Bruegel Policy Contribution

Designing a New EU-Turkey Strategic Gas Partnership

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EU-Turkey energy relations in the context of the Energy Union

EU Energy Union

Energy security

- Energy Efficiency
- Internal Market
- Diversification
  - Southern Gas Corridor
  - EU-Turkey S.E.P.

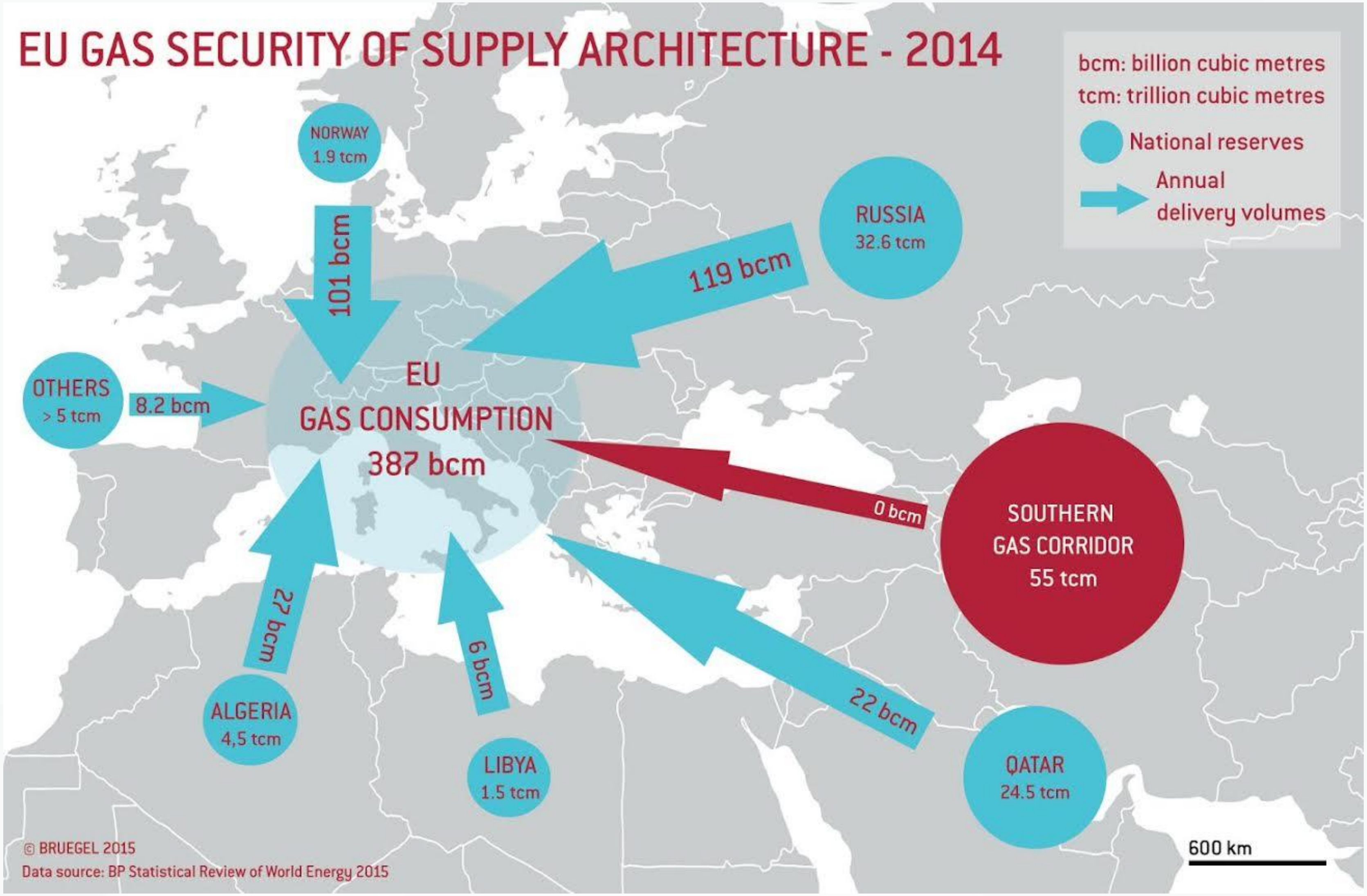
Internal Market

Energy Efficiency

Decarbonisation

Research, Innovation and Competitiveness

The SGC in the overall EU gas security of supply architecture



Source: Bruegel based on BP Statistical Review of World Energy 2015

Development of the EU-Turkey gas relations

- EU energy policy emphasis on SGC and Turkey not new
- EU focus on SGC translated into political/financial support to Nabucco
- Failure of Nabucco negatively impacted EU-Turkey gas partnership
- Current stalemate not in the strategic interests of the EU & TR as only cooperation might unlock regional potential

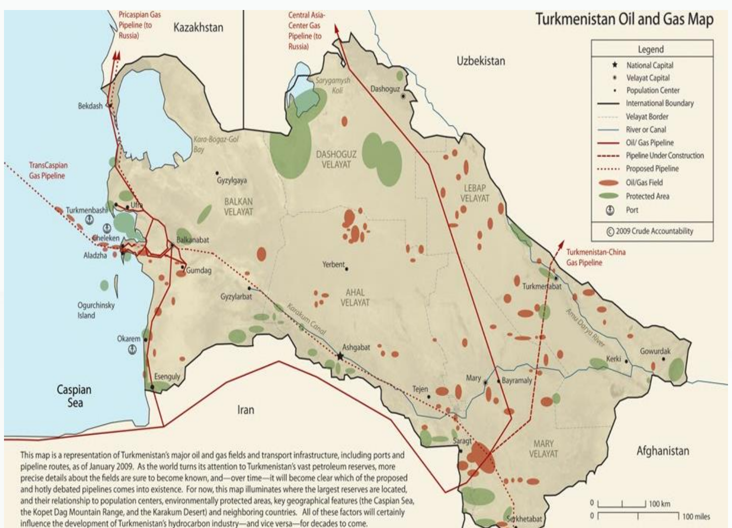
Assessment of the current state of the SGC: Azerbaijan, the front-runner of the Corridor

- 1.3 tcm of reserves. Supplier to Turkey since 2007 (7 bcm/y)
- TANAP (16 bcm/y) construction started in March 2015
- Gas sales agreements already signed for the 10 bcm to EU
- Post-2025: more gas might be available from SD & other fields

➢ EU & Turkey should strengthen current cooperation and secure future expansion (also involving Georgia)

➢ <u>Diplomatic complementarity: Turkey&Azerbaijan; EU&Georgia</u>

Assessment of the current state of the SGC Turkmenistan, just looking eastwards?



- Evolving story: 2 tcm of reserves in 2007, 18 tcm in 2014
- All EU efforts for TCP failed due to legal dispute over Caspian
- 2009: 30 bcm/y pipe to China inaugurated (65 bcm/y by 2020)

➢ May 2015: new EU diplomatic effort in the country in cooperation with Turkey, Azerbaijan and Georgia

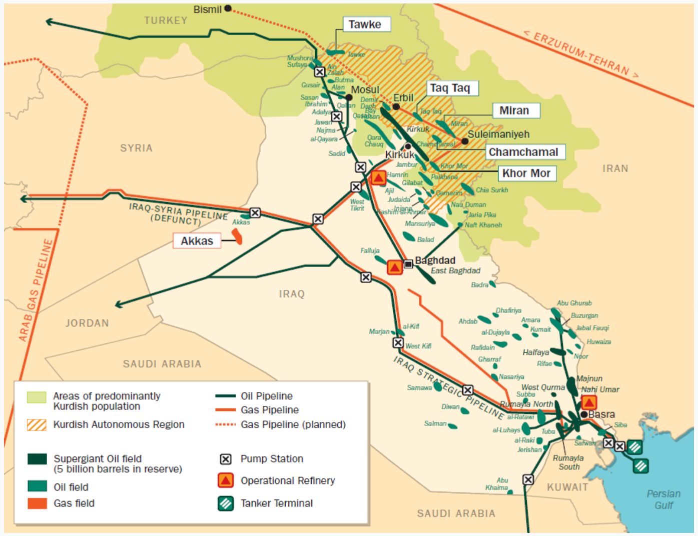
➢ Due to key leverage of Turkey, good initiative. A good practice that should be applied to other regional suppliers

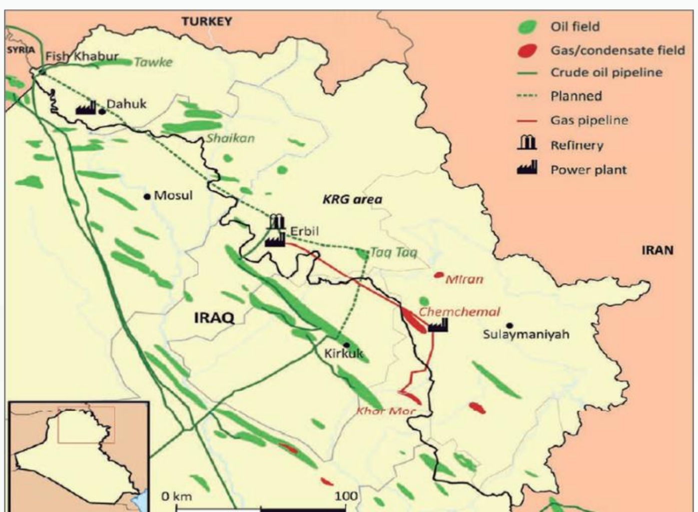
Assessment of the current state of the SGC:
Iran, the elephant in the room of international gas trade

- 34 tcm of reserves …but difficulties to face domestic demand
- Under-exploitation due to sanctions and legal framework
- 2015: game changer for sanctions and legal framework?
- EU should cooperate with Turkey vis-à-vis Iran to secure additional supplies to Turkey and first supplies to EU
- Iran's pipeline export prospects to EU will rely on Turkish-Iranian gas relations, to date difficult (under arbitration)

➢EU-Turkey-Iran platform on gas issues needed (EU diplomatic leverage)

Assessment of the current state of the SGC: Kurdistan Region of Iraq, a new player



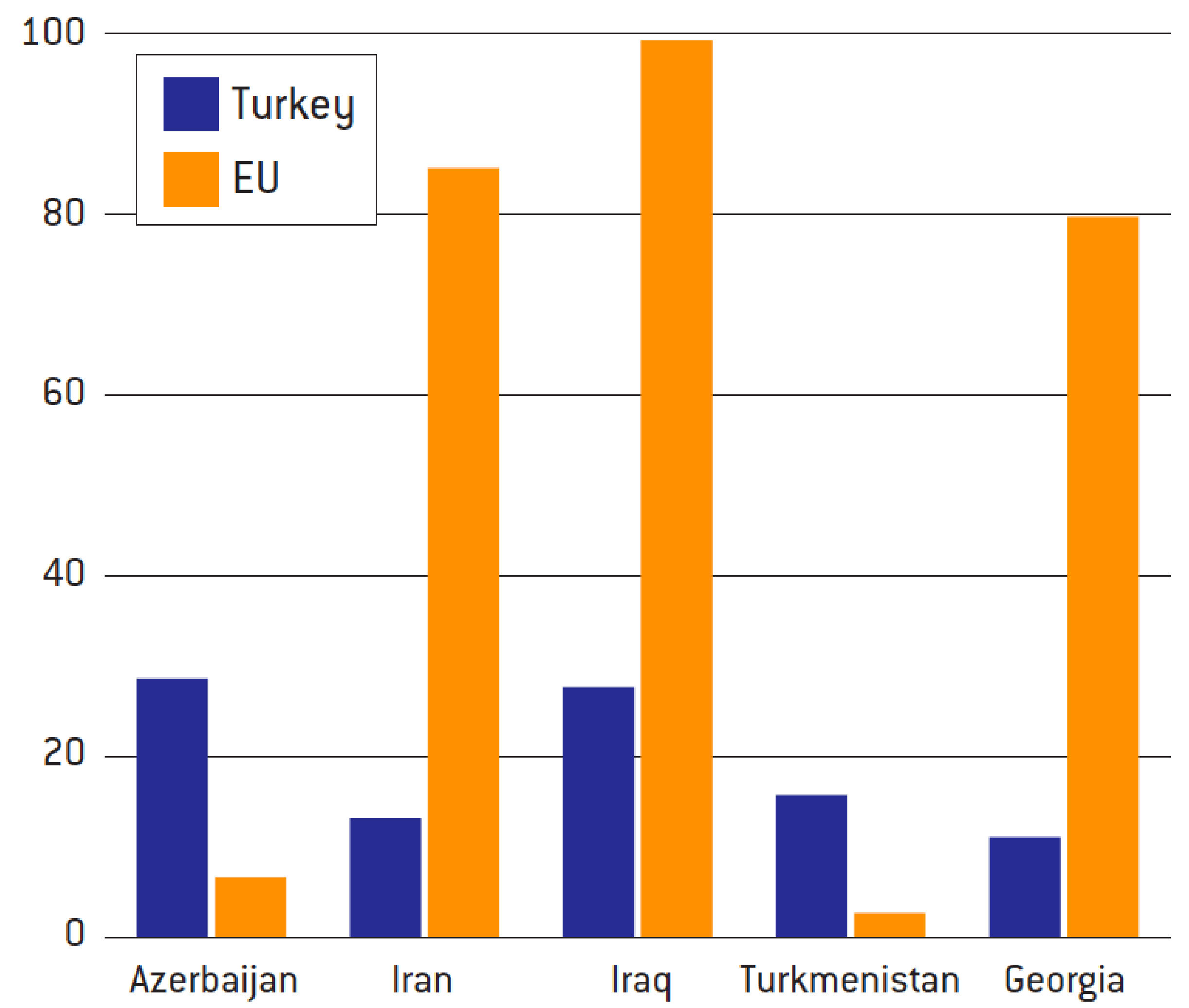


- Turkey crucial in the region, geopolitically and commercially
- 2013: KRI and Turkey signed agreement (10 bcm/y by 2020)
- Exports to EU via Turkey might materialize after 2020
- Internal barrier (dispute over revenues) resolved in 2014
- Key barrier: evolution of regional geopolitics

➢ EU-Turkey-KRI-Iraqi Federal Govn. dialogue needed to secure future exports <u>(Turkey’s leverage in Erbil; EU’s in Baghdad)</u>

The EU&Turkey have complementary political leverages in the region

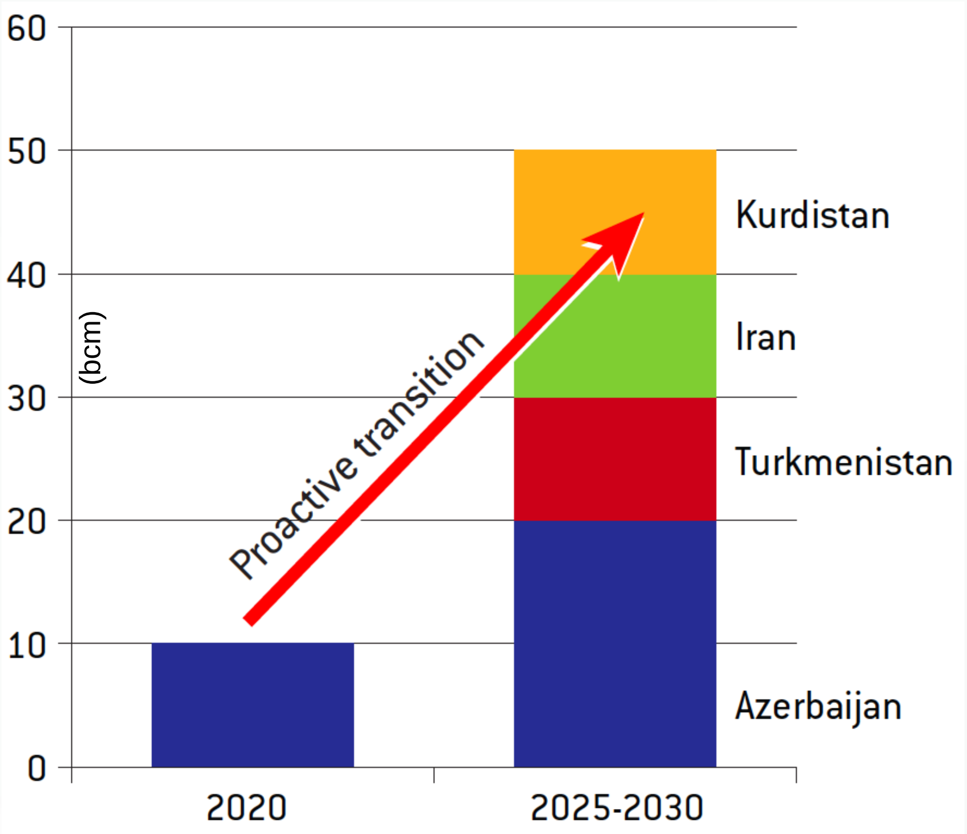
Bilateral Official Development Assistance (2013), $ millions, current prices



Source: Bruegel based on OECD

The future export potential of the SGC: a potential scenario

- Regional gas dynamics highly complex -> significant uncertainties
- Average scenario: each supplier to contribute by 2025-30 10 bcm (equivalent to Azerbaijan's initial volumes)
- Purpose: Tested cooperation on limited gas volumes to lay the foundations for the expansion of the SGC in the medium-term if needed (optionality)



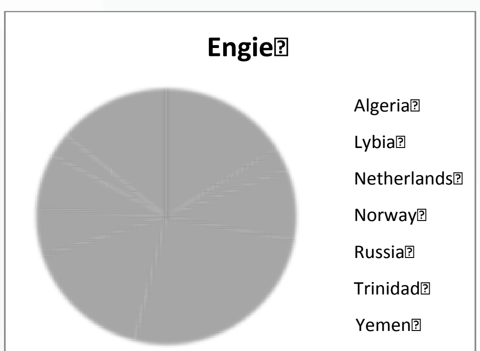
Key elements of a “Proactive transition”

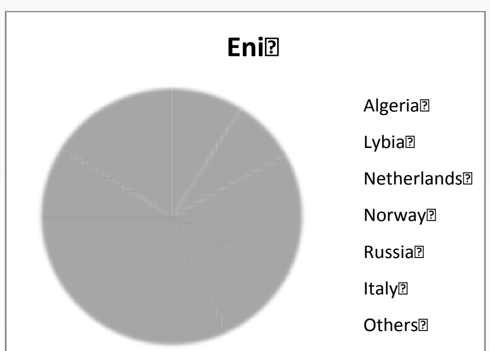
- Establish dedicated EU-Turkey energy diplomacy task-forces to exploit complementary political leverages in the region

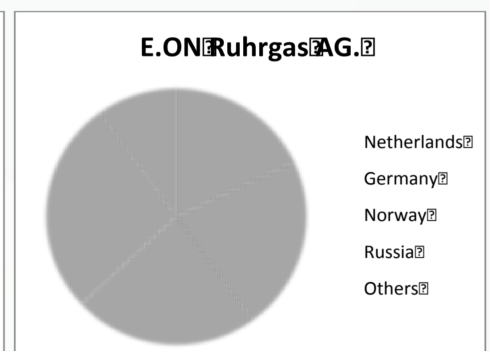
- Elaborate a new financing scheme for infrastructure development
  - upgrade Turkish grid
  - expand TANAP
  - EIB might provide a tool-set to attract private and institutional investors

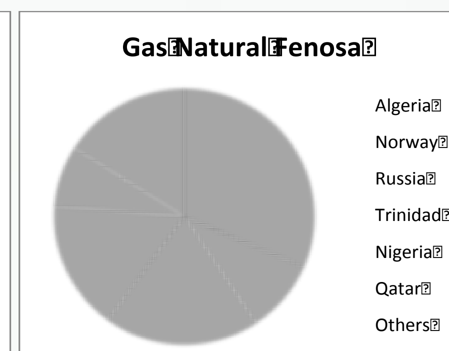
The cost issue: the price of energy security

- SGC supplies likely to be more costly than Russian (via current infrastructure)
- Price of energy security: EU should be ready to pay to ensure its stability in case of supply disruption from a major supplier
- Macro & micro levels
- Gas companies willing to pay premiums to have well-diversified portfolio





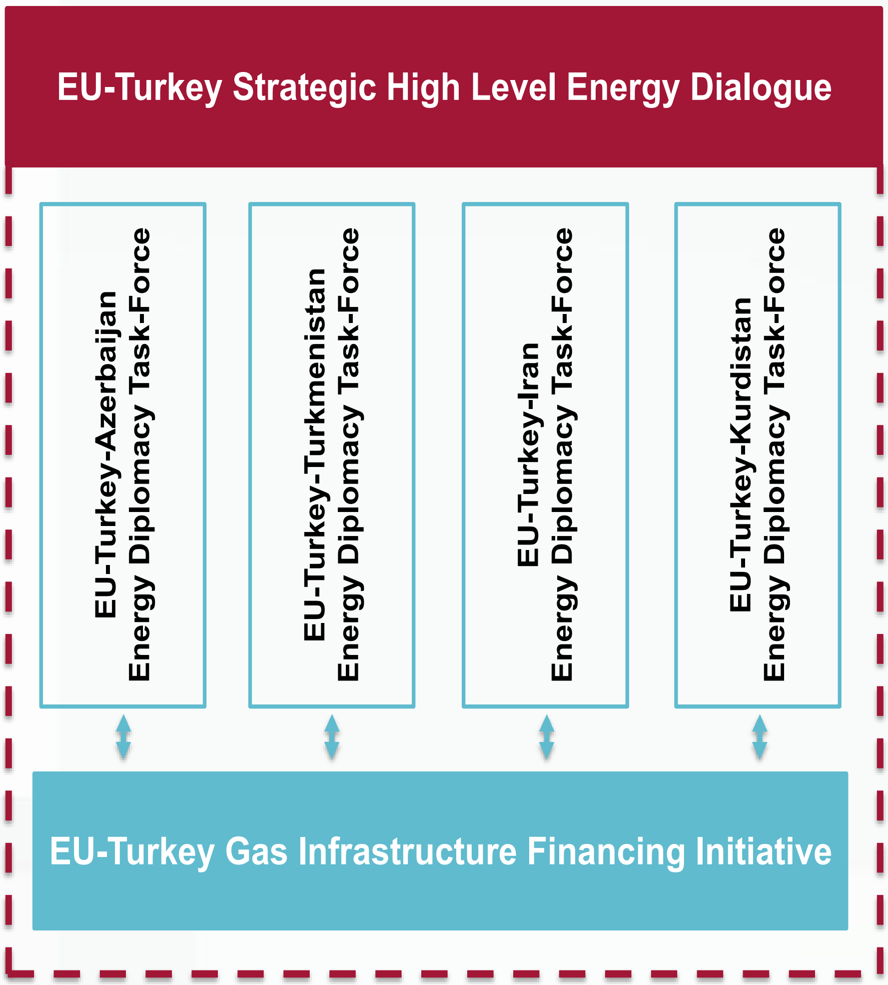




Turkish Stream: what impact on the EU-Turkey gas relations?

- 63 bcm/y project launched in Dec 2014 to replace South Stream
- First string to by-pass Ukraine in supplies to Turkey by 2016
- Successive strings to entirely bypass Ukraine (will depend on ability of Gazprom to renegotiate contracts and development of new infrastructure)
- EU assumes a negative stance toward the project
- Turkish Stream: a project eventually financed / constructed / operated by Russia
- Turkey: junior partner. Project more about EU-Russia relations than EU-Turkey
- Should not preclude EU-Turkey cooperation on SGC

A new EU-Turkey strategic gas partnership



- SGC to remain the cornerstone of the EU-Turkey strategic gas partnership
- This will not only be just about gas but also (re)building of mutual trust and (geo)political cooperation

Thank you!