Turkey as Regional Energy Hub: Turkish Stream and Other Projects
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By its geography and geopolitical affiliations Turkey is destined to play a key role in energy transportation projects that are being developed in the region. Political leaders of the country declared many times that Turkey is to become an energy hub and it has all the chances to do so. Since 2002 Turkish Government has proved once and again its ability to deliver what is best for the national economy. And it is important not to make a mistake in those crucial times when international law and order had been brutally violated by unlawful, covert and aggressive actions of Russian Federation in Ukraine.

It is Mr.Putin's visit to Ankara on December 1, 2014 that stirred a lot of discussions about energy future of the Black Sea region and the rest of Europe. First, his announcement that "the South Stream is dead" brought a joy to everybody who had been relentlessly trying to explain from the very beginning that this project had no commercial value or economic justification and its solely purpose was to impose political pressure on Ukraine and Europe. Then announcement came about another project-grandioso – this time dubbed as Turkish Stream – across the Black Sea to Turkey bringing 14 bcm to the internal market and 50 bcm to the Turkish-Greek border "to be distributed across Europe". Some Russian "experts" even announced this to be a "project of the century". The catch is that gas stays Russian until it reaches the EU border, then mystical "European companies" will build pipelines to distribute it throughout Europe. Let us consider those two developments in more details.

Termination of the South Stream

Its story began in 2007. Since then Gazprom has spent 4,66 bln USD on promoting the project and exercising some construction activities solely on the Russian territory. Dozens of intergovernmental agreements were signed, permissions received, companies registered, commercial contracts concluded, pipes ordered and even a ship to build an underwater passage chartered. On December 7, 2012 an impressive ceremony took place in Anapa where Mr. Putin personally announced the commencement of the construction. But as it turned out nothing happened since then except exercising of political pressure on a number of the European states. Now Russia has accused Bulgaria and European Commission of blocking the project just because the EU had insisted on implementation of the proper EU regulations on its territory (Third Energy Package). Less known remains the fact that Russia has never officially asked the European Commission to withdraw the South Stream from the Third Energy Package. Gazprom had no intention to build the South Stream from the very beginning. It was a part of the plan to pressure Ukraine to give up control over its gas transportation system to Russia. Ukraine was very close to undertake such decision under former president Yanukovich but Revolution of Dignity brushed it away. Now it is being reported that decision of Mr.Putin to terminate the South Stream came as a complete surprise for his partners. Gazprom had to agree to buy its European partners BASF/Wintershall, EDF and Eni out of the scrapped project. The purchase price reimburses the companies for the cash they have invested into the project. As well, BASF abandoned a gas assets swap deal with Gazprom planned earlier for 2014. Governments of Bulgaria, Croatia, Serbia and Hungary had to cope with this unexpected move since substantial political capital was invested into the project as well. It is not a surprise that Hungary, Serbia

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and Croatia are among top five countries in Europe that buy the cheapest natural gas in the first half of 2014 respectively. Atop of them only Romania (for its own gas) and Turkey.

Turkish Stream

According to recent statistics last year Turkey imported 46 bcm of gas. Approximately 70% of this amount comes from Russia. From every point of view that means a clear over-dependence on one supplier. Therefore it is quite understandable that Turkey needs good relations with Russia. And yet no wander that those relations have never been simple. In 2011 Turkey refused to prolong a 25-year gas agreement with Russia. Thus, amount of gas to be delivered by Western pipeline (through territory of Ukraine, Romania and Bulgaria) decreased. High gas prices, wrong formula to adjust the price, take-or-pay conditions and problems with peak deliveries were sited among the reasons. Since Turkish economy develops relatively well even during the crisis, and it needs more energy. Therefore a decision to increase supply of gas to Turkey came at no surprise. What constitutes a surprise – is that this increase would have to come from Russia and through the Blue Stream. This pipeline built in 2002 is well known in Turkey for its highly expensive gas and corruption scandal surrounding this project prior to AKP coming to power in 2002. Blue Stream had never been utilized to full capacity even in its most successful year of 2012. Only 14,7 bcm were delivered to Turkey out of 16 bcm possible. In 2013 it was 13,7 bcm and now 19 bcm agreement is sited in parallel with ridiculous 6% discount in gas prices. Only now, as Turkey need more energy, it is working on full capacity. But the biggest surprise came as Mr.Putin had announced a new idea – to redirect the South Stream to Turkey. Some experts were quick to report that this Turkish Stream pipeline will finally transform Turkey into European energy hub. But more detailed consideration shows that it will probably not since this project is not going to become a reality in its fullmscale. There are many reasons for that. Let me touch upon some of them.

First. Estimate shows that pipeline construction may cost 10 to 13 billion Euros. Gazprom is in dare straits now and nobody will finance this highly controversial project among international lenders. Russia has neither technologies nor pipes to construct underwater pipeline in the Black Sea and it is a big question whether any Western company will enter into this game in time of sanctions.

Second. If we even suggest that the pipeline is in place, the announced 50 bcm (or even 14 bcm of the second line provisioned by the intergovernmental agreement signed)) delivered to Turkey-Greece border needs huge storages, since right now there are neither pipelines nor enough consumers in the region to take over or consume all that gas. Storages are a very interesting issue itself. The European Gas Hub in Baumgarten has total storage capacity in five countries of 18 bcm. In Germany total storage capacity is 21 bcm. Total consumption in all the Central Europe is not more than 30 bcm per year and new LNG projects in the Baltic Sea will soon bring additional 7-10 bcm of gas on the market. Construction of storage for 1 bcm of gas bears cost of 400 million to 1 billion USD depending on technical conditions. Who is going to finance that?

Third. Greece is the same EU member as Bulgaria. Any project on its territory has to be in line with the energy policy of the EU. The European Commission stated many times that South Stream is not among its priorities. There are no reasons to believe that Turkish Stream will do any better. Europe needs diversification of gas supply and TANAP-TAP project is exactly what brings alternative gas there. Aggressive Russia's foreign policy and politically motivated prices are well placed among the issues Europe would like to avoid.

Forth. Commercial logic suggests that prior to any step toward the construction of the Turkish Stream maximum amount of gas has to be contracted, as in case of TANAP. As well, thousands of kilometers of pipelines have to be ready as a delivery and distribution network. Otherwise no investment decision is possible. It is hard to see how that can become a reality.

Turkey as Energy Hub

Russian proposal has nothing to do with transformation of Turkey into energy hub. Being placed in between Caspian basin, Iraq, Iran and Mediterranean it is hard not to become an energy hub. It is a vital for Turkey to ensure that prospective energy routs for gas delivery to Europe are going through its territory. Recently a comprehensive North-South energy corridor proposal is presented by the EU. It completes transformation of the European energy infrastructure from a fragile system that could be easily affected by Russia into a stable network of gas suppliers, interconnectors and storage facilities. Turkey is included into this project as well as Ukraine. Accumulating energy resources from Central Asia and the Middle East will make Turkish dream come true. Today we witness as half of the TANAP is finished. That is a reality.

On the contrary, the Russian proposal is a pipe dream. Does not matter how sweet it looks, it will not allow Turkey to become an energy hub. Even mere discussion about the possibility of 14 bcm of gas coming to border with Greece may confuse politicians in many European capitals and delay construction of TANAP, new LNG terminals in Greece and Croatia, interconnectors with Bulgaria, possible deal with Cyprus, normalization around Iran and Iraq. The only question remains: whom Russia is going to blame next time, in a couple of years, prior to announcement that “Turkish Stream is dead”?

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