

July 10, 2015

Turkish Stream: Ankara Trying to Balance East and West

Turkey's oil and gas policies have been directed towards the goal of strengthening its case to be an energy hub, which, in addition to commercial benefits, is believed would enhance Turkey's importance in international relations. Accordingly, since the end of the Cold War, Ankara has welcomed pipeline projects supported by the U.S. and, to a lesser extent, by the EU, as well as Moscow's rival plans intended to ensure continued European dependence on Russian gas.

The Turkish Stream (TS) project, announced by Russian President Vladimir Putin in December 2014 in Ankara and immediately welcomed by his host, Turkish President Recep Tayyip Erdogan, fits into this narrative. However, its controversial nature has raised questions over the extent to which Ankara –with its military and political alliances with the West– will be able to continue balancing between these two adversaries in the energy equation.

The unprecedented collaboration between the U.S. and Turkey on energy transportation that helped Turkey recognize its potential as a key transit country began in the 1990's and brought into being what came to be known as the Baku-Tbilisi-Ceyhan (BTC) pipeline in 2005, which takes oil from Azerbaijan to markets through Turkey. BTC, as the first manifestation of the East-West energy corridor, was projected to be followed by a parallel gas pipeline that would bring Azeri gas from the Shah Deniz field to Europe through Turkey. In 2006, 4.6 bcm of Azeri gas began to flow to Turkey through the Baku-Tbilisi-Erzurum (BTE) pipeline with the expectation that this would be the first stage of a system that would go all the way to Europe as the now defunct Nabucco project –introduced in 2002 but officially abandoned in 2013– and the current Trans-Anatolian Pipeline (TANAP) project envisaged.

Launched in November 2011 and formally inaugurated on March 17 2014, TANAP aims to provide 10 bcm of gas from Azerbaijan through Turkey to Europe, with 6 bcm for Turkish consumption by 2018, and is planned to be followed by its European portion, the Trans-Adriatic Pipeline (TAP). Both the U.S. and the EU have given their support to Turkey and Azerbaijan, initially for Nabucco and subsequently to TANAP and TAP, in the hope of reducing dependence on Russian gas. However, in part due to Russia's vociferous opposition to the East-West corridor and Ankara's increased willingness to cooperate with Moscow's energy projects, TAP remains on the drawing board.

It is relevant that, unlike the U.S., the EU only became involved in the East-West corridor once gas became part of the equation and was perceived as a way to diversify the overall supply to European markets. Indeed, because gas cannot be stored like oil, gas pipeline trajectories are important determinants of who holds competitive advantage in the market. Following the construction of the BTC that ended the monopoly of ex-Soviet oil pipelines, the U.S and the EU saw an opportunity to also reduce Russian domination of European gas markets. With this objective in mind, they succeeded in blocking Russia's plan to bring gas to Europe through the South Stream pipeline, a project launched in 2007 and abandoned in 2014, which would have gone under the Black Sea and made landfall in Bulgaria. In Istanbul on November 22 2014, U.S. Vice President Joe Biden referred to Russia's energy policy as a "weapon," and affirmed that the U.S. was still committed to a gas pipeline that would follow the same route as the BTC.

While collaboration with the U.S. and the EU to establish the East-West energy corridor was underway, however, Turkey had made a move as far back as 1997 to balance its cooperation on energy and signed an agreement with Russia to build Blue Stream, a pipeline to bring up to 16 bcm of additional Russian gas to Turkey under the Black Sea. In October 2014, the two countries agreed to increase its capacity to 19 bcm starting in 2015. Gas coming through Blue Stream augmented the 14 bcm a year that Turkey had already been receiving from Russia through an existing pipeline traversing Ukraine –the Western Line– since the 1980's. Turkey had also agreed to allow Russia to use its Exclusive Economic Zone in the Black Sea for South Stream.

Turkish cooperation on energy with Russia reached a new level with Putin's announcement in Ankara that Moscow was cancelling South Stream and replacing it with what he called "Turkish Stream." TS, he explained, would divert the 63 bcm of Russian gas originally planned for South Stream through a new link that would make landfall in Turkish Thrace and go on to the Turkish-Greek border. This has inevitably raised questions over the extent to which the Turkish market would be even more dominated by Russian gas and how much room it would allow for additional Azeri gas to Turkey as part of TANAP, let alone from other producers such as Turkmenistan and Iran or Israel and Cyprus if and when political obstacles are removed. Currently, Russian gas accounts for more than half of the approximately 50 bcm a year of Turkish gas consumption (26.6 bcm in 2013) while Azeri gas remains at only about eight percent (4.2 bcm in 2013).

Erdogan has been repeatedly reassuring Azerbaijan that TS will not affect TANAP either with respect to Turkish purchases via this pipeline or the projected volumes through its territory to Europe. During the inauguration of TANAP in March 2015 with Azerbaijan's President Ilham Aliyev and Georgia's President Giorgi Margvelashvili, Erdogan stated that "TANAP has a special importance. There is absolutely no alternative to it." Significantly, he followed this statement with a phone call to Putin, underlining not only Erdogan's commitment to cooperation with Moscow but also the close relationship the two men have developed. Putin was the only foreign leader who called Erdogan to congratulate him after the June 7 parliamentary elections even though the Justice and Development Party (AKP) failed to maintain its majority.

Plans to implement TS were discussed on January 27 during a meeting in Ankara between Turkey's Energy Minister Taner Yildiz and the Chairman of Russia's state-owned gas company Gazprom, Alexei Miller. Following their discussion, Miller noted that the two men had agreed on a route, a timeline and capacity. Ultimately Turkey would get 15.75 bcm per year, leaving 47.25 for onward transportation to Europe. In addition, Miller said that the first of four planned pipeline sections –the one exclusively meant to supply Turkey– would be operational by December 2016. On May 7, Miller reiterated the target date, which Turkey has not officially confirmed. Although Erdogan and Putin met again in Baku on June 13 on the sidelines of the European Games and presumably discussed the TS project, a few days later, according to the Russian newspaper Kommersant, Gazprom sources admitted that “there were some uncertainties over the Turkish Stream project following the talks with Turkey.”

Questions have also been raised about the feasibility of the planned TS route. If Russia was aiming for a more achievable energy investment, it would be proposing to build a pipeline parallel to Blue Stream, traversing the Black Sea through the shorter North to South route rather than going all the way across. Indeed, because building a pipeline under water is more expensive than on land, TS is economically unsound.

For Turkey, TS certainly fits into Erdogan's global foreign policy strategy and aspirations. However, because of the economic sanctions against Russia imposed by the U.S. and the EU after Russia's annexation of Crimea in March 2014 and continued backing for insurgents in eastern Ukraine, as well as Turkey's recent difficulties in its relationship with the West, TS also has geopolitical implications for the Ankara-Brussels-Washington triangular relationship. Erdogan's willingness to work with Putin at a time when the West has been seeking to isolate Russia and limit its ability to use energy as a diplomatic tool, thus giving him an additional energy card to play, has worried both Washington and Brussels. Even if TS is not built eventually, the fact that Turkey –as an aspirant EU member and long-time NATO ally– has publicly welcomed the project is a strategic optical victory for Putin.

It is legitimate to question whether Putin is using TS as a way of putting additional pressure on Kiev until it caves in. At Davos 2015, Ukraine's President Petro Poroshenko revealed that during a private meeting he had with Putin when South Stream –which also planned to bypass Ukraine– was still on the agenda, Poroshenko had asked him “this is not an economic investment, why are you doing this?” and Putin had responded, “this is an investment. Like an investment in nuclear weapons. It will become convenient one day.”

Accordingly, Miller repeatedly threatened that Gazprom's agreements with Ukraine would not be renewed after 2019, thus putting an end to Ukraine's role as a transit country and presenting TS as the only alternative available to European countries to get Russian gas. However in mid-June he admitted that Gazprom was reconsidering plans to bypass Ukraine and on June 29, Russian Prime Minister Dimitry Medvedev told him and Russian Energy Minister Alexander Novak that “despite all the difficulties in our current relations with Ukraine, we should within reason make concessions.”

On May 8, U.S. Special Envoy for International Energy Affairs Amos Hochstein said “Turkish Stream doesn’t exist,” after speaking with Greek officials in Athens and reiterated that the U.S. would “focus on what’s important –the [TAP] pipeline we already agreed to.” Jonathan Elkind, an Assistant Secretary of Energy, who has been following the East-West corridor issue in and out of government from the very beginning, had also commented on January 28 that the U.S. was worried about TS, although it was pleasantly surprised by the cancellation of South Stream. Secretary of State John Kerry had earlier stated during a visit to Sofia on January 15 –in reference to Bulgaria cancelling South Stream– that “the U.S. is prepared to help Bulgaria, which has made difficult decisions in order to try to protect its energy future” because “no country in the world should be totally dependent for its energy supply on one other country.”

On the EU side, TS triggered similar but publicly less harsh concern than the U.S., with also less of a focus on Russia’s intentions. After meeting with Russian government officials and Miller on January 14, the Vice President of the European Commission who has the energy portfolio, Maros Sefcovic said that TS made “no economic sense.” In February at Davos he added that TS “surpasses demand from potential customers, including Turkey and South Eastern Europe.” In Ankara on March 16, Sefcovic further cautioned that before any agreement was signed between Russia and Turkey, Moscow would have to get EU authorization, saying that “when we speak about some big supplies for the European customers, you cannot adopt such a decision without talking to the European Commission.”

For its part, Turkey can legitimately point to the fact that the Obama Administration, unlike its two predecessors, has not devoted a sustained level of attention to the development of the East-West corridor. It can also point to EU inconsistencies. Although the EU has pressured Turkey to cooperate on this issue, it has not opened the energy chapter in the Turkish-EU accession process. In addition, despite its condemnation of Russia, a number of EU member countries have maintained close energy relationships with Moscow at the bilateral level. In addition, TS has also received significant support from Greece, and if Greece were to leave the Eurozone and maybe even the EU itself eventually, Russia might further take advantage of Athens’ need for an economic lifeline.

While it remains to be seen whether TS will be built or will be used as a bargaining chip by Moscow as it pressures Kiev, it has nonetheless shaken up calculations relating to where the future supply of gas to Europe would come from and which route it would follow, as well as the overall development of the East-West energy corridor. However, the biggest immediate questions it raises may be those relating to the continuing Russian domination of the Turkish gas market, and Turkey’s ability to balance its military and political alliance and cooperation on the East-West energy corridor with the U.S. and the EU with its growing economic partnership with Russia.

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