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DESIGNING A NEW EU-TURKEY STRATEGIC GAS PARTNERSHIP

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Highlights

- The European Commission's February 2015 Energy Union Communication calls for

DESIGNING A NEW EU-TURKEY STRATEGIC GAS PARTNERSHIP

that should enable the mutual benefits to be maximised. We mainly focus on the SGC, but also assess the potential impact on the EU-Turkey gas partnership of the recently announced Turkish Stream project.

We do this with two caveats. First, neither the overall EU natural-gas diversification strategy nor the SGC should be seen as an attempt to completely replace Russian natural gas supplies to Europe. This would be difficult, considering the existing volumes and the long-term contracts. The eTmrmes ay

structure to accommodate new Iranian and Kurdistan supplies to Turkey and the EU. These potential volumes might be channelled to the Turkish-European border via the Turkish natural gas grid. This would require an upgrade to the existing network, which Turkey will need to do in any case, considering its growing natural gas demand.

Another focus of cooperation could be the future expansion of TANAP in order to accommodate additional volumes from Azerbaijan and new volumes from Turkmenistan to Turkey and the EU. These volumes might reach the Turkish-European border via an extension of TANAP, which is designed to be expandable to accommodate volumes of up to 60 bcm/y.

Considering the common strategic interest in having a reliable natural gas infrastructure, the EU might team-up with Turkey to establish dedicated financial mechanisms that will stimulate these investments. In particular, alongside its already well established activity in the Turkey (European Investment Bank, 2014), the European Investment Bank (EIB) might provide a wide set of financing tools to attract private or institutional investors. These tools could include i) guarantees and securitisation; ii) equity and fund investments; iii) project loans.

A new approach to the SGC

The aim of the EU-Turkey joint effort should not be to provide new major supply alternatives for Turkish and European natural gas markets in the short term. This would be unfeasible, as an expansion of the SGC will realistically not take place before

Europe's imports from four different sources can be done without having to commit to importing gas that is currently not (and might never be) needed.

After all, current demand is back to the level of the mid-1990s (Eurogas, 2014; BP, 2014), European companies are committed to purchasing more than 125 bcm of Russian natural gas in 2020 and around 70 bcm in 2030 (Dickel *et al*, 2014, p.4), and domestic production is expected to continue to decline during the 2020s. Taking these factors into account, it seems likely that it will only be post-2025 (if at all) that there could be significant demand from European natural gas markets for new supplies via the SGC.

In the shorter term, reinforced EU-Turkey cooperation over the SGC could also be important considering the new geopolitical landscape of the region, with Russia proposing a major energy cooperation project to Turkey: Turkish Stream.

TURKISH STREAM: THE NEW REALITY?

On 1 December 2014, Russian president Vladimir Putin surprised the energy world by announcing, during a state visit to Turkey, the demise of South Stream and a new project to supply Turkish and south-eastern European markets from 2019 while completely bypassing Ukraine: Turkish Stream.

Turkish Stream would be a 63 bcm/y pipeline, running 660 km across the Black Sea, from the Russkaya compressing station to the north west of Turkey, and then continuing 250 km across Turkish territory to the Turkey/Greece border (Gazprom, 2015).

Turkish Stream could be advanced quickly by capitalising on work already done on South Stream. Massive investment has already been made in the 'Russian Southern Corridor' (Gazprom, 2012). With South Stream pipes already delivered to Varna port in prepration for laying, and with pipe-laying ships already present in the Black Sea, the additional cost for Gazprom to build Turkish Stream is limited.

On 7 May 2015, Gazprom CEO Alexi Miller said during a visit to Ankara that Russia and Turkey would start to trade natural gas via Turkish Stream in December 2016 (Financial Times, 2015b). This could lead to the 14 bcm of Russian natural gas

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In contrast to the SGC, which offers the EU and Turkey broad scope for cooperation in terms of energy diplomacy in the region and infrastructure financing, Turkish Stream seems to offer no potential cooperation avenues for the two players.

CONCLUSIONS

Our analysis has shown that, taking into account the new regional energy and geopolitical realities, cooperation on the SGC should represent the basis of a new EU-Turkey strategic energy partnership. Turkish Stream, meanwhile, would rather be a potential source of political disagreement between the EU and Turkey.

Considering the momentum in Europe for natural gas supply diversification in the aftermath of the 2014 Ukraine crisis, the EU should rapidly establish a new SGC cooperation platform with Turkey, on the basis of a new, inclusive, approach that will respond to the strategic interests of both players. The aim should be the creation of favourable conditions to allow energy companies to plan new commercially viable projects in the region.

Cooperation on the SGC could be beneficial for the EU, Turkey and each potential supplier in the region. For the EU it would allow the implementation of a long-pursued diversification strategy characterised by flexibility and scalability over time. For Turkey, it would represent an opportunity to improve its own gas-supply security, by scaling-up imports from regional suppliers and unlocking new sources. In addition, by bundling supplies from up to six sources (the four SGC sources plus Russia and potentially the Eastern Mediterranean), Turkey could develop a larger strategic role in the energy politics of the region, which could pay commercial and political dividends. For each potential supplier in the region, the SGC would allow the diversification of their respective natural-gas export portfolios and would increase their revenues from natural-gas exports.

For the EU and Turkey, it is also important to underline that a new joint initiative focused on the SGC would also be about rebuilding mutual trust and geopolitical cooperation between the two players. A joint diplomatic and financial effort to achieve

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