

Northern Iraq Eclipses the Eastern Mediterranean in Turkey's Energy Diversity Plan

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One word encapsulates Turkey's core energy strategy: diversity. To meet the demands of a rapidly expanding economy and a growing population, Ankara needs not only to build out its energy imports, but also to diversify the sources of those imports.

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At present Turkey is uncomfortably reliant on Russia, Iran, and Iraq, all of which have agendas on the Syrian conflict and other issues that are at variance with Ankara's views. Up to the middle of 2012 (when sanctions were imposed on Tehran), Iran was Turkey's

main oil supplier (51 per cent of the total), followed by Iraq (17 per cent). Since then, imports from Iran have fallen sharply, while those from Iraq have risen accordingly, leaving these two countries accounting for more than half of Turkey's oil requirements. Russia remains the chief provider of natural gas (57 per cent), followed by Iran (18 per cent).

While Turkey will target the expansion of current domestic energy sources – such as coal – and the development of new ones – like shale gas and nuclear power – it will still need to increase imports of oil and gas to meet the rise in domestic demand. Enjoying a long Mediterranean coastline, Turkey might seem best-placed to benefit from the arrival of offshore gas in the Eastern Mediterranean. However, the tangle of geopolitical disputes in that region means that a windfall from this direction is unlikely in the near future. The controversy over the divided island

of Cyprus, in particular, shows no signs of being resolved, thus eliminating the simplest and cheapest way of taking Eastern Mediterranean gas via pipeline to Turkey and onwards to Europe. Improving relations between Turkey and Israel are giving greater credibility to talk of a subsea pipeline connection under the Mediterranean. But a number of diplomatic and technical hurdles need to be crossed before this project can proceed.

Over the coming five years, Turkey will seek to increase natural gas imports from Russia, and widen its search for new suppliers of LNG, to meet the expected growth in domestic demand. In 2018, the Trans Anatolian Natural Gas Pipeline Project (TANAP) will deliver 16 bcm of Azerbaijani gas to Turkey; 6 bcm of this will be consumed domestically, with the remainder being destined for Europe. Looking further ahead, Turkey is hoping that natural gas from Turkmenistan can be fed into the

TANAP venture. In June 2013 Turkey and Turkmenistan signed a cooperation framework agreement on Turkmen gas supplies.

Economic/Political Ties with Irbil

But for now, with Eastern Mediterranean gas being off limits, Ankara's sights are set on another region much closer to home as a new and expanding source of oil and natural gas: northern Iraq. A strategic decision was taken by the Turkish government in 2008 to develop economic and political relations with Irbil, with a view to the area of Iraq governed by the Kurdish Regional government (KRG) providing an increasing share of Turkey's energy requirements. Senior energy officials in Ankara believe that Turkish firms failed to exploit energy openings in Azerbaijan and Kazakhstan and were determined not to make the same mistake in northern Iraq, when the potential there became clear. Today, some 1,200 Turkish companies of all kinds are operating in northern Iraq.

Turkey decided to focus on this region for the simple reason that it offers the nearest and cheapest source of oil and gas and has significant sub-surface resources: the KRG aims to produce 1mn b/d of oil by the end of 2015 and 2mn b/d by 2020. At present, Turkey is importing 60,000 b/d by truck.

There is, of course, a tricky and sensitive political dimension to Ankara's focus on the KRG region. The Baghdad government deems the export of oil from northern Iraq to Turkey in the absence of supervision by the state marketing firm, SOMO, as illegal and unconstitutional. This is one of several issues that have led to strained relations between Ankara and Baghdad.

For its part, the Turkish government is keenly aware of the sensibilities, but insists that it is proceeding in a legal and ethical way, and without any desire to become a party to the disputes between Irbil and Baghdad over oil and territorial claims. How successful Turkey has been in persuading Baghdad of its case could become clear in 2014 after the completion of a pipeline from Khurmala Dome in the KRG region to Fishkabur near the Turkey–Iraq border. From here,

there are plans for a new pipeline to carry KRG-produced oil across Turkey to the Dörtyol Oil Terminal, east of Ceyhan, for onward shipping to Turkish refiners or other buyers.

Pipeline Awaits Political Decision

The option exists to inject KRG crude into the Ceyhan pipeline, but the KRG authorities are only prepared to take this step if all the operating costs of the international oil companies (IOCs) involved are met by Baghdad – which is the subject of an ongoing dispute between Irbil and Baghdad. Also, capacity constraints at Ceyhan terminal mean that a new Dörtyol pipeline is the preferred long-term plan for KRG crude. No decision has been made yet on this pipeline, but government officials are confident that construction will start within 12 months. The KRG and the IOCs operating in the region are awaiting word from Turkey's Energy Market Regulatory Authority (EMRA) on whether work can start on a new direct export pipeline.

The decision will be a political one which the Turkish government will take when it feels it has presented the best possible case to Baghdad, explaining why it feels justified in proceeding with the deal. The following are key elements in Turkey's justification:

- The application for the licence for the export pipeline has been made by a private Turkish firm. So this is not a Turkish government venture – which might have implied recognition of the KRG region as an independent country. Turkey also has effective control of the line.
- IOCs operating in the KRG region would become partners in the pipeline, which would be built on a Build-Operate-Own (BOO) basis.
- The revenue from the oil would be split according to the Iraqi Constitution, with 83 per cent going to Baghdad and 17 per cent to Irbil, after deduction of the IOCs' production costs. Therefore the central Iraqi government stands to benefit from the proposed scheme.

Despite the political sensitivities and the delays that might arise (a final decision is unlikely before the 2014 Iraqi parliamentary elections), one can expect KRG-produced oil to be flowing into Turkey by end-2014 or early 2015. If the new pipeline project receives a green light, construction will take six months.

Turkey has further underlined its commitment to energy ties with the KRG through the acquisition by a state company of six blocks in the region. Two (Jabal Kand and Pulkhan) straddle areas disputed by both Irbil and Baghdad. When asked if this was not a sign of Turkey taking the KRG's side in the territorial dispute, senior government officials were clear that the border issue was an internal Iraqi matter, and until they resolved it, Ankara saw no harm in exploring for oil and gas in those areas.

Domestic Diversification

Even as Turkey's diplomats concentrate on finessing the proposed KRG pipeline project, its energy officials are seeing what further potential lies inside the country itself to help meet rising fuel demand. To help cope with an annual rise of 7–8 per cent in electricity demand, more and more coal/lignite is being mined and burned, with the intention that this will account for 30 per cent of power generation by 2023. At the same time a Russian firm is to construct a 4,800 MW nuclear power plant at Akkuyu, near Mersin on the Mediterranean coast on a BOO basis, with commissioning scheduled to begin in 2020 – although critics say this will only increase Turkey's reliance on Russia as an energy partner. A second nuclear plant is planned for Sinop on the Black Sea, with a third option being studied.

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Potentially the brightest light on Turkey's domestic energy horizon is shale gas. Energy Minister Taner Yildiz said in 2013 that 'there is huge potential of shale gas reserves', especially close to

the Central Anatolian cities of Ankara, Konya, and Nevşehir, and in the Thrace Basin in the west of the country. Shell and Turkish Petroleum Corporation

(TPAO) began exploration work close to Diyarbakir in the east towards the end of 2012. By the point at which shale gas becomes a key player on Turkey's energy

stage, it is hoped in Ankara that the political problems blocking the country's access to the Eastern Mediterranean gas bonanza will have been cleared. ■