

End of an energy honeymoon: what's next for Russia-Turkey energy relations?

Marco Giuli

Back in the autumn of 2014, the deal between Russia and Turkey on the Turkish Stream pipeline was expected to start a period of close energy cooperation between the two countries, potentially able to change the energy game in the region and consolidate political relations in a long-term perspective.

One year later, after announcing the project's size would be reduced by half, Moscow suspended the negotiations in retaliation to the downing of a Russian fighter jet by the Turkish Air Force at the border between Turkey and Syria. This seems to complement growing doubts about Turkish Stream, which already started as a result of Russia's military involvement in Syria. From an EU perspective, recent developments raise doubts about Turkey's role in the Union's energy strategy.

The Turkish Stream deal seemed advantageous to both Russia and Turkey. From the Russian point of view, it fulfilled the twofold Russian interest to circumvent the Ukrainian route for its gas transit to Europe, and to recover the costs already borne for its defunct predecessor South Stream. Also, in its original configuration – 14 bcm for the Turkish market and 49 bcm for the EU market – the Turkish Stream would have expanded the Russian export capacity to Turkey, which is currently limited to 36 bcm, 27.3 bcm of which has been used in 2014. Such an increase of export capacity is part of the Russian efforts to find outlets for an excess output capacity amounting to about 100 bcm.

For Turkey, the project could have contributed to its ambition to become an energy hub for Europe. It could have also helped to lower prices by 'exploiting' the fact that Moscow needs to expand capacity and is eager to break political isolation following the Ukrainian crisis. Lower prices sounded appealing to the Turkish gas-thirsty economy, whose consumption is set to expand by about 22 bcm in the next 10 years, according to Turkish estimates.

Pricing issues dominated the talks since the very beginning, but the Russian military intervention in Syria turned the commercial quarrelling around Turkish Stream into a sensitive political issue between Moscow and Ankara. Under these circumstances, it seems extremely unlikely that Turkey will opt to increase its gas dependence on Russia (already at 55%). Even before the plane incident, President Erdoğan had announced that Turkey could get natural gas from "different producers" and look somewhere else for the construction of the Akkuyu nuclear power plant commissioned to Russia's Rosatom.

Given the dismal state of political relations, the question now seems to go beyond the destiny of Turkish Stream as it involves the overall future of energy cooperation between Russia and Turkey, with consequences for the EU as well.

By halting Turkish Stream, Russia will pay a price as Moscow will not recover the costs for South Stream and will remain more dependent on the Ukrainian route. Anticipating a negative outcome for Turkish Stream, Gazprom executive Aleksandr Medvedev conceded that "some countries" will continue to be supplied through Ukraine after 2019, contrary to what has been maintained in recent months. However, walking away from Turkish Stream would for Russia be less onerous and more realistic than halting supplies to Turkey and breaking current contracts. Given that

negotiations started slowing down long ago, Russia might have found a save-face solution to exit a project already doomed to fail.

Turkey is not likely to reduce its gas dependence on Russia, but stopping Turkish Stream would at least prevent its increase. However, it is unclear where Turkey will find additional gas resources to cover increasing demands. Assuming a full use of Turkey's regasification capacity – now at 50% – and bringing in an additional 6.9 bcm, Turkey might need an additional 10 bcm by 2023. Such a demand could be partly covered by the development of gas supply from northern Iraq, which should amount to 4 bcm by 2017 and 10 bcm by 2020. However, considering that the parties acknowledged that delays are likely and the political framework of northern Iraq is all but stable, Turkey might end up relying on additional uncontracted Azeri gas to cope with its peak demand (and probably even for part of baseload demand).

The demise of Turkish Stream, along with the uncertain future of Russia-Turkey energy relations, also has an impact on the EU. In principle, the cancellation of Turkish Stream is good news from an EU perspective. Russia would remain partly dependent on transit through Ukraine, as advocated by the EU Commission. And still in principle, reduced Russian competition could make prices in Turkey more attractive for other regional producers in case the political climate stabilises. However, suffering a chronic lack of peak flexibility due to limited storage and LNG capacity combined with growing demand gives Turkey a serious problem of supply security, which has led to surging imports from Russia during several transit disruptions from other sources. These disruptions have been increasingly frequent as a result of the confrontation between the Turkish army and Kurdish formations linked to the PKK in the eastern part of Turkey. Transit infrastructures for hydrocarbons have been targeted, leading to curtailments in the Baku-Tbilisi-Erzurum gas line and the Tabriz-Ankara pipeline. It is therefore evident that the energy security situation in Turkey is going from bad to worse, making the country less and less reliable as a potential linchpin for the diversification of EU supplies. For instance, increasing Turkish demand for Azeri gas, combined with Turkey's persistent peak exposure, might also turn Turkey-EU energy relations from cooperative to confrontational for access to these resources.

If the EU intends to include Turkey as part of the solution to its energy concerns, it should first help Turkey become more resilient to energy shocks and less dependent on dangerous routes or unfriendly neighbours to cope with its peak demand. A better political climate and Turkish membership of the Energy Community are essential to this aim. Otherwise, the potential Turkish transit role could have more costs than benefits for the EU.

Marco Giuli is Policy Analyst in the Energy Programme at the European Policy Centre (EPC)