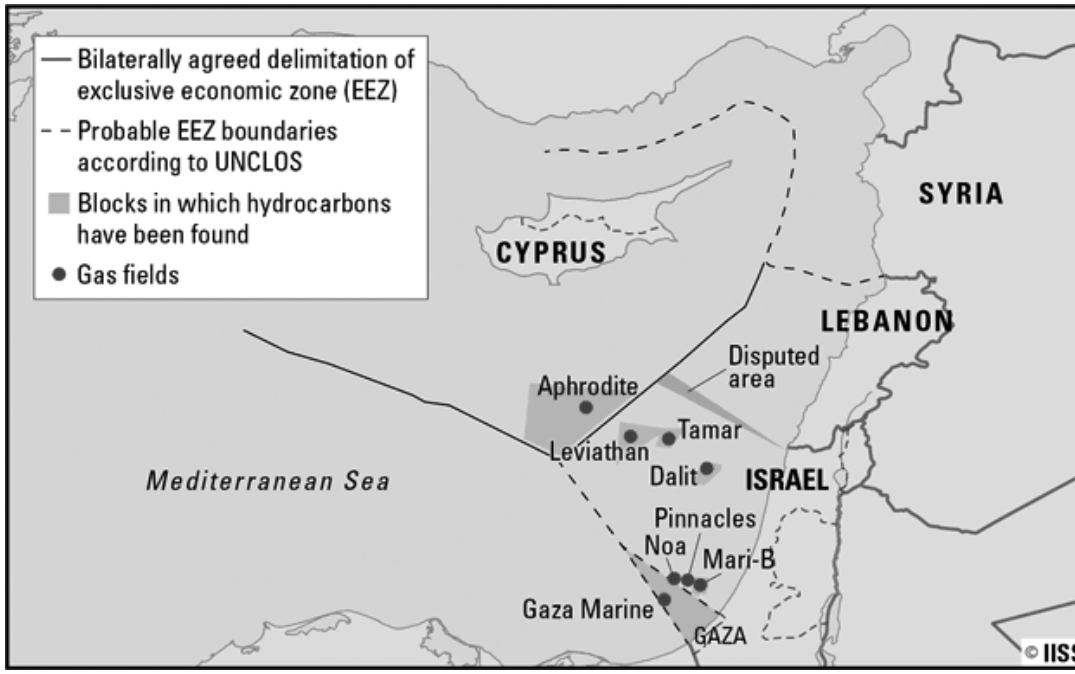
To conclude, even in a best-case scenario (sanctions-free and reformed regulatory framework), it is unlikely that Iran will become a supplier for the Southern Gas Corridor in the medium term. In fact, considering the geographical location of the country's gas reserves, any new development activity will probably first target the global liquefied gas markets before targeting the European market via Turkey. Furthermore, the first international pipeline that Iran is likely to develop will not target Europe, but Asia. In fact, Iran is already working on a pipeline to Pakistan, in order to export its gas not only to this country but also to India: a country that, according to the International Energy Agency, will have an even greater gas demand than China beyond 2030.

Israel

Since 2010 the Eastern Mediterranean has emerged as a potentially new hotspot in international gas markets. In particular, Israel has played a major role in this field, as it owns the largest gas reserves in the area. After a long series of economic and political discussions, in 2013 the Israeli government decided to allow the export of up to 40 percent of the country's gas reserves. This decision represented a fundamental prerequisite for the definition of a gas export strategy for the country. In fact, since the discovery of the Leviathan gas field in 2010, more than ten export projects have been proposed, between pipelines and liquefied gas solutions.

In particular, two Turkish companies proposed the development of a 10 bcm/year-pipeline connecting Israel's Leviathan gas field with the southern shore of Turkey. The intention of the promoters is for the pipeline to not only supply the Turkish market but also the European market via Turkey.

This project, often considered as the most commercially viable option for the export of Israeli gas, also because of its flexibility in supplying the European market, has been temporarily pulled out of talks for political reasons



Eastern Mediterranean gas fields (International Institute for Strategic Studies).

following the 2014 Israel-Gaza conflict and the consequent deterioration of Israeli-Turkish relations.

Paradoxically, the Palestinian Authority itself will become the first customer of Israeli gas, due to a deal reached in January 2014 for the supply of 5 bcm/year of gas over 20 years from the Israeli Leviathan gas field to the West Bank. The deal with the Palestinians is – due to its limited volumes – not sufficient of course for the Leviathan partners to support the first phase of development of the field, which is expected to cost about USD 6 billion. However, the quest for additional customers is not proceeding smoothly. In 2014 Leviathan partners carried out negotiations with Egypt and Jordan on gas exports, but these did not receive warm support from the respective public opinions.

Considering these difficulties on the Israeli side and the long-term energy interests of Turkey (i.e. securing energy supplies and developing the energy hub vision, also allowing Israeli gas to flow to Europe via its territory) the current impasse on the Israel-Turkey pipeline project might ultimately be resolved in the near future.

However, even if this barrier is overcome, a second one will still challenge the project: the Cyprus dispute. In fact, a pipeline running from Israel to the southern shore of Turkey will inevitably have to pass through the Exclusive Economic Zone of the Republic of Cyprus. This will represent a major geopolitical barrier to the development of the pipeline project, as a full resolution of the long-lasting Cyprus dispute will most likely be needed to allow

the evacuation of Israeli gas to Turkey and, potentially, to Europe through the Turkish grid.

Turkey as a Regional Natural Gas Hub: Myth or Reality?

Having analysed the current situation and outlook of gas producing countries around Turkey, it is now time to go back to the discussion on Turkey as an energy hub and face the critical question: does Turkey really have the potential to become a regional gas hub?

If long-lasting geopolitical issues are resolved in the Eastern Mediterranean region, the project to evacuate Israeli gas to Turkey via a pipeline could also become commercially viable and politically feasible

Looking at the medium-term horizon (up to 2025) the answer to this question is no: Turkey will probably not have the potential to become a regional gas hub. In fact, looking at the numbers characterizing the Southern Gas Corridor, within this time frame it will not be possible to expect more than Azerbaijan's 10 bcm to flow through Turkey to the EU. This amount certainly represents a historical step – as it will open the Southern Gas Corridor – but it will certainly not radically change the EU gas security of supply architecture. In fact, 10 bcm by 2020 will basically represent less than 3% of EU gas import needs.

Looking at the longer-term horizon (after 2025) the answer to this question is highly uncertain. In fact, in this time framework Azerbaijan could well be able to supply more volumes of gas to the EU, Iraq could be in a position to supply gas to the EU from the KRI, Turkmenistan could also be in a position to supply a considerable amount of gas to Turkey and to the EU and Iran could have the potential to improve its gas supply to Turkey. Furthermore, if long-lasting geopolitical issues are resolved in the Eastern Mediterranean region, the project to evacuate Israeli gas to Turkey via a pipeline could also become commercially viable and politically feasible.

As illustrated by the hypothetical tone of these sentences, a number of factors will determine whether Turkey may or may not become a regional gas hub post-2025. What seems to be certain is that the real underlying force of this development will not come from the supply side, but instead from the demand side. In the long-term, gas producing countries located around Turkey will likely have the potential to export significant volumes of gas to the EU but this potential will become a reality – defeating the current infrastructural, commercial and political barriers – only if the EU market actually needs more gas supplies. In other words, as an old English proverb says, "Where there's a will, there's a way."