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The Trans-Anatolian Pipeline (TANAP) as a unique project in the Eurasian gas network: A comparative analysis

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ABSTRACT

Trans-Anatolian Gas Pipeline (TANAP) as a part of the Southern Gas Corridor has significant implications for the transit security of the European Union and the domestic gas market of Turkey. Among those countries in Eurasia, only Turkey's process of liberalization is a success story, albeit an incomplete one. Surrounded by liberal markets to the West and monopolistic markets to the East, Turkey partially possesses a competitive gas market. TANAP, a unique project among the international pipelines in Eurasia, strengthens Turkey's peculiar position by *de facto* ending the monopoly of the incumbent BOTAŞ over gas transmission and thus contributes to the liberalization of the domestic market.

1. Introduction

For the last three decades, the energy industry has been witnessing that a market-oriented paradigm, with its promise of efficiency and sustainability, has superseded the traditional regulation paradigm (Cameron, 2007). The natural gas industry, traditionally closed to competition, has been subjected to liberalization through the easing of entry barriers into the commercial segments of the supply chain. In this quest to dismantle entry barriers for the new suppliers through vertical disintegration, many jurisdictions promoted the norm of non-discriminatory access of the third parties to the network (transmission and distribution networks possessing natural monopoly characteristics) (Haase, 2008; Viscusi et al., 2005). The liberal, transparent and competitive structure of the North American gas market has been taken as a model throughout the world. The European Union (EU) has also been struggling to create a liberal and integrated European gas market, the last step of which is the 3rd Energy Package. The most significant characteristic of the European gas market is its high level of dependency on pipeline imports from Russia, the Caspian region and the North Africa. In this sense, changes and developments in the regulatory framework of the gas industry in Europe have profound effects beyond its borders and especially in Eurasia. Among those countries in Eurasia (Turkey, the Russian Federation, the Caspian region and Central Asian republics), only in Turkey has liberalization been undertaken with necessary legal and institutional arrangements starting from 2001.[1] The main policy target of Turkey, surrounded by liberal markets to the West and monopolistic markets to the East, is to harmonize its energy legislation with the *acquis communitaire*. Since creating gas-to-gas competition and the dilution of BOTAŞ's dominance are mandatory to achieve liquidity, any new investment needs to be considered in terms of its virtues and vices in terms of competition as well as supply security.

Gas transmission constitutes a critical component of the gas supply chain, which frequently experiences transit and access issues, and the challenging national efforts of liberalization. Since transit countries are usually gas consumers themselves, harmonizing the existing and new transit and the supply contracts in the evolving market infrastructure has become a very important issue for the regulators in the process of liberalization. The Trans Anatolian Pipeline (TANAP) is mainly discussed in terms of its contribution to supply security within the concept of the European Southern Gas Corridor concept, in this paper its impact on competition in the Turkish domestic gas market is analyzed and it is

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[1] Sector-specific market laws and establishment of an independent NRA (national regulatory authority) were the first important steps toward a liberalized energy industry regime.

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argued that since it has the ability to create a competitive pressure on BOTAŞ (Turkish pipeline corporation, the dominant incumbent), TANAP is notable as a unique project compared to other international gas pipelines existing in the region. When TANAP becomes operational, Turkey will become the only non-EU member country in Eurasia where the existing monopoly over transmission will be ended. TANAP, which is similar to the Eurasian pipelines in terms of its contribution to energy (supply) security and potential to enhance competition, departs from its counterparts in terms of its physical properties (simultaneously international and domestic) and enjoying a full exemption despite its potential to serve as an accelerator of national efforts for gas market liberalization.

TANAP can thus be described as a new generation pipeline that brings more equity in terms of serving the interests of the countries involved in the supply chain. Not only diluting the supply and transmission dominance of Gazprom, TANAP also exposes the economic (competition and regulatory policies) and political deficiencies of the existing Eurasian pipelines whose international and cross-border character has blocked the involved countries' interest-maximization.

In this respect, section two of this article will explicate the novelty of TANAP in comparison with its counterparts in Eurasia to see how TANAP does not fit into any category of the extant pipelines in the region. Since the realization of TANAP has repercussions for a broad range of markets (the Caspian, Turkish, European), the third section will clarify TANAP's role in the Southern Gas Corridor. The fourth section will present the regulatory and competition policy framework to understand the institutional regime surrounding TANAP. The conclusion will describe TANAP's potential to provide both supply security and enhance competition signifying the importance of institutional design and the inferiority of traditional pipeline models in Eurasia.

2. International projects and cross-border pipelines in Eurasia

A robust gas trade can only take place with access to a well-connected and well-managed transmission network. Issues such as risky investment, access and dependence on foreign resources have elevated energy security and international gas trade to the top of the agenda. Long-term Take or Pay (ToP) contracts have made international gas trade possible by splitting price and volume risks between the seller and the buyer and state regulations have been enacted to guarantee this structure (Mitrova, 2009). It is not surprising that one third of all the gas consumed globally is internationally traded and almost two thirds of this amount is transported through international gas pipelines (BP Statistical Review, 2013). With growing interdependence, suppliers and consumers alike have become even more concerned about gas transit security. Advanced technology and the growth of demand instigated the development of international markets with large-scale cross-border gas pipelines, as in the numerous examples that exist in Eurasia.

Since Eurasian countries, excluding Turkey and Iran, are remnants of the Soviet Union, their gas market structures are similar in the sense that following the collapse, each newly independent state established its own state-owned, vertically integrated gas monopoly, awarding it the sole control over the transmission network. This is also the case in Iran and, until recently, in Turkey.[2] One common feature in each country is that gas transmission is granted a statutory monopoly and there is lack of competitive pressure to the incumbent in gas transmission considering the sunken capital. Moreover, if the incumbent is also active in the supply business and there is no open access policy in place, the lack of liquidity in wholesale markets becomes perpetual.

In Eurasia, cross-border pipelines, regulated by long-term intergovernmental agreements (IGAs), can be seen as a part of international projects. TANAP, the most recent pipeline in Eurasia is unique. Although TANAP is an international project it differs in that it is not a cross-border operation. Rather it can be accepted as a completely national pipeline thus having important repercussions for the Turkish domestic market structuring. Table 1 shows that, all pipelines in the region are either part of a larger project or purely cross-border however, TANAP recognizes the sovereignty of the Turkish government at the same times as being part of a larger project. In that sense, TANAP brings a new dimension to Eurasian energy security in which cross-border pipelines have been representatives of the sole characteristics for pattern of gas trade in the continent for decades.

2.1. The pipelines in Eurasia: the traditional structuring of export pipelines

The pipelines in Eurasia can be categorized in three major subgroups:

a) Russia–Europe international gas export pipelines, which all reflect traditional business model of ToP, oil-indexed and with a long-term relationship. Ukraine and Belarus are main transit routes. There are also off-shore pipelines which are projected to cover the increase in demand from Europe and all these pipelines target final consumer i.e. EU markets with very limited effects on domestic gas markets in the Former Soviet Union.
b) Cross-border gas-export pipelines of Central Asia, which mainly aim to transport Turkmen gas since the post-Soviet era provided a leeway for sovereign exportation from the resource-rich former Soviet Republics. Kazakhstan and Uzbekistan stand, as the main corridors while China and Iran are the main benefactors.
c) Other non-Russian international gas export pipelines, which mainly link Iran, Azerbaijan and Turkey to extend further into Europe. Although TANAP can be placed in this sub-group, as the comparison Section 3 will demonstrate, TANAP is beyond being subservient to the source or destination jurisdictions.

2.2. Common traits of international and cross-border pipelines vs. TANAP

All the established or proposed pipelines with a background in either the Soviet or Post-Soviet era, are cross-border and international pipelines that transfer the gas commodity from Russia and the former Soviet Republics to Europe. The important commonality of all these aforementioned large-capacity projects is the long-term investment that is fostered on the soil of the former Soviet Union. No former Soviet Republic in the Central Asia has access to the demand without these cross-border and international pipelines.

Since international and thus cross-border infrastructure is involved in gas trade, diplomacy has been an indispensable part of export of Eurasian energy to the EU. Russia's dominance over Europe in gas imports has been consolidated through export of the Russian and Central Asian oil and gas sources via the Soviet Era pipelines as well as newly established pipelines such as Nord Stream. However, countries in Eurasia, either as source or transit countries, have been trying to break this domination by proposing

[2] In Russia, the Unified Gas Supply System is owned by Gazprom, in Azerbaijan by SOCAR and in Ukraine by Neftgaz Ukrainy. In some cases, those transmission networks have been bought by the incumbents of neighboring countries as in the case of Beltransgaz by Gazprom and the Georgian gas network by SOCAR.