

## **Fahri Türk: Natural Gas as a Foreign Policy Weapon: The Turkish-Iranian Gas Crisis of January 2007**

The discovery that natural gas can be instrumentalised in international politics was made a while ago, one example being the Turkish-Iranian gas crisis of January 2007 when, in breach of contract, Iran stopped its gas deliveries so that Turkey had to realise that it needed to tap other sources next to natural gas to secure its own power generation. And not only Turkey but Europe as a whole need to diversify their sources of gas supply. In view of the Turkish-Iranian crisis of January 2007, an analysis of Turkey's gas policy makes sense, paying special attention to the sectoral division of natural-gas consumption.

In the natural-gas agreement concluded between Iran and Turkey in August 1996 and scheduled to run for 25 years, Tehran undertook to supply ten billion m<sup>3</sup> of natural gas to Ankara per year. In case of delivery failures or delays, Turkey may cancel the contract, and in the case of a complete delivery stop, Turkey's gas transport company, the BOTAŞ, is even entitled to claim damages.

Iran gradually reduced its supply to four million m<sup>3</sup> in December 2006. By way of reason, Iran's oil minister pointed at the cold in his country and the need to supply its industry first. This explanation did not go down too well in Turkey, especially as the supply had already been interrupted before, in the summer of 2006. A social democratic politician of Turkey's opposition even speculated that the delivery stop was a hidden threat by Iran against its contract partner and should therefore be interpreted politically. From January 2007 onwards, BOTAŞ temporarily met its energy needs by buying 150 million m<sup>3</sup> of liquefied natural gas (LNG) from Malaysia and Trinidad and Tobago, which is c. 30 US\$ more expensive than normal natural gas. When Iranian supplies were cut off completely, the volume of natural gas imported from Russia was increased.

The situation resulting from Iran's delivery stop was by no means an easy one for Turkey, as 45 percent of its total electric-power requirements are normally met by natural gas. Turkish power-generation companies had to cease production, so that the country's entire industry was threatened by paralysis. To avoid a power shortage by 2009 Ankara must react soon. To meet the power demand, private Turkish companies have started building six hydroelectric power stations in different regions of the country. Given the most recent dispute with Iran, it is inevitable that Turkey should concentrate on renewable energies. Next to building power stations, a wind map is currently being developed, and the department of energy has already issued licences for the construction of 39 plants for wind energy generation. In this context, the fact that the German environment minister and his Turkish counterpart met to talk about a strategic partnership to upgrade the use of renewable energies (wind, thermal, biomass, and solar energy) holds out some hope for a long-lasting bilateral cooperation. To reduce the country's natural-gas demand, which seems to be the only sensible solution to the problem, Turkey will have to invest a total of 128 billion US\$ in the energy sector until 2020, of which 100 billion US\$ will go to power generation alone.

Turkey also concluded a natural-gas agreement with Azerbaijan. The contract signed in March 2001 provides for the oil company of the partner country (SOCAR) to supply Turkey with three billion m<sup>3</sup> of natural gas in 2007, five billion in 2008, and 6.6 billion m<sup>3</sup> per year from 2009 onwards. Moreover, Turcas Petrol and SOCAR signed a contract providing for the construction of a refinery in Ceyhan as well as for natural-gas deliveries from the Shah Deniz region. However, the fields of Shah Deniz can only meet a Turkish- Azerbaijani natural-gas demand of up to eight billion m<sup>3</sup>.

Furthermore, Ankara and Athens concluded an agreement on the sale of cheap Azerbaijani gas to Greece, which is scheduled to run for 15 years. The maximum price per 1000m<sup>3</sup> was fixed at 149 USD.

When Moscow more than doubled the sales price of natural gas from Baku, Azerbaijan proposed postponing the Shah Deniz project by two years. However, Ankara vehemently rejected this suggestion as it intended to use the project to reduce its own dependence on Russia. When SOCAR submitted a modified proposal to Turkey which provided for dividing the supply volume between Turkey and Georgia, BOTAŞ broke off negotiations.

Another current project is the Nabucco pipeline which is based on an agreement concluded between Turkey and Greece in March 2002. It is to enable Turkey to export Iranian, Azerbaijani and later even Turkmen natural gas to Europe, with a line connecting Ankara and Greece extending the Tabriz-Ankara pipeline. Moreover, the Baku-Tbilisi-Erzurum gas pipeline (BTE) is to connect the fields of Shah Deniz with the gas grids of the European countries. Furthermore, there are plans to establish a connection between the Greek and the Italian grid, and to extend the BTE to Austria, Italy, and Germany within the framework of the Nabucco project. As the EU is also interested in the project, work will begin soon, to be finished by 2010. Russia's response is to extend the Blue Stream Pipeline to Hungary – a five-billion project to be completed in five years.

On the one hand, Turkey's leadership is endeavouring to diversify its foreign sources of gas supply; on the other, it intends to extract natural gas from its own deposits. This is why, with the assistance of the USA, Turkey is currently drilling for gas in Akçakoca in the west; another field is Koyustu-1 situated close to Edirne. However, the country's own resources currently cover less than one percent of its total energy demand.

In the period from 2001 to 2006 alone, Turkey imported 84.2 billion m<sup>3</sup> of natural gas from Russia, i.e. 64.1 percent of the country's total gas imports. Within the same period, 17.1 percent came from Algeria and 13.3 percent from Iran. Until November 2006, Turkey obtained 22.5 billion m<sup>3</sup> of natural gas from Russia and Iran, i.e. 82.7 percent of its total gas imports. This being so, Turkey greatly depends on the two countries. The situation is now even more precarious as Ayatollah Ali Hamaney, Iran's religious leader, recently proposed forming a gas cartel to control the global natural-gas market to Igor Ivanov, the secretary of the Russian Security Council. Given the fact that the two countries hold more than half of the world's natural-gas reserves, it is obvious that realising this plan would have negative consequences not only for Turkey but also for Europe.

According to the representative of the Research Institute for National Security Strategies in Ankara, Iran uses its natural gas as a political tool to keep Turkey from expanding its influence in the Caucasus. Neither Iran nor Russia views Turkey's engagement in the Shah Deniz project favourably. In addition, Moscow is vexed about Turkey's concessions to Georgia in the natural-gas question, while Iran is annoyed by Turkey's policy vis-à-vis the USA.

All in all, Turkey is facing new tasks in securing its energy logistics. In this context, the sectoral division of Turkey's natural-gas consumption is particularly hazardous, especially as the decision taken by the energy department in Ankara to invest in alternative energy sources came relatively late in the day.

The extraction of natural gas is at an early stage in Turkey, and it is by no means certain that the Shah Deniz project will be realised in the near future. To reduce its dependence on foreign

natural-gas supplies, Ankara is forced to engage in renewable energies. However, this also means that there is no way around drastically reducing the share of natural gas in Turkey's power generation.