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# EU and Turkish Energy Interests in the Caspian and Middle East Region

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## Abstract

This paper aims to identify energy-sector drivers at the regional level in the Middle East and Caspian Basin (ME&CB), examine their impact on EU–Turkey relations and classify them based on whether they are likely to result in conflict, cooperation and/or convergence. We found that multiple energy drivers strategically incentivize the EU and Turkey to cooperate and converge on overall political and economic policies and priorities. As European consumers (and many others) seek greater energy security and the ME&CB is poised to supply the EU and Turkey with the lion's share of their oil and gas needs, Turkey is ideally situated to bridge between Eastern supply and Western demand. This symbiotic relationship provides additional incentives for cooperation and/or convergence in the short, medium and long term. However, Turkey and the EU must first shift from conflict to cooperation and/or convergence on larger geopolitical issues regarding migration, counterterrorism, the war in Syria, Turkey's enhanced relations with Russia and Iran, and Turkey's domestic politics. Otherwise, the two sides will fail to realize the full range of mutual benefits.

## Özet

*Bu makale Orta Doğu ve Hazar Havzasında (ME&CB) bölgesel düzeyde enerji sektörünün itici güçlerini belirlemeyi, AB-Türkiye ilişkileri üzerindeki etkilerini incelemeyi, bunları çatışma, işbirliği ve/veya yakınlaşmaya göre sınıflandırmayı amaçlamaktadır. Birçok enerji itici gücü stratejik olarak AB'yi ve Türkiye'yi politik ve ekonomik alanlarında işbirliğine teşvik ettiklerini tesbit etti. Avrupa tüketicileri (ve diğerleri) daha fazla enerji güvenliği istemektedir ve Türkiye Doğu arzı ile Batı talebi arasında köprü kurmak için ideal bir konuma sahiptir. Bu simbiyotik ilişki, kısa, orta ve uzun vadede işbirliği ve/veya yakınsama için ek teşvikler sağlamaktadır. Bununla birlikte, Türkiye ve AB, öncelikle göç, terörle mücadele, Suriye'deki savaş, Rusya ile İran arasındaki gelişmiş ilişkiler ve Türkiye'nin iç siyaseti ile ilgili daha büyük jeopolitik konularda çatışmadan işbirliğine ve/veya yakınlaşmaya geçmelidir. Aksi takdirde, iki taraf da karşılıklı menfaatlarının farkına varamazlar.*



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## 1. Europe and Turkey: between energy demand and supply

### 1.1 Feeding Europe’s energy demand: The Middle East and the Caspian Basin

The staggering size of tapped and untapped energy reserves in the Middle East and the Caspian Basin (ME&CB) have long fed, and will continue to feed, Europe’s energy demand. Middle Eastern countries collectively possess an estimated 800 billion barrels (bb) of crude oil, roughly half the world’s total reserves, and 80 trillion cubic metres (tcm) of natural gas reserves, around 40 percent of the world’s total.<sup>1</sup> Similarly, today in the Caspian Basin there are an estimated 48 bb of oil and 8 tcm of gas in ‘proved and probable’ reserves. In addition, a number of oil- and gas-rich areas in the ME&CB remain inaccessible or chronically underdeveloped as a result of conflict, sanctions or territorial disputes. Moreover, as estimated by the United States Geological Survey, there may be an additional 20 bb of oil and 6–7 tcm of gas yet to be discovered.<sup>2</sup> Among these, a portion is classified ‘unconventional resources’ – which include shale oil, shale gas, tight gas and coal-bed methane – and are spread across the ME&CB.

The export of crude oil from the Middle East to both Turkey and the European Union (EU) accounts for an enormous trade flow, amounting regularly to up to \$50 billion in value each year. The region’s export volume to Europe has historically been as high as 900 million barrels (mb), and has only once dipped below 500 mb in the period 2005-2017.<sup>3</sup> Russia and other Caspian countries provide Europe with the rest of its imported energy supply.<sup>4</sup>

Despite the fact that future outlooks for energy demand in the EU are not as promising as was estimated by European institutions around 2007, Europe’s demand for imported natural gas – between 80 and 100 billion cubic metres (bcm) – will most likely grow due to declining domestic production. Turkey has also become a significant energy user, consuming over 300 mb of oil and nearly 50 bcm of gas annually,<sup>5</sup> and its demand is likely to grow in the future. While most of Europe’s and much of Turkey’s imported natural gas is currently Russian-sourced, geopolitical and energy-security considerations have compelled both the EU and Turkey to diversify supply and to seek an increase in imports from reliable alternatives in the ME&CB.<sup>6</sup>

<sup>1</sup> Sorkhabi, Rasoul (2014): “How Much Oil in the Middle East?,” *GEO Expro*, 11(1).

<http://www.geoexpro.com/articles/2014/02/how-much-oil-in-the-middle-east>, (accessed 05/08/2017).

<sup>2</sup> Today in Energy (2013): “Oil and natural gas production is growing in Caspian Sea region,” 11 Sep 2013, <https://www.eia.gov/todayinenergy/detail.php?id=12911>, (accessed 09/07/2017).

<sup>3</sup> European Commission (2014): “Gas and oil supply routes. European Commission,” 3 July 2014, <https://ec.europa.eu/energy/en/topics/imports-and-secure-supplies/gas-and-oil-supply-routes>, (accessed 13/08/2017).

<sup>4</sup> *ibid*

<sup>5</sup> The U.S. Energy Information Administration (2017): “Country Analysis Brief: Turkey,” 2 Feb 2017, <https://www.eia.gov/beta/international/analysis.cfm?iso=TUR>, (accessed 21/07/2017).

<sup>6</sup> Chyong, Chi-Kong, Slavkova, Loisa & Tcherneva, Vesella. (2015): “Europe’s alternatives to Russian gas,” in European Council on Foreign Relation, 9 April 2015, [http://www.ecfr.eu/article/commentary\\_europes\\_alternatives\\_to\\_russian\\_gas311666](http://www.ecfr.eu/article/commentary_europes_alternatives_to_russian_gas311666), (accessed 03/07/2017).



## 1.2 EU-Turkish energy objectives: diversification and bridging

The Europeans have long recognized that Turkey, with its strategic location between areas of energy supply and demand, can play a substantial role in the EU’s energy security. Inevitably, they have also appreciated that the EU’s reliance on Turkey would act as a serious driver for their cooperation – not only in the energy sector but also, more generally, at political level. It is not surprising, therefore, that the EU has invested significant political capital in its energy partnership with Turkey at least since 2007-2008, placing it at the centre of its most ambitious external energy-policy initiative – namely, the development of the Southern Gas Corridor pipeline network (SGC). The SGC is designed to run from the gas-rich Caspian Basin to the EU, crossing Turkish territory and thereby bypassing Russian soil. The SGC has the potential and capacity to accommodate additional pipelines extended from neighbouring Middle Eastern countries. If realized in its entirety, the SGC project would significantly reduce the reliance of European countries on their Russian gas supply and limit Moscow’s political leverage over the EU.<sup>7</sup>

Similarly to the EU, one of Turkey’s strategic energy objectives is further diversification of access in order to reduce reliance on a limited number of sources, reduce prices and guarantee supply to a growing internal demand. Of course, lying between the huge European market and the abundant supplies of its northern, eastern and southern neighbours, Turkey wants to become an indispensable energy ‘bridge’ between the two continents. Although its new energy strategy, publicized in April 2017 by Minister of Energy and Natural Resources Berat Albayrak, does not mention Europe’s energy security as a pillar of the country’s strategic vision,<sup>8</sup> Turkey remains committed to acting as an energy bridge – a role from which it stands to benefit in the form of transit fees and other energy-generated revenues.<sup>9</sup> This commitment is best demonstrated by Turkey’s steady investment in the development and maintenance of ports and pipelines, and its active engagement in the facilitating bilateral energy trade with regional ‘players’ such as Azerbaijan; Iran; Iraq; and the Kurdistan Region of Iraq (KRI), with its capital in Erbil.

Currently, around 3 million barrels of crude oil and petroleum products pass through the Turkish Straits on a daily basis, amounting to 3 percent of the world’s supply.<sup>10</sup> Turkey receives hydrocarbons from Russia (via the ‘Blue Stream’ gas pipeline), Azerbaijan (via the Baku-Tbilisi–

<sup>7</sup> Tsereteli, Mamuka (2015) “The Southern Energy Corridor: A Strategic Priority for the U.S.?,” in *The Central Asia-Caucasus Institute and Silk Road Studies Program*, 27 May 2017, <http://caciyanalyst.org/publications/analytical-articles/item/13218-the-southern-energy-corridor-a-strategic-priority-for-the-us-.html>, (accessed 22/07/2017).

<sup>8</sup> Komurculer, Güneş (April, 2017): “What will Turkey’s new national energy policy bring?,” *Hurriyet Daily News*, 07 Apr 2017, <http://www.hurriyettailynews.com/opinion/gunes-komurculer/what-will-turkeys-new-national-energy-policy-bring--111727>, (accessed 02/08/2017).

<sup>9</sup> Koranyi, David & Sartori, Nicolò (2014): Energy: Key to EU-Turkish relations?,” 20 Feb 2014, <http://www.aljazeera.com/indepth/opinion/2014/02/energy-key-eu-turkish-relations-201421794833676602.html>, (accessed 24/07/2017).

<sup>10</sup> Crooks, Ed (2016): “Turkey holds crucial place on oil routes,” *Financial Times*, 16 July 2016, <https://www.ft.com/content/3d5e0c80-4af0-11e6-8d68-72e9211e86ab>, (accessed 13/08/2017).



Ceyhan oil pipeline and its parallel South Caucasus gas pipeline), Iraq (mainly via the Kirkuk–Ceyhan and the KRI’s new oil pipelines), and Iran (via the Tabriz–Ankara gas pipeline).

However, Turkey’s ambitions go beyond its current energy-transmission capacity, as evidenced by the large investments aimed at the realization of the new Trans-Anatolian Pipeline (TANAP) for gas as an integral part of SGC. TANAP will supply gas from the Shah Deniz II field on the Caspian Sea in Azerbaijan, which currently has gas reserves of more than 3 tcm, to Turkey *en route* to Europe. The construction of the pipeline started in March 2015 and is due for completion in 2020. It will initially supply an annual 10 bcm of gas Europe and 6 bcm of gas to Turkey, but its capacity could possibly be expanded in subsequent phases – reaching 24 bcm per annum by 2023 and, eventually, 31 bcm per annum by 2026 – to accommodate possible new supplies from the Caspian Basin.

In short, since the launch of the SGC initiative, the European narrative describing Turkey as an indispensable partner for Europe’s energy security and a natural bridge that ensures the diversification of hydrocarbon supplies has consolidated into several bilateral initiatives. From this perspective, Ankara’s commitment to the development of the SGC would, by default, complement European energy narratives and contribute to reducing the Continent’s reliance on Russian gas. Such complementarity and potential interdependence between the EU and Turkey has, over the years, created ample opportunities for cooperation, and possibly convergence, in the short-, mid- and long-term future.

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### 1.3 EU-Turkish energy relations and pipeline politics

At the time of launching, the SGC was designed to create greater interdependence between the EU and Turkey in the energy sector, with an anticipated impact on the two polities’ overall political relations. However, the two sides’ subsequent political divergences impacted on their mutual energy policies and significantly changed the nature of the SGC itself.

In the European Commission’s original plans, the SGC was expected to result from ‘the integration of multiple pipeline systems which would have transported gas not from a single supplier but from multiple sources’, including Azerbaijan, Iran, Iraq, the KRI and other potential exporters from the broader ME&CB.<sup>11</sup> However, the pipeline network route has been revised on several occasions since 2007-2008 for political, economic and commercial reasons. Indeed, its current shape is quite different from the one initially envisioned by Brussels. Despite these changes, however, the parties involved have never officially called into question Turkey’s role as a key transit country for regional hydrocarbon resources.

From a Turkish perspective, the SGC is a key element in the country’s strategic relations with the EU. It represents a policy priority and a fundamental test case for energy cooperation between Brussels and Ankara. As frequently emphasized by high-level officials, Turkey’s role within the

<sup>11</sup> Demiryol, Tolga (2013): “The Geopolitics of Energy Cooperation between Turkey and the European Union,” *L’Europe en Formation*, (No. 367), p.109-134, (Apr 2013).



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Corridor was initially expected to reinforce the country’s position in its accession process to the EU, and, more generally, its integration into the European political and economic system.<sup>12</sup>

In the original proposal conceived by the EU in the early 2000s, the key enabler of the SGC was the Nabucco project, a 3,825 km-long pipeline crossing Turkey’s territory from east to west in order to transfer 31 bcm of Caspian gas to South East and Central European countries.<sup>13</sup> However, despite strong institutional support, Nabucco (and its successor initiative, Nabucco West)<sup>14</sup> failed to gain the support of the Shah Deniz producing consortium, mainly due to lack of supplies in the early years and insufficient gas demand from the targeted Central European markets. As an alternative to Nabucco, the combination of the TANAP and the Trans-Adriatic Pipeline (TAP) project was selected to deliver Azerbaijani gas to Italy and the rest of Europe via Georgia, Turkey, Greece and Albania.<sup>15</sup>

Turkey’s changing energy priorities and growing political divergences with the EU have contributed to remarkable shifts in the balance of power surrounding the Corridor. Indeed, Ankara’s eagerness to secure additional volumes of gas at a reduced price from Azerbaijan played a key role in the realization of what became Nabucco’s killer, TANAP. The latter pipeline is owned by the Baku-controlled Southern Gas Corridor Closed Joint Stock Company holding 58 percent of the shares, the Turkish Petroleum Pipeline Corporation (BOTAS) holding 30 percent and British Petroleum (BP) holding 12 percent<sup>16</sup>.

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However, while TANAP remains a major factor in advancing the SGC, the new pipeline represents a significant departure from the idea initially conceived by Brussels as well as a concrete power shift in favour of Azerbaijan. Baku, along with members of the Shah Deniz producing consortium, such as BP, now takes centre stage in the implementation of the SGC, replacing the group of European companies that was involved in Nabucco. Although Turkey’s move reduced the EU’s role to that of a minor partner, both Brussels and Ankara still maintain the desire to continue regional cooperation while trying to keep the SGC at the top of their energy agenda.

In fact, making such ambitious infrastructural investments supports Ankara’s goal to maximize political and economic returns by linking energy supplies in Azerbaijan to European consumers. Meeting this objective will only serve to bolster EU-Turkey energy policy cooperation despite

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<sup>12</sup> Koranyi, David & Sartori, Nicolò (2013): “EU-Turkish Energy Relations in the Context of EU Accession Negotiations: Focus on Natural Gas.” Working Paper n. 5, Global Turkey in Europe.

<sup>13</sup> RWE Press briefing (2009): “The Nabucco Pipeline Project – Fourth Corridor to Europe”.

<sup>14</sup> In May 2012, the Nabucco consortium revised its original plan, putting forward a shorter, cheaper, and less capable pipeline – Nabucco West – to transport Azerbaijani gas from the Turkish-Bulgarian border to Central Europe.

<sup>15</sup> Sartori, Nicolò (2013). “Energy and Politics: Behind the Scenes of the Nabucco-TAP Competition,” *IAI Working Papers*, July 2013, No. 13 | 27.

<sup>16</sup> The SGC was created under the terms of an Azerbaijani presidential decree as a vehicle to consolidate, manage, and finance the country’s interests in Shah Deniz, South Caucasus Pipeline (SCP), the Trans-Anatolian Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP). The Republic of Azerbaijan, through the ministry of economy, owns 51 percent of SGC’s equity, while the remaining 49 percent is held by the State Oil Company of the Azerbaijan Republic (SOCAR), which is entirely owned by Azerbaijan.



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diverging on issues such as migration, counterterrorism, the war in Syria, relations with Russia and Iran, and Turkey’s domestic politics.

#### **1.4 The Caspian Basin: a European supply source where Turkish, Russian and Iranian interests compete**

The Caspian Basin, home to vast volumes of energy resources, has great potential to become an important supplier of oil and gas resources to Europe and Turkey. Azerbaijan alone has proven natural gas reserves of almost 1.1 tcm,<sup>17</sup> most of which is produced from offshore fields. Shah Deniz, for example, is the largest gas field in Azerbaijan and the ninth largest in the world, with total reserves of about 1.2 tcm.<sup>18</sup> Since 2009 Azerbaijan’s production has been increasing steadily with more than one third of its total output exported – mainly to Russia, Georgia and Turkey.

Turkmenistan is also a significant energy supplier, with immense gas resources totaling 17.5 tcm. Since 2010, the country broke Russia’s monopoly on Turkmenistan’s exports, which is currently delivering 30 bcm of gas to China through Uzbekistan and Kazakhstan. Turkmenistan has repeatedly announced its intention to intensify negotiations over the trans-Caspian pipeline to export gas to Azerbaijan and then to Europe through the SGC.

Currently, there exist two routes for transporting Caspian natural gas (and oil) to the EU: via Russia and via Turkey. In addition to the aforementioned TANAP, there is the Trans-Caspian Gas Pipeline (TCGP) project, which is designed to extend from Turkmenistan and Kazakhstan through the Caspian Sea and to connect to the SGC. However, the TCGP project is currently blocked by Russia – along with Iran and other littoral states of the Caspian – due to the undefined status of the Basin. Russia stood in strong opposition to the project, as a trans-Caspian pipe would mean that eastern Caspian states such as Turkmenistan and Kazakhstan could send their gas westward without using Russian infrastructure (and they would be competing with Moscow’s volumes).<sup>19</sup>

As of today, Azerbaijan – via its national oil company, SOCAR, along with the Shah Deniz-Producing Consortium – controls the only readily available gas volumes that could be exported to Europe through the SGC. In addition, any significant increase in energy flows from the region (through Azerbaijan and the Corridor) to Europe, would depend largely on Baku’s willingness and ability to address the political and technical issues at stake with other regional potential suppliers.<sup>20</sup>

In this context, Turkey is in a strong position to broker the alternative route for bypassing Russia, as it has strong relations with, and considerable political and economic influence over Azerbaijan. Therefore, Turkey’s relations with Azerbaijan will remain critical for the future of EU–Turkey

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<sup>17</sup> BP (July 2017): “The BP Statistical Review of World Energy,” June 2017.

<sup>18</sup> Jafarova, Aynur. (2013): “Shah Deniz reserves may rise by a quarter: SOCAR”, *Azernews*, 8 May 2013, [https://www.azernews.az/oil\\_and\\_gas/53553.html](https://www.azernews.az/oil_and_gas/53553.html), (accessed 14/07/2017).

<sup>19</sup> Nanay, Julia & Stegen, Smith K. (2012): “Russia and the Caspian region: challenges for transatlantic energy security?”, *Journal of Transatlantic Studies*, 10(4), 343-357.

<sup>20</sup> Stratfor (2014): “Turkey Attempts to Secure Russian Energy,” 16 Apr 2014, <https://worldview.stratfor.com/article/turkey-attempts-secure-russian-energy>, (accessed, 01/08/2017).



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energy security. In parallel, Turkey has avoided pursuing assertive measures against Russian energy interests or strategies in the area; indeed, despite recurrent political disputes and the need to diversify its supplies, Ankara appreciates the need to retain a stable bilateral relationship and a sound energy partnership with Moscow (which nonetheless tries to slow the implementation of regional projects that bypass its territory).

If and when all the Turkey–Caspian pipeline projects are realized, energy cooperation between the EU, Turkey and countries of the Caspian Basin will increase and better enable the EU to further diversify its hydrocarbon supplies. Conversely, Russia will not only try to slow down the implementation of those projects that bypass its territory but will also aim to gain control of Iranian gas before Europeans do – by promoting South–North initiatives such as the Iran–Armenia–Georgia–Russia gas pipeline in order to transport Iran’s gas through Armenia and Russia in the future. Moreover, Russia has recently established close energy cooperation with the KRI, which includes possible investment in a natural gas pipeline from the KRI to Turkey and Europe.<sup>21</sup>

In short, EU–Turkey energy cooperation in the Caspian region holds both opportunities and challenges. Opportunities include further diversification of gas sources and routes for European and Turkish consumers, increasing economic returns for transit and supplier countries as well as contributing to the growing integration of Ankara with the EU. Meanwhile, challenges include possible Russian economic and political pressure and attempts to destabilize the transit-participant countries in order to impede their contribution to the success of the SGC. The stakes are high, and the prospects of the Caspian region serving as a key enabler of deeper EU–Turkey energy cooperation and as a provider of energy security for both Ankara and Brussels are still unclear.

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<sup>21</sup> Jaffe, Amy M. (2017): “Unraveling the Oil Geopolitics Intertwined in the Kurdish Independence Referendum”, 4 October 2017, *Council on Foreign Relations*, <https://www.cfr.org/blog/unraveling-oil-geopolitics-intertwined-kurdish-independence-referendum>, (accessed 10 Oct 2017).



## 2. The EU–Turkey relationship and the Kurdistan Region of Iraq

### 2.1 In search of new sources of energy

The development of Kurdish hydrocarbons has major political and security implications for Turkey and the EU, at a time of difficult relations with Russia.<sup>22</sup> The Kurdistan Region of Iraq’s energy development has long been recognized as an area of possible EU–Turkey cooperation due to these polities’ increased interest in the diversification of their energy sources.

The KRI has been considered ‘one of the last great oil and gas frontiers’, with an estimated 45 bb of oil reserves.<sup>23, 24</sup> According to the Kurdistan Regional Government’s (KRG)’s Ministry of Natural Resources, the KRI also contains nearly 3 percent of the world’s proven gas reserves<sup>25</sup>. A further 3 percent lies in the Kurdish-majority areas of Iraq outside the KRG’s jurisdiction, including Kirkuk.<sup>26</sup> Based on this assessment and ongoing infrastructural development, a KRG minister recently estimated that the KRI could export as much as 20 bcm of gas to Turkey by the early 2020s.<sup>27</sup>

The KRI’s potential contribution to Turkey’s energy objectives dates back to 2005, when Iraq adopted a new constitution and held its first democratic elections. For Turkey, the most remarkable point of the constitution was the recognition of the KRI as a federal entity (per Section 5, Article 113) with protected privileges, including control over its military, regional legislation and natural resources. This helped Turkey to abandon its traditional policy of dealing exclusively with Baghdad, and it started engaging with the KRI directly.

Under this new constitutional framework, the KRG began establishing legal structures and institutions in its oil sector. On 6 August 2007, the KRI parliament passed the Kurdistan Oil and Gas Law,<sup>28</sup> establishing the KRG’s Ministry of Natural Resources and empowering it to sign contracts with international oil companies. As part of the process of institutionalizing the hydrocarbon sector, the KRG signed an oil-audit agreement with audit company Deloitte in October 2016,<sup>29</sup> with the aim of creating greater international confidence in KRI oil and gas.

<sup>22</sup> Mills, Robin (2016): *Under the Mountains: Kurdish Oil and Regional Politics*, (Oxford: The Oxford Institute for Energy Studies, OIES PAPER: WPM 63, January 2016).

<sup>23</sup> Iraq Business News (2011): “Tony Hayward Speaking at Kurdistan-Iraq Oil & Gas Conference”, 23 Sep 2011, <http://www.iraq-businessnews.com/2011/09/23/tony-hayward-speaking-at-kurdistan-iraq-oil-gas-conference/>, (accessed 05/09/2017).

<sup>24</sup> Wahab, Bilal (2014): *Iraq and KRG Energy Policies: Actors, Challenges and Opportunities*, (The American University of Iraq, Sulaimani, May 2014).

<sup>25</sup> Ministry of Natural Resources (2013): “Gas – Vision”, 25 Aug 2013, <http://mnr.krg.org/index.php/en/gas/vision-gas>, (accessed 05/07/2017).

<sup>26</sup> The so called disputed territories in Diyala, Nineveh and Kirkuk provinces.

<sup>27</sup> Rasheed, Honar. (2016): “A Pipeline In The Pipeline: Can Exporting Natural Gas Save Iraqi Kurdistan?,” <http://www.niqash.org/en/articles/economy/5201/>, (accessed 15/08/2017).

<sup>28</sup> Oil and Gas Law of the Kurdistan Region – Iraq. Law no. (22) – 2007.

[http://mnr.krg.org/images/pdfs/Kurdistan\\_Oil\\_and\\_Gas\\_Law\\_English\\_2007.pdf](http://mnr.krg.org/images/pdfs/Kurdistan_Oil_and_Gas_Law_English_2007.pdf)

<sup>29</sup> Rudaw (2016): “KRG signs oil-audit agreement with Deloitte,” 5 Oct 2016, <http://www.rudaw.net/english/kurdistan/051020166>, (accessed 24/06/2017).



The necessity of maintaining the flow of oil from the KRI is regarded as one of the most important drivers behind the recent warming of Turkey's ties with the KRG.<sup>30</sup> In addition, the development of oil and gas in the Kurdistan Region was considered an integral part of Turkey's policy of becoming an energy bridge between the KRI and the EU, as was already foreseen in the framework of the SGC initiative. Furthermore, the growing Iranian influence in Iraq provided a further impetus for Turkey to engage with the Iraqi Kurds in order to compensate for its shrinking influence in Baghdad.

These developments positively impacted on Turkey–KRG relations and grew to include the security, political, trade and economic sectors. Indeed, over the past decade, Turkey has increasingly defined its multi-dimensional relations with the KRI in strategic terms. A number of strategic energy and construction contracts that have been signed between the KRG and Turkey are described by Baghdad as contravening its (i.e. the central government's) policy. In 2013, for example, the KRG independently signed an agreement with Turkey to build new pipelines with the ultimate capability of exporting 2 million barrels of oil per day and 10 bcm of natural gas per year from the KRI to Turkey.<sup>31, 32</sup>

Until the summer of 2017, the completed 'KRG Pipeline' and the pre-existing Kirkuk–Ceyhan pipeline together transported over 600,000 barrels per day to the Turkish port of Ceyhan.<sup>33</sup> Turkish and Kurdish officials have also been in close discussion over a KRI gas link to the SGC.<sup>34</sup> However, today – due to insecurity, lack of adequate infrastructure and conflict with the central government in Baghdad – oil pipelines outside Iraqi Kurdistan have not been operating at full capacity, while the mooted gas pipeline remains on the drawing board.

Thus, the KRG's desire to export its oil and gas to the EU market via Turkey, and to engage with Turkey as well as the European countries in bilateral economic, political and security relations, has further strengthened Turkey's position as a bridge between the EU and the region. In this context, the Turkey–KRG energy partnership is not only important in realizing the two sides' mutually rewarding ambitions but it might also create additional opportunities for cooperation between the EU and Turkey.

<sup>30</sup> Tol, Gonul (2013): "Turkey's KRG energy partnership", *Foreign Policy*, 29 Jan 2013, <http://foreignpolicy.com/2013/01/29/turkeys-krg-energy-partnership/>, (accessed 22/06/2017).

<sup>31</sup> Wahab, Bilal (2014): *Iraq and KRG Energy Policies: Actors, Challenges and Opportunities*, (The American University of Iraq, Sulaimani, May 2014).

<sup>32</sup> Pamuk, Humeira & Coskun, Orhan (2013): Turkey, Iraqi Kurdistan sign landmark energy contracts", Reuters, 29 Nov 2013, <https://www.reuters.com/article/us-turkey-iraq-oil/turkey-iraqi-kurdistan-sign-landmark-energy-contracts-idUSBRE9AS06620131129>, (accessed 23/07/2017).

<sup>33</sup> Pamuk, Humeira & Cakan, Seyhmus (2016): "Turkey starts repairs on Iraqi Kurdish oil pipeline as violence flares", 27 Feb 2016, <http://www.reuters.com/article/us-turkey-iraq-kurds-oil-idUSKCN0W00EU>, (accessed 09/08/2017).

<sup>34</sup> Karagöl, Erdal & Kaya, Salihi (2014): "Energy Supply Security and the Southern Gas Corridor (SGC)", *Seta Foundation for Political, Economic and Social Research*, NO. 10, Sep 2014, [http://file.setav.org/Files/Pdf/20150422154949\\_energy-supply-security-and-the-southern-gas-corridor-pdf.pdf](http://file.setav.org/Files/Pdf/20150422154949_energy-supply-security-and-the-southern-gas-corridor-pdf.pdf), (accessed 10/08/2017).



## 2.2 Instability in Iraq as a driver

The KRI has developed its energy policy amidst political uncertainty, which could critically impact EU–Turkey energy relations. The most important factor driving energy development in the region has been the status of the KRI and its functioning as a *de facto* state. Nevertheless, considering the absence of international recognition, the ongoing security uncertainties in the Middle East and the lack of an Iraq-wide national hydrocarbon framework, KRI energy poses significant challenges for all stakeholders. In particular, Turkey’s attempts to secure its position as an energy bridge between the KRI and the EU will be largely dependent on its delicate relations with both the KRG and the GoI with often irreconcilable priorities.

KRI independence aspirations and territorial disputes between the Erbil and Baghdad governments have created a climate of uncertainty, which – despite great potential – has hindered further energy investment in the region. Indeed, Baghdad and Erbil have long disagreed on the management of energy resources and control over the oil-rich Kurdish-majority areas that are described in the Iraqi constitution as ‘disputed territories’. Baghdad considers international oil deals to move KRI resources out of the country without the consent of its central government to be illegal.<sup>35</sup> In the past, when Baghdad chose to apply pressure on the KRG to cease these activities – such as when it cut the KRG’s share of the national budget – the latter redoubled its efforts to gain economic independence by speeding up its pipeline development. Ironically, despite Baghdad’s threats to retaliate against the buyers of Kurdistan oil, the KRI oil industry has boomed.<sup>36</sup> Moreover, after the collapse of the Iraqi Army in the face of the Islamic State onslaught, the KRG gained control over much of the disputed territories and began exporting oil from Kirkuk with Baghdad’s reluctant approval.

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Disagreements between Baghdad and Erbil have been growing for the past decade, and ultimately culminated in the KRG’s decision to hold the Kurdistan independence referendum on 25 September 2017, in which residents voted overwhelmingly in favour of independence.<sup>37</sup> Turkey and the EU have both opposed the KRI referendum, emphasizing Iraq’s territorial integrity, although Ankara’s attitude has been ambivalent on this issue. In the past, while Turkey supported the territorial integrity of Iraq it decided to establish energy relationships with the KRG without the full approval of the central government. After the referendum, Ankara reacted strongly and even raised the oil threat against the KRG, which was seen as a destabilizing issue due to, among other things, its potential damage to the Turkish economy.

<sup>35</sup> Wahab, Bilal (2014): *Iraq and KRG Energy Policies: Actors, Challenges and Opportunities*, (The American University of Iraq, Sulaimani, May 2014).

<sup>36</sup> Nader, Alireza, Larry Hanauer, Brenna Allen & Ali Scotten (2016): *Regional Implications of an Independent Kurdistan*, (Santa Monica, CA: RAND Corporation, December 2016).

<sup>37</sup> Al Jazeera (2017): “Turkey raises oil threat after Iraqi Kurds’ referendum,” *Al Jazeera*, 29 September 2017, <http://www.aljazeera.com/news/2017/09/turkey-raises-oil-threat-iraqi-kurds-referendum-170929034217752.html>, (accessed 06/10/2017).



Since Iraqi military and paramilitary forces reinstated federal authority over the disputed territories and Kirkuk oil fields in October 2017, KRI energy plans have been severely affected and the mutual Turkey–KRI investment in oil production is likely to further slow down. Given the relatively large amount of Iraqi and KRI oil (and, potentially, gas) transported to Turkey and the EU, the latter two have a vested interest in ensuring stability in Iraq and the KRI, and in supporting the development of projects in both. Therefore, due to the necessity to ensure a trajectory of stability in the area, Turkey and the EU are likely to seek mutual cooperation over the political, security and economic management of the enduring crises in Iraq and its neighbourhood.

### 2.3 The Russian factor

In June 2017, in an attempt to expand its energy sector, the KRG signed a memorandum of understanding with the Russian state-owned energy company Rosneft, which showed interest in exporting crude oil from the Kurdistan region to its refineries in Germany. The deal includes the realization by Rosneft of a \$1 billion pipeline to transport gas from Iraqi Kurdistan to Turkey, where it could either be traded into the Turkish domestic market or supplied to European consumers through the SGC.<sup>38</sup>

An important part of this bilateral relationship is Russia's objective, real or perceived, to play a future role in the KRI's gas sector in order to balance efforts by the EU, already invited by the KRG to invest in the region and to involve Turkey as a key transit partner. Nonetheless, in the words of a KRG official who wished to remain anonymous, 'the EU has missed the opportunity to play a key role in the region's energy sector'<sup>39</sup>. In particular, the bureaucracy inherent in the EU decision-making process and the legal and political uncertainties between Baghdad and Erbil have thus far acted as barriers to timely European investments in the KRI.

Although the KRG believes that its gas reserves can support European diversification strategies, the EU's failure to invest in the KRI's gas has prompted the KRG to turn to the Russians instead. From a KRG perspective, cooperation with Russia also means that Turkey is no longer a pivotal player when it comes to KRI energy-export strategies. So far, it remains unclear what alternative export options (if any) exist for Moscow – particularly if, or when, Russian and Turkish interests conflict in the region. Should this happen, EU–Turkish interests would be aligned but at the same time limited by Russia's strong relations with Iran, Iraq and Syria.

## 3. Iran: which destination for its gas?

### 3.1 The Iran–Turkey–EU triangle

<sup>38</sup> Katona, Viktor (2017): "Russia's Kurdish Pipeline Gamble," *Oilprice*, 20 Sep 2017, <http://oilprice.com/Geopolitics/International/Russias-Kurdish-Pipeline-Gamble.html>, (accessed 23/09/2017).

<sup>39</sup> "Interview with KRG Official on The development of Kurdish hydrocarbons ." Interview by author. October 27, 2017, Erbil, Kurdistan Region-Iraq.



With proven reserves of around 34 tcm, Iran holds the world's second largest natural gas resources after Russia (roughly 47 tcm).<sup>40</sup> More than half of them are located offshore, with South Pars being Iran's largest gas field. Iran also has the fourth largest oil reserves in the world, estimated as up to 160 million barrels, making it an attractive source of supply for the European market.

Iran was under UN-imposed sanctions from 2006 which were lifted in 2016 in compliance with the obligations of the Iran nuclear deal, known formally as the Joint Comprehensive Plan of Action (JCPOA).<sup>41</sup> Thanks to their lifting, Iran was expected to make a strong re-entry into the global hydrocarbon market as it promptly vowed to equal, and then double, its previous production and exports. Thus, it has been restoring its position as one of the largest energy producers in the Organization of Petroleum Exporting Countries, OPEC.<sup>42</sup> As a result, Iran today exports over 2 mb of crude oil per day, in addition to 600,000–700,000 barrels per day of condensates, most flowing out of the Kharg oil terminal in the south of the country,<sup>43</sup> and has – at least, theoretically – the capacity to triple that amount in exports.<sup>44</sup> Yet, the immense Iranian energy potential remains limited by OPEC quotas – which place a cap on how much Iran may produce and sell in global oil market – and by a chronic lack of investment in its energy sector, despite the interest shown by international public and private players.

As for natural gas, Iran currently exports limited amounts to its immediate neighbours: Turkey and Iraq. However, it has the potential to greatly increase its volumes, for which Tehran would be looking for new export destinations – particularly in the EU. Such prospects, nonetheless, have been hampered by international sanctions as well as by technical and financial difficulties.

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The implementation of JCPOA and the lifting of energy-sector-related sanctions encouraged EU energy companies to explore the potential for cooperation with Iran,<sup>45</sup> and the country has indeed signed a number of contracts to increase its gas production. If these are successfully implemented, Iran's gas exports are expected to increase significantly. However, the country's own local gas demands are considerable, and exports may not actually be viable in the short term. At the moment, Iran imports gas from Turkmenistan and Azerbaijan because its domestic distribution

<sup>40</sup> Oil & Gas Exploration & Development (2017): “The world's top five countries with highest natural gas reserves,” Energy Business Review, 21 July 2017, <http://explorationanddevelopment.energy-business-review.com/news/the-worlds-top-five-countries-with-highest-natural-gas-reserves-5878274>, (accessed 15/08/2017).

<sup>41</sup> Dehghan Saeed K. (2016): “Sanctions against Iran lifted after compliance with nuclear deal”, The Guardian, 16 January 2016, <https://www.theguardian.com/world/2016/jan/16/sanctions-against-iran-to-be-lifted-after-compliance-with-nuclear-deal>, (accessed 11/07/2017).

<sup>42</sup> Calcuttawala, Zainab (2017): “Iran's Oil Industry Unshaken By New Sanctions,” *Oilprice*, 6 Feb 2017, <http://oilprice.com/Energy/Energy-General/Irans-Oil-Industry-Unshaken-By-New-Sanctions.html>, (accessed 06/07/2017).

<sup>43</sup> In 2016, Iran shipped 780 million barrels of crude oil out of this port, a dramatic increase from prior years.

<sup>44</sup> Paraskova, Tsvetana ( 2017): “Iran is boosting its oil production,” 27 June, 2017, *Oilprice*, <http://www.businessinsider.com/irans-largest-oil-terminal-boosts-capacity-to-8-million-barrels-a-day-2017-6>, (accessed 11/08/2017).

<sup>45</sup> Jalilvand, David J. (2017). *Iranian Energy: a comeback with hurdles*, (Oxford: The Oxford Institute for Energy Studies, Jan 2017).



network cannot supply the entire country. Its gas consumption nearly doubled to 191.2 bcm in 2015, from 102.7 bcm in 2005, and almost half of the gas supplies are used to heat homes.<sup>46</sup> This means that for the next few years, Turkey and the EU may not benefit from new volumes of Iranian gas, making the impact of Tehran’s policies less relevant to the future of EU–Turkey relations than might otherwise have been expected.

It is important to emphasize that Iran’s export objectives would mesh with the EU’s and Turkey’s desire to reduce dependence on Russia’s gas through the development of alternative sources and transit routes. As such, energy partnership with Iran in the gas domain could act as a driver for deeper EU–Turkey relations and generate cooperation scenarios in the long term. However, actual progress in EU investment in the country’s energy sector has been modest thus far as EU companies remain hesitant to engage actively with their Iranian counterparts. Indeed, European players remain wary of unattractive business conditions and the high financial risk of foreign investment in Iran, and also about the regional security developments currently in place (i.e. US assertiveness; Iran–Saudi tensions). On account of these factors, it is reasonable to assume that progress towards cooperation will, at least initially, be slow.<sup>47, 48</sup>

Turkey, on the contrary, has maintained commercial relationships with Iran despite the sanctions. In terms of the energy sector specifically, Turkey has already announced that it would seek to expand bilateral ties and buy more gas from Tehran, looking for discounted prices.<sup>49</sup> Turkey’s energy policy towards Iran needs to take into account various factors – including complex bilateral relations with Tehran and the role of Russia, which remains both the stronger partner of Iran and the key energy supplier for Ankara. Nevertheless, energy-related (as well as economic) interests have created clear opportunities for cooperation between the two countries, a factor that Turkey seems ready to exploit in order to present itself as broker – and as the ideal route – to convey Iran’s gas supplies to European markets.

### 3.2 Iran–Turkey–EU pipeline politics

Pipeline politics plays a fundamental role in the possible materialization of such an Iran–Turkey–EU energy triangle. In fact, while energy officials in Iran have expressed some reluctance to embark on the construction of large, entirely new pipelines (particularly in 2016, when the price of gas

<sup>46</sup> Sergio, Mohammed (2017): “Why Trump Doesn’t Have to Do Anything to Stop Iran’s Gas Plans”, in *Bloomberg (Markets)*, 16 March 2017, <https://www.bloomberg.com/news/articles/2017-03-15/iran-s-natural-gas-rush-won-t-bring-export-riches-for-now>, (accessed 04/08/2017).

<sup>47</sup> Stefanni, Sara (2017): “Europeans flock to Capitol Hill to save Iran deal”, in *Politico*, 11 Oct 2017, <http://www.politico.eu/article/europeans-flock-to-capitol-hill-to-save-iran-deal/>, (accessed 15/10/2017).

<sup>48</sup> Davies, Vivien & Wilkinson, Vanessa (2016): “Persian Prospects: The Lifting of Iranian Sanctions - The impact of Implementation Day for your Business,” in FieldFisher, 4 Feb 2016, <http://www.fieldfisher.com/publications/2016/02/persian-prospects-the-lifting-of-iranian-sanctions-the-impact-of-implementation-day-for-your-business#sthash.cbspq5fs.dpbs>, (accessed 08/08/2017).

<sup>49</sup> Incecam, Begum & Duman, Nejan (2016): “Iran Sanctions are lifted: What will be the effect in Turkey?,” *Turkish Law Bulletin*, [http://www.seelegal.org/upload/documents/Turkey/KDK/2016/KD-328452-v1-Effects\\_of\\_Lifting\\_Iran\\_Sanctions\\_in\\_Turkey.PDF](http://www.seelegal.org/upload/documents/Turkey/KDK/2016/KD-328452-v1-Effects_of_Lifting_Iran_Sanctions_in_Turkey.PDF) (Jan 2016).



was too low to justify heavy investment), internal debates have taken place in order to progress the upgrading of existing pipelines. Indeed, Iran has been expanding its pipeline network, actively seeking to tap into the region’s pipeline system, with particular focus on the SGC, in order to supply its gas to the EU market as quickly and effectively as possible. The Pars pipeline project (also known as the Persian or Iran–Europe pipeline) aims at constructing a 3,300 km gas pipeline from Iran’s South Pars field, which holds approximately 51 tcm, to Europe through Turkey. Iran and Turkey signed a memorandum of understanding in 2008 to build the pipeline, which was expected to be completed in 2014; however, due to sanction restrictions and the worsening in relations between the two countries over the Syrian conflict, the initiative was halted in 2012.

For the EU, the opportunity to connect Iran’s gas to the SGC (via the TANAP and TAP pipelines) has acquired a crucial strategic relevance, particularly after the Ukraine crisis of 2013.<sup>50</sup> Iran has reciprocated by exploring this possibility, and has argued that the country is not only ready to ‘get into the game’ but that without Iranian participation the SGC would remain a less-ambitious initiative.<sup>51</sup> However, Iran’s ability to meet the technical and infrastructural challenges of developing sufficient volumes of gas and connecting them to the SGC in the short- and medium-term is questionable, as both its domestic upstream sector and energy infrastructure are heavily underdeveloped (and their upgrade will require an extended period of time).

In addition to these factors, relevant political issues are also at play. For example, Iran’s multidimensional alliance with Russia could prevent Tehran from consistently pursuing an export strategy towards Turkey and the EU, while Azerbaijan – which usually has strained relations with Iran – could also negatively impact on such energy plans.<sup>52</sup>

### 3.3 The LNG factor in Iran vs EU–Turkey relations

The rise of Liquefied Natural Gas (LNG) as a global commodity has transformed the landscape of the natural gas industry. LNG offers many advantages over natural gas, which make it a sought-after asset for Iran. Most significantly, no pipeline is needed to transport LNG, which means that shipments can be moved without the usual constraints of gas transportation.<sup>53</sup> This ‘floating pipeline’ permits exports over longer distances and, ultimately, lower production costs.<sup>54</sup> It is therefore not surprising that the global demand for LNG is expected to grow by 50 percent in

<sup>50</sup> Pachiu, Laurentiu (2015): “Iran’s potential as Europe’s alternative for natural gas”, in *Energy Policy Group*, June 2015, [https://www.enpg.ro/wp-content/uploads/2017/10/EPG\\_2015-07-21\\_Laurentiu-Pachiu\\_Iran%20%99s-potential-as-Europe%20%99s-alternative-for-natural-gas.pdf](https://www.enpg.ro/wp-content/uploads/2017/10/EPG_2015-07-21_Laurentiu-Pachiu_Iran%20%99s-potential-as-Europe%20%99s-alternative-for-natural-gas.pdf), (accessed 09/08/2017).

<sup>51</sup> OilPrice (2015): “Could Iranian Gas Be The Solution For Europe?,” 24 Feb, 2015, <https://oilprice.com/Energy/Natural-Gas/Could-Iranian-Gas-Be-The-Solution-For-Europe.html>, (accessed 23/08/2017).

<sup>52</sup> Mills, Robin. (2016): “The Russia-Iran-Turkey energy triangle – old enemies locked in a power embrace,” in *The National*, 29 November 2016, <https://www.thenational.ae/business/the-russia-iran-turkey-energy-triangle-old-enemies-locked-in-a-power-embrace-1.10869>, (accessed 14/07/2017).

<sup>53</sup> Kalehsar, Omid S. (2016): “A flexible pipeline dream: Iran’s LNG goals,” *Energy and Environment*, 27:5, pp.542-552.

<sup>54</sup> Houshisadat, Mohammad (2015): “The Role of Iran’s Future Liquid Natural Gas Supply in the EU’s Energy Security,” *Asian Affairs*, 46:3, pp.458-475.



2020.<sup>55</sup> The rapid growth of other renewable energy sources has also reduced the attractiveness of building pipelines. Taken together, these factors may ultimately negatively impact on the value of the SGC and on EU–Turkish energy cooperation.

The lifting of UN sanctions in 2016 has opened new doors for Iran to procure the technologies and equipment needed to construct LNG production complexes, and the country has already revisited its plans and begun initiating alternative pathways to enter the LNG market. For example, Tehran signed an agreement with Oman to export Iranian gas there via a pipeline and then to use excess capacity in Oman to produce and export LNG.<sup>56</sup> Tehran also signed an agreement with the Norwegian company Helma Vantage to acquire floating LNG capacity.<sup>57</sup> The latter project is worth \$600 million, but its volume will not be very significant – although it would serve a tactical purpose, allowing Iran to build relationships with European companies.<sup>58</sup> The French giant Total SA is also in talks with the Islamic Republic to acquire ‘Iran LNG’, one of a number of previously conceived projects.<sup>59</sup> Such important steps will gradually enhance Iran’s potential to produce and export LNG, and gain competitive advantages in the global market.

Qatar is Iran’s most significant regional competitor in the global LNG market, and the recent improvement in bilateral relations in the aftermath of the Saudi-led blockade against Qatar has paved the way for a more pro-active LNG strategy in Iran. This cooperation has served to drive further Iranian investments in the LNG sector, benefiting from Qatar’s involvement and experience.<sup>60</sup>

However, in the medium term, Iran’s LNG development plans will face many challenges, making the country less ready to compete against other regional gas pipelines or reducing Iran’s ability to produce a significant volume of LNG. As scholar Bijan Khajehpour states,

“LNG exports have to be decompressed at their destination, meaning that additional infrastructure is required at the receiving end of the process. LNG exports also require specialized tankers for international transport, so Iran must invest in new capacity for its

<sup>55</sup> Khajehpour, Bijan (2017): “Iran’s path to becoming an LNG exporter,” *Al Monitor*, 14 Nov 2017, <https://www.al-monitor.com/pulse/originals/2017/11/iran-energy-sector-lng-supply-export-resumption.html>, (accessed 15/11/2017).

<sup>56</sup> Reuters Staff (2017): “Iran, Oman reaffirm gas export project, change pipeline route to avoid UAE, 7 February 2017, <https://www.reuters.com/article/iran-oman-gas/iran-oman-reaffirm-gas-export-project-change-pipeline-route-to-avoid-uae-idUSL5N1FS2ZK>, (accessed 22/07/2017).

<sup>57</sup> Iran Daily (2017): “Iran signs deal over ‘unique’ floating LNG scheme.,” 27 Oct 2017, <http://www.iran-daily.com/News/203223.html>, (accessed 29/10/2017).

<sup>58</sup> Slav, Irina (2017): “Iran Prepares To Export LNG To Boost Trade Relations,” *OilPrice*, 17 Nov 2017, <https://oilprice.com/Latest-Energy-News/World-News/Iran-Prepares-To-Export-LNG-To-Boost-Trade-Relations.html>, (accessed 19/11/2017).

<sup>59</sup> Vukmanovic, Oleg. & Felix, Bate (2017): “Total in talks to buy Iranian LNG project: sources,” *Reuters*, 27 February 2017, <https://www.reuters.com/article/us-total-iran-lng/total-in-talks-to-buy-iranian-lng-project-sources-idUSKBN1661NM>, (accessed 19/11/2017).

<sup>60</sup> Khajehpour, Bijan. (2017): “Iran faces challenges realizing natural gas potential,” *Al Monitor*, 18 Sep 2017, <https://www.al-monitor.com/pulse/originals/2017/09/iran-natural-gas-industry-exports-potential-challenges.html>, (accessed 17/11/2017).



tanker fleet. Though Iran has had experience with pipeline-gas exports to neighbouring countries, it is important to realize that LNG exports are different and that human resources, infrastructure and commercial capacities must be developed to benefit from the LNG potential."<sup>61</sup>

Although it is true that various countries and companies could cooperate with Iran, the Islamic Republic must take care to avoid a new wave of international legal pressure from unilateral US sanctions prohibiting technology transfers.<sup>62</sup> In addition, Washington's current Iranian nuclear deal in fact inhibits further progress in this area, while Iran is unlikely to negotiate changes to the deal that in turn, may lead the US to pull out of it and reinstate sanctions.

In sum, the potential for Iran to further develop its LNG industry could lessen the country's interest in accessing the SGC, thereby reducing its chances of playing a significant role in addressing joint EU–Turkey energy-security priorities. However, a joint effort to engage Tehran in deeper cooperation would most likely encourage the Islamic Republic to align its pipeline policy with the energy policies of the EU and Turkey, thus, enhancing EU–Turkey relations.

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#### 4. Conclusion

As demonstrated above, many are the energy drivers pushing the EU and Turkey towards cooperation and convergence over a number of priorities. Indeed, ME&CB supply can be positively paired by European and Turkish need for energy security, the latter being an ideal bridge between the East and West. A position which is the very first reason for strong energy relations between the EU and Turkey, which are in turn fundamental to reach cooperation and convergence. These outcomes could be however shadowed by conflict over migration, counterterrorism, the Syria war, the role of Russia and Iran for Turkey, and the country's domestic policies.

Concomitantly, Russia seeks to remain the main gas supplier to the EU, and to maintain its own 'lion's share' of the European energy market. To achieve this, Moscow is trying to slow down the implementation of strategic Caspian–Turkey–Europe pipeline projects (particularly, the SGC) that are circumventing its territory, while promoting South–North pipeline projects that allow Iranian gas to bypass Turkey. These measures are clearly in conflict with both EU and Turkish interests. In addition, Turkey, like the EU, has its own security and political concerns over the growing Russian presence in the Middle East, particularly in Syria. Therefore, Turkey will inevitably find itself needing to maintain a delicate balance between its political and energy relations with both the EU and Russia.

In this geopolitical environment, cooperation between the EU and Turkey in the energy sector remains the most likely scenario in the medium and long term, and holds opportunities and challenges for both sides. Opportunities include not only further diversification of gas sources and

<sup>61</sup> Khajehpour, Bijan. (2017): "Iran's path to becoming an LNG exporter," *Al Monitor*, 14 Nov 2017, <https://www.al-monitor.com/pulse/originals/2017/11/iran-energy-sector-lng-supply-export-resumption.html>, (accessed 15/11/2017).

<sup>62</sup> ibid



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routes for both European and Turkish consumers but also an increase in economic returns for supplier and transit countries in the ME&CB. Meanwhile, challenges include possible Russian economic and political pressures, and attempts to destabilize supply -and transit- countries in order to hinder cooperation between Turkey and the EU. The stakes are high, and the prospects of the ME&CB serving as a provider of energy security for both the EU and Turkey and an enabler of their deeper cooperation remain unclear.

The cooperation scenario also assumes that Turkey's energy policy vis-à-vis the EU would not antagonize the energy suppliers in the ME&CB. Turkey remains committed to acting in its role as an energy bridge from all its energy-rich neighbours, from which it would benefit in the form of transit fees and other related revenues. This commitment is best demonstrated by Turkey's steady investment in infrastructure facilitating energy trade in the Near East.

The Europeans view their access to ME&CB energy supplies via the SGC initiative as strategic, and consider Turkey an indispensable partner in this respect. Thus, Ankara's commitment to the development of the SGC would, by default, complement European policies. Such complementarity and potential interdependence between the EU and Turkey could in themselves act, over a period of years, as drivers for cooperation and possibly ultimate convergence.

Turkey, on the other hand, aims to exploit its strategic location between supply and demand to create interdependence, thereby maximizing its political, economic and financial returns. Nevertheless, other conflicting political, economic and ideological drivers may act as potential obstacles to a total EU–Turkish convergence scenario, or even act as drivers for divergence. Clearly, these are complex multi-faceted objectives that require a great deal of political will and determination from all sides involved in order to sustain the cooperation pathway and remain on track for ultimate convergence.



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## ABOUT FEUTURE

FEUTURE sets out to explore fully different options for further EU-Turkey cooperation in the next decade, including analysis of the challenges and opportunities connected with further integration of Turkey with the EU.

To do so, FEUTURE applies a comprehensive research approach with the following three main objectives:

1. Mapping the dynamics of the EU-Turkey relationship in terms of their underlying historical narratives and thematic key drivers.
2. Testing and substantiating the most likely scenario(s) for the future and assessing the implications (challenges and opportunities) these may have on the EU and Turkey, as well as the neighbourhood and the global scene.
3. Drawing policy recommendations for the EU and Turkey on the basis of a strong evidence-based foundation in the future trajectory of EU-Turkey relations.

FEUTURE is coordinated by Prof. Dr. Wolfgang Wessels, Director of the Centre for Turkey and European Union Studies at the University of Cologne and Dr. Nathalie Tocci, Director of Istituto Affari Internazionali, Rome.

The FEUTURE consortium consists of 15 renowned universities and think tanks from the EU, Turkey and the neighbourhood.

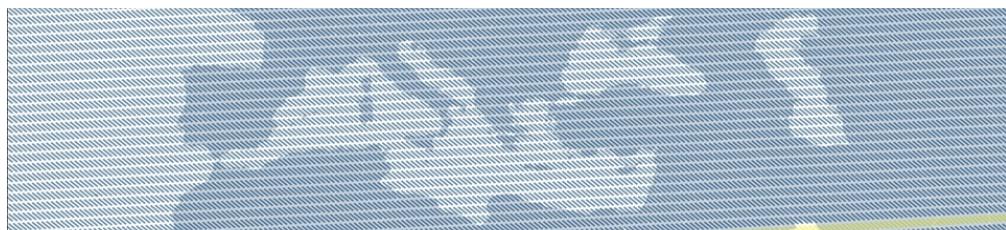
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