Energy Policy 107 (2017) 539–547

Contents lists available at ScienceDirect

Energy Policy

journal homepage: www.elsevier.com/locate/enpol

Turkey in the geopolitics of energy

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ARTICLE INFO

Keywords:
Turkey
Natural Gas
Southern Gas Corridor (SGC)
BOTAŞ
Turkstream
Geopolitics of energy

SUMMARY

This article discusses how geography, energy markets and political developments determine Turkey's role in the geopolitics of energy. Located strategically between two continents, Turkey has a desire of becoming an international physical hub and transit corridor for natural gas, while at the same time improving its own energy security. Domestic Turkish demand and market regulations, existing and new sources of supply, as well as internal and external economic, regulatory and political factors interplay in the realization of these goals. The article argues that the potential Turkey has to become a significant player in natural gas transit depends on the simultaneous developments of the domestic political situation and the great political uncertainties in its neighborhood. If market developments allow, Turkey may become a hub for Russian gas through the Western part of the country, and it may become a hub for gas from Central Asia and the Middle East while also serving its Middle and Eastern parts. The outcome depends on domestic decisions colored by the economics of natural gas transportation and political developments in its surroundings.

1. Introduction

The geopolitics of energy for a country or region is defined by its geographical location and role for supply, transit or demand for energy. Located strategically between two continents, Turkey is an important oil and gas transit country, decisive to its own import dependence as well as to regional energy security. Currently, Azerbaijani and Kurdish oil is transmitted across the Eastern part of the country to Ceyhan by the Mediterranean Sea. Russian and Azerbaijani oil passes through the Turkish Straits of the Bosporus and Dardanelles waterways to Western markets. Natural gas is coming from Russia, Iran and Azerbaijan, but so far only for domestic usage. Some natural gas from former Soviet republics in Central Asia has also been transmitted through Russia. For the European Union (EU) it has been important to diversify natural gas supplies and reducing the role of Russia as a producer and transit country.

The first break-through for an alternative route was reached with the signing of the Nabucco agreement in 2009. After the cancellation of Nabucco in 2013, Caspian natural gas shall be transmitted from Azerbaijan to the Italian market via Turkey, Greece and Albania, referred to as the "Southern Gas Corridor" (SGC), planned to come on stream from 2018. Later, natural gas projects from Central Asia and the Middle East, including from Israel and Cyprus, may be directed through the SGC, destined for Turkey as a market and/or as a transit country. The Russian Southstream project was seen as competitor to Nabucco, bypassing Turkey from Novorossiysk through the Black Sea directly to Bulgaria. After Southstream was cancelled in 2014, partly due to EU legislation, Turkstream (also through the Black Sea) became the Russian alternative. Russian gas should now reach the Western part of Turkey, rather than Bulgaria, continuing to compete not only for EU markets, but also directly for the Turkish market itself.

The natural gas projects are important to meet domestic Turkish demand, but also for their potential to make Turkey a significant international and regional transit country and physical hub between producers in the Middle East, Central Asia, Russia and the Mediterranean on the one side, and the EU on the other. However, capital costs for both the Russian Black Sea subsea projects and the expansion of SGC across Turkey are substantial. From the outset, they need huge volumes of natural gas to be profitable. In the combined EU-South and Turkish market, it may be room for only one of the projects, at least in the short and medium term. The realization of the initial step of Turkstream depends primarily on Turkish- Russian bilateral agreements concerning market capture in the Istanbul area and on investments in infrastructure (e.g. subsea pipelines). The expansion of the

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http://dx.doi.org/10.1016/j.enpol.2017.05.008
Received 20 October 2016; Received in revised form 3 May 2017; Accepted 5 May 2017

SGC depends a lot on domestic Turkish demand "on the way", especially in the Middle and Eastern part of the country, to finance the infrastructure.

Turkey's priority to secure energy for its own market coincides with the aim of diversifying sources and becoming an international physical hub and transit corridor for natural gas. With a rapidly expanding economy and a population of 80 million people, the country has been one of the fastest growing energy consumers in the world over the past decade, only bypassed by China in natural gas and electricity demand growth. The question is if Turkish demand for natural gas will grow enough, and in which parts of the country, to support the substantial investments needed. The difficult domestic political situation creates uncertainty about how decisions will be made for energy demand as well as for energy transit. At the same time, the great political risks the country faces in its neighborhood may prevent it from launching new pipeline projects and exploit supply options, but also open for one of the options rather than the other.

In this article, first, we outline how a country's geographic location, international security, markets and politics determine its geopolitical position. Second, Turkish natural gas demand developments and its drivers are described. Third, domestic natural gas market reform and its impacts on the development of domestic infrastructure is analyzed. Fourth, we put focus on the expiration and possible renewal of existing long-term contracts (LTCs) from Azerbaijan, Iran and Russia as sources of future supply. Fifth, Turkey's role as a transit country for natural gas from both existing and potential new sources is outlined. Finally, we assess the country's role in the geopolitics of energy as a consumer and transit country of natural gas.

2. Geopolitics and energy

Kjellén (1905) first coined the term geopolitics, and defined it as the studies of the way geographical (and often also historical and social) factors help explain the power and role in international affairs of nation states. In classical formulations, the links and causal relationships between political and physical power over geographic space were emphasized. Mackinder (1904) described much of the 20th century´s geopolitical thought, great power strategies, alliances and military events based on geographic and historic factors. Geopolitics was often considered a competitive zero-sum game played by nation states in their pursuit of power and security, and gains from trade and investment *relative* to other national competitors (Victor et al., 2006:4). Geopolitics was a study of the dynamic or evolving political structuration of space. Greater territory and more resources was the win for one and loss for the other. The outset was that geography (or nature) created various types of societies and cultures as their spatial dimensions implied different opportunities and limitations. Often rivers, mountains, forests, lakes and coasts were borders to human societies. For example, around the Black Sea there are a number of very different languages, cultures and countries due to their separation by the waters.

Because geopolitical thinking was used to defend Lebensraum for Nazi-Germany, social scientists and politicians more or less abandoned the concept after WWII, claiming there was no geopolitical science anymore, only geoideologies, such as Nazism and fascism (Haushofer, 1924; Bingen, 2014). For more decades, borders and the established geopolitical structures were considered permanent sacrosanct. After the break-up of the Soviet Union, the market became more or less the sole mechanism for allocation of economic resources. Fukuyama (1992) even declared the "End of History". Nevertheless, a rebirth of geopolitical studies emerged in the economically and politically interdependent world of the 1990s, and beyond. Now the concept was adjusted to the international economic and political integration that had taken place, and included how political control over a territory influences power and political and economic outcomes through factors, mechanisms and institutions in the international economic and political system (Agnew and Corbridge, 1989). Modern geopolitics became concerned with the political discourse among international actors resulting from all factors that determine the political and economic importance of a country's geographic location. "Relative gains matter, but so (also) joint gains from possible cooperation" (Victor et al., 2006:5).

As part of geopolitics is geoeconomics and geostrategy. Geoeconomics describes and analyzes the distribution of resources in and between states, focusing on industrial capacity, technology scientific and administrative competence and capacity, finance and the flows of trade in space. Geopolitics is very much is a geoeconomic phenomenon and vice versa. Any state´s control of a given territory is in the end a question of "economic gain" – how to finance the costs and how to gain an optimal share of the values created or transmitted in/on that territory. Geostrategy has mostly been used as a military concept and describes plans for obtaining physical control of certain areas, or the capability to deny others to control them, irrespective of prevailing geopolitical and geoeconomic structures. Together they presuppose intentionality and are thus not natural phenomena. "States do not grow on trees" (Bingen, 2014). Hence, the energy geopolitics of any region must be understood by both the size and location of own and other natural resources, how available they are, who controls them, their cost, alternative transportation routes, how regional and global markets balance, market mechanisms and regulations, political decisions, and prices in general. Furthermore, as national and international policy-making is intertwined, the state is not anymore the only actor that shapes political outcomes. The geopolitical role of a country is influenced by the scale and scope of the dependence it represents for other actors (businesses, countries). Resources affect national policy making by acting upon domestic actors, which in turn affect the domestic political system through associations, state structure and ideology and, hence, business-to-business and business-to-government relations, and must be included in the analysis.

Energy and geopolitics have been closely linked in both old and new formulations. Countries have made and make national strategies and geostrategies to meet their energy needs, reach markets and secure national positions and interests. The securitization of energy policy have contributed to shape bilateral, European and global affairs. Historically, the industrial revolution from the mid-1700s was partly a coal and steam revolution, and an economic backdrop for the build-up of the British Empire in the 1700s and 1800s. One important goal for Nazi Germany's expansion eastwards in World War II was to gain control of oil production in Azerbaijan, albeit stopped at Stalingrad. The motivation was both to secure oil for itself, as well as to prevent the Soviets from using it in its motorized forces. The American empire from the 1900s, and especially after WWII, has been based on imported petroleum, largely from the Middle East, heavily influencing both US, Western as well as Arab foreign and security policy over decades. In some cases, for example in the Soviet era and in Saudi Arabia, oil and gas has been emphasized for geopolitical influence.

In recent decades, climate and environmental concerns and the desire for a greener economy has added to the politicization of the energy sector, and created worldwide pressures and policies for improved energy efficiency, more renewable energy, and less dependence on fossil sources. The climate debate has added to the complexity of the energy industry, not least since fossil energy, still representing as much as 87% of world energy usage (2016) is the main source of global CO2 emissions. Hence, it should be curbed, renewable energy increased, and energy savings encouraged as an alternative source of energy supply competing with all non-renewable and renewable sources. At the same time, while domestic US shale oil and gas resources are about to change American physical dependency on imported energy, and thereby the scope of the geopolitics of oil for the U.S., Europe remain largely dependent on import. Although the shale "revolution" may spread to Europe and elsewhere, and liquefied natural gas (LNG) will transport natural gas globally, new trade routes