TURKEY'S ENERGY POLICIES AND THE EURASIAN REGION

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ABSTRACT

TURKEY'S ENERGY POLICIES AND THE EURASIAN REGION

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This thesis analyses Turkey's energy policies and Turkey's foreign relations through the energy issues in the Eurasian region. In the first phase, the energy policies implemented by the state and free market orientation in Turkish energy sector will be discussed. The impacts of neo-liberal economic policies, regional organizations (the European Union and OECD), and global finance institutions (International Monetary Fund – the IMF and the World Bank – WB) on Turkish energy sub-sectors, particularly since the beginning of the 1980s, will be examined. In the second phase, Turkey's own autonomy and effectiveness within major energy pipeline projects in the Eurasian energy axis will be questioned in the post-Cold War period. Turkey's relations in the energy issues with the European Union, Middle East, Caucasus and Turkic States, Russia and the United States (US) will be discussed. Basic vulnerabilities in Turkish energy sector and possible acquisitions of Turkey through its international energy deals will be emphasized.

Key Words: Energy Policy, The Eurasian Region, Energy Security, Energy Pipelines, Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline Project (BTC).

ÖZ

TÜRKİYE'NİN ENERJİ POLİTİKALARI VE AVRASYA BÖLGESİ

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Bu çalışma Türkiye'nin enerji politikalarını ve Türkiye'nin Avrasya bölgesinde enerji bağlamında dış ilişkilerini incelemiştir. Çalışmanın ilk bölümünde devlet tarafından yürütülen enerji politikaları ve Türk enerji sektöründeki serbest piyasa oluşumu tartışılmıştır. Özellikle 1980'lerin başından itibaren, neo-liberal ekonomi politikalarının, bölgesel örgütlerin (Avrupa Birliği, OECD) ve küresel finans kuruluşlarının (Uluslararası Para Fonu -IMF ve Dünya Bankası - WB) Türk enerji alt sektörleri üzerindeki etkileri incelenmiştir. Çalışmanın ikinci bölümünde, Soğuk Savaş sonrası dönemde, Türkiye'nin Avrasya enerji eksenindeki önemli enerji boru hattı projelerindeki özerklik ve etkinliği sorgulanmıştır. Türkiye'nin, Avrupa Birliği (AB), Ortadoğu, Kafkasya ve Türk Cumhuriyetleri, Rusya ve Amerika Birleşik Devletleri (ABD) ile enerji bağlamında ilişkileri tartışılmıştır. Türk enerji sektöründeki temel kırılganlıklar ve Türkiye'nin uluslararası enerji anlaşmalarındaki muhtemel kazanımları ele alınmıştır.

Anahtar Kelimeler: Enerji Politikası, Avrasya Bölgesi, Enerji Güvenliği, Enerji Boru Hatları, Bakü-Tiflis-Ceyhan Ana İhraç Ham Petrol Boru Hattı Projesi (BTC).

To My Parents

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LIST OF ABBREVIATIONS

AIOC	Azerbaijan International Operating Company
ANAP	Motherland Party
bcm/y	Billion Cubic Meter(s) per Year
BOTAŞ	Turkish State Pipeline Corporation
BSEC	Black Sea Economic Cooperation
BTC	Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline Project
DİTAŞ	Sea Management and Tankers Corporation
DSP	Democratic Left Party
DYP	True Path Party
EC	European Community
ECT	Energy Charter Treaty
EEC	European Economic Community
EMRA	Energy Market Regulation Authority
EU	The European Union
EUROMED	Euro-Mediterranean Partnership
EÜAŞ	Turkish Electricity Generation Corporation
FDI	Foreign Direct Investment
GNP	Gross National Product
HEPPs	Hydroelectricity Power Plants
IMF	The International Monetary Fund
INOGATE	Interstate Oil and Gas Transport Programme
MENR	Turkish Ministry of Energy and Natural Resources
MEPPs	Main Export Pipeline Participants
MFA	Turkish Ministry of Foreign Affairs
MHP	Nationalist Action Party
MNCs	Multinational Corporations
MTA	The General Directorate of Mineral Research and Exploration of Turkey
mtoe	Million Ton(s) of Oil Equivalent
NATO	North Atlantic Treaty Organization
NPPs	Nuclear Power Plants
NSC	National Security Council of Turkey
OECD	Organization of Economic Cooperation and Development

OPEC	Organization of Petroleum Exporting Countries
PETKİM	Petro-chemicals Industry Corporation
PİGM	General Directorate of Petroleum Affairs of Turkey
POAŞ	Petrol Ofisi A.Ş.
RP	Welfare Party
SEEs	State Economic Enterprises
SPO	State Planning Organization
TACIS	Technical Assistance to the Commonwealth of Independent States
TAEK	Turkish Atomic Energy Authority
TCGP	Trans-Caspian Natural Gas Pipeline Project
TEAŞ	Turkish Electricity Generation and Transmission Corporation
TEDAŞ	Turkish Electricity Distribution Corporation
TEİAŞ	Turkish Electricity Transmission Corporation
TEK	Turkish Electricity Authority
TETAŞ	Turkish Electricity Trading and Contracting Corporation
TGS	Turkish General Staff
TKI	Turkish Coal Enterprises
TPAO	Turkish Petroleum Corporation
TRACECA	Transport Corridor Europe Caucasus Asia
TTK	Turkish Hard-Coal Enterprises
TÜBİTAK	Scientific and Technical Research Council of Turkey
TÜPRAŞ	Turkish Petroleum Refineries Corporation
UK	The United Kingdom
UN	The United Nations
US	The United States
WB	The World Bank

CHAPTER 1

INTRODUCTION

"Energy" has always had a determining role in the countries' economic and social life. It is important since it has been one of the major inputs for the industry, and somewhat turned out to be a prerequisite for sustainable development. It is also prominent for social development that it fairly facilitates life through heating, lighting, transportation while it contributes to education and scientific studies. The ability of attaining the energy resources, sustaining the energy flow and managing them, thus seem vital given that the long-term goals are mostly accomplished via the possession and smart management of the energy reserves. Thus, states have undertaken the leading role and even waged great wars for exploiting the energy resources, particularly primary or fossil resources that are coal, oil and natural gas.

The humanity has witnessed three major wars in the last quarter-century, which were implicitly involved in the energy issues. Therefore, the strategic aspect of energy finds room in the states' agenda. Indeed, any bottleneck in the production of primary energy resources or unexpected hikes in the energy prices immediately reverberate within the national economies. In this sense, *power*, emanated from either states or non-states actors, or both, turns out to be a crucial determining factor for the exploitation of these resources.

Given that power (economic, political or military) has been shaping and determining the distribution of wealth, the unequal distribution of the fossil fuels in the world geography and the struggle to utilize these fuels in maximum terms make one contemplate about the degrees of power. As there are noticeable differences among the national economies, the degrees of power on the management of the energy resources formulate the levels of *dependence* and somewhat improve the conditions in favor of the developed countries. As energy has become a matter of trade, the power struggle has also been deepened and new actors (societal, corporate and regional) have come onto the stage. When looked at the last three decades, particularly the Multinational Corporations (MNCs) – perhaps the literal representatives of the post-industrial capitalism- have started to have an influential role in the determination of the energy policies of the states although the oil shocks of

the 1970s necessitated the government control to ensure the security of energy supply. In time, the MNCs have increased their influence and they have even acted as the states upon the economic and political decisions.

Starting from the 1980s, the energy policies have become very much related to the economic, social, security, environmental policies as well as the national interests. The increasing financial vulnerability of many states has driven them to allow the MNCs, which offer worldwide investment opportunities. As the quest for the "financial deepening" has been accelerated in the late 1970s, the state's role has tended to diminish in the economy and in the energy sector. The neo-liberal wave of the 1980s rendered "deregulation" in major energy sub-sectors with a rising volume of privatization of the public entities. Turkey also felt that thrust with the eminent "January 24 Decisions" in 1980, which called for the liberalization in the public sector, the privatization of the State Economic Enterprises (SEEs) and the creation of a free and competitive energy market. There have been numerous SEEs in the energy sector, which the public investments had the vast portion. The so-called reason behind the privatization has been to make the state smaller so that it could deal with the other chief matters. Another reason was the inefficiency of the SEEs and corruptions that had occurred within the public entities. Yet, the counter argument to the neo-liberal economic policies that advocates the extensive role of the state (i.e. government intervention) would not come late. According to this argument, the role of the state in the economy had been considerable during the import-substitution period until the 1980s and the state could have been capable to eradicate the problems within the state enterprises.

Subsequent legislations that allow the privatization of these entities, many of which were natural monopolies, were passed in the Turkish Parliament throughout the 1980s and this process accelerated in the 1990s. This heralded a major shift in Turkish economic policies and eventually had an effect on the energy sector. The idea of deregulation in the energy sector was inspired by the UK and this was promoted by the international finance institutions such as the International Monetary Fund (IMF) and the World Bank (WB). Thus, the idea of "financial deepening" prevailed, at least in theory, vis-à-vis the argument defending the extensive task of the state in Turkey. It can be argued that the neo-liberal economic thought began to affect Turkey's energy polices via the channels of liberalization and privatizations since the 1980s. The early 2000s also witnessed the establishment of a regulatory body in Turkey that has a promoting aspect for the competition in the energy sector: Energy Market Regulatory Authority (EMRA). Besides,

the energy policies started to go into a transition process, as the state was to relinquish its "superior" managing duty on the energy issues.

While the energy planning is implemented domestically, the future enhancement of the energy resources via major energy pipelines needs to be contemplated with the keen participation of the other governmental institutions since the domestic actors might encounter basic fallacies. Hence, the implementation of national energy policies requires a multilateral platform, in which all actors contribute to safeguard the national interests. Therefore, the focus in this research is to test whether Turkey has a comprehensive "State Policy" in energy, which ought to render strong political will and capability, and which envisages the accomplishment of sustainable strategic and foreign policy goals in the long term. While focusing on this subject, firstly, the attention is given to the evolution of Turkey's energy policies, with taking the general economic aspects and major transformations into consideration. In this sense, a clear summary of the energy policies of Turkey particularly until the beginning of the 1980s is conducted. Then, the position of Turkey in the Eurasian energy axis is evaluated through its foreign relations in the energy pipeline issues, particularly in the post-Cold War period.

This study proceeds in the following phases. After the introduction part, in Chapter 2, state-led energy policies vis-à-vis the free market orientation is put under scrutiny. Here, some basic concepts such as globalization, transnational relations and transnational actors are discussed in order to illuminate the crucial factors behind the transformation in Turkish energy sector. Then, Turkey's energy policies since the early 1980s are emphasized. Indeed, the "January 24, 1980 Economic Reform Package" forms one of the most important subject matters in this chapter since this package envisaged the liberalization in Turkish economy, which had an explicit influence in Turkish energy sector.

Chapter 2 also concentrates on the key energy sub-sectors in Turkey by underlining Turkey's energy situation with using appropriate quantitative data. Firstly, recent data of primary energy consumption, production and energy demand of Turkey are illustrated by tables and figures. The high dependency of Turkey on the primary energy resources (oil and natural gas) almost all of which are imported will be a subject matter in this chapter. Furthermore, a set of policies carried out by the policy-makers and the recent enactment of the laws in these sub-sectors are analyzed in order to highlight the basic vulnerabilities within the envisagement of these laws. In this sense, brief overviews of Turkish energy

sub-sectors such as the electricity, natural gas, oil and coal sectors seem functional to depict the legal changes emanated from the exogenous actors such as the European Union, the International Monetary Fund and the World Bank. The constitutional amendments through the new laws in the early 2000s, which deal with the creation of a competitive energy market, new domestic actors, the exogenous factors, and the basic instruments for the privatization will be the other subject matters in this chapter. Indeed, Chapter 2 attempts to illuminate the situation in the alternative and renewable energy resources while stressing that Turkey has a high potential in terms of the renewables. The emphasis is also given to the nuclear energy and its viability as a strong alternative energy resource in Turkey. In the end, the harmony between and among the state bodies as well as the level of participation of the other non-state actors such as the universities and the other scientific research in the energy policy-making are questioned.

Since domestic energy policies can solidly be associated with foreign relations in energy and since Turkey mostly relies on the importation of primary energy resources, Chapter 3 deals with Turkey's energy situation in the Eurasian axis. In addition to the domestic implementation of the energy policies, this chapter checks Turkey's position within the major international energy projects and regional organizations, particularly in the post Cold War period. With its presence on the possible routes for carrying Caspian oil and natural gas to world markets, Turkey is a passageway in the eminent "East-West Energy Corridor". Thus, Turkey's geographical proximity to the 70 percent of the world's proven energy resources and as a byproduct, its effective place on the game board of energy politics become the important subject matters in this chapter. Furthermore, the concept of "energy security" is underpinned while basic connotations of energy security are inferred to Turkey. A retrospective assessment is made about Turkey's foreign relations with the European Union, the Middle East, the Caucasus, Turkic States, the United States and Russia. Certainly, the interaction of Turkish energy policies with its foreign relations in the energy issues is discussed with respect to Turkey's own autonomy and capabilities.

Chapter 4 is reserved for a case study, namely the "Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline Project (BTC)" since it has been one of the major pipeline projects ever realized in the Eurasian energy axis. It is an important project since it is considered as a source of economic prosperity by oil trade for the chief participant states such as Azerbaijan, Georgia and Turkey. Most importantly, the BTC has strategic aspects that this project is supposed to reduce the dependency on the Middle Eastern oil concerning the energy security of the countries. The significance of the BTC for Turkey is that the

BTC serves a great potential to increase Turkey's prestige and intensify its relations with the participant states and the other transnational actors. There is another issue that September 11, 2001 terrorist attacks have already changed the perceptions about the energy security. They have been Russia's perceptions that have dramatically changed and the post –September 11 period rendered a sort of convergence in the US-Russian relations. This process has also created possible benefits for Turkey.

In this sense, a retrospective analysis is handled in Chapter 4. Firstly, Turkey's relations with Azerbaijan and Georgia in the post-Cold War Period are emphasized. Secondly, a brief history of the BTC is presented with stating the changing perception of Russia toward the BTC after the September 11 attacks. Finally, the last section in this chapter is devoted to the evaluation of economic and strategic implications of the BTC for Turkey as well as the stance of Turkish policy-makers in the BTC.

I wish to state the main reasons why I took up such a research. Firstly, Turkey has always been a net-importer of primary energy resources, and thus has always been in a fragile energy situation. Secondly, Turkish energy policies have been shaped by the composition of the energy inputs in different periods. There has been a shift from the use of coal to the use of oil in the 1960s. Yet, the 1970s witnessed a counter shift: from oil to coal. However, starting from the mid-1980s Turkey has met the natural gas, which has begun to prevail as a major input to the industry and to the production of secondary energy supply such as electricity. Huge gas contracts with certain states, then began to boost problems in Turkey and this has brought about a scenery that could jeopardize Turkey's energy security and even put its national security at risk. It may mean that Turkey has made itself dependent on a single energy resource and it has somewhat undermined the diversification of energy resources and energy suppliers. The observable lack of an effective, consistent and coherent policymaking in energy is another matter of deal. The critical point, here, is that it has not only been the domestic lack in energy planning and implementation, but also the structural weaknesses to resist and to form certain "filters" against the effects of globalization in order to safeguard the national interests in Turkey. Thus, taking the influence of transnational actors and contemporary globalization for granted and undermining them, and taking up rapid and indigested actions in the energy case may bring unforeseeable and undesirable outcomes for Turkey. In the final analysis, this study tries to contribute to the vision of the other researchers to handle deeper analyses in Turkish energy policies inaugurated with its foreign relations in the energy issues.

The literature for this thesis mostly consults to the sources through the libraries of Middle East Technical University, Bilkent University and Marmara University. Access to the official documents via internet was a very precious facility to get in touch with the official documents comprising the relations between Turkey and the other institutions and organizations such as the IMF, the World Bank and the European Union. In addition, the research materials in the case of energy, which are recently published by the written press and broadcasted by the visual press, served valuable qualitative and quantitative data for this study.

CHAPTER 2

THE EVOLUTION OF TURKISH ENERGY POLICIES

2.1. State-Led Energy Policies and Free Market Orientation in Turkish Energy Sector

Turkey has been taking steps to strengthen its role as an energy bridge between the major oil producing areas of the Caspian Sea and the Middle East, and their European markets. Yet, the country's limited energy maneuver capability can hardly meet rapidly increasing domestic demand, and is highly dependent on imported oil and gas. Even though the geographical proximity of Turkey to "rich areas" holds significance, it barely advances a mature basis for sustainable of energy flow and political stability in Turkey's close neighborhood. Another prominent aspect is that there has hardly been a comprehensive energy strategy in Turkey's economic and political agenda. This reality brings us to focus on the evolution of the state-free market relationship in Turkey at first glance, so that the internal crux of Turkey's energy steps can be illuminated.

When looked at the late 19th century, the process for the mineral resources in the Ottoman Empire initiated in Zonguldak - Ereğli region in 1848. The Ottoman Empire undertook anthracite (hard coal) production via the entrepreneurship of domestic investors, namely The Galata Commissioners.[1] However, empire gave privileges to English, French and German entrepreneurs and the Germans established the first lignite facility unit in the empire. What is more, the German "Berlin-Istanbul-Baghdad Railway Project" and American "Chester Project" engendered major oil exploration and managing along the alignment. Particularly worth of note is that the struggle of domestic entrepreneurs seemed to have failed in this process.

First electricity plant was established by a Swiss- Italian venture in Tarsus in 1902 and some Ottoman provinces "Tseloniki (Thessalonica), Damascus and Beirut" met electricity while Istanbul did in 1914 after the privileges given to a Hungarian (Ganz)

[1] Mustafa Özcan Ültanır, *21. Yüzyıla Girerken Türkiye'nin Enerji Stratejisinin Değerlendirilmesi*, İstanbul, Tüsiad Yayınları, TÜSİAD-T/98-12/239, pp.243-244.

company.[2] There were 38 power plants across up until the manifest of Republic of Turkey. This view holds that the applied mechanism served openness to domestic and foreign capital and even had similarities with today's well-known models of Build-Own-Transfer (BOT) investments. It is apt to state that this scene emanated from economic (insufficiency in capital accumulation, shortage of industrial techniques, etc.) and political (chaotic environment of inter-state relations, political and military pressures of powerful states, set of corruptions within the state, etc.) reasons.

Scholars traditionally have stressed the significance of state intervention in the economy during the early years of the republic, but recent researches have indicated that Turkish economic policy was *relatively* liberal until the 1930s.[3] The government made significant investments in railroad and other infrastructure projects. Nonetheless, the Law for the Encouragement of Industry of 1927 and other measures encouraged private enterprise. Moreover, Turkey's economy was relatively open to international markets during the 1920s. Under the provisions of the Treaty of Lausanne of 1923, the capitulations were abolished, yet Turkey could not introduce protective tariffs until August 1929. As a result, tariffs remained low, and the Turkish lira became convertible and floating. The foreign capital holders invested in both public and private enterprises, helping to initiate industrial development. The young Turkish republic had just moved out of the series of wars and aftermath of these wars had generated enormous economic deficits. One could hardly articulate the presence of a well-working economic policy and hence, a comprehensive energy policy. Even though the markets needed to be ruled – at least regulated- by the authority, the state organs were not capable enough to do so. Nevertheless, in terms of domestic economic policy, the structural and functional transformations were to be harmonious and carried on further so as to meet requirements of survival as a modern state at that time.[4]

İzmir Economy Congress (1923) was the milestone for constructing the economic infrastructure of the modern republic and it was based on a broad context. There were important consequences of the congress such as participating in the management of hard coal reserves, which were initially operated by French capital; managing petroleum

[2] *Ibid.*, p.245.
[3] "Role of Government in the Economy", Country Studies: Turkey. Available from: http://country studies.us/turkey/55.htm accessed on 24 October 2005.
[4] Cengiz Okman, "Turkish Foreign Policy: Principles-Rules-Trends, 1814-2003", in İdris Bal (ed), *Turkish Foreign Policy in the Post Cold War Era*, (Brown Walker Press: Florida, 2004), pp.9-12.

facilities with exploration; the continuity of privileged partnerships with foreign investors in the electricity sector and the marketing of petroleum products by, again, foreign capital. Finally, the Great Depression in 1929 gave rise to the inflation and this affected the production and the financial structures. The repercussions of the Great Depression led state-centric economic policies for the purpose of reconstruction and refurbishment in the Western countries.

The economic policy turned out to be similar in Turkey like in the other Western countries. Insufficient capital accumulation had driven the Turkish governments to pursue a way of "moderate state intervention". The progress had shown itself with two prominent five-year industrial plans between 1933 and 1943. New institutions were established for oil and mineral exploration. The striking point here is that the "need for cheap energy" was taken into account for rapid industrialization and the state endeavored and looked for cheap energy resources. Moreover, local administrations (municipalities) became authorized to establish and manage electricity plants. In addition to this development, all foreign-invested and privileged electricity plants were nationalized between 1938 and 1944 except for an electricity power plant that was established with domestic capital.[5] During the industrialization campaign started from 1930s, the government set up many industrial economic enterprises. These were the State Economic Enterprises (SEEs), which became important tools for state intervention in economic as well as energy policies. They were variously organized and the government owned at least a 50 percent share in each of them. Etibank (1935), Turkish Coal Enterprises (TKİ-1957) and Turkish Petroleum Corporation (TPAO-1957) could be considered as the important SEEs in this period.

Turkey had witnessed the partial relinquishment of state from oil exploration and production throughout the 1950s. Nonetheless, TPAO – a public enterprise was fulfilling 97 percent of oil production by 1960. Share of the private sector in lignite production, on the other hand, had increased to 40 percent in 1960 while it was 17 percent in 1950.[6] The electricity sector also felt that thrust and private economic partnerships excluding the foreign capital were established in electricity management between 1952 and 1956. Indeed, the period between 1950 and 1960 chiefly served a mixed economy type instead of a vast set of public investments. Yet, the incapability and the lack of depth in

[5] Ültanır, *op. cit.*, p.245.
[6] *Ibid.*, p.247.

international trade somewhat evaded to keep consistent, coherent, and continuous energy policies with meeting the objectives purposefully until the 1960s.

The period of 1960-1980 rendered an exceptional scenery that 1961 Turkish Constitution made social and economic planning a "State Duty". In 1961, the government established the State Planning Organization (SPO), which was given responsibility for preparing long-term and annual plans, following up on plan implementation, and advising on current economic policy. The SPO has approached the idea of an economic development planning through a long-term perspective and enacted the First Five-Year Plan (1963-67) and the Second Five-Year Plan (1968-72) in the context of what should be accomplished by the mid-1970s. The plans were deeply weighted toward manufacturing, import substitution, and the intermediate goods sector. Remarkably, energy became an indispensable input for the industry more than ever. The combined demands of industrialization and urbanization nearly tripled energy consumption in the 1960s and the 1970s. An inappropriate pricing policy, especially the subsidies of petroleum that led to excessively cheap products, was one cause of shifts in the sources of energy that heightened shortages. In 1960, more than half of the primary energy consumed came from noncommercial sources, mainly firewood but also manure and other agricultural wastes. These noncommercial sources, plus domestic coal and lignite, accounted for more than 80 percent of all primary energy consumed; oil supplied only 18 percent.[7]

The economic policy of 1960s and 1970s planted a mechanism, which called for ruling for the public sector while encouraging and stimulating for the private sector and the market.[8] Following in this vein, the first "Standby Agreement" was signed between Turkey and the IMF on 1 January 1961 and envisaged a one-year period, which ended by 31 December 1961. The decade between 1960 and 1970 witnessed subsequent standby agreements with one-year basis. However, the planned years reflected an elusive task to be accomplished because of economic and political disorders took place in the late 1970s. 1973 and 1977 Oil Supply Shocks, of which the first emanated from the response of Middle Eastern OPEC countries after Arab-Israeli War, profoundly affected the industrial development in the Turkish economy as they did many Western economies.

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[7] "Case of Energy", Turkey- Economy, Country Studies. Available from: http://www.mongabay.com/reference/country_studies/turkey/ECONOMY.html accessed on 30 October 2005.

[8] Yakup Kepenek and Nurhan Yentürk (eds.), "Devletçilik ve Sonrası", *Türkiye Ekonomisi*, Onuncu Basım, (İstanbul: Remzi Kitabevi, 2000), pp.60-67.

In the late 1970s, Turkish economic policy-makers were thinking that a radical economic package should have been launched in order to eradicate the economic and social problems. The package of economic stability measures, which came to be known as the "January 24, 1980 Reforms" or the "January 24 Decisions", heralded a new phase in Turkish economic life. At that time, Süleyman Demirel was the Prime Minister and Turgut Özal was holding an important and a leading position in the State Planning Organization (SPO). On 26 November 1979, Özal visited Demirel and submitted a report summarizing what needed to be done to reverse the declining economic fortunes of the country.[9] Demirel thought that Turgut Özal was a person with good connections with the international financial institutions given that Özal had started to work for the International Monetary Fund (IMF) after he left the SPO in the early 1970s and during the years he spent at the IMF, he became more familiar with the officials of the IMF and the liberal economic philosophy.[10]

Even though Özal was asked to be the governor of Central Bank by Demirel, he demanded to be the chief of the SPO. It was argued that his rise to the helm of the bureaucracy led to the formation of a new economic policy technocracy that bypassed traditional bureaucracy.[11] Most of these new policy-makers had bureaucratic experience, some under Özal while he was the chief of the SPO in the late 1960s.[12] Moreover, unlike traditional bureaucrats educated in economics, law or public administration, most of these people had engineering and private sector backgrounds.[13] Özal and his team became instrumental in designing the "January 24 Reform Package". Özal was believing that a "single-handed" economic policy was needed in order to reverse the poor economic situation, which the previous governments could not be able to do. In this sense, the elimination of price-control mechanisms and cutting off the subsidies to the budgets of the State Economic Enterprises were some of the short-term measures within the package. The package also concentrated on the foreign trade and economic liberalization. Therefore, the importation of the intermediate investment products was greatly facilitated. There were additional measures in the 1980s that offered exporters a multitude of incentives, which included export credits, tax rebates, duty-free imports of raw materials

[9] "Political Economy of the January 24, 1980 Reforms", *Ankara Papers*, Vol. 13, Issue 1, 2004, p.30.
[10] *Ibid*.
[11] *Ibid*., p.31.
[12] *Ibid.*
[13] *Ibid.*

used in the production of exportables, foreign exchange allocations, tax exemptions and other export incentives.[14] In addition, the implications of the January 24 Reform Package reverberated in the Fourth Five Year Development Plan.

The Fourth Five-Year Development Plan (1978-82) was modified to favor the private sector, labor-intensive and export-oriented projects, and investments[15] that paid for themselves relatively quickly. Turgut Özal (he became the Prime Minister in November 1983, the founder of Motherland Party - ANAP) administration, which came to power in 1983, delayed the Fifth Five-Year Development Plan (1983-87) for one year to take account of the structural reform program introduced in 1983. Unlike the earlier plans, the Fifth Five-Year Development Plan called for a smaller public sector. According to the plan, the state would take more of a general supervisory role than it used to have in the past, concentrating on encouraging private economic actors. Although the public sector continued to handle a program of infrastructure investments in order to eradicate the bottlenecks in the energy, transport, and other sectors, the free market orientation in Turkish economy and the energy sector (*laissez-faire*) turned to be prevalent unlike the previous periods. According to the new administration, the bureaucratic and financial barriers to private entrepreneurs and foreign capital should have been eliminated in order to sustain the economic development. Therefore, the role of the state in economy had to be minimized and it had to relinquish the risk-baring management of the major sectors. Even though the foremost stress was not fully on the energy sector, the following years witnessed radical changes in the energy sub-sectors.

In the 1980s, the use of new technologies and modern marketing methods required by the industry became widespread inside the country.[16] Since the export-oriented set of economic policies began to prevail in the Turkish economy, subsidies in the energy sub-sectors were not curtailed unlike the other sectors. The electricity sector was considered as the pioneering one in order to supply an uninterrupted energy input to the industry. However, the monopolistic structure of Turkish Electricity Authority[17] (TEK) was

[14] *Ibid.*, p.35.
[15] "Role of Government in the Economy", Country Studies: Turkey. Available from: http://country studies.us/turkey/55.htm accessed on 24 October 2005.
[16] Kepenek and Yentürk, *op. cit.*, "Dışa Açık Büyüme", pp.193-198.
[17] The model of the electricity energy service, which had to be managed by the public monopoly, was determined during the planned economy years. In this manner, TEK was established in 1970 and would supply cheap energy input to the industry subject to the understanding of "social state". (Faruk Ataay, "Enerji Sektöründe Özelleştirme: Rekabetçi Bir Piyasada Yönetişim mi?", *Praksis*, No. 9, Kış-Bahar 2003, p.230.)

changed with the enactment of Law No. 3096 in 1984.[18] Subsequently, the main purpose has become to create a competitive electricity market structure.

Here, some significant aspects have to be emphasized that there had already appeared strong financial theses performed by international finance authorities and institutions[19] through the late 1970s in Turkey. From the onset of the financial crises, (particularly from the second half of the 1970s) these theses involved around the elimination of "financial pressure" and they further supposed that the "financial deepening" might contribute in the economic development and efficient allocation of resources in the developing economies.[20] Since Turkey was one of the developing economies, which needed foreign financial aid at that time, the policy-makers take up such a process that could totally change Turkey's economic posture. Besides, the expectations arouse that Turkey should have gone into an integration process with the world economy while venturing radical changes in her economic policies.

The politicians, who remained at the most responsible chain of command in Turkish economic management, held a stance, which could substantiate an implementation of a different economic policy.[21] The financial aid, then, could be set on a new economic basis, which would promote alterations through the crucial economic indicators; floating exchange rates and interest rates, cutting off subsidies, opening the state to international competition, eliminating the price controls, decreasing the tariffs in imported goods, encouragement of foreign capital for investments, etc. The January 24 Decisions in 1980 would somewhat become an informal layout for a letter of intent through a three-year stand-by agreement with the International Monetary Fund and for a further agreement with the World Bank. These letters were different from the previous ones; the scope was dealing with the promotion of new policies defined above and had a fairly narrow

[18] Law No. 3096 in 1984 is also known as the preliminary "Build-Operate-Transfer – BOT" law even though there is no clear attribution to that BOT system. Law no. 4283 rendered "Build – Operate and Build-Operate-Transfer" in electricity sector in 1994. Turgut Özal formulated this approach in order to attract foreign investment for large-scale infrastructure projects. According to BOT system foreign investors would provide the capital and technology to build plants, operate them for a number of years with guaranteed revenues, and finally transfer the units to the government when the investment had been fully returned (for further information visit the official web site of Turkish Ministry of Energy and Natural Resources: http://www.enerji.gov.tr accessed on 03 November 2005). The rationale behind BOT system was to attract foreign capital without requiring a large capital outlay by the government.

[19] Particularly, the IMF and the World Bank.

[20] İzzettin Önder et. al., *Türkiye'de Kamu Maliyesi, Finansal Yapı ve Politikalar*, Türkiye Araştırmaları, İktisat Politikası Seçenekleri 2, (İstanbul: Tarih Vakfı Yurt Yayınlar, 1993), p.120.

[21] *Ibid*., p.121.

attribution to alternative economic policies.[22] A Structural Adjustment Loan (SAL) agreement for 275 million was signed between Turkey and the World Bank in March 1980. The three-year standby agreement for 1.250 SDR (Special Drawing Rights), which was equal to US $ 1.630, was also signed between the IMF and the Turkish Republic on 18 June 1980.[23] Another agreement was signed for the energy sector with the World Bank in 1987. The so-called rationale behind these loans was the reconstruction of the dynamics of the Turkish economy and the formulation of a competitive market structure within the neo-liberal economic approach. Insofar, Turkey did not engage in further standby agreements with the IMF between 1984 and 1994. Remarkably, this decade somehow depicted the penetration of liberal policies, which were supposed to be matured within the market mechanism in Turkey.

The impact of the international finance institutions had driven the Turkish rulers to perform radical alterations in economic management, not explicitly, but at least implicitly.[24] The famous arguments of financial deepening and financial liberalization also brought major changes in the energy sector that the inauguration of a competitive energy market would turn out to be the unconventional economic consideration in Turkey.

Clearly, the fundamental assumptions of neo-liberal economic approach such as "the demarcation of economics from politics" and the realization of economic problems through a "technical perspective" had already diffused in the energy sector. Therefore, the energy sector has held a special place among the structural reforms, which aim the recognition of a comprehensive transformation in Turkish public sector. In the final analysis, the current dominancy of neo-liberal economic perspective has gradually made the concepts of "public utility" and "national interest" greatly questionable. The belief, which considers that "the main purposes of the state interventions in the national economy are the accomplishment of national development, public welfare and the avoidance of market failures", has seemed to be altered by the neo-liberal assumption. This assumption has rendered that "the state interventions in the economy leads to economic crises and the prevention of such crises as well as the accomplishment of public utility and national interest can be tangible when the state withdraws from the economy

[22] *Ibid.*
[23] *Ibid.*
[24] Önder, et al., *op. cit*., pp.122-123.

and when these accomplishments are left to the markets forces".[25] Admittedly, the intellectual transformation about public's role vis-à-vis the market forces suggested that the new economic policies in the energy sector would have been backed by further expansion of the capital to the new investment opportunities while the common public interest has been provided. Therefore, this transformation led the political will to modify the relations of economic distributions involving State Economic Enterprises (SEEs) in favor of the capital holders.[26]

Remarkably, the rapid transition from an agricultural to an industrial society produced various distortions in the domestic economy.[27] Despite the significant foreign direct investments during the 1980s and early 1990s, Turkey's balance of payments remained burdened by an external debt of more than US $ 65 billion[28] at the end of 1993. Before the end of April in 1994, when the government was forced to announce a long overdue austerity program following the March 1994 local elections, the Turkish lira was devaluated by 76 percent against the US dollar. The package of measures announced by the government on 5 April 1994 (also well-known as *April 5 Decisions*), was also submitted to the IMF as part of its request for a US $ 740 million standby facility beginning in July 1994. Measures included a sharp increase in prices the public-sector enterprises charged the public, decreases in budgetary expenditures, a commitment to raise taxes, and a pledge to accelerate privatization of the State Economic Enterprises.[29] This had eased another Standby Agreement with the IMF, which carried on between 8 July 1994 and 26 September 1995.

One of the reasons of debt burden was said to be excess subsidization of State Economic Enterprises (SEEs) while another was the overstaffing in the SEEs. The so-called overstaffing and inefficiency in the SEEs were the driving motives of opening many of the state monopolies to outside and freeing the SEE prices by Özal administration. Along this process, foreign investors have already been encouraged and have engaged in major infrastructure projects and the SEEs were providing the vast portion of manufacturing

[25] Ataay, *op. cit*., p.222.
[26] *Ibid.*, pp. 223-224.
[27] Kepenek and Yentürk, "Ekonomi Politikasında Köklü Dönüşüm", *op. cit*., pp.193-225.
[28] Available from: http://www.treasury.gov.tr
[29] "Case of Energy", Turkey- Economy, Country Studies. Available from: http://www.mongabay.com/reference/country_studies/turkey/ECONOMY.html accessed on 30 October 2005.

inputs during the 1980s and the 1990s.[30] Moreover, the transactions of the foreign investment made a relative boost through the industrial sector and the stock market. The structural adjustment policy by the Özal administration did intensify the beginning of an era that replaced import substitution development model with an outward looking export promotion model in the domestic context. Hence, it would not be wrong to say that the neo-liberal view has stipulated a shift in favor of the private sector: "Economic policy needed to be altered with the presentation of the competitive rule of market."

In sum, the diffusion of the neo-liberal perspective into Turkish economy by the 1980s accelerated the impetus of the free-market orientation in Turkish energy sector. It has been the phenomenon of "neo-liberal globalization", which unleashed the huge potential for economic growth pushed by rapid technological progress in the information technology and was associated with the opening of markets and the rapid expansion of trade and capital flows.[31] However, this concept has reflected an uneven process, which tended to deepen the inequality between as well as within countries, by favoring certain regions or social groups over others.[32] Therefore, it has authenticated disproportionate in favor of the more industrialized countries of the North and the small number of peripheral countries or emerging markets, such as Turkey, which are tied to the Northern countries through North-South regional blocs.[33]

In the final analysis, the repercussions of "neo-liberal globalization" have deeply been felt within the general internal dynamics of Turkish economy as well as its energy sector. Thus, it will be appropriate to illuminate the basic shifts and amendments in Turkey's energy policies since the beginning of the 1980s. The energy sub-sectors, namely the electricity, oil, gas and coal sectors will be the subject matters in order to demonstrate Turkey's energy story on a sectoral basis since the 1980s. The last section of the following part is reserved for the evaluation of the renewable and alternative energy resources in Turkey.

[30] Önder, et. al., *op. cit.*, pp.167-171.
[31] Ziya Öniş, Neo-Liberal Globalization and the Democracy Paradox: The Turkish General Elections of 1999", *Journal of International Affairs*, Vol. 54, No. 1, Fall 2000, p.283.
[32] *Ibid.*
[33] *Ibid.*

2.2. Turkey's Energy Policies since the 1980s

There have been mainly two contentious approaches in Turkish energy sector since the early 1980s: "The liberalization in the sector through a free-market structure" and "the approach that defends the extensive role of the state in energy management and investments." The debate between the two parties has been continuing for the last two decades, yet, neo-liberal economic policies seemed to offset and even prevailed over its counter approach.

The rationale behind the liberalization in Turkish energy sector has been the desire to realize beneficial outcomes of a free and an unrestrained market structure for the natural gas, oil and electricity sectors. When looked at this stance, the defenders claim that only a perfectly competitive market configuration can maintain the price stability in the power sector, and hence, provide sustainable development. Moreover, this (new) structure is capable of alleviating the clumsiness of the state and thereby the state can allocate the scarce resources much more effectively. This discourse advocates that state should "take its hands off" from economy so that the economic stability can be enhanced, augmented with Foreign Direct Investment (FDI) and privatizations.

Defenders of the "extensive role of the state", on the other hand, endeavor to posit the priority of the state investments and a balanced public entrepreneurship in the power sector. Therefore, the defenders refuse to accept a fully privatized energy sector. They rather stand firm with the superior role of the state vis-à-vis the penetration of the private capital. Thus, the crux of this argument is that it speculates the abandonment of state control and excessive privatizations through the neo-liberal economic approach. They eventually oppose the claim that liberalization in energy sector will bring higher public satisfaction and welfare, since this sort of composition will rather bring out excess profit margins for private companies and abrogate the common rules and duties of the state. Therefore, they keep a suspicious stance against the neo-liberal economic wave as this will enormously credit the individual interest and drive the public interest to diminish progressively.

While discussing the energy policies of Turkey since the 1980s, one should be aware of the changing global economic, political and social trends, and should realize the effects of *globalization* on the states and the international system. Moreover, the *transnational relations* and *transnational actors* have also become complicated and these had

repercussions on the energy policies of the countries. Therefore, it will be apt to put emphasis on these concepts, which have implicit and explicit implications to the general dynamics of the Turkey's energy policies. A concise illumination of such concepts will give clues about how the neo-liberal economic stream has prevailed over the *statist* approach in economy.

Regarding the popular concept of globalization from the outset of the 1990s, Keohane and Nye argue that this concept and *interdependence* of the 1970s are linked but they are not exactly parallel due to the proximity since globalization refers to the shrinkage of distance on a large scale. They also suggest that both concepts are due to changes; they can increase or decrease. *Globalism*, on the other hand, is a state of the world involving networks of interdependence at multicontinental distances; and it refers to networks of connections, i.e. multiple relationships.[34] Therefore, *Globalization* and *Deglobalization* refer to the increase or decline of globalism. Presuming that the international economic system is bound to the increase of globalism (i.e. globalization) in this new era, transnational actors have also been in the center of *economic globalization*.

They were the *transnational actors* such as Multinational Corporations (MNCs), international banks and financial institutions, international labour unions, basic organizations in education, which somewhat determine contemporary economic route in the global spectrum. In addition to the interstate relations, they have gradually raised their influence in transnational relations.[35] A transnational interaction may involve governments, but also nongovernmental actors play a significant role in transnational communication, transportation, finance, travel. Hence, transnational interactions may refer to a description of the movement of tangible or intangible items across state boundaries when at least one actor in *not* an agent of a governmental or an intergovernmental organization.[36] Particularly since the 1970s, the repercussions of transnational relations have been realized in various ways. Governmental and nongovernmental relations have fairly promoted the *international pluralism* by linking national interest groups involving transnational organizations for purposes of

[34] Robert O. Keohane and Joseph S. Nye, "Globalization: What's New? What's Not? (And So What?)", Foreign Policy, 118, Spring 2000, pp.104-120.
[35] M. Fatih Tayfur, "Devletler ve Piyasalar" in Atila Eralp (ed.), *Devlet ve Ötesi, Uluslararası İlişkilerde Temel Kavramlar*, (İstanbul: İletişim Yayınları, 2005), see footnote 27 on p.195.
[36] Joseph S. Nye and Robert O. Keohane , "An Introduction", in Joseph S. Nye and Robert O. Keohane (eds.), *Transnational Relations and World Politics*, (Cambridge: Harvard University Press, 1971), p. xii.

coordination. Even though the state-centric approach has not totally faded away, the *pluralist* perspective has expanded and the societies have become open into each other.[37]

When the transnational relations and the concept of globalization are taken into account, this relative expansionism can well be perceived, especially within the route of modern capitalist world economy. Thus, globalization has begun to show itself with the rise of *economic globalization*, which involves production, trade, the distribution of wealth, management, finance and energy.

Particularly since the 1980s, foreign direct investments (FDI) through the MNCs increased financial flows that have made the national capital integrated with global capital, and high volumes of trade that promoted the transportation and communication infrastructures have all been important catalysts, which diminished the state control relatively.[38] In addition to the expansionism in finance, knowledge, trade and production structures, *energy* has also become one of the major industrial inputs in world goods & services production, thus, a potent engine in the implementation of strategic foreign economic policies.

When looked at the energy assessment in Turkey, one can assume that modern Turkish Republic has struggled to meet its energy needs for sustainable development, which was the famous motto since the 1930s. As stated earlier, the development strategy was mainly based on the "Import-Substitution Economic Policy" without fully disregarding the private and foreign participation from the onset of the 1930s.

Almost half-a-century passed over upon this scheme until the 1980s. Anomalies within the international oil regimes and stagnation in the Turkish economy propelled the Turkish rulers to take up an "Export-based Economic Policy" with the liberalization in the public sector by the January 24 Decisions that were introduced in 1980. This step underpinned the realization of the "Free Market Mechanism" within the dynamics of the Turkish economy by the early 1980s. This step also signified the encouragement of foreign and private capital to carry out investments in Turkey. Ultimately, the repercussions of the free-market orientation have reverberated in Turkish energy sub-sectors. Thus, Turkey's

[37] Atila Eralp, "Sistem" in Atila Eralp (ed.), *Devlet ve Ötesi, Uluslararası İlişkilerde Temel Kavramlar*, (İstanbul: İletişim Yayınları, 2005), p.152.
[38] Nilüfer Karacasulu Göksel, "Globalization and the State", *Perceptions, Journal of International Affairs*, March-May 2004, Vol. IX, No. 1, pp.3-4.

energy policies since the beginning of the 1980s deserve to be put under scrutiny. Indeed, it will be convenient to illustrate a set of tables and figures in order to highlight what the situation is in energy, both in Turkey and in the global spectrum since the illumination of the sectoral outlook might be healthier.

Figure 1 (in Appendix B, p.125) illustrates the crucial ratios of oil and natural gas that account for 60 percent of total primary energy consumption by the year 2002. Figure 2 (in Appendix B, p.126), then, gives the realization that the primary energy production, excluding the oil and natural gas, account for 88 percent in Turkey that this fact clearly points out a strong option through an "inward-looking implementation", which comprises the assessment of indigenous energy production.. When looked at the global energy context, Figure 3 (in Appendix B, p.127) definitely emphasizes the global energy trend in the next quarter century. The dependence on oil, natural gas and coal seems to prevail in the next decades though the demand of natural gas will relatively exceed that of coal in the beginning of 2010.

Since global coal reserves in different geographies renders rather a homogenous distribution, the price of coal has been more inelastic to regional and international economic instabilities and political conflicts. Yet, the situation in oil and natural gas is not alike with that of coal. *Cétaris paribus*, the countries, who export oil and natural gas, will expectedly possess strategic advantages and will have an important bargaining power in their international relations.

Under the light of the data above, it can be expressed that Turkey will meet vast energy needs in the future. The response to the question of "how to satisfy these needs in what preconditions" has remained within the investigation of major energy sub-sectors. A set of policies undertaken by the policy-makers, legal amendments in Turkish energy sector, and the role of the transnational actors in shaping Turkey's energy policies will be the crucial subject matters in the following parts.

2.2.1. The Electricity Sector

Electricity has been one of the most important energy inputs for industrial development in Turkey. Hence, the electricity sector deserves the utmost concentration for the sake of the industrial projects. In this sense, the government officials estimate that the demand for electricity in 2010 will be approximately 265.000 GWh (gigawatts per hour) and the total

capacity needs to be increased to 42.000 MW (megawatts).[39] As Turkey has been a "net importer" of primary energy resources, most of which are devoted to the electricity generation since the late 1980s, there have also been remarkable shifts and political occasions in the electricity sector throughout the 1980s and the 1990s.

The volume of supplementary investments by public sector have been halted; the choices for the inputs of electricity generation (the percentage share of natural gas for electricity generation by is relatively high among the other fuel types in Turkey[40]) have shifted; and finally, the legal status of the sector has been altered due to the new legislations calling for the privatization of public enterprises and formation of a competitive electricity market. In essence, the privatization in Turkey has been contemplated as a prerequisite for the liberalization of the sector via a competitive market structure.

In practice, one of the discourses of the political authority in energy policy is to supply uninterrupted, reliable, affordable and environmentally fine energy. However, verbal explanations have not been adequate to accomplish the goals in energy. As political will is the foremost determiner for realizing these goals, the resistance and bargaining ability against the other exogenous factors have to be taken into consideration. Global finance institutions such as the International Monetary Fund, the World Bank; also the regional organizations such as the European Union and the Organization of Economic Cooperation and Development (OECD) can be considered as the exogenous factors. Thus, Turkish governments have enacted several laws along the legal basis of the privatization actions through this crucial interaction since 1983.[41]

In retrospect, the Turkish Parliament passed constitutional amendments, which were "seeking for significant improvements in trade and investment" in 1984. The government

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[39] Available from: http://www.teias.gov.tr accessed on 14 December 2005. [The established power for electricity in the beginning of 2003 was 35.587 MW. This amount increased to 39.543 MW by additional power that was generated by the gas-fired power plants in 2005(*Cumhuriyet*, 13 January 2006).]

[40] See Figure 4 in Appendix B, p.128. Evidently, the percentage of natural gas is 45 percent in electricity generation in 2003.

[41] Turkey assured basic preparations for the privatization of electricity generation and distribution assets, then moving ahead with the privatization of the remaining assets since the early 1980s. This process has been accelerated in the early 2000s. (See the Article 21 in the Letter of Intent of Turkish Government, which was submitted to the International Monetary Fund- IMF, dated 31 July 2001. Available from: http://www.imf.org/External/NP/LOI/2001/tur/04/index.htm accessed on 11 November 2005. As a byproduct, the IMF and Turkey had agreed to an $18.6 billion "Stand-By" financial assistance package on 4 February 2002 envisaging a three-year period until 4 February 2005.

enacted Law No. 3096, which opened the electricity sector to private companies including private investors in this year. Thus, the investors would be granted the right to build and operate the power plants. In this sense, the implementation of new methods for financing major energy projects brought about four basic models: "Build-Operate-Transfer" (BOT), "Build-Own-Operate" (BOO), "Transfer of Operating Rights" (TOOR) and "Auto-production Model". These models would ensure the privatization of major electricity power plants and the state would withdraw from the "costly way of energy supply with huge subsidies". This would further mean that the natural monopolistic aspect of the electricity sector would diminish and the new model would be based on the unbundling principle of TEK.[42]

Firstly, electricity would no more be perceived as a public service and would become a matter of trade seeking for "profit". Secondly, as stated earlier, TEK was unbundled and was separated into multiple companies. The generation and the transmission units had been assigned to Turkish Electricity Generation and Transmission Co. (TEAŞ) while the distribution facilities were assigned to Turkish Electricity Distribution Co. (TEDAŞ) in 1993. The enactment of Law No. 4493 on 20 December 1999 allowed the electricity supply service to be recognized within private law. However, the scope of this law was again changed by the enactment of another law, which directed the "licensing method".[43]

The "Letter of Development Policy"[44] for economic reform loan from the Turkish Ministry of State for Economic Affairs to the President of the World Bank in 2000 was clearly emphasizing the intension of competition and privatization in the electricity sector. The letter, which was sent to the World Bank before the new Electricity Law in 2001, put several reasons for the aim of privatization. These can be listed as "the financial deterioration of Turkish Electricity Generation and Transmission Co. (TEAŞ)", high purchase price of electricity from "the newly established BOT operations", the poor level of collections for electricity sold to Turkish Electricity Distribution Co. (TEDAŞ).[45] The letter also pointed that government decided to address these problems through a comprehensive framework based on moving to a competitive market for electricity,

[42] These amendments, comprising Law No. 4446 for the establishment of the natural gas market in 2001, were intended to help accelerate infrastructure projects, such as power plants, by providing easier financing and approval.
[43] Ataay, *op. cit.*, p.231.
[44] "Turkey Economic Reform Loan, Government of the Republic of Turkey, Letter of Development Policy", from Recep Önal – Turkish Minister of State for Economic Affairs to James Wolfensohn- The President of the World Bank, Ankara, 10 March 2000.
[45] *Ibid.*

which transfers the task of supplying electricity and associated market risks, to the private sector. In the final analysis, Turkey has already undertaken the future privatization actions in the electricity sector. Indeed, the monopolistic public structure of the electricity sector experienced few major changes through the liberalization and the privatization efforts.

It was Law No. 4628[46] that was enacted on 20 February 2001. The law set up a path toward a free market structure in the electricity generation and distribution facilities. The law set basic implementations that the generation units of the state-owned Turkish Electricity Generation and Transmission Co. (TEAŞ) were given to the state-owned Turkish Electricity Generation Co. (EÜAŞ). Moreover, the transmission units were given to Turkish Electricity Transmission Co. (TEİAŞ) while the operation of wholesale facilities were assigned to Turkish Electricity Trading and Contracting Co. (TETAŞ).[47] Subsequently, the Law No. 4628 intended that the electricity generation plants of EÜAŞ and the distribution units of TEDAŞ would be privatized. Finally, TEİAŞ and TETAŞ would fulfill transmission and wholesale facilities, respectively.[48] This legal basis led to a third change that escorted the replacement of "Transfer of Operating Rights" (TOOR) with the "Sale of Property".[49] Fourthly, Law No. 4628 was setting the stage for an independent institution, the Energy Market Regulation Authority (EMRA), which supervises the oil and natural gas markets, including setting tariffs, issuing licenses, and assuring competition for market participation. EMRA also introduced the concept of "eligible consumer" and ensure the freedom for eligible consumers to choose their suppliers.

In addition to the legal changes since the early 1980s, it will be convenient to emphasize the ways of how electricity is generated in Turkey. Indeed, electricity already makes up

[46] It is essential to state that the EU Electricity Directive, which was introduced in the EU in 1996, inspired the enactment of Law No. 4628. Therefore, the Turkish Parliament adopted a similar electricity liberalization model with the United Kingdom. The realization of Law No. 4628 was also in line with the EU Acquis. (For a detailed scrutiny, see Zeynep Anakök, *Towards an International or Supranational Electricity Market? British and Turkish Cases*, Unpublished Master's Thesis, The Graduate School of Social Sciences of the Middle East Technical University-METU, December 2004).
[47] Ataay, *op. cit.*, p.232.
[48] *Ibid*., p.233.
[49] *Ibid*.

13.4 per cent of overall consumption and is growing at an annual 8.5 per cent[50] by 2003, and this somewhat makes electricity the single most important and contentious aspect of Turkish energy.[51]

Turkey devoted 11.63 billion cbm (cubic meter) of natural gas to electricity generation, which is 67 percent of total natural gas consumption in 2001.[52] This amount depicts a great dependency on natural gas for the electricity generation in the gas-fired power plants. It is noteworthy that Turkey imports 66 percent of its natural gas from Russian Federation and this situation intensifies the Turkish dependency on Russian gas. In turn, this gives Russia an economic and a strategic bargaining power over Turkey as the predictions show the volume of natural gas used for electricity generation will be 15.2 billion cubic meters by the end of 2006 while it was 11.6 billion cubic meters in the end of 2002.[53]

Underpinning two important cases above, which are "the privatization of the electricity sector" and "high dependency on natural gas for electricity generation", one can be aware of current trends in Turkish electricity sector. The case of privatization and opening the electricity sector to competition reflect the expected dominancy of the market through private companies. This can give us clues about the rapid transformation of the sector.

Finally, one can assume that unless the privatization and deregulation in the electricity sector are performed in favor of the social interests, the repercussions may be worse than expected.[54] The underlying principle behind privatization and liberalization of the electricity sector has been to give all consumers the right to choose their suppliers unreservedly and thereby, to intensify the competition among the suppliers. Nonetheless, the recent experiences of the EU countries have shown that a competitive electricity

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[50] "2003 Final Energy Consumption" data for Turkey, TÜBİTAK - Scientific and Technical Research Council of Turkey. Available from http://www.tubitak.gov.tr accessed on 23 November 2005.

[51] Murat Arsel and Kamil Kaygusuz, "Energy Politics and Policy in Turkey", in Fikret Adaman and Murat Arsel (eds.), *Environmentalism in Turkey: Between Democracy and Development* (UK: Ashgate Studies in Environmental Policy and Practice, 2005), p.152.

[52] Necdet Pamir, "Dünyada ve Türkiye'de Enerji, Turkiye'nin Enerji Kaynakları ve Enerji Politikaları", Mayıs 2003.
Available from: http://www.emo.org.tr/modules.php?op=modload&name=News&file=article&sid=774 accessed on 23 September 2005.

[53] *Ibid.*, p.19.

[54] See Osman Sevaioğlu, "Elektrik Sektöründe Bir Serbestleştirme Deneyimi: Kaliforniya Krizi", ("A Liberalization Experience in Electricity Sector: California Crisis", translation from *Business Week*, 12 February 2001).

market might not lead to higher efficiency and low prices at all. Yet, the liberalization effort in the EU has transformed a fragmented industry dominated by a small number of regional state utilities into a European market ruled by an oligopoly of powerful privatized energy corporations. These led to several distortions in the EU electricity market that small number of powerful electricity suppliers protected their high price policies in order to prevent any competition on prices.[55] Consequently, despite the fall in the wholesale electricity prices, small consumers could not benefit from this fall. Moreover, transmission and distribution systems generally have high sink costs and the feature of economies of scale, which means that it is not always economic to establish a second transmission and distribution grid for the reasons of creating a competitive market, can hardly been met in a liberal electricity market.[56]

Since the case of electricity replicates a "knife-edge" situation (volatile supply-demand conditions, the necessity for uninterrupted and secure supply of electricity, etc.) the policy-makers have to be prudent while carrying out the electricity supply policy.[57] The rulers should also take the country's institutional structure and legal status into consideration that an unregulated electricity market may lead to consumer discrimination and market failure. For Turkish electricity sector, on the other hand, the regulating authority (EMRA) is supposed to fulfill effective regulation and more involvement of the government seems vital to protect the rights of all consumers. Turkish policy-makers also have to be aware about the financial and differences between the countries.

Given that the liberalization in the electricity sector among the EU countries initially stepped at 30-35 percent, even this rate was 8 percent in France,[58] it would not be too wise to envisage a full liberalization process in Turkish electricity sector. The relative success of several EU countries in establishing a fully functioning competitive electricity market such as the United Kingdom and the Scandinavian countries[59] may be misleading as the overall economic indicators and wise institutional correspondence in these countries are not identical with those in Turkey.

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[55] Anakök, *op. cit*., p.119.
[56] *Ibid.*
[57] Roberta W. Walsh and John G. Heilman, *Energizing the Energy Policy Process*, (Westport: Quorum Books, 1994), p.4.
[58] Pamir, "Dünyada ve Turkiye'de …", *op. cit*., p.28.
[59] Anakök, *op. cit*., pp.121-122.

In addition to the liberalization and privatization efforts in Turkish electricity sector, the dependency on the Russian natural gas for electricity generation (somewhat an exogenous parameter) renders an obligation of firm energy planning in order to assure Turkey's energy security. Admittedly, if a country does not search for alternative ways of energy inputs or at least does not diversify resources she might ultimately experience bottlenecks both in economic and strategic terms.

Lastly, the Ministry of Energy and Natural Resources (MENR), its affiliated institutions such as TEAŞ and TEDAŞ and also the State Planning Organization (SPO) have been responsible for the processes of policy-making, planning, operating and investment until the enactment of Law No. 4628. Yet, EMRA and Turkish Privatization Authority (PA) have been introduced as new and prevalent actors beside these institutions in the electricity sector after the recognition of the electricity market law. Indeed, a multilateral participation in policy implementation sounds better (including non-state actors such as universities and the other scientific research institutions) instead of few actors in Turkish electricity sector.

2.2.2. The Natural Gas Sector

Starting from the mid-1980s, in addition to coal and oil, "natural gas" has begun to be perceived as the main alternative energy input for Turkish daily life and industry. Turkey has involved in many foreign bilateral gas purchase contracts, some of which have "long-term sale" conditions.[60] These agreements incrementally enabled Turkish governments to look for new sources (e.g. foreign financial support) for the infrastructure projects such as the construction of natural gas grids across the country. Hence, revealing the opportunities and threats of the natural gas story and showing what sort of a legal basis the natural gas business is based on, turns out to be very crucial.

The natural gas business started via a bilateral agreement with former Soviet Union. In 1986, Turkey began the construction of a pipeline to carry Soviet natural gas from the Bulgarian border to Ankara; the line was completed in the late 1980s. In 1990, government officials announced that they also desired to purchase Liquefied Natural Gas

[60] Gas demand has been growing rapidly but the overestimated demand forecasts, caused principally by the 2000-2001 economic crises, have led to some risk of oversupply because most of the imports are based on long-term take-or-pay contracts. (*Energy Policies of IEA Countries – Turkey*, 2005 Review, p.12.)

(LNG) from Algeria by ships, a move that could help balance Turkey's large purchases from the Soviet Union. However, Turkey has been contracted to receive 30 billion cubic metres per annum (bcm/y) of natural gas from Russia by 2010.[61] Of this amount, 16 bcm/y would be delivered by the Blue Stream Natural Gas Pipeline Project, which involved the use of twin parallel pipelines laid across the Black Sea.[62] Turkey has also been contracted to receive up to 10 bcm/y from Iran by 2007.

With the natural gas pipeline projects, Turkey has witnessed the dominancy of natural gas for meeting Turkey's energy needs. Environmental, geographic, economic and political reasons played major roles for Turkey's insistence on the natural gas option. Firstly, gas was less polluting than coal or oil. Moreover, the parsimonious assessments have driven the public and private entrepreneurs to construct gas-fired power plants since they were relatively cost-optimal and easy to construct.[63] Secondly, the location of the country, which is near to huge gas deposits in the Middle East and Central Asia made Turkey focus on the natural gas option. Thirdly, Turkey could offset part of its energy import bill through the transit fees it could charge for oil and gas shipments across its territory.
In addition to these opportunities and advantages, there are still basic threats and deadlocks regarding the supply of natural gas. Firstly, Turkey does not have sufficient storage areas for natural gas. Hence, high demand growth potential for households and industry has become a problem due to the gradual growth in transmission grids of natural gas Secondly, the gas-purchasing agreements between Russia comprise debatable matters, namely "take-or-pay" status and the long-term purchasing guarantee, given by the Turkish Governments, has brought an overwhelming situation. Turkey will likely face gas surplus by 2010.

When looked at the legal status of the natural gas sector, on the other hand, Natural Gas Market Law (Law No. 4646) envisages a steady privatization process by 2009 with leaving domestic gas transmission service to BOTAŞ. The privatization of the other services (excluding the transmission service) will be performed via the unbundling of

[61] For further information visit the official web site of BOTAŞ: http://www.botas.gov.tr accessed on 14 December 2005.
[62] See Gareth M. Winrow, "Turkey as an Energy Transit State", the Conference on Black Sea: Energy and Environment, İstanbul Bilgi University, *Marine Law and Policy Research Center*, İstanbul, 15 May 2003.
[63] Ferdinand E. Banks, "An Introduction to the Economics of Natural Gas", *Organization of the Petroleum Exporting Countries (OPEC) Publishing*, OPEC Review, March 2003, p.39.

each phase and thereby, assigning to different companies.[64] Law No. 4646 also authorizes EMRA to regulate the activities of the private companies via the method of "licensing". Therefore, the law brings two important arrangements.

Firstly, the multiple phases of the gas sector, which are the import, domestic transmission, wholesale, storage and distribution, will be unbundled and one company will not be able to make business in more than one phase.[65] Secondly, by the introduction of the "free consumer" application (as it is in Law No. 4628), the factories and power plants, which consume high volumes of gas will be able to purchase gas from farther suppliers apart from the ones that are much closer to them.

There are clear attributions to the natural gas sector in the World Bank's "Gas Sector Strategy Note" published in 2004.[66] It is stated that "Buy and sell functions" of BOTAŞ should be changed and it should only fulfill the transmission facilities. According to the strategy note, BOTAŞ's monopoly in imports should be abandoned; its share of imports needs not be reduced as far as 20 percent by 2009; the focus should shift upon ensuring fair competition in supply; BOTAŞ's wholesale monopoly should be broken up; and contract transfers should be replaced with a gas release program. Lastly, there is a reiteration that BOTAŞ should act as a transmission entity, instead of being a merchant company.[67]

Insofar, a set of opportunities and possible deadlocks have entered in Turkish natural gas sector agenda. While "environmentally-friend" natural gas and broad transmission grids appear as opportunities, one important point has to be underpinned that the high dependence to Russian gas jeopardizes Turkey's energy security, the sustainability of industrial production as well as Turkish daily life. It can be suffice to say that providing gas even with high prices to sustain gas inflow may not be beneficial in the long-term.[68] Hence, policy-makers may have to bear political pressures regarding the future provisions of natural gas. Thus being well aware of exogenous factors and *realpolitik*, the political economy of natural gas turns out to be decisive.

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[64] Ataay, *op. cit.*, p.237.
[65] *Ibid.*, p.238.
[66] Infrastructure and Energy Department, Europe & Central Asia Region, World Bank, *Turkey, Gas Sector Strategy Note*, Report No. 30030-TR, September 2004.
[67] *Ibid.*, pp.3-5.
[68] Pamir, "Dünyada ve Türkiye'de …", *op. cit.*, pp.38-39.

The legal status of natural gas, on the other hand, serves similar apprehensions like in the electricity sector because this sector can also be regarded as a natural monopoly. Moreover, unbundling of BOTAŞ's facilities requires strong regulation since 80 percent of gas consumption is realized by the industrial units, which can be known as free consumers. The remainder part is covering the households; hence, the possibility of regional oligopolies may lead to imperfect competition and entail the involvement of the Board of Competition.[69] Furthermore, the time line activities and responsibilities for the natural gas market are limited to few institutions.[70] To sum up, there are still vulnerabilities in the natural gas sector and a comprehensive strategy needs to be pursued with taking social and national interest into consideration, thus the participation of other institutions in the policy-making.

2.2.3. The Oil Sector

Oil has been the most important distinct commodity in shaping the world history in the last century. The following expression, perhaps, fortifies the utmost prominence and the necessity of oil: "The fate of nations on the battlefield is no longer determined by the force, movement and speed of their manpower, but by the extent of their access to the machines which were powered by energy sources".[71] This expression might be regarded as a cliché in a country's political and economic route since the use of oil has not only become prevalent in warfare, but also in industrial and daily life.

One can argue that the international politics and economics are severer battlefields of the 21st century, than they used to be in the past century given that the international oil industry has developed and shifted to a remarkable degree. Additionally, it has been dominated by vast, enormously powerful, private profit-maximizing corporations of the developed Western nations[72] [particularly, the British and US multinational corporations (MNCs)]. These states also share their capabilities with their own corporations.

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[69] Ataay, *op. cit.*, p.239.

[70] When looked at the table of time-line activities and responsibilities (See Table 1.1. in *Gas Sector Strategy Note*, World Bank, *op. cit.*, p.6.), MENR and BOTAŞ are shown as the key institutions taking part in the natural gas market.

[71] Daniel Yergin, *The Prize: The Epic Quest For Oil, Money and Power* (New York: Simon and Schuster Publishing, 1992), p.169.

[72] Temel İskit, "Turkey: A New Actor in the Field of Energy Politics?", Perceptions, *Journal of International Affairs*, March-May 1996, Volume I, No. 1, p.59.

Turkey, in this respect, can barely be considered as a fully endowed country in the politics and economics of oil, firstly, since she is a net importer of this energy resource and the future projections show the importation of oil will likely rise in the next decades.[73] Secondly, it hardly has competent national oil corporations (apart from the state-owned TPAO), which can carry out prominent projects abroad and at the domestic level, in spite of Turkey's geo-strategic location. Accordingly, high dependency on imported oil regardless of indigenous production, high taxation in oil and oil products[74], promoting "transportation on rubber wheels" across the country and taking the profitable oil related public enterprises into the privatization portfolio appear as debatable matters and somewhat as the obstacles in shaping Turkey's energy policy. These components have put Turkey into an intricate situation, in terms of international economic competition and right to have a say within regional political occasions.

In terms of oil exploration and production, Turkey exhibits rather a wavy situation. Current annual crude oil production, in 2005, meets only 10 per cent of the national demand and the remainder is imported. At 41.9 per cent, oil consumption is the single most important component of Turkish energy consumption and accounts for over 61 per cent of energy imports.[75]

With the liberal wave of January 24 Decisions in 1980, the reconstruction in the public sector entailed the rise in the volume of private investments. Integral structure of the public entities began to be changed due to the idea of "financial deepening".[76] The legal amendments had envisaged a new structure in 1983; Turkish Petroleum Corporation (TPAO) was authorized to handle oil exploration and production services[77] while BOTAŞ was authorized in oil pipeline facilities. Sea Management and Tankers Corporation (DİTAŞ) began to execute the transportation, Turkish Petroleum Refineries Corporation

[73] Refer to the official web sites of BOTAŞ and Turkish Ministry of Energy and Natural Resources (MENR): http://www.botas.gov.tr and http://www.enerji.gov.tr

[74] Turkey is placed in the first row in terms of the unleaded gasoline sale prices and she has the third row regarding the tax burden on these sales among the OECD countries. Tax rate on the gasoline has shifted to 70 percent in 2005 while it was 65.8 percent in 1996 (*Cumhuriyet*, 13 January 2006).

[75] Arsel and Kaygusuz, *op. cit.*, p.151.

[76] Önder, *op. cit.*, p.120.

[77] TPAO has been active in Egypt, Kazakhstan, Azerbaijan, Turkmenistan and Iraq. In Egypt, TPAO has discovered oil and started test production at the end of 1994. 631.816 barrels of oil were produced in 1995 from three oil wells. (European Commission, Directorate General for Energy- DGXVII, *Black Sea Regional Energy Centre*, Black Sea Energy Review- Turkey, October 1997). However, the last decade has shown a gradual decline in TPAO's oil exploration and production engagements.

(TÜPRAŞ) became responsible for the refineries, Petro-chemicals Industry Corporation (PETKİM) started to deal with the petro-chemical industry and Petrol Ofisi A.Ş. (POAŞ) did to handle the distribution facilities.[78] The executive of all these facilities would be carried out by the General Directorate of Petroleum Affairs (PİGM), one of the directorates of MENR. Following in this vein, TÜPRAŞ, POAŞ and PETKİM were taken into to the privatization agenda by the ratios 2-3 percent in the late 1980s. Furthermore, the synchronization of domestic oil prices with world oil prices was implemented in 1989 and "Automatic pricing mechanism" in oil commenced in 1998. Another liberalization movement came into scene that the rights to construct oil pipelines, purchase and construct oil refineries, establish affiliates with public enterprises and manage these affiliates, all have become tangible in the 1990s. Private oil distribution companies began to participate in the sector in this decade.[79] Finally, the Petroleum Market Law (Law No. 5015) was enacted in December 2003.

The law authorized EMRA to regulate the activities of the companies and have the right to take up licensing (issuing or canceling) the companies in oil sector. The law also demarcated the multiple phases of the oil sector, which are exploration, production, domestic transmission, transportation, storage, refining, petro-chemical process and distribution. These phases would be unbundled and one company would not be able to make business in more than one phase since the law prohibited vertical integration among the companies. So far, Law No. 5015 envisaged similar implementations in the oil sector as in Law No. 4628 and Law No. 4646, which are Electricity Market Law and Natural Gas Market Law, respectively.

Turkish governments have also utilized "taxation" as a strong fiscal policy instrument that has put a great burden over the shoulders of the final consumers. In actuality, tax rate on oil and oil products, is fairly greater than it is in many developed countries. Another issue is that the price of oil products (fuel at fuel stations, wholesale facilities to industry and households, etc.) used to be determined by a joint will with the Turkish Undersecretariat of Treasury, Turkish Ministry for Finance and Turkish Ministry for Energy and Natural Resources (MENR). It, then, began to be determined within the oil market by 1 January 2005. Automatic pricing policy according to foreign exchange rate (US dollar) is still a debatable matter. Nevertheless, consumers still witness price

[78] Ataay, *op. cit*., p.241.
[79] *Ibid.*

increases in oil products and this somewhat justifies the prolonged taxation regardless of downward movement of the exchange rate.

The liberalization attempts in oil have also started to go parallel with the electricity and natural gas sectors. One final aspect is worth emphasizing that the privatization of major public oil refining and distributing enterprises and petro-chemical enterprise such as TÜPRAŞ, POAŞ and PETKİM, respectively, has densely entered into the government's agenda. It is necessary to express that these enterprises can be considered as the most profitable public entities. Nevertheless, the political will has stressed the priority of privatization of these two enterprises before they meet financial losses, while they are profitable at the time. The 51 percent share of POAŞ was sold to investors in 2000 and it was mostly privatized in 2005. Despite there are deadlocks in Law No. 5015[80], the privatization of TÜPRAŞ and PETKİM have already been put into the Privatization Administration's portfolio. The privatization implementations of these two enterprises also found room in the latest Letter of Intent sent to the IMF 2005.

The Letter of Intent sent by Turkish economy officials (the President of Turkish Central Bank and the Minister of State) to the IMF on 26 April 2005 was approved by the IMF Executive Board on 11 May 2005.[81] So far, this approval led to the nineteenth Standby agreement between Turkey and the IMF, which was the first Standby agreement, signed regardless of the provision through a severe economic bottleneck in Turkey. Despite there were no immediate necessities for the financial aid, there were clear attributions to the energy sector dealing with the privatizations in the Letter of Intent, dated 26 April 2005.[82]

In the letter, the sale plan of the remaining 51 percent of TÜPRAŞ was put into practice during 2005 that 15 percent of the enterprise were sold to investment funds through Istanbul Stock Exchange (ISE), raising US $ 440 million.[83] This intention was based on the decision of High Privatization Council with 6 April 2005. Given that total sales revenue of TÜPRAŞ was realized as US $ 16.1 billion and its yearly net revenue was US

[80] Obstacles came into scene from the jurisdiction regarding the envisagement of Law No. 4628 and Law No. 4646 that privatization attempts of several SEEs were cancelled by the decisions of the Council of State (Danıştay).
[81] "IMF'den 10 Milyar Dolarlık Yeşil Işık", *NTV-MSNBC News*, 1 June 2005. Available from: http://www.ntvmsnbc.com/news/323172.asp accessed on 20 September 2005.
[82] See Letter of Intent and Memorandum of Economic and Financial Policies of Turkish Government, submitted to the IMF on 26 April 2005. Available from: http://www.imf.org/External/NP/LOI/2005/tur/042605.pdf accessed on 11 November 2005.
[83] *Ibid*., see Article 33 on p.15.

$ 491 million with US $ 8.2 billion benefit to Turkish economy by the end of 2004, a total privatization value of US $ 2.9 billion (nominal) does not seem wise and optimal at all. Besides, TÜPRAŞ has always been the "engine" of Turkish oil sector that has proven its profitability and it has been an abiding enterprise of public sector.

Turkish oil sector exhibits a transition as it is in electricity and natural gas sectors, particularly since 2001. The establishment of EMRA (as an independent regulatory body) led the implementation of basic licensing activities under its jurisdiction. After unbundling of the integral structure of TPAO, foreign and private entrepreneurs began to participate in the oil sector. Moreover, the activities of the Privatization Administration (PA) seem to sustain the liberalization in the oil sector. Remarkably, similar apprehensions have occurred in the public opinion like in the other energy sub-sectors.

Today, international competitiveness of basic state enterprises, thus, the country's competency as well as national interest and security issues, have already turned out to be the debatable matters in Turkish oil sector. Moreover, the funds devoted to the new investments for the facilities of oil exploration and feasibility studies (by TPAO and MTA) have steadily diminished[84] because of the political pressures of the global finance institutions, and also by international fossil fuel lobbies. Finally, debates still continue regarding the other energy sub-sectors and they mostly involve within the aptitude of EMRA and other joint institutions whether the market mechanism in energy can prevail against the possible oligopolistic mergers and imperfect competition in the future.

2.2.4. The Coal Sector

Coal has always been considered as one of the prevailing fossil resources and as a major energy input for the industrialization of the countries. However, the use of coal has relatively been hindered by economic and environmental factors due to the comparative analyses that coal is perceived more polluting than natural gas. While the fuel and operating costs of coal-fired plants are notably lower than gas, high initial capital costs, longer construction periods and high employment requirements of these plants make coal a riskier business, thus, drive the entrepreneurs to hesitate or refrain from the engagement in such business, given a rapidly changing energy market.

[84] Pamir, "Dünyada ve Türkiye'de …", *op. cit.*, see footnote 3 on p.6 and also pp.12-13.

Geographically homogenous distribution of coal deposits still make "Black Gold" a precious energy resource and many countries (developed or less developed) still carry on using coal for electricity generation (see Table 2 in Appendix A, p.120). Therefore, countries have hardly paid a definite "trade-off" between the percentage use of coal and the other fossil fuels for creating economic value. There is an important parameter avoiding a sharp trade-off that the depletion period of coal reserves seems extremely longer than the periods of oil and natural gas. Along this path, countries have not given up running lignite-fired power plants and making supplementary investments in the coal sector. In contrast to the other countries, the coal scenery in Turkey does not correspond to that of the other countries subject to the shifts in its energy policies. Conversely, many "lignite-fired power plants", due to the so-called "poor quality of indigenous coal reserves" and lack of supplementary investments, have been taken into the Privatization Administration's (PA) portfolio.

When looked at a brief historical survey, the coal sector was relatively vivid in the 1950s since the heating and the facilities of electricity generation were being met by coal and lignite. Turkish Coal Enterprises (TKİ) was established in 1957 and the management of the coalmines was transferred from Etibank (former state-owned economic enterprise) to TKİ in that year. It was striking that the hard-coal production increased to 3.6 millions of tons while the lignite production did to 4.1 millions of tons in 1960.[85] However, the relative decline in oil prices in the early 1960s led to intense fuel-oil consumption, which had replaced the use of coal for heating and electricity generation. The 1970s witnessed two big oil supply shocks (1973 and 1977 OPEC Oil Crises) and huge consumption of oil and oil products altered Turkish energy policies, which began to rely on coal and lignite production in the late 1970s.[86] In 1967, the hard-coal production increased to 5 millions of tons while the lignite production rose to 15.1 millions of tons in 1978. Almost 67 percent of lignite production was handled by public sector where the remainder part was performed the private sector via licensing to private companies in the late 1970s.[87]

The scenery in the coal sector had changed again by the beginning of the 1980s. The natural gas and imported coal entered into the government's agenda. Hence, the devotion of these two for the electricity generation steadily increased in Turkey. Moreover, there has been an institutional transition that Turkish Hard-Coal Enterprises (TTK- established

[85] Ültanır, *op. cit*., p.246.
[86] *Ibid*., p.247.
[87] *Ibid*.

in 1983) and Etibank were separated from MENR in the mid-1985.[88] Due to the consequences of the imported energy inputs, the institutional appearance has continued to remain and the activities of the General Directorate of Mineral Research and Exploration (MTA) for coal production gradually decreased by the end of the 1990s. The important point to be stressed is that the rate of substitution of the domestic coal production to meet the overall consumption has dramatically diminished since the 1980s. This ratio was 54 percent in 1980 and has become 33 percent by the end of 2005.[89] Future projections show that this ratio will likely be 26 percent by 2020.

Remarkably, the coal sector has demonstrated that the domestic coal production has been crowded out by huge importation of coal from Russia, Ukraine, China, South Africa, Australia and India. The amount of the imported coal reached to 16 millions of tons and the cost of it was US $ 1.2 billion in 2004.[90] Furthermore, the electricity generation in natural gas-fired power plants climbed to 40.6 percent in 2004 where the rate of domestic coal was 16.6 and imported coal was 6.1 percent in the same year.[91] Accordingly, many of the lignite-fired power plants have been working below their established capacities (see Table 1 in Appendix A, p.119). By the end of 2005, government officials declared that the amount of the requirement for additional investments in Turkish energy sector is about US $ 3.5 billion on a yearly basis.[92] In addition, leaving the implementation of the investments to the private sector has already been the domineering idea. The privatization of lignite-fired power plants as well as the hydro-plants has also become the basic matters of the government's agenda.

Taking the high coal reserves (hard coal for 1.3 billions of tons and lignite 9.3 billions of tons) into consideration Turkey may bring favorable solutions to replace its current fragile position unless national energy resources are taken for granted.[93] Many developed countries continue to rely on their coal deposits with being aware that the depletion life of coal is the following 240 years whilst the lives of oil and natural gas are 40 years and 60 years, respectively. What is more, the world's fossil fuels include coal at 70 percent,

[88] *Ibid.*, p.253.
[89] "Enerji Dosyası 2", *Cumhuriyet*, 14 January 2006.
[90] *Ibid.*
[91] *Ibid.*
[92] "Karşı Görüs" program broadcasted on *NTV*, 1 February 2006.
[93] Turkey has large lignite resources, which make a far bigger contribution to its security of supply and are much more competitively priced (without subsidies) than its hard coal resources ever could be. (*Energy Policies of IEA Countries – Turkey*, *op. cit.*, p.13.)

crude oil at 14 percent, natural gas at 14 percent, and others at 2 percent.[94] When the general distribution of these fuels is investigated it is seen that while oil and gas reserves are found in certain geographical regions, coal deposits are regularly spread over different regions and the coal production is performed in 50 countries in the world.[95]

To sum up, Turkey has posited a rather risky situation in the coal sector since the volume of imported coal has considerably increased for the last two decades. Today, energy policies have already begun to be based on a 20-30 year scheme due to the scarcities of favorable primary resources (oil and natural gas). Many countries turn out be more sensitive and cautious about their energy policies. Therefore, Turkey is supposed to revitalize its energy policy by giving more emphasis to the "coal option" and by increasing the percentage use of this option in the energy portfolio instead of focusing on taking the power plants into the PA's privatization portfolio.

2.2.5. The Renewable and Alternative Energy Resources

Geographically, Turkey can be considered as one of the providential countries and its potential renewable resources can barely be undermined when compared with the dominance of the fossil fuels. Insofar, international lobbies involving the fossil fuel business and the lack of political will to stress the alternative and renewable energy resources have somehow prevented Turkey to perform wise alternative energy policies.

Yet, Western countries have already given emphasis to alternative and renewable energy resources regarding prominent parameters such as huge economic burden of imported fossil fuels, energy intensity and efficiency, industrial development and energy supply security. In this respect, hydro-electricity power plants (HEPPs) have gained more attention than they had before. Ironically, additional public investments, which were supposed to be devoted for the revitalization of the hydro-plants and other renewables, have decreased in Turkey. Beside the hydro-plants and the other renewables, the nuclear energy case has seriously re-entered into government's agenda by 2005.

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[94] Güngör Tuncer and M. Faruk Eskibalcı, "Türkiye Enerji Hammadeleri Potansiyelinin Değerlendirilebilirliği", *İstanbul Üniversitesi, Mühendislik Fakultesi, Yerbilimleri Dergisi*, Cilt 16, Sayı 1, 2003, p.91.

[95] *Ibid.* (Also see Table 5 in Appendix A, p.123 in order to view the coal use ratios for electricity generation among several countries. Turkey's rank depicts that the coal use ratio of it is extremely low, which is highly debatable concerning Turkey's energy security given there is high dependence on natural gas for electricity generation.)

Turkey has plentiful reserves of renewable energy, such as geothermal, hydro, solar, wind, and biomass.[96] The country has the potential for 125 GWh/year (34,729 MW) of hydropower, 8000 MW of wind power, 35 Mtoe/year of solar energy, 35,000 MW of geothermal energy and 16.92 Mtoe/year of bio-energy. The actual utilization for the year 2001 is 24,010 GWh for hydropower, 152 GWh for wind energy, 287,000 toe for solar energy, 1.759 Mtoe for geothermal energy, 6.98 Mtoe for bio-energy.[97] Even so, Turkey has generally been resolute about the utilization by hydropower among the other renewable energy resources.

Since the inception of an ambitious and continuing dam construction program in the 1930s, Turkey has constructed 202 large and 317 small dams; 114 of these dams also operate as HEPPs and over 200 new HEPPs of varying sizes are either in construction phase or under planning. Until the mid-1980s, plans for dam construction remained largely outside the political sphere and were treated mainly as technical decisions.[98] After the natural gas entered Turkey's energy portfolio, the gas-fired electricity power plants have turned out be more popular because due to the cost-conscious assessments and huge natural gas contracts with former Soviet Union. Today, beside the hydropower option, the initial capital costs employed to construct renewable energy power plants are considered relatively higher than the costs of the fossil fuels (natural gas, oil and coal).[99] Thus, the tendency to invest in renewable energy resources have been curtailed by the public sector, particularly for the last two decades.[100] Nevertheless, given the diminishing amount of the variable costs in the long-term (abundant fuel inputs such as water and wind), cost-conscious appraisals also seem inadequate to advocate the irrelevance of the renewable energy resources.

Yet, the benefits of exploiting these sources appear to be noticeable. By giving more emphasis to the indigenous energy resources, renewable energy can reduce reliance on imported fuels and enhance Turkey's energy security; the environmental impact of

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[96] See Table 3 in Appendix A, p.121. (Regarding the forecasts of energy demand in Turkey will rise to 154 mtoe in 2010 and 282 mtoe by 2020, the amounts of energy obtained by the renewable energy resources is worth to be noticed.)

[97] Durmuş Kaya, "Renewable Energy Policies in Turkey", *Renewable and Sustainable Energy Reviews*, 10 (2006), p.162.

[98] Arsel and Kaygusuz, *op. cit*., pp.159-160.

[99] The cost of the establishment of one MW for the wind turbines is said to be US $ 1000 while cost for the same MW for hydro-electricity power plant is expressed as US $ 2000-2400 in Turkey. ("Enerji Dosyası 2", *Cumhuriyet*, 14 January 2006.)

[100] Pamir, "Dünyada ve Türkiye'de …", *op. cit*., p.11.

renewable technologies is far less than that of nuclear and fossil fuel power plants; there are no emissions of greenhouse gases of toxic wastes; the cost of electricity from some renewable energy sources is already competitive with many conventional technologies; renewable technologies have no fuel costs and are virtually inexhaustible.[101] Being aware that the three third of Turkey's hydro-potential could not be put into service,[102] the privatization efforts of the hydro-electricity generation plants[103] have revealed that public sector has refrained to implement refurbishments in these plants particularly for the last ten years.[104] What is more, the private sector has also been hesitant to engage in even small hydro-projects.

Beside the renewable energy resources, nuclear energy power and the installation of nuclear power plants (NPPs) have also remained within the energy policies of the countries. There are 442 nuclear reactors, which meet 16 percent of the electricity generation and have an established power of 368.611 MW in the world by October 2005.[105] In addition to the presence of nuclear power as a major energy input for electricity generation, states have also utilized the nuclear technology as a prominent political instrument since the inception of the Second World War.

The current trend for nuclear energy supply seems to be uncertain, due to public opposition in some countries and economic considerations, such as higher capital costs, compared to some other power technologies. The prospects for nuclear energy depend on certain factors such as safety, the demonstration of geological disposal of high-level

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[101] Ayhan Demirbaş, "Energy Facilities and Nuclear Power Program by 2020 in Turkey", *Energy Sources*, Taylor & Francis, No. 23, 2001, pp.407-408.

[102] Pamir, "Dünyada ve Türkiye'de …", *op. cit.*, p.15. [The feasibility studies have shown that the established hydro-electricity power was 35.500 MW and the economic utility that can be derived by this establishment was 126 billions of kwh/y (kilowatt-hours per year), *ibid*., p.20.]

[103] "Hazar Hydro-electricity Power Plant" was already privatized in 2004. (Anakök, *op. cit*., p.112.) Moreover, many other hydro-electricity generation plants have been taken into the PA's portfolio (See "Electricity Sector, Distribution of the Companies in the Privatization Portfolio" at the official web site of the PA: http://www.oib.gov.tr, accessed on 6 October 2005.) Moreover, Hilmi Güler- current Minister of Energy and Natural Resources of Turkey, remarked that six huge hydro-power dams will be opened to public transactions by the end of 2005. (Remarks by Hilmi Güler, "BÜYÜTEÇ" program, broadcasted on *TRT*, 21 November 2005.)

[104] An updated information revealed that the use ratio of combustible fuels for electricity supply in Turkey reached to 54.2 percent while the ratio of hydro power remained at 19.9 percent by the first half of 2005. The percent change from the same period of the previous year depicted that hydro-power decreased by 23.6 percent while the use ratio of combustible fuels increased by 24.5 percent. [*International Energy Agency (IEA)*, *Monthly Electricity Survey*, June 2005- 17.]

[105] *Cumhuriyet*, 14 January 2006.

wastes, the competitiveness of nuclear power plants and public acceptance.[106] The maximum attention has to be devoted to the construction and the management of the NPPs such as the use of quality stuff, sustainable information flow among the working staff (know-how), updating the designs with error feedbacks, the elaborate security systems and also the supply of containment buildings in case of unprecedented nuclear accidents.[107]

Despite there have been arguments about the relinquishment of the use of nuclear energy, another ongoing debate about reducing greenhouse gases to avoid the potential onset of global warming has led to reveal some advantages of nuclear power as a technology, which does not emit greenhouse gases. Moreover, regarding the nuclear reactors run by fast neutrons, it has been alleged that world's thorium reserves might meet the global energy needs for the following 1.800 years.[108] It has also been asserted that the energy enhanced by one kilogram of processed (or enriched) uranium can meet the energy that is attained by 130 million litres of oil.[109] Nevertheless, the proclamations about the recent improvements in the nuclear techniques have not offset the debates, which are still carrying on, whether to use of nuclear option as a major source of energy or not.

When looked at the nuclear story of Turkey, on the other hand, first intention for the establishment of a nuclear reactor was realized in the end of the 1960s. In 1974, Mersin - Akkuyu area was contemplated for the construction site, then, it was delayed to be taken up in 1977. The 1980s also witnessed the realization ideas of nuclear reactors and the foreign investors were invited to take up the construction via the Build-Operate-Transfer (BOT) method. However, the amortization period of the plant was estimated as 35 years by the foreign investors that was not so attractive in order to invest. In 1998, Akkuyu was taken into consideration again; three consortia took part in the bid for Akkuyu Nuclear Reactor, yet, was not ratified by Bülent Ecevit- the Prime Minister in 2000 - since the nuclear energy was not economically affordable at that time. In spite of the bids for the considered NPPs, there could not be a solid outcome by 2000.

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[106] Erdener Birol, "National Energy Outlook of Turkey and Expectations from Nuclear Technology" *World Nuclear Association Annual Symposium*, 4-6 September 2002, London, p.1.
[107] "Nükleer Enerji Gerçekleri", *NTV-MSNBC News*, 2 March 2006. Available from: http://www.ntvmsnbc.com/news/363511.asp accessed on 4 March 2006.
[108] *Ibid.*, p.82.
[109] "Nükleer Enerji Gerçekleri", *NTV-MSNBC News*, 2 March 2006.

In the early 2006, Turkish government officials declared that they have seriously been considering the nuclear energy option, particularly dealing with energy security and the possible emergence of an energy bottleneck in the near future. Hilmi Güler- current Minister of Energy and Natural Resources of Turkey- announced that three or five nuclear reactors, of which the construction of the first would start in 2007, would be installed and these reactors would generate electricity equivalent to 5.000 MW by the end of 2015.[110] According to the projections, first nuclear reactor will initiate to generate electricity by 2012 and the cost of the investments will be US $ 7-8 billions that is expected to be undertaken by foreign private entrepreneurs.[111] Following in this vein, the technology transfer will be provided from the US, Japan, Russia, South Korea, France and Canada.

In spite of the recent nuclear projections, severe debates have also taken up within the energy agenda tackling with the use of nuclear technology in Turkey that the marginal utility of the nuclear energy is not substantial given the initial capital costs and staff requirements are not economical. Around 10.000 competent people need to be employed and schooling of them will take 6-7 years.[112] Secondly, energy experts advocate that Turkey should not engage in immediate nuclear decisions, rather wait for new nuclear technologies, which have lower capital costs, hence, calling for less work force. Thirdly, experts and civil society organizations propose that the public opinion should be satisfied and the viability of renewable and other alternative energy resources should be substantiated before heavily deciding on the nuclear energy. It is because the implementation of the nuclear technology can lead to another source of dependency given Turkey does not have such a complex nuclear experience. The environmental apprehensions also bring about another debatable issue in the use of nuclear energy. Fourthly, governments' accountability and administrative transparency about the energy implementations can be considered as the possible deadlocks of future nuclear energy management and safety.[113] Fifthly, but not lastly, the autonomy of the institutional bodies, which involve nuclear research and implementation, has been debated. The autonomous

[110] *Ibid.*
[111] *Ibid.*
[112] "Nükleer Enerjide Geri Sayım", *NTV-MSNBC News*, 15 February 2006. Available from: http://www.ntvmsnbc.com/news/361284.asp accessed on 18 February 2006.
[113] "…If Turkey develops a nuclear energy generation capacity, administrative capacities must be strengthened to ensure a high level of nuclear safety. Some progress has been made concerning radiation protection…" [*European Commission, Turkey 2005 Progress Report*, Brussels, 9 November 2005, *SEC (2005) 1426, COM (2005) 561 Final*, pp.134-135.]

and independent structure of Turkish Atomic Energy Authority (TAEK) was changed by the Prime Minister's Bill on 22 November 2002 and TAEK became liable to the Ministry of Energy and Natural Resources (MENR) where it was holding liability to the Prime Ministry.

Recent circumstances have shown that MENR, with its associate branches, has turned out to be the utmost institutional authority undertaking actions in the future energy planning.[114] Therefore, this sort of a unilateral appraisal, not only for the nuclear energy but also for the other energy assessments, might crowd out the multi-institutional implementation (including the non-ministerial and non-governmental participation) of energy planning, given that there is a huge bureaucratic politics in Turkey and each Turkish government has the habit of imposing its own set of principles.

As concluding remarks, it can be expressed that relying on few energy resources does not seem wise provided the emergencies about energy security and security of supply are taken into consideration. Thus, some important parameters have to be taken into account when assessing a potential energy source. These can be listed as the Energy Returned on Energy Invested (EROEI) Rate, renewability, environmental costliness, transportability and convenience.[115] Therefore, the industrial countries, being well aware of the economic, political and environmental constraints, have been in a quest of meeting their energy needs while diversifying their energy inputs based on the parameters above.

Nuclear energy, on the other hand, can be accepted as a strong alternative in the portfolio of energy supply, meeting one-sixth of world electricity demand; yet, it has been a controversial option. In this sense, economic, environmental and social feasibility studies as well as the keen participation of the other institutions and non-governmental organizations also hold significance for the viability of the nuclear energy. This situation also stipulates a fair optimization of the energy portfolio since a prudent distribution of energy inputs strictly involves a country's own economic wealth and limitations.

Turkey, as a latecomer in nuclear technology, seems to witness further debates about the realization of NPPs although the policy-makers consider nuclear capability as a political and a strategic tool beside the alternativeness of nuclear energy. Turkish policy-makers

[114] See Table 5 and Table 6 in Appendix A on pp.123 and 124.
[115] Richard Heinberg, *The Party's Over: Oil, War and the Fate of Industrial Societies*, (Canada: New Society Publishers, 2003), pp.137-139.

will probably be opposed by some lobbying activities related to the importation of fossil resources with certain reasons such as the high costs of NPPs and nuclear waste problem, etc. The recent inclination toward the nuclear energy in Turkey seems as a political decision instead of heavily stressing the need for the nuclear energy as an alternative.

Lastly, the renewable and some other alternative energy resources[116] have not been fully elaborated in Turkey because of the dominance of the use of fossil fuels (namely, oil and natural gas). The administrative hesitancy, lack of a comprehensive energy planning and supplementary investments can also be deemed as the other factors for the unattainably of renewable and alternative energy resources. Furthermore, the beneficial factors of the renewable energy resources could hardly impel Turkey to follow national energy policies based on a multi-institutional participation. Through a comprehensive combination with efficiency gains, renewable energy sources stand to meet a significant proportion of the future energy need of Turkey.[117]

Table 4 (in Appendix A, p.122) comprising the next fifteen years' projection, clearly emphasizes the future growth rates of income, population and energy demand that Turkey will experience. By 2020, while the Turkish population reaches to almost 88 million, its energy demand will increase nearly three times than today's energy consumption. What is more, energy demand per capita also depicts an upward characteristic, which calls for the improvement energy efficiency and energy intensity. Regarding the energy intensity[118] as a function of the structure of the economy and energy efficiency, an economy characterized by industrial production is likely be more energy intensive than one specialized in services.[119] Accordingly, energy efficiency includes energy production (how much usable energy can be extracted from primary sources), energy transmission (distributing energy to the national economy) and energy use (production of goods or services by the application of energy).[120] Provided that the determinants of the energy

[116] Boron might be considered as a significant mineral that has various use areas. Turkey, with an estimated amount of 150 million metric tons of reserve base of boron mineral comes as the first in the global ranking (*US Geological Survey, Mineral Commodity Summaries*, January 2002, pp.36-37). However, technological and somehow political constraints have avoided favorable implementations about this mineral in Turkey.
[117] See Mustafa Balat, "The Use of Renewable Energy Sources for Energy in Turkey and Potential Trends", *Energy Exploration and Exploitation*, August, 2004, Volume 22, Number 4, pp.241-257.
[118] "Energy intensity" refers to *per capita energy consumption* in order create an additional US $ 1 value in a country's Gross National Product (GNP). (Pamir., "Dünyada ve Türkiye'de …", *op. cit*., p.2.)
[119] Arsel and Kaygusuz, *op. cit.*, p.156.
[120] *Ibid.*

supply (resource availability and price) are taken into consideration, Turkey will be affected within the augmentation of the energy intensity, energy intensity and energy supply by 2020.

The decision on the mix of energy production technologies (nuclear, thermic, renewable, etc.) and primary sources (uranium, oil, lignite, wind, etc.) need to be considered carefully, as certain combinations of technologies and primary sources are likely to result in more sustainable outcomes.[121] Therefore, wise energy planning, based on the achievability of national resources, and a serious examination for energy security with the recognition of a sensible importation portfolio seems vital for each energy sub-sector in Turkey. In addition, a coherent and consistent energy management has to be implemented not only by few state bodies, but also with the active assistance of the other non-state actors such as the universities and the institutions involving in further scientific researches.

To sum up, the energy planning of the 21st century calls for a time-scale of three subsequent decades and wise energy planning has already entered the agenda of many developed countries vis-à-vis the fact that the fossil fuels (especially gas and petroleum) are exposed to deplete in the near future. Interrelated to this issue, the autonomy to construct a comprehensive national energy strategy turns out to be extremely crucial in both domestic and foreign policy grounds. Eventually, this situation drives Turkey into a multifaceted energy issue, in which the other states and transnational actors closely participate, particularly in the Eurasian energy axis.

Thus, next chapter will scrutinize whether Turkey has been able to possess the autonomy and capability in the regional energy affairs. The main theme will be upon whether there has been a "State Policy" of Turkey in the international energy issues. Clearly, having a State Policy in energy does not only require a regular domestic energy implementation but it also necessitates a wise incorporation of domestic and foreign policy parameters, which are supposed to be coherent, consistent, gradual and incremental. Therefore, it seems useful to make an assessment about Turkey's situation in the Eurasian region so as to compare its domestic energy implementation with its foreign relations in the energy issues.

[121] *Ibid.*

CHAPTER 3

TURKEY IN THE EURASIAN ENERGY AXIS

> For all developed countries, whether planned, mixed or market oriented, energy is a vital factor of production. The basic industries in every modern economy- steel, chemicals, engineering- all need large inputs of energy, whether this comes from oil, coal, gas or nuclear power. Nor can any modern economy function without transport. Road, rail, sea and air transport are all heavy users of energy. And when there is a breakdown in the supply of power to homes and factories, a modern society comes almost to a standstill.[122]

Before proceeding to a sustained discussion, it would be appropriate to underpin what Susan Strange – a prominent International Political Economy (IPE) scholar from the London School of Economics- avers in the last paragraph above. Strange sheds light to an undeniable evidence that today's modern world economy and international relations do encompass *double causality*, which is the upshot of a joint and a reciprocal dynamism. Admittedly, the topics of this dynamism cover the agendas of inter-state diplomacy enclosing major economic issues[123] and the energy question does well lie beneath these economic issues.

Here, one should refer to the fact that oil and natural gas have been the prevailing energy resources of the 20th century and they will seem so in the 21st century, and Turkey has always been under the dominancy of the use of the fossil fuels. Hence, it would not be wrong to express that the debates have taken place around the absence of a comprehensive national energy strategy calling for the appraisal of domestic riches and sensible planning for future enhancement (importation) of fossil fuels. The last point might let us derive an insight that Turkey's geo-strategic location holds prominence within the "transportation structure", i.e. the "transportation of the Asian fossil energy riches to world markets".

As Turkey's steps in the energy issues are scrutinized densely within the domestic level so far, it will be apt to expand the subject to the international side within this chapter. Being also aware of the domestic policy pillar, the main effort will be devoted to the

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[122] Susan Strange, *States and Markets*, (London: Pinter Publishers, 1988), p.186.
[123] *Ibid.*, p.12.

evaluation of the international locus of Turkey with her energy situation. The purpose to handle such a scrutiny is to examine Turkey's role in the energy affairs as well as its own capabilities in the Eurasian region. Indeed, presenting possible challenges and benefits that Turkey makes out through the transmission of the Asian riches to the West and to the world markets will provide a sort of comparison with Turkey's domestic energy implementations.

By reiterating one scholar's apt outlook that "Turkey sits right on the fault line between Europe's 'Kantian' world and the 'Hobbesian' world of the Middle East"[124], one should be watchful about Turkey's energy situation in the Eurasian region: Have this process created certain possibilities for the achievement of the long-term goals? If so, were they economic or strategic, or both? How will the future possibilities in the energy game affect Turkey? This chapter will depict Turkey's foreign involvements in the Eurasian energy axis with giving more emphasis to the Eurasian energy pipelines and Turkey's energy agreements with the energy exporting states, particularly in the post-Cold War period. Indeed, the illumination of the concept of *energy security* and the importance of this concept for Turkey in its vulnerable neighborhood at first instance will be useful in order to make preliminary assessments about the energy lines passing through the Turkish territories.

3.1. The Concept of "Energy Security" and Turkey

With an estimated population of 70 million in the mid-decade of the 21st century, Turkey has prominently increasing energy consumption. Turkey imports 90 percent of its oil and is very dependent on Russian natural gas. Many of the power plants in Turkey are largely fueled by natural gas and she has already engaged in huge supply contracts with Russia and Iran. Through the evaluation of the geo-strategic location of Turkey in the Eurasian energy axis, on the other hand, it has a significant presence on the possible routes for carrying Caspian oil and natural gas to the world markets. The path of the Western Route, namely, "East-West Energy Corridor"[125] passes through Turkey. Taking the "Blue Stream

[124] Kemal Kirişçi, "Between Europe and the Middle East: The Transformation of Turkish Foreign Policy", *Middle East Review of International Affairs*, Vol. 8, No. 1, March 2004, p.40.
[125] "East-West Energy Corridor" comprises the future accomplishments of Baku-Tbilisi-Ceyhan (BTC) Crude Oil Pipeline Project, [South Caucasus Natural Gas Pipeline Project -SCP (Shah-Deniz Natural Gas Pipeline Project), here Baku-Tbilisi-Erzurum Gas Pipeline Project may be

Natural Gas Pipeline Project" and possible future "Samsun - Ceyhan Transit Natural Gas and Crude Oil Pipelines" into account, Turkey also portrays a strategic feature in serving the "North-South Energy Corridor". Therefore, the struggle for meeting her own energy needs and being an important transit path puts Turkey into a multifaceted situation.

Since these pipelines cross Turkey, Turkey's own energy needs and its security and stability concerns in her immediate neighborhood necessitate the formulation of new decisions in Turkey's energy strategy as well as in its foreign policy. Certainly, to deny that energy considerations play a much greater role in shaping a country's perception of its domestic and foreign policy interests may be inappropriate. Hence, energy politics has a prominent place due to the geo-political location of Turkey and has significance in relation to the transportation of energy resources in critical regions. Indeed, world energy resources seem sufficient to assure global demand for energy for the foreseeable future, however, challenges will likely remain in the form of political concerns, economic worries, distribution of resources and finally *securing* these resources while fetching them to final consumers.

In the historical process, the need for "securing energy" came forward as an indispensable part of national security and of national interest particularly after the First World War. An unmistakable feature of modern wars, which is closely linked with high energy consumption has been the degree of economic mobilization required for conducting major armed conflicts. This trend started during the First World War and has steadily increased with the growth of arms manufacturing. Thus, while another link between the energy use and success in war has been intensified, it also spread over the industrialization and the quality of life.[126] Following in this vein, securing the resources, retrospectively, has turned out be conceived as a significant study area, namely, the concept of "energy security"- mainly "oil security"- embodying a multidimensional discussion.

The concept entered the agenda of international relations through the wake of the Arab Oil Embargo of 1973, OPEC Oil Supply Shocks. Rooted in the conflict in the Middle East, and linked to the vast petroleum supplies of the Persian Gulf, security

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evaluated as a leg of Shah-Deniz Project] and Turkmenistan-Turkey-Europe Natural Gas Pipeline Project or "Trans Caspian Gas Pipeline Project" (TCGP).

[126] Vaclav Smil, *Energy at the Crossroads*, (US: MIT Press, 2003), p.118.

considerations have subjugated overall energy policy considerations.[127] Therefore, the security dimensions of energy policy have profoundly complicated the technical and economic debate about the transformation, transportation, trade, and use of energy. Since "Energy Security" and "Security of Energy Supply" could be defined as the availability of energy at all times in various forms, in sufficient quantities, and at reasonable and/or affordable prices[128], this situation has moved energy policy from the administrative to the political, that is to say, to the center of decision-making.[129] In order to illuminate the case, let me state what Henry Kissinger- former Secretary of State of the US- expressed after experiencing oil shocks of the 1970s:

> …Since the first price explosion of 1973, we have learned that the energy crisis is not a mere problem of transitional adjustment; it is a grave challenge to the political and economic structure of the free world...[130]…The energy crisis has placed at risk all of this nation's (US') objectives in the world. It has mortgaged our economy and made our foreign policy vulnerable to unprecedented pressures.[131]

Departing from what Kissinger mentioned through "threats" to the US national security, we can arrive at a point that the "energy insecurity" could undermine both national defense and foreign policies.[132] The incidents of the 1970s in energy supply (primarily in oil supply), thus, called for "a proficient domestic policy" in nations' political and economic agenda as well. [After three decades, September 11, 2001 attacks have once more driven the US administration (under George W. Bush) to put emphasis on the energy supply security and somewhat revitalized the energy concern of the US. Thus, 9/11 incidents have not only mobilized the verity that the deadly dependence on imported oil was a strict threat to the US' energy security, but also underpinned the necessity to hinge upon the energy supply security. Thus, another crucial parameter appears as the probability of further attacks against pipelines, nuclear power plants and vessel traffic. In October 11, 2001, Bush had declared that the less dependent the US is on foreign sources

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[127] "East-West Challenges, Energy and Security in the Caucasus and Central Asia", *East-West Institute and the Swedish Institute of International Affairs*, Report of a Meeting held in Stockholm, 3-4 September 1998.
[128] United Nations Development Programme, *World Energy Assessment,* (New York: UNDP, 2000), p.113.
[129] Clawson, *op. cit.*, p.125.
[130] Remarks by Henry Kissinger in Charles K. Ebinger (ed.), *The Critical Link, Energy and National Security in the 1980s*, Centre for Strategic and International Studies, (Cambridge, MA: Ballinger Publishing Co, 1982), *Introduction*, pp. i-xxx.
[131] *Ibid.*
[132] Strange, *op. cit.*, p. 201.

of crude oil, the more secure it is at home. He also asserted that another integral piece of the US' domestic security concern would be aligned through the energy independence.[133]]

When looked at the Turkish side of the aftermath in the 1970s, the world oil crisis of 1973, followed by subsequent oil price hikes culminating in 1980, caught Turkey off balance and caused the one of the worst economic crisis in its history. Concerning the country's trade balance in 1980, total export revenues amounted to 2.9 billion US dollars while the oil and oil products import bill was as high as 3.9 billion US dollars, i.e. more than half of total imports.[134] Because of the absence of an alternative and a sufficient energy program in Turkey, Turkey had faced a great economic bottleneck in the late 1970s. Strikingly, the oil incidents of the 1970s have shown that energy security (and energy price competition) have been much more significant than before and be enhanced by "diversity of suppliers" and of "fuel choices".

Here, one can argue that a nation (Turkey or another), like the international economy, on which it depends for prosperity, may confront a deep-rooted energy problem that has to demand attention at the highest level of government and industry.[135] This is because fossil fuels—oil, gas, coal and other solid fuels are expected to provide some 95 percent of additional global energy demand over the next twenty years. In this respect, Turkey has come across a set of policy issues: a) Secure transmission and transportation of oil and natural gas, b) Diversification of the energy resources and the suppliers.

Regarding the proximity to the regions of Middle East, Persian Gulf, Central Asia and Russian Federation, in which 40 percent of total world oil production and 65 percent of total natural gas production are carried out, Turkey has been propelled to ensure major oil and natural gas pipelines passing through its frontiers. This case calls for a brief domestic evaluation of "energy supply security" that can be paraphrased with two relevant occasions, first of which renders the security of internal energy lines against the unprecedented (earthquakes, other land disruptions, power plant accidents, terrorist attacks, etc.) incidents. The second occasion comprises the urgency for maximum deviation of the transportation of large volumes of oil by tankers through the narrow and

[133] See Mary Cooper, "Energy Security", *CQ Weekly*, Vol. 60, Issue 8, February 2002.
[134] İskit, *op. cit*, pp.59-60.
[135] Edward L. Morse and Amy Myers Jaffe, "Strategic Energy Policy Challenges for the 21st Century", Report of an Independent Task Force Cosponsored by *James A. Baker III Institute for Public Policy of Rice University and the Council on Foreign Relations*, 2001, p.3.

congested Turkish Straits, which does not seem as a sustainable option.[136] According to Turkish official figures, 91 million tons of oil was transported through the Bosphorus in 2000 and the Turkish Maritime Pilot Association noted that 4937 tankers navigated the Turkish Straits in the same year.[137]

Secondly, and more importantly, Turkey has always been in a vulnerable situation dealing with the diversification of its energy resources as well as foreign energy suppliers. On the "resources side", Turkey is dependent on the imported oil and natural gas for the generation of electricity, transportation, heating, etc. The critical point here is that a relative increase in the price of oil does have an upward effect on the pricing of natural gas and the other related products based on the international formula of the oil trade. On the "suppliers" side, given that the demand for energy in Turkey has gradually increased, Turkey has continued to import 95 percent of its total natural gas consumption. It has been performed by the following ways: Russian Federation via Western Route (through Ukraine, Moldova, Romania, Bulgaria and finally Thrace Region of Turkey) and via newly constructed Blue Stream Natural Gas Pipeline that was already contracted for large volumes of natural gas; Iran (with Tabriz-Erzurum line, which opened in December 2001); Algeria and Nigeria as they supply Liquefied Natural Gas (LNG) by tankers through the Turkish Straits.

Turkey has been providing its oil supply via several pipelines. The main pipeline has been Iraq-Turkey Crude Oil Pipeline with a capacity of 70.9 million tons/year; Batman-Dörtyol Crude Oil Pipeline with a capacity of 3.5 million tons/year and Yumurtalık-Kırıkkale Crude Oil Pipeline with a capacity of 5 million tons/year.[138] According to

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[136] Remembering the Exxon Valdez Oil Spill occurred in Alaska in March 1989 can bolster the security of supply concerns. Exxon Valdez tanker struck a reef and almost 20 percent of her crude oil cargo (11 million gallons of crude oil) spilled into the sea. (Clawson, *Energy and National…, op. cit*., p.167). Imagining of such a disaster in Turkish Straits, where the current of water is remarkably high, is enough to get traumatized, thus, fuel transit through the Straits creates possible hazards for both ecology and human beings. The Bosphorus witnessed 167 major accidents in the decade between 1983 and 1993. In 1994, the Greek Cypriot tanker *Nassia* collided with another ship, killing thirty seamen and spilling 20.000 tons of oil into the sea. If this accident had occurred a few miles to the south, Istanbul would have faced a major urban disaster. (Bülent Aras and George Foster, "Turkey: Looking for Light at the End of the Caspian Pipeline" in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region*, (Westport: Praeger Publishers, 1999), pp.234-235.)

[137] Gareth M. Winrow, "Turkish National Interests" in Yelena Kalyuzhnova et. al, *Energy in the Caspian Region, Present and Future*, (New York: Palgrave Macmillan, 2002), pp.240-241.

[138] Serdar Çetinkaya, "Turkey Energy Profile Report", *International Market Insight*, 24 November 2004.

Turkish Ministry of Energy and Natural Resources, Turkey imported around 35 million tons of oil mainly from Saudi Arabia in 2000. They also declared that Turkey intended to buy 49 million tons, of which 20 million tons might come from the Caspian region and Russia by 2010.[139] Turkey has also sought to diversify the energy resources with new suppliers such as Egypt, Azerbaijan, Iraq[140] and Turkmenistan. However, there have been certain constraints with regard to the inter-state relations and the implementations of the other transnational actors.

Being a consumer state and a future energy hub put Turkey into a complex foreign policy making process.[141] Indeed, it has not been easy to separate foreign policy from domestic issues and economic apprehensions in Turkey. Thus, the intentions to secure energy inflow turn out be reliant on various independent variables such as official and non-official actors, economic matters, and strategic-political decisions of the energy-participant states. Given that the energy matters require the technical expertise of the Turkish MENR, BOTAŞ and TPAO the choice of pipelines routes and the selection of energy suppliers are also political decisions, in which the Turkish Ministry of Foreign Affairs has a legitimate interest.[142] Yet, frequently changed governments have also resulted in different institutional bodies, which were given serious tasks for policy-making, particularly in relation to the pipeline issues. Clearly, all factors expressed above find room in Turkey's international relations in energy through the Eurasian energy context.

3.2. Turkey's Foreign Relations in the Energy Issues

Turkey is at the crossroads of several volatile, strategically and economically important regions, including the awkward triangle of the Middle East, the Caucasus and Central Asia. Thus, the geographical proximity to the 70 percent of the world's proven energy resources gives Turkey a place on the game board of energy politics.[143] However, these

[139] Further data is available from the official web site of MENR: http://www.enerji.gov.tr accessed on 11 January 2006.
[140] According to a memorandum of understanding of 1997, Turkey may import 10 bcm/y of Iraqi natural gas once UN sanctions are lifted. (Winrow, "Turkish National Interests", *op. cit*., p.239.)
[141] Barry Rubin, "Turkey: A Transformed International Role" in Barry Rubin and Kemal Kirişçi (eds.), *Turkey in World Politics: An Emerging Multiregional Power*, (London: Lynne Rienner Publishers, 2001), p.1.
[142] Gareth Winrow, *Turkey and the Caucasus, Domestic Interests and Security Concerns*, (UK: Royal Institute of International Affairs, 2000), p.22.
[143] İskit, *op. cit.*, p.82.

resources have drawn great interest by Iran, Russia, and the United States, all of whom are searching for economic and strategic opportunities. Each of these countries already has relatively sufficient domestic energy resources and import systems in place able to meet its requirements.[144] Yet, Turkey has less significant primary resources (if coal is omitted), and has come up to build expensive pipelines to fulfill its needs. In such a composite circumstance, Turkey needs to search for alternative and efficient ways of conduct within a comprehensive framework.

While having a glance at the situation of Turkey, one should crucially take plenty of incidents into consideration about the energy pipelines, whose repercussions will be rather strategic and, thus, more determining in the long-term. That does not mean that there will hardly be economic relief and commercial opportunities after or before the completion of major oil and gas pipeline projects, however, the struggle to attain the strategic goals and sustain this wave, particularly in the Middle East and the Caspian region and through the Turkish frontiers, sounds livelier than the "short-term economic refreshment" endeavors.

This scheme does somewhat makes one recall Brzezinski's "Eurasian Chessboard"[145], which comprises multiple game tactics and strategies and which has already become a noticeable "battlefield" after Gulf War I, September 11 (9/11) and finally post-Iraq War period onwards. Therefore, Turkey's position in the future, whether as a geo-strategic player or as a geopolitical pivot[146] or none seems like a highly important subject. This will likely be an elusive task for Turkey since it can ultimately find itself in a crossfire that renders a set of options comprising, firstly, the vital necessity and sustainability of "energy input" for its industry and secondly, the continuation of the "satellite diplomacy" (strategic apprehensions – sustainable aloofness). In this respect, Turkey's current energy affairs with the European Union (EU), Middle East, Caspian and Central Asian states draw attention. In addition, the evaluation of the Turkish position vis-à-vis the US and

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[144] See Brent Sasley, "Turkey's Energy Politics in the Post-Cold War Era", *Middle East Review of International Affairs (MERIA)*, Volume 2, No. 4, November 1998.

[145] Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and Its Geo-Strategic Imperatives*, (New York: Basic Books, 1997), p.30.

[146] *Ibid*., p.40. (Brzezinski considers pivots as states that are prominent because of their sensitive location and fragility rather than their power where players are have the capacity and the national will to exercise power beyond their frontiers so as to change the existing geopolitical state of affairs. Yet, he puts, while Turkey has limited and conditional capabilities in the Eurasian politics (*Ibid.*, pp.46-47.), its evolution and orientation will be decisive for the future of the states in the Caucasus region. (*Ibid.*, pp. 148-150.)

Russia deserves notice since they relatively have superior strengths, in economic and political terms. Therefore, the next subtitles will attempt to underpin the steps Turkey has carried out within the reciprocal energy deals while questioning Turkey's autonomy and capability to incorporate its energy policies with its foreign relations.

3.2.1 The European Union

Turkey has had a long association with the project of European integration. It applied for an associate membership into the European Economic Community (EEC) in July 1959. With the Association Agreement (Ankara Agreement), which was signed between the European Community (EC) and Turkey- foreseeing the possibility of eventual membership- in 1963, Turkey's quest for modernization and Europeanization has been accelerated. Thus, Turkey has taken steps to intensify its "Europeanness" and with the demise of the Soviet Union, military-strategic considerations have become less important in Europe's approach to Turkey, whereas economic, political and cultural factors have increased in importance.[147]

Since the Association Agreement, Turkey continued to emphasize the economic aspects of membership, particularly after the introduction of free-market reforms in the early 1980s. However, Turkey's application for membership in 1987 was rejected by December 1989, citing a variety of economic, social and political reasons.[148] Some scholars argue that even though the EC's rejection of Turkey's application was not surprising for the Turkish elite, it seemed to confirm that Europe was closing the door on Turkey now that Turkey's Cold War security contribution was no longer needed.[149] Nevertheless, the following decade had proven that the door was not fully closed, yet, not wide open. Subsequent EC summits produced further declarations about the eligibility of Turkey as a candidate country that it had to meet some economic and political transformations, which were gradually emphasized in Copenhagen Summit (1993), Luxembourg Summit (1997) and Helsinki Summit (1999).

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[147] F. Stephen Larrabee and Ian O. Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (Pittsburgh: RAND, 2003), p.47.
[148] *Ibid.*, p.49.
[149] Sabri Sayarı, "Turkey: The Changing European Security Environment and the Gulf Crisis", *Middle East Journal*, Vol. 46, No. 1, Winter 1992, p.11.

In Helsinki Summit, Turkey was officially recognized as a candidate state on an equal footing with other candidate states. Finally, the EU Council approved an Accession Partnership Document (APD) for Turkey, identifying short and medium term objectives and musts, at Nice Summit in December 2000. In response, the Turkish government launched a National Program for action in March 2001. However, the EU continued to stipulate basic reforms for Turkey's accession and stressed the structural weaknesses such as low per capita income, large agricultural work force, high inflation, low foreign investment, high public sector deficit and slow pace of privatization.[150]

The creation of the Customs Union (1995), which was designed to abolish tariffs on imports, scored a worsening of Turkey's balance of trade with the EU and the main rationale continued to remain in the Turkish politics that this would create a more liberalized economic appearance in the long-term. The Banking Crises in 2000 and 2001 had once more driven Turkey to take up structural reforms, especially dealing with energy and privatization. Turkish Parliament passed constitutional amendments in February 2001 to allow competition in the electricity market (Electricity Market Law-Law No. 4628) and adapted Turkey's legislation for the EU membership. Natural Gas Market Law (Law No. 4646) was also adapted in May 2001 for the same aims. Finally, Petroleum Market Law (Law No. 5015) was enacted in 2003.

The energy dialogue between the EU and Turkey is not new. Multilateral organizations were established through Central Eurasia (CEA) and the Mediterranean. Turkey has involved in several commitments dealing with the transportation issues. The TRACECA (Transport Corridor Europe Caucasus Asia) Programme was launched at a conference in Brussels in May 1993, which brought together trade and transport ministers from the original eight TRACECA countries (five Central Asian republics and three Caucasian republics), where it was agreed to implement a programme of the European Union (EU) funded technical assistance (TA) to develop a transport corridor on a West - East axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. Turkey has taken part in multilateral TRACECA conferences in 1997, 2000, 2002 and 2005 that the meeting of the Permanent Secretariat of the Intergovernmental Commission TRACECA took place in Istanbul on 17-18 February 2005.[151]

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[150] Larrabee and Lesser, *op. cit.*, pp.54-56.

[151] For a detailed scrutiny visit the official web site of TRACECA: http://www.traceca-org.org accessed on 12 November 2005.

Turkey also participated in Euro-Mediterranean Partnership (EUROMED) through The Euro-Mediterranean Conference of Ministers of Foreign Affairs, held in Barcelona on 27-28 November 1995, which marked the starting point of the Euro-Mediterranean Partnership (Barcelona Process), a wide framework of political, economic and social relations between the Member States of the European Union and Partners of the Southern Mediterranean. EUROMED has emphasized bilateral and regional commitments and has widened its range through the MEDA program, which initially comprised a five-year period between 1994 and 1999 and had a € 3.4 billion budget for the projects in the Mediterranean.[152] MEDA has accomplished different projects and also committed € 5,458 million in co-operation programmes, projects and other supporting activities, the regional activities comprising around 15 percent of this budget from 1995 and 2003.[153] INOGATE (Interstate Oil and Gas Transport) Programme was also established to enable secure energy supply for the EU by promoting integrations of regional oil and gas pipelines through adequate technical assistance and financial support, whilst acting as a catalyst in attracting private investors and international financial organizations to finance such projects. INOGATE Programme has been put in place through INOGATE Umbrella Agreement (UA) signed in Kiev on 22 July 1999 between the EU and the European and Asian countries through which oil and gas pipelines pass from Central Asia towards Europe. Turkey also took part in this organization beside the other twenty countries.[154]

Turkey's participation in these associations has remained limited in the economic sense that the EU has always been the organizing engine via its great funds to secure its energy supply security and transportation grids. Hence, by the TACIS (Technical Assistance to the Commonwealth of Independent States) Programme, which was launched by the EC in 1991, the EU has provided grant-financed technical assistance to 12 countries of Eastern Europe and Central Asia in order to enhance the technical transition in these countries.[155] Yet, both TACIS and TRACECA programmes have lacked political support and the EU recognized that the strategic attention might have been drawn by the INOGATE Programme. Given that the accomplishments major pipeline projects such as the BTC,

[152] "Avrupa Birliği'nin Enerji Politikası", 15 Soruda 15 AB Politikası, *İktisadi Kalkınma Vakfı*, No.13, İstanbul, Aralık 2003, p.25.
[153] The following URL can be visited for detailed information about EUROMED and MEDA: http://europa.eu.int/comm/external_relations/euromed accessed on 12 November 2005.
[154] The following URL can be visited for detailed information about the INOGATE Programme: http://www.inogate.org accessed on 14 November 2005.
[155] Mert Bilgin, *Avrasya Enerji Savaşları*, (İstanbul: IQ Kültür Sanat Yayıncılık, 2005), p.81.

Trans-Caspian Crude Oil Pipeline Project, BTE and Trans-Caspian Natural Gas Pipeline Project can be considered as important prerequisites for the INOGATE, the EU has densely been observing the viability of these pipelines.[156]

The current incidents depict that a Trans-Anatolian Energy Line (a leg of the East-West Corridor) is indeed a prominent indicator for future prospects for Turkey and the EU. Hitherto, Europe's main natural gas corridors run both through and from North Africa and connect to the EU grids through Italy and Spain; and from Russia through Ukraine to Central and Western Europe. Being highly dependent on the imported natural gas, the EU has decided to take action to overcome this energy dependency within the framework of security of supply and put emphasis on uninterrupted flow of gas through secured and diversified external energy lines. The natural gas demand in Western Europe is expected to increase by 50 percent, from 350 bcm/y to 525 bcm/y in the period 1995-2010.[157] The projections show that the EU's dependency rate on gas will be 70 percent by 2020[158] compared to that rate of 40 percent in 1995. Within that purpose, the EU Commission published the Green Paper titled "Towards a European Strategy for the Security of Energy Supply" on November 2000. The Green Paper further analyzed the security of energy supply in an up-to-date manner that security of supply did not solely mean to maximize energy self-sufficiency or to minimize energy dependence, but also and more importantly meant to "reduce the risks" linked to such dependence.[159] Hence, balancing between and diversifying of the sources of supply by product and by geographical region has become the crux of the EU's energy strategy.[160] In this respect, Turkey's closeness to the most important gas fields of Central Asia, the Persian Gulf, Iran and Russia has made Turkish option as one of the most attractive gateways for the "fourth artery" of the EU's energy supply.

Recent studies show that Turkey's geographical position has been apt to send three pipeline channels to Europe that two can service Central Europe directly, while the third

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[156] *Ibid.*, pp.82-83.
[157] Winrow, "Turkish National Interests", *op. cit.*, p.239.
[158] Dominique Finon et. al., *World Energy Under the Pressure of the Emerging Countries: The Asian Energy Thirst and Its Consequences for Europe*, the Shared Analysis Project, Economic Foundations for Energy Policy, Vol. 3 (Grenoble: IEPE, 2003), pp.162-163.
[159] See *European Commission*, *Towards a European Strategy for the Security of Energy Supply*, *Green Paper, COM (2000) 769 Final*, November 2000, pp.3-4.
[160] See Berris Ekinci, "The Role of Turkey, Epicenter of Energy Routes, in the European Energy Security", *Conference on Natural Gas Transit and Storage in Southeast Europe*, Istanbul, President Hotel, 31 May-1 June 2002, p.3.

can deviate through Greece to Italy. The three-way split would see one pipeline pass through Bulgaria, Romania, and connect in Budapest (Nabucco Natural Gas Pipeline Project) to the Central European network. The second passes through Balkans and connect in Budapest to the Central European network in Zagreb[161]. The third line passes through Greece and connects directly to Italy.

This scheme shows that the EU, acknowledging its dependence to Russia regarding natural gas imports, opted for guaranteeing its energy supply security through energy cooperation projects with Russia and also by creating another supply route through Turkey.[162] It can be argued that Turkey is supposed to play a key role for the transit of gas to Europe since Europe aims at least to diversify the suppliers with Iran, Azerbaijan, Iraq and Egypt. Taking future oil transmission from the Caspian Basin and Central Asian States to Europe into consideration, Turkey will be able to serve oil pipelines to Europe through Anatolia. In this sense, an agreement to develop such a system was signed by the European Commission, Greece and Turkey in Brussels on 7 July 2000.[163] The intention was the construction of a Southern European Gas Ring to pipe gas from the Caspian region to Turkey, Greece and Italy. A Memorandum of Understanding was signed between BOTAŞ and its Greek counterpart DEPA on 28 March 2002. Then, an Intergovernmental Agreement between Turkey and Greece was realized on 23 February 2003.[164] It settles to be a conditional outline due to the accomplishment of such pipeline projects.

Turning to the evaluation of energy dialogue between the EU and Turkey a brief analysis shall be made. From the strategic point of view, Turkey's accession to the EU might make the EU gain privileged access to the rich energy resources in the Middle East, Caucasus, and Central Asia, thus, a powerful global player.[165] The EU has activated this discourse in the recent progress report about Turkey via stressing the efforts to strengthen Turkey's position as a transit country by actively participating in projects of common interest for Trans-European Energy Networks as well as regional formations, which will

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[161] See Walter Posch and Borut Grgic, "Turkey and the EU: Strategic Implications for Central Europe", Policy Analysis, No.2, *Ljubljana Institute for Strategic Studies*, 14-20 December 2004.
[162] Ekinci, *op. cit*., p.4.
[163] Winrow, "Turkish National Interests", *op. cit*., p.239.
[164] Nilgün S. Açıkalın, "Energy Corridor: Turkey", *International Energy Agency, Roundtable on Caspian Oil &Gas Scenarios*, Florence, Italy, 14-15 April 2003, p.15.
[165] Soner Çağaptay, "Turkey at a Crossroads: Preserving Ankara's Western Orientation", *The Washington Institute for Near East Policy*, Policy Focus No. 48, October 2005, p.9.

all contribute to security of supply.[166] Nonetheless, the European Union has continued to sign bilateral natural gas contracts particularly with Russia.[167] From the political point of view, on the other hand, the expected process in energy supply security may once again question the European perception of Turkey whether it is a *wall* or a *bridge* tackling with the "chaotic" environment of the Middle East.

This may bring two occasions from the perspective of the EU: The first and perhaps the challenging one is that the EU can perceive Turkey merely as an energy transit country and can act within this manner. This proposition may also lead a unilateral economic perception of the EU that the security of the pipelines and secure flow of the fuels could be the best dealing ground between two parties.[168] The second occasion can be a new perception, which changes Turkey's position to the level of *persona grata* instead of a shield or bumper state vis-à-vis the political and economic instability of the Middle East. The latter somehow sounds better due to the Turkey's perspective regarding the pipeline issues that might be sent to the EU.

Turkey's current perspective vis-à-vis the EU's, on the other hand, seems to sustain the overall progress within the accession process that has already been accelerated since Helsinki Summit, in which Turkey's official candidacy status was first announced. Hence, the geo-political advantage of Turkey to be serving as the fourth main energy artery to the EU may be limited dealing with the stipulations of the EU. This means that Turkey might behave as a future integral part of the EU and somewhat obey what the EU compels in the energy transmission. This can further mean that the intention of being an alternative passage way of energy may at most be a political facilitator, not yet a bargaining power, under the current situation.[169]

In the final analysis, the propositions above do not discuss the short-term repercussions. Instead, it takes up a question of seldom if ever discussed, yet clearly important for international relations; namely, whether Turkey can come out as a strategic bargainer or

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[166] *European Commission, Turkey 2005 Progress Report*, *op. cit.*, p.86.
[167] Bilgin, *op. cit.*, pp.80-83.
[168] While ensuring its energy security by means of pipeline development to carry gas to the EU market via Turkey, the EU may also intend the routes through as a complement, rather than compete with, Russian pipeline supplies. (John Roberts, "The Turkish Gate, Energy Transit and Security Issues", *Centre European Policy Studies*, EU-Turkey Working Papers, No.11, October 2004, p.100.)
[169] The beginning of the accession negotiations with the EU and Turkey on October 3, 2005, will likely sustain Turkey's current perspective.

remain only as an economic partner in various organizations. In other words, the quest for a multi-focal energy diplomacy, which is not entirely devoted to the European pillar in the energy affairs, appears prominent, since they seem tangible in the long-term rather than in the short run.

3.2.2. The Middle East

Turkey's strategic geographical position also makes it an indispensable state in the Middle East. Unlike the relations with the EU, Turkey has much closer ties, political and cultural, with the Middle Eastern states. Albeit the long-lasting political and economic instability, sustained by inter-state disputes with terror, have occasionally stretched the relations in the region, one can say that Turkey has selected as a national guidance policy and pursued a balanced neutrality within the regional politics. Not assuming any involvement in power struggle unless all the alternative options were exhausted and legal requirements for such involvement were met[170], Turkey has preserved its neutral stance until the end of the Cold War.

Taking Turkey as an awakening regional power in many occasions, one must remember that it has a long history of caution, and perhaps even timidity, in its foreign policy.[171] As famously argued, Turkish policy-makers have failed to take advantage of several historic opportunities, which can primarily consist of rich oil fields in the Middle East, due to both the Kemalist legacy and the fact that Turkey has always been surrounded by, if not outright enemies, at least hostile or unfriendly states.[172] Accordingly, Turkey has tended to see the Middle East as a sphere of risk than a sphere of opportunity.[173] The reluctance of Turkey has been further criticized, by some, for its disinterest in the Middle East and severing its ties with the region. Presuming that "achieving first, national security, second, economic aid, and third, at expanding influence in the area" were laid among the Turkish foreign policy objectives in the Middle East from the 1940s and onwards[174], one could hardly expect a fully elaborated energy dialogue between Turkey and the Middle Eastern states throughout the decades. It has been argued that Turkish policy toward the

[170] Okman, *op. cit*., p.15.
[171] See Brent Sasley, "Turkey's Energy Politics in the Post-Cold War Era", *Middle East Review of International Affairs (MERIA)*, Volume 2, No. 4, November 1998.
[172] *Ibid.*
[173] Larrabee and Lesser, *op. cit.*, p.127.
[174] Bilge Criss, "Turkish Foreign Policy Toward the Middle East", *Middle East Rreview of International Affairs*, Issue 1, January 1997, pp.3-4.

Middle East became an extension of Turkey's pro-Western foreign policy and these objectives above were adopted as a result of Turkish attempts to prove itself to the West as a cooperative partner in regional affairs instead of strengthening relations with the regional states.[175]

This situation, remarkably, has reproduced some challenges in Turkey's energy diplomacy with the major energy supplier states in the Middle East. The onset of the Iran–Iraq War in September 1980 had led to a considerable improvement in Turkey's export performance in the early 1980s.[176] The two warring parties' inability to enter international markets created important export opportunities for Turkey since it was the only country bordering both of them.[177] As a result, Turkish exports to Iran and Iraq increased from $44.7 million and $69.5 million in 1978 to $1,079 million and $961 million in 1985, respectively.[178] However, the relations with Iran and Iraq began to fluctuate in the late 1980s. Therefore, it will be apt to shed light to the bilateral relations with Iraq and Iran.

Through a concise scrutiny in Turkish- Iraqi relations, it can be said that, Turkey's relations with Iraq have been fine from the 1920s through to the 1980s. In 1926, both sides concluded a Friendship Treaty. In 1937, Iraq and Turkey intensified their partnership along with Iran and Afghanistan, in the regional security arrangement known as the "Sadabad Pact". The period between 1955 and 1958 had shown that Turkey and Iraq were members, with Pakistan, Iran and Great Britain, of the Western-sponsored alliance known as the Baghdad Pact.

From the 1980s, and especially during the Iran-Iraq War, Iraq became an important customer for Turkey. Turkish construction firms won a big share in the Iraqi market, with 45 projects costing US $ 1.3 billion completed until the embargo.[179] The most important field of trade was oil. Even after the decline in the trade volume due to the heavy price of the ongoing war with Iran, Iraq constructed a second pipeline from *Kirkuk-Haritha* to a

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[175] Meliha B. Altunışık, "Turkey's Middle East Challenges: Towards a New Beginning?" in İdris Bal (ed.), *Turkish Foreign Policy in the Post Cold War Era*, (Florida: Brown Walker Press, 2004), pp. 363-379.
[176] "Political Economy of the January 24, 1980 Reforms", *Ankara Papers*, *op. cit*., p.36.
[177] *Ibid.*
[178] *Ibid.*
[179] "Turkey's Relations with its Middle Eastern Neighbours", *Ankara Papers*, Vol. 8, Issue 1, 2003, p.39.

Turkish terminal at *Yumurtalık*, from where oil was distributed to Western markets via the Mediterranean. Turkey used to receive US $ 300 million annually as revenue from the pipeline until it was closed due to the embargo in late 1990 and received oil worth US $ 2 billion to compensate Iraq's debts.[180]

6 August 1990 was the date, the UN responded with Resolution 661, declaring an economic and military embargo on Iraq. On August 25, 1990, Resolution 665 called upon all states to use their navies to enforce the embargo.[181] The embargo was maintained after Gulf War of 1991, which led to the expulsion of Iraqi forces from Kuwait but, despite supporting the embargo, Turkey paid a considerable economic price. By January 1996, Turkey had lost an estimated US $ 1 billion in income from contracting and a further $3 billion in exports to Iraq.[182] In addition, Turkey has had to bear the costs of supporting Iraqi refugees and production losses that are almost impossible to calculate.

The decisions of Turgut Özal- the President of Turkey in 1991- and the government to allow the US to deploy troops along the Iraqi border via using the Turkish military bases and to effectively close the Iraqi pipeline to the Mediterranean (through which Iraq exported 54 percent of its oil)[183] well heralded that Turkey implied its pro-Western policy and its trustworthy attachment to NATO (North Atlantic Treaty Organization) in the 1990s. In retrospect, Turkish planners were already considering the implications of Turkey's growing economic relationship with Iraq and, in particular, Baghdad's heavily reliance on Turkish pipelines to the Mediterranean for oil exports. This route had acquired greater significance during the Iran-Iraq War in light of constraints on shipping from Iraqi ports in the Northern Gulf. At the same time, Turkey was heavily reliant on pipeline revenues as well as energy supplies from Iraq. Indeed, before 1990, Iraq was Turkey's largest trade partner.[184]

Yet, the continuing UN embargo has remained a focus of criticisms within Turkey. The Turkish government and private sector have been eager to develop trade with Iraq as

[180] Ramazan Gözen, "The Turkish-Iraqi Relations: From Cooperation to Uncertainty", *Foreign Policy,* Vol. 19, No. 3-4, 1995, pp.53-55.
[181] "Turkey's Relations with its Middle Eastern Neighbours", *Ankara Papers*, *op. cit*., p.40.
[182] *Ibid.*
[183] Meliha B. Altunışık, "The Turkish Israeli *Rapprochement* in the Post-Cold War Era", *Middle Eastern Studies*, Vol. 36, No. 2, April 2000, p.173.
[184] Larrabee and Lesser, *op. cit*., pp.133-134.

quickly as the UN rules allow.[185] After the first Gulf War in 1991, Turkey has lost billions of dollars in pipeline fees and trade revenue from the Iraqi sanctions regime, for which Ankara has never received adequate compensation.[186]

Iran, on the other hand, has been regarded as potentially a prominent rival to Turkey for influence in Central Asia and Caucasus. There has been another aspect that Turkey has been concerned about the prospect for the export of Iranian regime since the Iranian Revolution (1979). After the demise of the Soviet Union, thus, a sort of power vacuum, Turkish government began to replenish its energy upon the revival of the relations with the newly independent Turkic states. What is more, many western governments, particularly the United States, tried to encourage Ankara to play an active role in Central Asia to counter the fear of Iranian influence in the region. The expectations about Turkey ran through the containment of the Iranian penetration.[187] Furthermore, decreasing the Russian role in the region by proposing the Turkish model, comprising market-based economic structure, secular democracy, and pro-western orientation for the Turkic states to follow, was another expectation. Therefore, the United States with international financial organizations, including the World Bank and the IMF, assisted Central Asian Turkic States through Turkey as a means of boosting its efforts.[188]

Yet, the mid-1990s have shown that Turkish Islamists have certainly been more interested in developing a close relationship with Iran than in closer ties to the Arab world- a reflection of the preference prevalent in Turkey's religious and secular circles.[189] Even though the energy story between Turkey and Iran well goes behind decades, government's close relations produced various engagements and "energy supply and investment" has been an increasingly significant facade of Iranian-Turkish relations particularly from the mid-1990s.

Necmettin Erbakan- the Prime Minister and the leader of Welfare Party (RP) in 1996- paid a visit to Iran on 12 August 1996, in the course of which he concluded an agreement to purchase 228 bcm of gas for US $ 20 billion worth over a period of 23 years. Although the negotiations for the gas agreement had been initiated under the previous coalition

[185] "Turkey's Relations with its Middle Eastern Neighbours", *Ankara Papers op. cit*., pp.41-42.
[186] Larrabee and Lesser, *op. cit*., p.135.
[187] Simbal Khan, "Iran's Relations with Central Asia", *Perceptions, Journal of International Affairs*, March-May 2004, Vol. IX, No. 4, p.56.
[188] Shireen Hunter, *Central Asia since Independence*, (Westport, CT: Preager, 1996), pp.137-138.
[189] *Ibid.,* p.147.

government and reflected Turkey's concern to secure its energy requirements, the agreement was sharply criticized by Washington, coming as it did only days after President Bill Clinton had signed a law restricting the energy dealings of US and non-US companies with Iran and Libya.[190] Accordingly, the natural gas pipeline, which runs from Tabriz (the western Iranian city) to Ankara (the Turkish capital city), opened on 10 December 2001.

Despite Erbakan did not pay visits to the other states and chose to focus largely on the Muslim states in North Africa, Asia and Middle East, the Turkish military continued to develop contacts with the Israeli armed forces and the Turkish Ministry of Foreign Affairs under Tansu Çiller (the Leader of True Path Party-DYP in coalition at that time) focused on maintaining close connections with the United States and western Europe.[191] However, the Turkish Armed Forces and the MFA, and the US administration may have decided to tolerate the project, as Turkey would only be importing a maximum 10 bcm/y of natural gas.[192] Thus, it could be said that Turkey's energy needs prevailed over the strategic geopolitical concerns.

The following year witnessed another contradiction in gas issue between Turkey and Iran that in late 2002, Turkey stopped importing gas from Iran because of price cuts in Russian supply. Iran has carefully treated the gas dispute as an isolated matter and maintains contact on issues such as agriculture and transportation.[193] In September 2002, Tehran Radio commented that the decision to stop the gas flow was 'not a friendly act'.[194] Therefore, Turkey's behaviour rendered rather a contradictory case that its energy planning has not been consistent even with venturing its energy supply lines by disappointing its suppliers.

Traditionally, the rivalry between Persia/Iran and Ottoman/Turkey concerned domination over the Central Asian transit routes for trade. Since the disintegration of the Soviet

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[190] *Ibid.*
[191] Winrow, *Turkey and the Caucasus…*, *op. cit.*, p.22.
[192] Winrow, "Turkish National Interests", *op. cit.*, p.245.
[193] *Study on Energy Supply Security and Geopolitics,* Final Report, Clingendael International Energy Programme (CIEP), Institute for International Relations 'Clingendael', The Hague, January 2004, p.169.
[194] Michael Lelyveld, "Ankara Cuts Gas Prices After Russian Concessions", *Eurasia Insight*, 6 October 2002. Available from:
http://www.eurasianet.org/deparments/intsight/articles/eav100602.shtml accessed on 20 October 2005.

Union, Iran and Turkey have entered into competition over their influence in Central Eurasia, although in a much more moderate way.[195] The fact that Turkey has entered into co-operation with Israel and it has improved its relations with Azerbaijan has made Iran turn even more towards Central Eurasia.

Iran has increased its alliance with Russia to compensate for its forced isolation. Here, one final feature of Iran has to be emphasized that it holds a significant card since it is a major producer of primary energy resources. Remarkably, it seeks for new passageways for its energy exports particularly to China and India, two emerging economic powers. Iran has also involved in nuclear research dealing with nuclear and ballistic missile ambitions. These facts have somewhat put that Iran has at all times encompassed a firm "State Policy" and it has accomplished to augment its state policy with its energy policies. Certainly, it may not mean that being merely an energy importing state, but not a vast producer, does not call for implementing a state policy in energy. In this sense, Turkey, who could hardly accomplish to compensate its energy policies with a state policy, needs to be more assertive than before, despite there were disagreements with Iran in energy supply and Iran's nuclear ambitions as well. The projections for natural gas have shown that gas purchases from Iran will form 20 percent of overall gas demand by 2010.[196] Hence, Turkey's assertiveness as an autonomous regional actor still appears vital in terms of its energy security and future foreign relations with Iran.

In addition to the relations with Iran and Iraq, it can be articulated, Turkey has been impelled to deal with the energy security targets, given relying on the Middle Eastern oil and gas may not bring a stable and prompt flow of resources[197] vis-à-vis the general situation of post-Iraq War period that has been from 2003 onwards. The post-Iraq War situation accelerated the disruptions in the region and Turkey has found itself in a complex environment requiring realistic solutions and suggestions, both economic and strategic. In spite of the fact that the early 1990s did portray a reluctant Turkish policy toward the Middle East and the early 2000s seem to sustain the case of being aloof from the Middle Eastern energy politics, taking part in the new "Great Game" and keeping the thrust in the energy diplomacy of the region does not seem too far. Insofar, Turkish policy

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[195] *Study on Energy Supply Security and Geopolitics*, *op. cit*., p.170.
[196] Bilgin, *op. cit.*, p.72.
[197] See Mehmet Ögütçü, "Turkey's Energy Policies in the Context of Eurasian Geo-Politics", Event Summary by John Grennan, CIAO Working Papers, International Security Program, *Belfer Center for Science and International Affairs (BCSIA)*, Harvard University, July 2002.

toward the Middle East has turned out to be less strained and more unilateral in character. Perhaps, disapproval of the bill, which was envisaging the US troops through the Turkish borders, by the Turkish Parliament in 1 March 2003 could be treated as a prominent vindicate dealing with the upsurge of Turkey's unilateralism.

In the recent years, bilateral engagements comprising future energy pipeline projects have gradually kept pace regarding the issues of energy security, new transportation routes and energy trade through the Middle East and the East Mediterranean. One specific matter, in the existing energy agenda of Turkey, has been the struggle to make Ceyhan- the Turkish port in coast of the Mediterranean - an energy terminal, both in oil and gas trade. General view has urged upon the transmission of the energy resources via the pipelines to Ceyhan and, thus, the relief of the dense tanker traffic through the Turkish Straits. Moreover, the proximity of Ceyhan port to the other Middle Eastern states has been pointed out as an opportunity in terms of shipping of oil to the world markets and transmitting the natural gas to the European gas markets.

Egypt engaged in direct negotiations with Turkey tackling with a "future natural gas pipeline project" transiting Jordan and Syria and reaching Ceyhan in 2000. This, in turn, may well set the inclusion of Israel[198] into the route; thus, open a new phase on the *common denominator* of energy. Furthermore, this can bring a new inspiration against the Arab-Israeli conflict with putting the *energy interdependence* as a mediator. Though this argument sounds assumptive and does not seem tangible in the short-term Middle Eastern politics, it may contain a solid core of insight about Turkey. Recent trends about the energy security have portrayed that Turkey might find a way to eradicate or at least reduce the apprehensions of its appearance as a "western stooge"[199] to the Middle East in strategic and economic terms. In the final analysis, at a time when there is growing urgency to bring stability and democracy to the Muslim world and the Middle East, a Muslim country like Turkey with the prospects of the EU membership can be capable of playing a much more constructive role in the region. Moreover, Turkey's democratization

[198] Israel has also been watching for the future extension of Blue Stream Natural Gas Pipeline- a transit line extended from Samsun (the city in the Northern Anatolia) to Ceyhan and seeks for a future gas line in order to utilize the Russian gas. (Remarks from the interview with Hilmi Güler- The Minister of Energy and Natural Resources of Turkey on the television program *BÜYÜTEÇ*, broadcasted on *TRT*, 21 November 2005.)

[199] Altunışık, "Turkey's Middle East Challenges: Towards a New Beginning?" *op. cit.*, pp.363-379.

experience may have a substance to serve "a source of inspiration"[200] for other Muslim societies and Muslim people.

In sum, Turkey may come across economic as well as strategic opportunities that are inspired by the national interests, in the Middle East, since it has considerably increased its credibility and the relevance of its political system as an example for the other Muslim states. The energy commons, thus, can be a catalyzing factor among the Muslim states to implement a rather harmonious reverberation, perhaps including Israel, who will also be in need of energy. Turkey's realization about its "hydro" capabilities and the importance of giving emphasis to the Tigris- Euphrates Basin can also facilitate the energy cooperation among Turkey, Israel and the other Muslim states in the Middle East. Yet, the water crisis has always negatively affected Israel's relations with its neighbours. Israel has water sharing with the Palestinian Authority, Jordan, Syria and Lebanon. More than two-thirds of all available fresh water in Israel comes from the neighbouring countries.[201]

The initiatives about the energy cooperation (despite the bilateral energy negotiations are taken up under the supervision of MENR and domestic energy planning turns out be mainly under the fold of MENR) render the *sui generis* appearance of Turkey that it might be neither a bridge nor a barrier but rather a potential assertive energy actor provided it acts with all its authorized bodies. Above all, the following years may highlight the fresh assertiveness and autonomy of Turkey within the Middle East energy politics.

3.2.3. The Caucasus and Turkic States

The relations of Turkey in energy with the Caucasian and Turkic states in Central Asia also hold prominence firstly, since major energy pipelines are emanating from these countries. Secondly, Turkey has been putting emphasis on respecting the territorial integrity and sovereignty of these regional states. Insofar, the collapse of the Soviet Union caused a radical shift in the foreign policy of Turkey and prompted a political and economic penetration into these countries.

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[200] Meliha B. Altunışık, "The Turkish Model and Democratization in the Middle East", *Arab Studies Quarterly*, Volume 27, Numbers 1&2, Winter-Spring 2005, p.57.
[201] Konuralp Pamukçu "Water Trade Between Israel and Turkey: A Start in the Middle East?", *Middle East Policy*, Vol. 10, No. 4, Winter 2003, p.89.

Scholars mostly put that Turkey had begun to pursue an activist foreign policy after the demise of the Soviet Union.[202] While the continuing importance of Turkey to the West had been emphasized, a quick and assertive response was given, with a strong support with Turkish public, to greet the emergence of the newly independent Turkic states with emotion and optimism.[203] Turkey became the first country to recognize their independence formally, and Turkey hosted their presidents in Istanbul for an inaugural Turkic Summit in October 1992. Air routes and a satellite broadcast link were established as well as a new agency (Turkish International Cooperation Agency- TICA) was set up to oversee the transfer of billions of dollars in Turkish aid and investment promised to the region.[204]

The Black Sea Economic Cooperation (BSEC) was launched in Istanbul by signing the summit declaration on 25 June 1992. The heads of government or state of eleven Balkan and Caucasian countries, including Azerbaijan and Georgia initialized a process that the countries, well endowed with natural resources, could have a chance to incorporate the basic elements for future development and mutually beneficial cooperation.[205] The basic motives behind the BSEC were to make the Black Sea as a sea of peace, to promote stability and prosperity based on shared values such as pluralistic democracy, social justice, human rights, rule of law, fundamental freedoms, free market and economic prosperity. Furthermore, the European Energy Charter Treaty (ECT) was signed in Lisbon in December 1994 to facilitate trade in energy products (such as gas, petroleum, coal, nuclear energy, electricity) between signatory countries, to encourage transfers of technology and to protect investments. The member states of the BSEC also became the signatory states countries of the ECT, which aimed at creating an institutional framework to promote co-operation in the field of energy and energy related industries. Therefore, Turkey's attempts to involve in multilateral regional organizations came alive; however, Turkish enthusiasm to benefit from the accomplishment of major energy projects was hindered by the structural reasons, particularly dealing with the newly dependent Central Asian Turkic states in the early 1990s.

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[202] The stance of Turgut Özal –Turkish President at the time- is pointed out within this activist policy. (Laurent Ruseckas, "Turkey and Eurasia: Opportunities and Risks in the Caspian Pipeline Derby, *Journal of International Affairs*, Vol. 54, No. 1, Fall 2000, p.219.)
[203] *Ibid*., p.220.
[204] *Ibid.*
[205] Bilgin, *op. cit*., p.65.

In this regard, Turkey's efforts have been motivated by a desire to spread the Turkish model of government and society- consisting of parliamentary democracy, relatively free-market economy and secularism in a Muslim society - as well as to take advantage of the mutual development opportunities that cooperation can create.[206] In the end, these might replenish the guarantee in the accession to vital energy resources; create attractive oil and gas transport revenues; finally, convey strategic and economic repercussions. Nevertheless, Turkey has faced major challenges in relation to the Russian influence Kazakhstan and Turkmenistan. Azerbaijan, on the other hand, has remained much closer than these two states since it has been much eager to employ its economic and political autonomy through the constructive relations with Turkey.

Turkey supported Azerbaijan in the dispute over Nogorno-Karabakh and once, responded to the Iranian action against Azeri-British petroleum survey vessel. Turkey expressed its concerns on the possible dismemberment of Georgia and thus, avoided intervening in Chechnya.[207] It also hesitated to engage in other troubles in the North Caucasus. Moreover, Turkey was the first country who recognized the independence of Turkic states. The early 1990s and onwards somewhat signaled that there was a plenty chance to establish a political and economic unity even though it might not call for a stiff political organization.[208] Therefore, one of the main objectives of Turkey has been to encourage the economic and political independence of the newly independent states vis-à-vis the power vacuum after the demise of the Soviet Union. When looked at the Southeastern Caucasus, energy has become a common denominator within the bilateral relationships. Since Azerbaijan is an indispensable possessor of the energy, Georgia and Turkey could benefit from Azerbaijani gas and oil both as customers and as transit states.[209] Albeit Turkey lacks any ethnic, linguistic, or religious ties with the majority of the Georgian people, shared interests and Georgia's desire to identify and build strategic partnerships with a NATO member state, have been more than sufficient to form the basis for an excellent relationship.

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[206] Aras and Foster, "Turkey: Looking for…", *op. cit.*, p.229.
[207] Nasuh Uslu, "The Russian, Caucasian and Central Asian Aspects of Turkish Foreign Policy in the Post-Cold War Period", *Alternatives: Turkish Journal of International Relations*, Vol. 2, No. 3&4, Fall & Winter 2003, p.171.
[208] *Ibid.*, p.181.
[209] Gourban Alekperov, "Energy Resources of the Caspian Region and the Significance of Turkey for Europe's Energy Security", *The Quarterly Journal*, Vol. 3, No. 3, September 2004, p.120.

Possessing identical or similar ethnic and cultural origin, on the other hand, could not always render a firm base of regional policies and this could well make harder for Turkey to insert a perfect democratic, secular and free enterprise model[210] for the Turkic States. Thus, one challenge, here, has been the capability to sustain affirmative economic and political relations- as well as in energy cooperation- between Turkey and the Central Asian states. Since these states would prefer military and economic aid, which Turkey may not respond immediately rather than ethnic and cultural relations[211], Russia, who is willing to increase its sphere of influence in the region, has seemed to acquire a sort of relative advantage in the energy politics. One could say that Turkey's initiatives in order to supply a comprehensive package for the Turkic states remained limited. Turkish bilateral military assistance to Central Asian states has become sizeable only as of late 2000[212], and even here it focused primarily on Uzbekistan and Kyrgyzstan, which were willing to accept Turkish equipment and training to help prepare their forces to battle insurgencies. Turkish troops have worked with Uzbek and Kyrgyz special forces units, and in 2001 they gave the Kyrgyz military forces (ground forces and border guards) a variety of non-lethal supplies, including night-vision equipment, all-weather gear, uniforms, and radio stations and transmitters (as well as training in their use and in counter-terrorism operations).[213] In addition to Turkey's limited and somewhat delayed maneuver, another point had appeared that Turkey seemed to have failed to integrate the lateral parts of the prism, namely the influence of former Soviet Union.

Yet, Azerbaijan, Kazakhstan and Turkmenistan were not such states who did not have *state traditions*. In contrast, experienced politicians of former Soviet Union have engaged in prominent staff positions of these states after the demise of the Soviet Union.[214] Moreover, the energy infrastructure including exploration, production and transportation systems in these states were mostly inherited from the Soviet Union. Therefore, this situation was connoting even an inevitable dependence on the Soviet Union's prior investments despite it was displeasing for these countries. All these factors could be

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[210] Şükrü Gürel, "A General Appraisal of Current Turkish Foreign Policy" in Mustafa Aydin (ed.), *Turkey at the Threshold of the 21st Century*, (Ankara: International Relations Foundation, 1998), pp.16-17.
[211] Uslu, *op. cit*., p.182.
[212] Olga Oliker "Conflict in Central Asia and South Caucasus: Implications of Foreign Interests and Involvement" in Olga Oliker and Thomas S. Szayna (eds.), *Faultlines of Conflict in Central Asia and the South Caucasus: Implications for the US Army,* (Santa Monica: RAND, 2003), p.202.
[213] *Ibid.*
[214] Bilgin, *op. cit*., p.66.

contemplated as the relative handicaps for Turkey in its energy diplomacy with Turkic states. As an inexperienced actor in oil and gas pipeline issues Turkey initially took its place on stage without constructing its own projects and organizing its domestic participants.[215] In the words of a Turkish diplomat, particularly in the oil issue in the late 1990s, "the Turks were pushed into the water without knowing how to swim and now they are in the learning process".[216]

As an example, lack of keen participation of Turkey in Kazakh oil resulted in an advantage for Russia and the other multinational oil corporations. *Tengiz* oil field of Kazakhstan, which is one of the largest oil fields in the world with proven oil reserves of almost 10 billion barrels, was heavily kept in Russia's patronage in the beginning of the 1990s. Through the Caspian Pipeline Consortium (CPC) *Chevron* -the US multinational oil corporation scored crucial engagements in 1990 and *Tengizchevroil*, a joint venture between Chevron and Kazakhstan, was formed in April 1993 with an entire investment of US $ 20 billion.[217] Chevron has already invested around US $ 700 million in the development of the field, but decided to scale down the rate of its investment in 1995 because of problems with using the existing Russian pipelines to export the production.[218] Although Chevron and Kazakhstan had signed an agreement with the Russian government on 17 March 1993, giving access to the Russian pipeline network to export up to 130.000 barrels per day, Russia has consistently restricted Tengiz Oil's access to its pipelines.[219] While restricting and sometimes totally blocking the use of its pipelines, Moscow pressured Almaty (the capital city of Kazakhstan) to concede sizeable percentages of revenues from Kazakhstan's oil and gas projects in return for use of its pipelines. Moscow also insisted that Almaty accord Russia preference in granting exploration licenses and that it let Moscow join the Chevron-Tengiz project.[220]

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[215] M. Fatih Tayfur and Korel Göymen, "Decision Making in Turkish Foreign Policy: The Caspian Oil Pipeline Issue", *Middle Eastern Studies*, Vol. 38, No. 2, April 2002, p.102.
[216] *Ibid*., see endnote 2.
[217] "The Politics of Oil in the Caucausus and Central Asia", *Adelphi Paper*, No. 300, 1996, pp.36-37.
[218] Süha Bölükbaşı, "The Controversy Over The Caspian Sea Mineral Resources: Conflicting Perceptions, Clashing Interests", *Europe-Asia Studies*, May 1998, Vol. 50, Issue 3, p.404.
[219] *Ibid.*
[220] *Ibid.*

As another example, under the alleged Russian tradesmen' lobby (with certain Turkish construction companies, who had close business ties in Russia[221]), it was argued, Turkey was propelled to give more emphasis to the Blue Stream Natural Gas Pipeline Project (an Italian-Russian-Turkish joint project) instead of Trans-Caspian Natural Gas Pipeline Project (TCGP) in the late 1990s. This had increased the tensions in Turkmen-Turkish relations and the removal of the possibility of selling gas to Turkey in large amounts compelled Turkmenistan to sign a treaty with Russia on selling gas to this country as a certification of its further dependence on the Russian power.[222] Saparmurad Niyazov-Turkmen President, during the official visit to Turkish energy minister in October 1999, told that this created a big disappointment Turkmenistan-Turkish relations and he criticized the Turkish-Russian relationships on the related energy issues.[223] Niyazov boycotted the Turkic summit in Baku in April 2000.

Recalling the accord in 1999, Turkey and Turkmenistan had signed an agreement for a pipeline project to carry 30 bcm/y of natural gas to Turkey in May 1999, which would begin gas shipments in 2002. Turkmenistan hoped eventually to transport west 30 bcm of gas per year, with 16 bcm to the Turkish market and 14 bcm going through Turkey to Europe. In addition, in November 1999, Azerbaijan, Georgia, Turkey, and Turkmenistan signed an intergovernmental declaration laying the legal framework for the Trans-Caspian Gas Pipeline route running from Turkmenistan through Azerbaijan and Georgia, to Turkey.[224] However, the proposed pipeline has been mired in problems and the future of the project became uncertain.

In 1999, Ed Smith, the head of the PSG International Consortium, which was formed to construct a Trans-Caspian gas pipeline, declared that the size of the Turkish market meant that either Blue Stream or a Trans-Caspian pipeline could be developed but not both.[225] Negotiations between Turkmenistan and the PSG International Consortium have stalled over payment and price issues. By October 2000, G.E. Capital and Bechtel withdrew

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[221] Winrow, "Turkish National Interests", *op. cit*., p.237.
[222] Mustafa Aydın, "Kafkasya ve Orta Asya'yla İlişkiler (1999-2001)" in Baskın Oran (ed.), *Türk Dış Politikası: Kurtuluş Savaşı'ndan Bugüne Olgular, Belgeler, Yorumlar*i, Vol. 2, (İstanbul: İletişim Yayinları, 2001), p.438.
[223] Gökhan Bacik, "The Blue Stream Project, Energy Co-operation and Conflicting Interests", *Turkish Studies*, Vol. 2, No. 2, Autumn 2001, p.90.
[224] Gawdat Bahgat, "The Caspian Sea: Potentials and Prospects", *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 17, No. 1, January 2004, p.122.
[225] Winrow, "Turkish National Interests", *op. cit*., p.245.

from the consortium leaving only Shell committed to the project.[226] Moreover, dispute between Turkmenistan and Azerbaijan over who owns the Caspian Sea resources and which wanted to export its own gas to Turkey, over the delimitation of Caspian maritime boundaries, effectively scuttled Turkmenistan's TCGP.[227] In the end, Turkmenistan has sided with Iran and financial lack for the project conceded the implementation of TCGP.[228] The project was also hampered by the opposition from Russia and Iran, who have their own gas supply agreements with Turkey, as well as existing pipeline connections.[229] Clearly, all these incidents boosted the apprehensions that Russia would plan to purchase Turkmen gas and resell it to Turkey at a higher price by means of Blue Stream.[230]

In March 2001, after the discovery of natural gas in the Shah Deniz field by 1999, Turkey and Azerbaijan signed agreements whereby Turkey pledged to import initially 2 bcm of gas from Shah Deniz in 2004, and eventually 6.6 bcm/y. The gas would be delivered along a pipe running parallel to a Baku-Ceyhan pipeline.[231] In June 2000 officials from Statoil – the Norwegian oil company and a member of the consortium developing Shah Deniz- outlined a plan for Azerbaijan to supply Turkey 16-30 bcm/y and south-eastern Europe a further 10-20 bcm/y over 20 years.[232] Moreover, in November 2000 Statoil officials announced it would form a joint venture with the Turkish companies to sell Azerbaijani gas in Turkey after the liberalization of the Turkish natural gas market.[233] Huge gas deposits at the Shah Deniz field prompted British Petroleum (BP) and Statoil to upgrade their basic strategy toward the BTC project. The prospect of exporting gas to Turkey gave these companies a strong incentive to support BTC, since the Shah Deniz pipeline running parallel to the BTC could have reduced the costs.[234] BP-Amoco announced that it was prepared to spend US $ 1.3 billion to construct a new gas pipeline

[226] *Ibid.*
[227] Alec Rasizade, "The Mystery of the Caspian Oil Boom, Part Two", *Contemporary Review*, Vol. 285, Issue 1665, October 2004, p.203.
[228] Bacik, *op. cit.*, p.90.
[229] Rasizade, *op. cit*., p.203.
[230] Necdet Pamir, "Is There a Future for the Eurasian Corridor?", *Insight Turkey*, Vol. 2, No. 3, 2000, p.37.
[231] Winrow, "Turkish National Interests", *op. cit*., p.246.
[232] *Ibid.*
[233] *Ibid.*
[234] Larrabee and Lesser, *op. cit.*, p.109.

from Shah Deniz to Turkey, which could deliver gas as early as 2002-3.[235] According to the agreement, TPAO had a 9 percent share for in the Shah Deniz Gas Pipeline project.

It was argued that there was no attribution to sell gas to Europe via Turkey in this agreement given Turkish gas needs was overbooked. The Russian gas has already cornered a sizable stake in Turkish gas market. However, one could hardly observe severe political repercussions over Shah Deniz Project in Turkey that time, since Turkish Armed Forces and Turkish Ministry of Foreign Affairs with the US support have always been underpinning the geopolitical significance of Caspian energy issues.[236] Unlike the toleration to "Iranian gas issue" in the late 1990s, this time, the geo-political priorities came forward instead of Turkey's energy needs. Thus, the consequent *trade off* between the parameters in the natural gas issue eventually led to the shifts in Turkish energy perceptions.

The subsequent shifts of Turkish realization in gas issues might have changed the perception of Turkmenistan as well as the other states (Kazakhstan, Uzbekistan) toward Turkey and made them search alternative ways apart from sharing similar ethnic values, but perceiving Turkey rather as an energy gateway to the West. This was, some argue, because Turkish policy-makers tended to take a rather patronizing approach to the relations with the Central Asian Turkic States, often acting as the "big brother". Having just emerged from seventy years of Soviet colonization, the Central Asian elites did not want to replace one form of domination by another.[237]

Another prominent development was dealing with the US' considerations about the pipeline issues in the late 1990s. In March 1999 Richard Morningstar, the US Secretary of State for Caspian Basin Energy Diplomacy, explained why the US backed multiple pipelines and energy corridors. Morningstar noted that such a proliferation would strengthen the independence and prosperity of the former Soviet republics as well as encourage economic and political reforms.[238] According to him, regional cooperation would be enhanced, and the US companies would benefit from commercial opportunities.

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[235] Winrow, *Turkey and the Caucasus…*, *op. cit.*, p.50.
[236] Winrow, "Turkish National Interests", *op. cit.*, p.247.
[237] Larrabee and Lesser, *op. cit.*, p.101.
[238] Gareth Winrow, "Turkey and the East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, Summer 2004, pp.25-26.

Morningstar added that the energy security of the US and its allies would be bolstered with the free flow of oil and gas to world markets.[239]

Specific mention was made of four oil pipeline routes: the transportation of crude oil from Baku to Ceyhan on the Turkish Mediterranean coast, to Supsa on the Georgian Black Sea coast, to the Russian Black Sea port of Novorossiysk, and the Caspian Pipeline Consortium's pipeline to connect the Tengiz oil field in Kazakhstan with Novorossiysk. Morningstar, though, only listed one natural gas pipeline project—the planned Trans-Caspian Gas Pipeline to carry Turkmen gas to Turkey. Washington wanted to ensure that Moscow did not have exclusive control of pipeline networks, although Russia was included in the envisioned "East-West" energy transportation corridors.

After the Trans-Caspian Gas Pipeline project collapsed, Washington turned to support the building of a Baku-Erzurum pipeline to carry natural gas from the Azerbaijani Caspian offshore field at Shah Deniz to Turkey. Unlike Russia, Iran was intentionally excluded from the energy corridors proposed by the US.[240] The apprehensions of the US administration in the Caspian energy routes for its energy security considerations drove Turkey to act in a parallel manner with the American initiatives.

It is argued that Turkey has somewhat failed to recognize the *specificity* of Turkic states.[241] Turkey considered Azerbaijan, Kazakhstan and Turkmenistan as a whole in cultural terms and somewhat fell short to expect their policy decisions. These three Turkic states were common candidates for possible transportation and marketing of the Caspian energy riches, where they were possible rivals since their targets corresponded the same markets. Turkey, on the other hand, remained inactive to comprehend the differing perspectives of these states in character. [242] In other words, Turkey could have benefited more provided that it had envisaged a comprehensive recognition of their specificities. Neglecting an inclusive assessment of Baku-Tbilisi-Ceyhan Crude Oil Pipeline Project (BTC) with BTE and Trans-Caspian Natural Gas Pipeline Project (TCGP) within a broad master plan in energy could be realized as one of the main deadlocks in Turkey's energy steps in the Caucasus and Central Asia. Instead, separate natural gas pipeline and purchase agreements took place with Russia, Azerbaijan and Iran

[239] *Ibid.*
[240] *Ibid.*
[241] Bilgin, *op. cit.*, p.67.
[242] *Ibid.*, p.68.

in the late 1990s. These were grave challenges to Turkey's energy security and the dependency on few suppliers came into scene, which would be a big threat against Turkey's national interests.

In sum, while there were fine relations in energy with the Caucasian states such as Georgia and Azerbaijan since they have been more acute within the integration to the Western markets, similar purposes of the Central Asian Turkic states have somewhat been impeded by the Russian efforts. Moreover, the potential geo-political hazard to Turkey could be realized as the growing strategic competition between the two emerging blocs centered on the Caucasus: *Turkey-US* versus *Russia-Iran*. Azerbaijan and Georgia have felt threatened by their large, unsteady and assertive neighbor to the North, thus, they have sought to guarantee their independence from Russia by aligning themselves with Turkey and the US.[243] Turkey, on the other hand, has been inadequate to inaugurate its foreign policy with a realistic energy envisagement toward Central Asian Turkic states. What is more, Turkey could not do much in giving more emphasis to the *specificity* of Kazakhstan and Turkmenistan given the Russian ambitions for the transmission of the Central Asian hydrocarbon resources remained dominant beside Turkey's limited attempts. Instead, the US' considerations about the Caspian pipeline issues had an explicit impact over Turkey's future role through the transmission of the Caspian energy riches.

3.2.4. Russia

After the disintegration of the Soviet Union, the newborn Russian Federation faced severe economic and political upheavals; yet, it has struggled to overcome these disturbances. While Russia heavily relied on its rich oil and natural gas reserves, it accomplished major energy projects particularly, with its indigenous oil companies and the inherited energy infrastructure. [244] Accordingly, Russia has appeared to succeed to integrate its energy policies within its foreign policy priorities. Unlike Boris Yeltsin, the role of economic growth in President Vladimir Putin's foreign policy, in the beginning of the 21st century,

[243] Ruseckas, *op. cit.*, pp.217-218.
[244] With the geographical proximity and the corresponding interests, Russia would be able to do more than Turkey can do with the Turkic states. As an example, Russia with signed Uzbekistan a new strategic partnership Agreement of poor personal relations between former Russian President Boris Yeltsin and Uzbekistan's President Islam Karimov in 2004. (Fiona Hill, "Energy Empire: Oil, Gas and Russia's Revival", *The Foreign Policy Centre*, UK, September 2004, p.24.)

has brought about a different immediate primary objective. Economic growth and international integration as a means to Russian development and national security and well-being has remained the core of Russian foreign policy. Therefore, the economic interests not only stand alone in defining Russian foreign and security policy, but also they stand alongside strategic interests in how Russia defines its security and status.[245] Yet, Russia has revised its character as an influential, autonomous, and accepted power, given that it has become capable of employing its hydrocarbon resources as a main export tool.

Russia and Turkey, on the other hand, have always portrayed such a sketch that they have settled as good commercial partners but political and economic rivals. In retrospect, some scholars argue that Turkey remained ideologically and militarily threatened by Moscow throughout the Cold War era. According to them, the polarization of Turkish domestic affairs and growing political violence in the 1970s led many Western and Turkish observers to believe that Moscow was behind the Turkish ultra-left insurgency.[246] Nonetheless, Turkey's gradual re-democratization after the 1980 Military Coup and Mikhail Gorbachev's pursuit of a pro-Western foreign policy and increasingly liberal ambience in both countries heralded the beginning of a new era, which was sealed by the Friendship Agreement in March 1991. In May 1992, the then- Turkish Prime Minister Süleyman Demirel traveled to Moscow for talks with the Russian leadership that culminated in the signing of a treaty on future bilateral relations. The business volume of the Turkish construction companies reached to US $ 8.5 billion by 1997.

When looked at the energy dialogue between Russia and Turkey, it is remarkable that both countries have involved in bilateral natural gas purchase agreements since 1984. The natural gas business started in 1987 with the first natural gas purchase and Turkey had been allowed to pay almost the three-third of its the natural gas bill by the export of Turkish goods and services. This allowance could be considered as a strategic step of the Soviet Union to create a political influence over Turkey. The period between 1992 and 1997 rendered a different scenery. The Russian Federation began to perceive the natural

[245] "The Challenge of Russia For US Policy", A Statement by Celeste Wallander, *Center for Strategic and International Studies* (*CSIS)*, 21 June 2005, pp.7-8.
[246] Emmanuel Karagiannis, *Energy and Security in the Caucasus*, (London, NY: RoutledgeCurzon, 2002), p.129.

gas business through the commercial means rather than politico-strategic prospects.[247] Yet, after 1997, the Russian perceptions once again changed and shifted to the strategic expectations.[248] It was the agreement on the "Blue Stream Natural Gas Pipeline Project" (BS), which increased the strategic hopes of the Russian Federation and which was considered as a significant project to export the Russian natural gas to Israel and the world markets. The BS was portraying the latest and the highest commercial development of the bilateral relationship between Turkey and Russia, thus a new era in the Russian-Turkish energy dialogue.

On 15 December 1997, Viktor Chernomyrdin - Russian Prime Minister visited Ankara to sign a US $ 3.3 billion agreement to launch "Blue Stream Natural Gas Pipeline Project" (BS).[249] For Turkey, it could be a tool to set further economic relations and guarantee its own gas needs along its demands in the future. However, it is argued, the excess forecasts of BOTAŞ, the influence of the Russian lobby[250] and an important domestic lobby for trade with Russia drove Turkey to involve in high volume of natural gas contracts with Russia.

It was a striking point that the viability of the BS was debated in the National Security Council (NSC) of Turkey, in which external and domestic security issues are discussed and which has largely been controlled by Turkish General Staff (TGS). In spite of the military's fears that Turkey may become too dependent on Russia for gas imports, the project was given the go-ahead.[251] Chernomyrdin had warned that failure to realize the BS could result in Turkish companies no longer being awarded lucrative construction contracts in Russia.[252] Chernomyrdin's intention got response by the public opinion within the following years.

After the General Elections in Turkey in 1999, a coalition government was established comprising the Democratic Left Party (DSP), the Nationalist Action Party (MHP) and the

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[247] Sinan Oğan, "Mavi Akım Projesi: Bir Enerji Stratejisi ve Stratejisizliği Örnegi." Stradigma, 2003, Ağustos, No. 7. p.4.
[248] *Ibid.*
[249] Karagiannis, *op. cit.*, p.130.
[250] Larrabee and Lesser, *op. cit.*, pp.112-113, also see Winrow, *Turkey and the Caucasus..., op. cit.*, pp.30-39.
[251] Winrow, "Turkish National Interests", *op. cit*., p.236.
[252] Zeyno Baran, "Corruption: The Turkish Challenge", *Journal of International Affairs*, 54-1, 2000, p.141

Motherland Party (ANAP). Some argued that Bülent Ecevit (Prime Minister and the leader of DSP in 1999) has had to balance the interests of his coalition partners.

The MHP was cautious about Russia and sympathetic toward the Turkic States.[253] The ANAP, which has had the control of the energy portfolio under Cumhur Ersümer (Minister of Energy and Natural Resources at that time) – until Ersümer's forces resignation in April 2001 over the allegations of corruption- was regarded in some quarters as being in league with the so-called "Russian lobby" in Turkey.[254] Further, in the Turkish Parliament's Foreign Policy Standing Committee in 1997, the opposition parties strongly criticized the third Article of the Additional Protocol of the BS, which regulates the underwater conduit passage issues, as relinquishing important Turkish rights.[255] There were also ambiguities about arranging tax concessions for companies engaged in the project and for how any legal disputes would be resolved.[256]

During this period, the Turkish Ministry of Energy and Natural Resources (MENR) had the lead on all pipeline issues[257], which previously had been determined by a pipeline coordinator working in close conjunction with the Ministry of Foreign Affairs and the Department of Treasury, as well as MENR's affiliated institutions. In the end, the incidents resulted in an alleged energy scandal called "White Energy". Many energy bureaucrats were swept up in the investigations, including those relating to alleged improprieties in Blue Stream, and although only a few individuals were eventually sentenced, it is noteworthy that the controversies led to the departures of the Energy Minister and the head of BOTAŞ.[258] What the interesting point was that Saadettin Tantan (Minister of Interior Affairs and an ANAP deputy) was dismissed from his post in June 2001 because of his ministry's investigation into energy scandals regarding the tenders and contracts for the BS and Western pipelines running from Ukraine via the Balkans to Turkey.

Within the framework of the BS agreement, Russian (state-owned) *Gazprom* gas company has concluded a commercial contract with BOTAŞ to supply 365 billion cubic

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[253] Winrow, "Turkish National Interests", *op. cit*., p.237.
[254] *Ibid.*
[255] Bacik, *op. cit.*, p.89.
[256] *Ibid.*
[257] See "Turkey's Caspian Energy Quandary", *Caspian Energy Update*, *Center for Strategic and International Studies* (*CSIS)*, 13 August 2002.
[258] *Ibid.*

meters (bcm) of natural gas to Turkey over 25 years.[259] What is more, by the accomplishment of the BS, Turkey would become the second largest importer of Russian gas after Germany. Finally, with the first flame in Samsun, on November 17, 2005, the BS has fully entered into Russian- Turkish natural gas business. The latest forecasts show that demand will rise to 42-48 bcm in 2010 and 90-95 bcm in 2020. Turkey imported 13 bcm of natural gas in 1999, 70 percent of it from Russia. The following decade will likely show that the Russian gas will occupy almost 75 percent of Turkey's natural gas imports.

One can obviously note that with the BS Russia might increase its political influence on Turkey since Russia can be able to find a way to go down the Mediterranean and explore an alternative way to meet the Middle Eastern states. One can also assume that Russian gas may correspond with Israel's energy needs with the extension of BS through the Turkish territory. Indeed, huge natural gas deals with Russia is in contrast to one of the indispensable aspects of *energy security*. Albeit the diversification of the suppliers sound attractive to maintain the energy security and securing the Turkish Straits in terms of energy supply security, the great imbalance within the shares of energy suppliers in natural gas seems as a potential threat. Remarkably, this situation creates a monopoly in natural gas trade on behalf of Russia given that Russia has the largest natural gas deposits in the world.

Indeed, Russia has been benefiting from its monopoly in natural gas. Given that the "natural gas trade" forms a considerable percentage in Russia's foreign trade portfolio the Russian government has already come to a decision to swap its domestic energy supply, which is met primarily by natural gas, with the nuclear energy.[260] Remarkably, Russia has realized that selling the abundant gas to the consumer states at higher prices sounds much more profitable than using it domestically. Therefore, putting alternative solutions in order to lessen such a severe dependence on (Russian) natural gas seems vital for the sake of basic issues, such as the sustainable development, and national security of a state.[261]

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[259] For detailed information and forecasts, visit the official web site of Turkish State Pipeline Corporation (BOTAŞ): http://www.botas.gov.tr accessed on 18 December 2005.

[260] Remarks in "Karşı Görüş", *NTV*, 1 February 2006.

[261] After the natural gas crisis between Ukraine and the Russian Federation, Russia cut off the gas flow to Ukraine on 1 January 2006. The state-controlled Russian energy giant Gazprom cut off the supply of natural gas to Ukraine on Sunday after weeks of intense negotiations, including a last-minute intervention by Russian President Vladimir Putin, failed to resolve a dispute over pricing. The dispute was ostensibly centered on Gazprom's desire to move immediately to market pricing and Ukraine's willingness to accept only a phased transition to the kind of prices paid in Western Europe. Russia has long used cheap natural gas to maintain influence in the former republics of the

Hence, the synchronization of the cautions to eradicate the economic apprehensions of energy (the vital input for the industrial and daily life) and further strategic steps in the Asian energy markets (active engagement in future energy projects) all appear prominent for Turkey's foreign relations as well as its energy endowments.

3.2.5. The United States

It is an undeniable fact that the dependency of the US on the Middle Eastern oil has considerably grown up. Therefore, the US, consuming one fourth of total global energy, questions the long-term reliance on Middle Eastern oil and considering ways to diversify their sources of supply and build strategic stocks to protect its economy against a potential oil supply interruption.[262] This situation has put Turkey in a unique class tackling with US' energy considerations. Since the end of the Cold War, the Turkish perspective has concentrated on the effective US role to counterbalance the relative weights of Iran and Russia in the Middle East.

The interests of the United States in the Middle East and its links with rulers and governments in the region had a decisive effect on the outcome of the struggle over the sources of Arab wealth, and consequently on the balance of power in the region as a

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Soviet Union. Ukrainian officials say the price increase, far steeper than for other former Soviet republics, is politically motivated and is punishment for the pro-Western policies of President Viktor Yushchenko, who is committed to making the country of 47 million people a member of NATO and the European Union. After months of negotiations, Gazprom announced last month that it intended to raise prices for Ukraine from $ 50 to $ 230 per 35,300 cubic feet of gas – an increase that would have a severe impact on Ukraine's economic growth. Some of the country's key industries, including steel and chemicals, are heavily dependent on gas for energy. Some Ukrainian officials say they believe Russia is exploiting its energy dominance to reverse the country's drift away from Russia's sphere of influence, (Peter Finn, "Russia Cuts Off Gas to Ukraine in Controversy over Pricing Move Raises Concerns about Energy Supply for other European Countries", *Washington Post*, 2 January 2006, Page A07)], an apprehension occured regarding the sustainability of Russian gas supply to Turkey. Moreover, a debate started about the price of Russian gas. Gazprom officials declared that Turkey would get a thousand cubic meter of natural gas for US $ 260 by January 1, 2006. However, the price of the same volume of gas was US $ 164 in 2002. Strikingly, Hilmi Güler, current Minister of Energy and Natural Resources of Turkey announced that the number the cities, which use natural gas in Turkey, will be increased to 26 to 75 by the end of 2007. (*Cumhuriyet*, 5 January 2006). The Gazprom officials visited Hilmi Güler on 3 February 2006 in order to hold talks about the extension of the Blue Stream line to Lebanon and Israel. They further negotiated about the Turkish-Greek natural gas pipeline project. The construction of a storage area for natural gas beneath the Tuz Gölü (Salt Lake) formed another matter of subject in this bilateral meeting. (*TRT News*, 3 February 2006) These initiatives somewhat reflected the Russian ambitions in the middle-Eurasian energy transportation lines.

[262] David L. Goldwyn, "The United States, Europe, and Russia: Toward a Global Energy Security Policy", Policy Brief, *EastWest Institute*, Vol. 1, No. 5, August 2002, p.2.

whole for decades.[263] In general, Turkey's Middle East policy has seemed to be subordinated to its relations with the US and this has persuaded its devotion to the principle of non-interference in the affairs of the region.[264] Furthermore, Turkey's important geo-strategic location has been a crucial factor on its relations with the West and shaped its role in the regional and global strategies employed mainly by the United States[265], particularly during the Cold War period. Therefore, Turkey keenly participated in the first Gulf War, against Iraq, with US-led coalition forces in 1991, and somewhat substantiated its position toward the Middle East.

After the first Gulf War in 1991, the US intentions about the oil reserves in Iraq accelerated and the year 2003 represented a second US intervention in the Middle East. Turkey, once again, was requested to allow the second US led coalition forces (primarily with the U.K.) to pass Iraq via using the Turkish territory. By the summer of 2003, the inability to restore order and stability in Iraq well after the end of formal hostilities led to increasing calls in the United States for Turkish assistance.

This time the US government appeared to handle the issue more carefully in terms of Turkish sensibilities and also authorized the potential release of $ 8.5 billion in credits without openly linking it to Turkish troop deployments in Iraq.[266] However, a vast majority of votes in the Turkish National Assembly did not ratify the bill on 1 March 2003. This has put a great challenge between the US and Turkey in the beginning of the 21st century. Albeit the Turkish Parliament changed its point of view and accepted to assist the US in the end, the perception of the US already changed. In the final analysis, the Turkish rulers, unlike the first Gulf Crisis, remained reluctant to fulfill a direct act toward Iraq (and the Middle Eastern oil resources).

The majority of Turkish public opinion reflected that it was the most accurate decision, yet, this could also be regarded as a radical shift in Turkish foreign policy, given the US fleets remained considerably for a long time in the Eastern Mediterranean. The Turkish perception, perhaps, could not venture a possible clash with the other Muslim states,

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[263] Gad G. Gilbar, *The Middle East Oil Decade and Beyond, Essays in Political Economy*, (London: Frank Cass & Co. Ltd, 1997), p.58.
[264] Dietrich Jung and Wolfang Piccoli, "Paranoia or Pragmatism?", Security Dialogue, Vol. 31, No. 1, March 2000, pp.91-103.
[265] "Main Determinants of Turkish Policy in the Middle East", *Ankara Papers*, Vol. 8, Issue 1, 2003, p.6.
[266] Kirişçi, *op. cit*., p.44.

though Turkey could have a chance (albeit not explicit) to utilize the future benefits from the Iraqi oil. This situation hardly seems to change the US considerations toward Turkey. Thus, it could further mean that a serious *trade-off* was implemented by the Turkish side between oil and the Turkey's foreign policy priorities. The rejection of the bill could be considered as per Turkey's unilateral action through the Turkish Parliament vis-à-vis the US' unilateral involvement in Iraq (though Spain and the UK actively supported the US).

Nevertheless, the shifts and alternatives[267] in the US energy policy in the Eurasian energy axis put possibilities dealing with the transmission of the Caspian energy resources to the Western energy markets. Even though there had been challenges between the US and Turkey, particularly dealing with the US' ambitions for the Middle Eastern energy resources, Turkey has usually paid a parallel perception with the United States. Indeed, the ongoing insistence of the US to construct an oil pipeline from Baku to Ceyhan since the early 1990s had reflected that the US was already determined to employ alternative energy lines other than depending on the Middle Eastern oil. Turkey also paid attention to the alternative energy pipelines for the transmission of the Caspian energy riches through its territories. Ultimately, somewhat under the US influence, Turkey had shown its blessing for the "Baku-Tbilisi-Ceyhan Crude Main Export Oil Pipeline Project", which is considered as the Contract of the Century.

[267] It mainly comprises the transport of the Caspian primary energy resources through the territory of Turkey. Therefore, energy security concerns of the United States and energy transport opportunities dictate cooperation and might provide additional incentives between Turkey and the United States. (See Ian O. Lesser, "Turkey's Strategic Options", *The International Spectator*, Vol. 34, No. 1, January-March 1999, pp.79-88.)

CHAPTER 4

CASE STUDY: BAKU-TBILISI-CEYHAN MAIN EXPORT CRUDE OIL PIPELINE PROJECT (BTC), TURKEY IN THE "CONTRACT OF THE CENTURY"

Regarding the transportation of oil and gas reserves of the Caspian Sea area, the route across eastern Turkey, connecting the energy fields to the Mediterranean, seem to offer the most direct, cost-effective, technologically and environmentally feasible and safe option. It is also appropriate to mention that the transportation of such large volumes of oil by tankers through the narrow and congested Turkish Straits has not been a sustainable option for Turkey's energy supply security. Hence, Turkey has concentrated its efforts for the transportation of Caspian oil and gas reserves to Western markets[268] on the realization of an "East-West Energy Corridor".

The pipeline projects linking the Caucasus and Central Asia to Europe seem vital for the region's integration with the West. Secure and commercially profitable pipelines may help bring stability and prosperity to the region. Here, "Baku-Tbilisi-Ceyhan Crude Main Export Oil Pipeline Project" (BTC)[269], one of the most important projects in the Caspian region, can be contemplated as a specific source of matter for the prosperity and development of the regional states. Therefore, the expectations about the viability of the BTC and the relations of Turkey with the other regional states have been important captions in the BTC story. The relations with Azerbaijan and Georgia have become decisive, as they are major participants in the project and they have had prominent foreign policy issues with their neighbors. According to the Turkish policy-makers, the BTC pipeline would bring economic and political outcomes. Firstly, it would stabilize the region by building the economic linkages between the countries. Secondly, it would help

[268] Alekperov, *op. cit.*, p.122.

[269] BTC's total cost is expected as US $ 3.6 billion. The length of the pipeline is 1766 km and 1076 km of it will pass through the Turkish territory where Azerbaijani line is 445 km and Georgian line is 245 km. The cost of the project will relatively high when compared with the other projects. Its capacity will be one million barrels per day and 50 million tons per year. Its design life will be 40 years. There will be four oil-pumping stations in Turkey, two in Azerbaijan and two in Georgia. (Necdet Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *Panorama Aylık Uluslararası İlişkiler, Ekonomi ve Politika Dergisi*, Nisan 2004, Sayı 03, p.3.)

to diversify and secure the energy supply of Turkey and its partners. Thirdly, it would increase the business opportunities for the Turkish companies- in energy, construction facilities, etc. Fourthly, Turkey's yearly revenue as a transit fee seems as a realistic short-term gaining. Finally, the tanker traffic in the Turkish Straits could be relieved in terms of energy supply security by the realization of the BTC. In the final analysis, one can presume that once the economic targets were accomplished, Turkey could increase its *bargaining power* in economic and strategic terms. As per political outcomes, provided that the BTC became visible and materialized, then, the West would be dependent on Turkey in getting oil and this would institutionalize Turkey's importance for the West.[270] Therefore, the BTC deserves to be put under scrutiny since it has been one of the crucial pipeline projects ever realized and which has been dealing with the trade and the transportation of the Caspian hydrocarbon riches to the world energy markets.

In this sense, this brief study begins with an overview comprising the bilateral relationships of Turkey with Georgia and Azerbaijan, which are geographically involved in the alignment of the project. In the first and the second subtitles, the main aim is to shed light on the evolution of the bilateral relations in the BTC since the independence of Georgia and Azerbaijan. In the third subtitle, the emphasis is given to the background of the BTC that encompasses the factors shaping the implementation of the project. The changing perception of Russia, American-Russian convergence after September 11 attacks, and the possible implications of such a convergence for Turkey are the other subject matters in this section. Finally, in the fourth subtitle the economic and strategic implications of the BTC for Turkey are analyzed with some crucial attributions to the stance of Turkish rulers in the BTC story.

4.1. The Turkish-Georgian Relationship

Turkey formally recognized Georgia's independence in November 1991, yet full diplomatic relations began in May 1992, after the US and Germany had initiated diplomatic ties with Tbilisi (the capital of Georgia). In June 1992, Eduard Shevardnadze (Georgian President) attended BSEC Summit in Istanbul. In July 1992, Turkish President Süleyman Demirel paid a visit to Tbilisi, where he and Eduard Shevardnadze signed a Friendship Agreement and other agreements on trade, culture, education and

[270] Mahmut Bali Aykan, "Turkish Perspectives on Turkish-US Relations Concerning Persian Gulf Security in the Post-Cold War Era: 1989-1995", *Middle East Journal*, Vol. 50, No. 3, Summer 1996, pp.355-356.

transportation. Until this time the importance of Georgia as a transit route for Caspian oil (and the BTC) and gas was not recognized, thus Turkish officials were in no hurry to establish diplomatic relations with Georgia.[271] Turkey's aspirations in Central Asia and Azerbaijan combined with the internal instability in Georgia reduced its relevance for Turkish foreign policy in the early 1990s.[272]

In 1993, under pressure from the deteriorating situation in Abkhazia (there was a large Abkhazian community in Turkey) and suddenly aware that the West in general was not prepared to come to his support, Shevardnadze decided to seek backing from Moscow and Georgia entered the CIS in October and signed the CIS Collective Security Treaty in December.[273] It was followed by a "Protocol of Intention" in February 1994 and another treaty in March 1995 between Georgia and Russia, which gave Russia the right to maintain military bases in Georgia for 25 years, and Russian troops would continue to patrol Georgia's borders with Turkey until September 1999. After several months, Shevardnadze expressed that Georgia "had no alternative" and closer ties with Russia did not mean that Georgia was pushing Turkey aside.[274]

In August 1995, Tansu Çiller (Turkish Prime Minister at that time) visited Tbilisi immediately after an attempt was performed to assassinate Shevardnadze. By 1995, Georgia was able to reduce its dependence on Russia and cultivate closer ties with Turkey and other states in part because of the recognition at that time of Georgia's importance as a transit state for the transport of Caspian energy to the West.[275] Moreover, the Georgian perspective matured that Turkey could be a valuable ally in the region, aiding Georgia's effort to maintain its independence by acting as a counterbalance to the neo-imperial Russian policy and providing Georgia with an alternative source of trade and investment.

The Turkish perspective, on the other hand, yielded in strategic and economic prospects. A democratic and stable Georgia could be a strategic partner in one of the world's most disorderly areas, allowing Ankara to focus its attention on other, less friendly, neighbouring countries such as Iran, Armenia and Syria; and it could be an economic partner since Georgia was a crucial gateway through which Turkish transport trucks can

[271] Winrow, *Turkey and the Caucasus…, op. cit*., p.14.
[272] Karagiannis, *op. cit.*, p.138.
[273] Winrow, *Turkey and the Caucasus…, op. cit.*, p.15.
[274] Elizabeth Fuller, "Turkey: The Tussle for Influence in Central Asia and the Transcaucasus", *Transition*, Vol. 2. No. 2, June 1996, p.15.
[275] Winrow, *Turkey and the Caucasus…, op. cit*., p.15.

go to Central Asian states.[276] Turkish and Georgian military delegations paid reciprocal visits in 1996 and by 1997 Georgian officers were getting training in Turkey. Within the period after Georgia signed up for NATO's "Partnership for Peace (PfP)" programme in 1994, a defense cooperation agreement was signed between the two countries in 1997. Turkey also provided Georgia US $ 5.5 million for defense purposes and further pledged US $ 1.7 million and US $ 4 million for the modernization of the Georgian army between the period of 1998 and 2000.[277] In June 1999, Turkey had also attempts to play the role of a facilitator rather than keeping good offices in the Georgia-Abkhazia dispute and hosted a high-level conference in Istanbul with the release of Istanbul declaration. Half a year later, in a ceremony, in which the Georgian President personally awarded Süleyman Demirel the Golden Fleece, Shevardnadze announced that Turkey's future membership of the EU would also provide Georgia with "a gateway into Europe".[278]

In relation to the Caspian energy transmission and the noticeable BTC, on the other hand, bilateral relations about the pipeline development between Georgia and Turkey turned out to be gradually emphasized. The American policy towards Iran and the continued Armenian-Azerbaijani conflict over Nagorno-Karabakh have made the construction of a major pipeline across Iran or Armenia almost impossible.[279] During Shevardnadze's visit to Ankara in April 1996, Demirel stressed the importance of developing Georgia's key role in establishing an oil route linking Europe and Asia and noted that Ankara could actively participate in this project by creating infrastructure for the projected Georgian pipeline and by joint utilization of maritime and airports, rail lines and highways.[280] Moreover, the Baku-Tbilisi section of the Baku-Supsa line could make the first crucial step of the Baku-Tbilisi-Ceyhan Route. Insofar, Turkish policy makers were pleased that a Baku-Supsa route was chosen by Azerbaijan International Operating Company (AOIC) consortium as one of two routes for the delivery of "early oil" from Azerbaijan, since there was a huge fear that if Russia had secured a monopoly of the transport of "early oil" via the Baku- Novorossiysk. [281] This would have increased the likelihood that Novorossiysk would also receive most, if not all, of the "main oil". What is more, a

[276] Karagiannis, *op. cit.*, p.139.
[277] Winrow, *Turkey and the Caucasus..., op. cit.*, p.25.
[278] *Ibid.*, p.16.
[279] Karagiannis, *op. cit.*, p.142.
[280] *Ibid.*
[281] Karagiannis, *op. cit*., p.142.

pipeline linking Georgia to Turkey would leave the Georgian government far less vulnerable to Russian pressure.

Although Turkey lacks any ethnic, linguistic, or religious ties with the majority of the Georgian people, the shared interests of these two states (and Georgia's desire to identify and build strategic partnerships with NATO member states) have seemed more than sufficient to form the basis for a mature relationship.[282] Even though Turkey's involvement through NATO was often seen as a proxy for US involvement both by local leaders and in Moscow, Turkey's assistance was perceived in large part as a means to more direct security assistance from, and alignment with, the United States to Georgia (and also to Azerbaijan).[283] On the one hand, it is argued, this made states more willing to accept Ankara's help. On the other hand, it meant that without US backing, Turkey's independent influence was limited.[284] Perhaps, this have proved to be in perfect harmony with the key political objectives of the United States in the region; the isolation of Iran, the prevention of the re-establishment of Russia's monopolistic position in the region, encouraging Turkey in her efforts to increase her influence in the region, and supporting multinational oil corporations (mainly the US and the British) companies to invest in the region.[285] Therefore, Georgia's position within the scheme of the BTC still seems crucial for Turkey, given Georgia will continue to be an important transit route for Caspian energy transmission.

4.2. The Turkish-Azerbaijani Relationship

Azerbaijan has always been considered as the closest partner of Turkey in the Caucasus. Common ethnic, linguistic and cultural ties have been emphasized within the relations of the two countries. Turkey was the first state to recognize Azerbaijan's independence in November 1991. From the outset of the independence of Azerbaijan, the relations between the two countries improved gradually. In spring 1991, Turgut Özal (Turkish President at that time) became the first Turkish President to Baku. The important point to be stressed was that the peak point of the relations was observed in Abulfez Elchibey's presidency between June 1992 and June 1993. Elchibey- the leader of Azerbaijani

[282] Oliker, *op. cit.*, p.203.
[283] *Ibid.*, p.204.
[284] *Ibid.*
[285] Vladimer Papava, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Georgia" in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, (Sweden: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005), p.97.

Popular Front (APF)- came to power, after the former president Ayaz Mutalibov, in 1992. The APF was the focal point for anti-Russian sentiment in Azerbaijan, and it professed a strongly pro-Turkish, if not pan-Turkic ideology.[286] Elchibey had even declared that Turkey would occupy the first place in Azerbaijan's foreign policy.[287] He also stated that he favoured a form of confederation between Turkey and Azerbaijan after a period of 20-30 years.[288] His presidency marked a high point of Turkish influence in the country, reflected in the number of Turkish-Azerbaijani joint ventures and Turkish investments at a time when other Western countries were reluctant to invest.[289]

Elchibey was ousted from power in June 1993 by Heydar Aliyev -the former Azerbaijan Communist Party first secretary and First Deputy Chairman of the USSR Council of Ministers. Turkish officials had initially great doubts and they thought the disturbing aspect of Elchibey's removal was that it appeared to have taken Azerbaijan out of Turkey's sphere of influence and into that of Russia.[290] Turkish citizens were obliged to get visas before entering Azerbaijan and visa-less Turks inside Azerbaijan were arrested and deported. It was a major challenge to the Turkish Azerbaijani relations and this was deepened as a number of Turkish military experts, who had been advising the Azerbaijani armed forces, were dismissed thereafter.[291]

In March 1993, Turkey and Azerbaijan had reached a preliminary agreement to build a pipeline from Baku to Ceyhan. Elchibey had promised that Azerbaijan would participate fully in the exploitation of Azerbaijani oil wealth. However, Aliyev cancelled this agreement after he came to power. It was argued that Aliyev sought to balance Azerbaijan's relations with Russia and Turkey, and improve ties with Iran.[292] Nevertheless, Aliyev had paid a four-day visit to Turkey that opened a new phase in bilateral relations. Aliyev and Demirel signed a 10-year treaty on friendship and co-operation plus 15 other agreements on trade, investment, and scientific and cultural co-

[286] Ruseckas, *op. cit.*, p.221.
[287] Fuller, *op. cit.*, p.12.
[288] Winrow, *Turkey and the Caucasus..., op. cit.*, p.9.
[289] Karagiannis, *op. cit.*, pp.150-151.
[290] *Ibid.*
[291] Elizabeth Fuller, *Azerbaijan at the Crossroads*, (London: Royal Institute of International Affairs, 1994), p.15.
[292] Winrow, *Turkey and the Caucasus..., op. cit.*, p.10.

operation in February 1994.[293] Moreover, serious negotiations resumed with regard to the possible construction of a Baku-Ceyhan oil pipeline during his visit.[294]

Recalling the Azerbaijan-Armenia conflict since 1988, which started over the Armenian claims to the Azerbaijani area of Nagorno-Karabakh, it has been a great source of instability in the region. It grew into a full-scale war resulted in the occupation of over 17 percent of Azerbaijan's territory, the ethnic cleansing of over a million people, the overwhelming majority of which were ethnic Azerbaijanis, from their homes, and the death of over 30,000 people on both sides.[295] It was stated that Turkey was actively involved in the fighting around Karabakh, beside it was a strong mediator through the diplomatic channels.[296] It was also argued that the cease-fire over Nagorno-Karabakh negotiated in 1994 provided Aliyev with the freedom of maneuver to rebuild relations with Turkey and he attended the second Turkic Summit in Istanbul in June 1994, and then participated in subsequent summits.[297]

As bilateral relations steadily improved, the Turkish Armed Forces have offered military assistance and training to their Azerbaijani counterparts within the framework of NATO's PfP Programme.[298] On a visit by Aliyev to Ankara in May 1997, a "Declaration on Deepened Strategic Cooperation" between Turkey and Azerbaijan was announced.[299] The visit took place shortly after reports that Armenia had obtained US $ 1 billion worth of weaponry from Russia.[300] This had proven that the bilateral relations between Turkey and Azerbaijan could not be pended for a long time given there were common economic and strategic goals. Putting the military and diplomatic density aside, Turkish MFA had declared that two states had signed more than 100 bilateral agreements in such spheres as economic, trade, education, transportation, telecommunications, agriculture, social security, etc.[301] Above all, the Baku-Ceyhan pipeline were viewed by two governments as

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[293] Karagiannis, *op. cit.*, p.151.
[294] *Ibid.*
[295] Svante E. Cornell and Fariz Ismailzade, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Azerbaijan" in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, (Sweden: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005), p.73.
[296] Karagiannis, *op. cit*., p.156.
[297] *Ibid.*
[298] Winrow, *Turkey and the Caucasus…, op. cit*., p.10.
[299] *Ibid.*, p.24.
[300] *Ibid.*
[301] *Ibid*., p.10.

the most convenient and prominent project for the exportation of Azerbaijani oil to world markets.

4.3. The BTC Comes Alive

After Aliyev came to power in 1993, "Azeri-Chirag-Guneshli (ACG)" oil fields, which were planned to supply oil to Baku-Ceyhan pipeline[302], had been put into revision where new conditions were determined for the distribution of shares. Following the decisions about the unification of ACG oil fields, which were previously assigned to separate oil companies, a "Production Sharing Agreement" was signed in 1994 that was calling for the inclusion of ACG oil fields and that would be valid for the following thirty years. Following in this vein, a "working group" was formed in order to start a minor oil production and transportation scheme that was called "early oil" in "Chirag 1 Oil Platform". This platform would accomplish 5 million tons of crude oil per year and cumulative quantity of oil would account almost 240 million barrels.[303] The issues in how the early oil would be transported and its practical success would be decisive in the determination of the main oil pipeline route. Therefore, there had been tough negotiations with regard to the transportation of early oil.

While Turkey was insisting on a line through Georgia since this could have contributed to Baku-Ceyhan route, Russia remained persistent with Baku-Grozni-Novorossiysk line. However, Russia's proposal raised objections from Turkey due to the grave environmental threat posed by the increased shipping volume through the Turkish Straits that this alternative entailed.[304] The shortest route from Azerbaijan to Turkey could be through Armenia. However, the conflict between Armenia and Azerbaijan over Nagorno-Karabakh made this option unrealistic for the near future for the security reasons. The US government objected to the transport of oil through Iranian territory pursuant to its foreign policy to the fundamentalist republic.[305] As stated earlier, Turkish President Süleyman Demirel and Georgian leader Eduard Shevardnadze had expressed their joint support for a route through Georgia during the visit by Demirel to Tbilisi in November

[302] It was not the "Baku-Tbilisi-Ceyhan" route, since Tbilisi would be included into the main route by common decision later. (Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *op. cit*., p.1.)
[303] *Ibid.*, p.2.
[304] Aras and Foster, "Turkey: Looking for…", *op. cit.*, p.234.
[305] *Ibid.*

1994.[306] Nonetheless, the companies in the consortium led by the BP supported Russia's offer where the US administration chose the Georgian option.

On 9 October 1995, The Azerbaijan International Operating Company (AIOC) decided to transport early oil via two lines: Baku-Grozni-Novorossiysk (the North Line through Russia) and Baku-Tbilisi-Batumi (the West Line through Georgia).[307] While the progress in the North line was interrupted by Russian-Chechen skirmishes, the West Line surprisingly scored success. Given that ACG oil reserves could not be transported via the limited lines, the decision for a "main export" pipeline had to be finalized immediately. Eventually, the US administration became actively engaged in the pipeline projects following the celebration of the beginning of the early oil project in Baku in November 1997, attended by the US Energy Secretary as well as the Turkish and Russian prime ministers. The presence of such high-level officials clearly underlined the geopolitical importance of the projects.[308]

The BTC pipeline project gained momentum following the October 29, 1998 "Ankara Declaration" by keen participation of the presidents: Azerbaijan's Heydar Aliyev, Georgia's Eduard Shevardnadze, Kazakhstan's Nursultan Nazarbayev, Turkey's Süleyman Demirel and Uzbekistan's Islam Karimov. The US Energy Secretary Bill Richardson also witnessed the meeting.[309] It was noticeable that there emerged a possibility of the inclusion of the Kazakh oil into the main route could have provided Ankara a prominent connection with Kazakhstan.

In April 1998, The British Petroleum (BP) accomplished the attainment of its counterpart Amoco and then became BPAmoco. It also turned out to be the principal operator of the AIOC consortium. Here, the strong commitment of Azerbaijan, Georgia and Turkey to make the BTC pipeline commercially viable, as well as the continued close participation of the United States, played a huge role in the companies' final positive decision.[310]

The OSCE Summit held on 18 November 1999 in Istanbul was the milestone in the realization of the BTC. The intergovernmental agreement in support of the BTC pipeline

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[306] *Ibid.*, p.236.
[307] Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *op. cit.*, p.2.
[308] Zeyno Baran, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey" in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, (Sweden: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005), p.105.
[309] *Ibid.*, p.106.
[310] *Ibid.*, p.107.

was signed by Azerbaijan, Georgia, and Turkey at this summit. After the negotiations between the participants and the national oil corporation of Azerbaijani Azneft (SOCAR-State Oil Company of Azerbaijani Republic), the main crude oil pipeline was approved along the Baku-Tbilisi-Ceyhan alignment.[311] At the same summit, the presidents of Azerbaijan, Georgia, Turkey and Kazakhstan signed the Istanbul Declaration in further support of the BTC. President Bill Clinton of the US witnessed the ceremony and later said that the completion of these agreements was one of his "most important foreign policy achievements of 1999".[312]

A sponsor group (Main Export Pipeline Participants – MEPPs) was formed in order to implement the project in October 2000 (here, an important development was observed that Russian LUKoil and American ExxonMobil declined participation since the BTC did not seem viable and profitable for them). There were three Host Government Agreements (HGAs) supporting BTC investors in Azerbaijan, Georgia and Turkey, as well as a Fixed Price Lump Sum Turnkey Agreement and a Turkish Government Guarantee for the Turkish section of the pipeline between the MEPPs and the governments during 17-19 October 2000.[313] Indeed, these agreements provided the political and commercial reassurance necessary for oil companies to take BTC seriously as it committed the governments to ensure that oil out of the Caspian Sea would be developed and transported along commercially viable, secure and environmentally safe routes in a timely manner.

In March 2001, a Memorandum of Understanding was signed among Turkey, Azerbaijan, Kazakhstan, Georgia and the United States. Basic engineering studies were completed by 15 May 2001 while the detailed engineering studies were finalized on 28 August 2002.[314] Finally, the ground-breaking ceremonies were held in Baku on 18 September 2002 and in Ceyhan on 26 September 2002.[315] The participants of the BTC established two companies for financing and the construction of the project in August 2002: "BTC Corporation" and "BTC Investment".[316] The 30 percent of the BTC project would be financed by the main participants where the remaining 70 percent would be backed by the international finance institutions and the commercial banks. Insofar, the financing loans were approved by

[311] Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *op. cit.*, p.4.
[312] Baran, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey", *op. cit.*, p.107.
[313] Açıkalın, *op. cit.*, p.10.
[314] *Ibid.*
[315] *Ibid.*
[316] Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *op. cit.*, p.5

almost twenty loan institutions mainly of which were the World Bank, International Finance Corporation (IFC), the US Exim Bank, and the European Bank of Reconstruction and Development (EBRD).[317] Finally, despite various financial and construction problems, first oil was pumped to the Sengachal Oil Station, which is 60 km. far away from Baku, with a huge ceremony in Azerbaijan on 25 May 2005.[318] First oil is expected to reach Ceyhan in May 2006 and the AIOC managed oilfields are expected to score a peak production of 35-50 million tons of oil per year by 2007.[319]

With the accomplishment of the BTC, there will likely be more investment opportunities for the participant states as well as the other transnational actors such as the Multinational Oil Corporations and the businesspersons particularly in the Caspian region. More importantly, there will be a strong alternative to the Middle Eastern oil and the energy supply security might be safeguarded vis-à-vis the politically instable Middle East. Furthermore, for years, the BTC has been regarded as a political project due to the US policy of containing Iran and promoting the BTC as an alternative to Russian routes.[320] In addition to US' political ambitions, American objectives in the Caspian have also included the promotion of democracy and free markets, regional peace and co-operation, energy diversification, and American business opportunities.[321] For these aims, both the Clinton and Bush administrations have been among the BTC's primary supporters.[322]

From the US' perspective in the early 1990s, the political attraction of the BTC project for the United States was obvious because the BTC pipeline could eradicate the US' apprehensions about Iran's significant role as a Caspian energy exporter. Moreover, the US could also reduce the dependence of Caucasus and Central Asian states on Russian dominancy, thus, increase its relative influence on these states. Finally, the US could bolster fledgling regional economies, particularly the economies of Azerbaijan, Georgia and Turkey.[323] Although the last factor might not reflect an explicit US interest, it could

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[317] *Ibid.*
[318] *TRT News*, 25 May 2005.
[319] *Ibid.*
[320] Mehmet Bardakçı, "Russian Interests in the Caspian Region and Turkey", Dokuz Eylül Üniversitesi, Sosyal Bilimler Enstitüsü, Cilt 5, Sayi 2, 2003, p.20.
[321] See Mehmet Ögütçü, "Caspian Energy and Legal Disputes", *Oil, Gas & Energy Law Intelligence* (*OGEL*), Volume I, Issue No. 2, March 2003.
[322] Mark Berniker, "As Baku-Ceyhan Construction Date Nears Debate Continues over Project's Viability", *Business & Economics*, 17 June 2002.
[323] *Ibid*.

be a corresponding item to make these countries keep away from the Russian and the Iranian influence for their further energy deals.

Since the realization of the BTC could provide a reliable alternative for the US energy interests, and since Turkey has been in the quest to balance the Russian influence, the US governments collaborated with the Turkish government in the BTC issue. During the Organization for Security and Cooperation in Europe (OSCE) Summit in 1999, in which the intergovernmental agreements for the BTC project were signed, the US President Bill Clinton attended the ceremony to directly signal American support albeit he did not sign the agreement. This could be treated as a vindicate such that the construction of the pipeline has been a priority of Clinton administration and Turkey would become an important partner.[324]

Yet, Russia, even though it has close relationship with Iran to counter-balance the US' targets, has been ironically driven to cooperate with the US in late 2001. The following quote is worth emphasizing:

> Moscow perceived America's war on terrorism as an opportune time to be more co-operative on the construction of the BTC and on a variety of policies that the pipeline affects with regard to Russia-Israel, Russia-Turkey, Turkey-Israel and Turkey's relations with the American Jewish community. In the wake of September 11, if the United States and the West chooses to lessen their dependency on the oil resources of Saudi Arabia and increase supplies from the Caspian basin…, this will strengthen US relations with Turkey... and impel Russia to be more co-operative, Moscow's participation in the construction of the BTC will be an indication of its co-operation and its understanding of potential strategic shifts in the wake of September 11.[325]

The quote above somewhat illuminates the spontaneous intention of Russia about the BTC. Russia has tried several approaches to control the competition. The inclusion of LUKoil, Russia's largest oil company, into the AIOC signaled Russia's willingness to join the commercial exploitation of offshore Azeri resources and LUKoil had initially achieved a ten percent share in the Guneshli field in 1994. Russia has been an essential partner in the Caspian Pipeline Consortium (CPC), contributing existing pipeline and communications infrastructure and work force to the proposed 1500 km. pipeline from

[324] Stanley Kober, "The Great Game, Round 2: Washington's Misguided Support for the Baku-Ceyhan Oil Pipeline", Executive Summary, Foreign Policy Briefing, *Cato Institute*, No. 63, October 2000, p.3

[325] Robert Olson, "Turkey-Iran Relations, 2000-2001: The Caspian, Azerbaijan and the Kurds", *Middle East Policy*, Vol. 9, No. 2, 2002, p.127.

Tengiz to Novorossiysk on the Black Sea.[326] Thus, Russia has continued to compete with alternative routes out of Baku for Azeri offshore oil and to deal with issues of stability in Georgia-Abkhazia, Nagorno-Karabakh and Chechnya. Each required a different approach, depending on the impact on Russian economic objectives and political hegemony.[327]

Having not avoided the Baku-Tbilisi-Ceyhan main pipeline alignment, Russia had not relinquished all its ties. Moscow announced that LUKoil, would like to participate in the construction of the BTC in late December 2001.[328] Therefore, the strategic shifts after the September 11 attacks and the Russian eagerness for the sustainable energy hegemony had made the Russian rulers take effective precautions, at least preliminary ones. Russians have also become conscious about the Islamic Fundamentalism and the long-term futility. Hence, they have decided to cooperate with the US. The collaboration of American and Russian multinational oil firms has already initiated through the energy investments in Russia's Sakhalin and Siberian oil fields.[329] By the beginning of the new millennium, firms in both countries have also been very interested in investing in the Caspian, particularly in the rich oil fields of Kazakhstan. Russian and Caspian oil has become even more attractive in the wake of the September 11 attacks, which further exposed the political instability of OPEC countries such as Saudi Arabia and Iraq.[330]

Another examination is that the Russian rulers have always been seeking to establish control over the transportation of Caspian oil to the West, and transform its Black Sea port of Novorossiysk into the main terminal for the shipment of oil.[331] The failure to make Novorossiysk as the main terminal in Azerbaijani oil has made the Russian rulers to consider the extension of "Blue Stream Natural Gas Pipeline Project (BS)" seriously. Once the BS was fully realized and the extension from Samsun to Ceyhan was accomplished, Russia could attain another prominent instrument to meet the Mediterranean, thus, Israel. Therefore, Russia seems to have two prominent cards, if not today, but in the near future.

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[326] Timothy L. Thomas, "Russian National Interests and the Caspian Sea", *Perceptions, Journal of International Affairs*, December 1999-February 2000, Volume IV, No. 4, p.90
[327] *Ibid.*
[328] Olson, *op. cit.*, p.127.
[329] Hill, *op. cit.*, p.31.
[330] *Ibid.*
[331] Tayfur and Göymen, *op. cit.*, p.104.

It can be concluded that there has been a considerable convergence between the United States and Russia after September 11 attacks. The collaboration of the US oil firms with the Russian energy companies can be a solid proof within this convergence. On behalf of Russia, the possible extension the Blue Stream Natural Gas Pipeline to the Mediterranean seems as an affirmative step. The United States, on the other hand, has already begun to give an impression that it was not eager to bear any confrontation with Russia and that it was trying to solve the problem by reciprocal means and by proxy initiatives.[332] Thus, the BTC has turned out to be an economic as well as a strategic project for all parties. Turkey, on the other hand, may benefit due to this crucial convergence between the US and Russia. This may open a new phase on behalf of Turkey that Turkey may shift to a more advantageous position in terms of further bargaining in the energy issues given the realization of the Blue Stream Natural Gas Pipeline will increase the dependency on Russian gas. Therefore, the changing perception of Russia may create positive externalities for Turkey, at least a bargaining tool to compensate the huge energy bill paid to Russia.

4.4. Economic and Strategic Implications of the BTC for Turkey

The intergovernmental agreements signed among the participant states in the OSCE Summit in Istanbul in November 1999 were followed by a "Turnkey Agreement", which the MEPPs signed with BOTAŞ and which assigned it responsibility as the turnkey contractor for the engineering, design and construction of the Turkish section of the BTC pipeline. The Turnkey Agreement was a lump-sum fixed price contract and it was containing a US $ 300 million Turkish government guarantee of compensation for investors in case of a cost overrun.[333] Thus, with this agreement, BOTAŞ has officially engaged in the BTC and a new phase appeared in the transmission of the Caspian oil to the world markets with further economic impacts on Turkey. The fee per one barrel filling of oil would be 55 cents for the first sixteen years, and 80 cents for the remaining

[332] On 1 March 2006, after subsequent visits of the US President George Bush to Afghanistan and India, an agreement was signed between the US and India that calls for the engagement of American civil nuclear research in India and the opening of Indian nuclear activities to international society. Bush openly announced that it was a strategic initiative in Asia (*NTV News*, 2 March 2006). Yet, Russian Gazprom signed an agreement with its Chinese counterpart on 21 March 2006 for building two separate natural gas pipelines from the East and West Siberia and Sakhalin to China. Gazprom also declared that Russia also aimed to supply gas to South Korea and Japan (*NTV News*, 23 March 2006).

[333] Baran, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey", *op. cit.*, p.108.

24 years.[334] Moreover, TPAO has a 6.53 percent share in the BTC project and will also receive additional revenue from its investment. In addition to what BOTAŞ estimates will be an inflow of US $ 1.4 billion in foreign capital, there will also be employment and other economic benefits from the construction and operation of the pipeline.[335] Given the overall capacity of the BTC is 50 million metric tons, Turkey's yearly revenue turns out be approximately between US $ 200 and 292 million. According to BOTAŞ figures, the BTC has employed over 5.000 people during construction. This is an important figure given high unemployment numbers in the Eastern and Southeastern parts of Turkey. Furthermore, 400 fulltime positions will be retained once the operations begin. In addition to direct employment, the construction and operation of the pipeline have stimulated the creation of jobs in support industries, as well as in the general economy.[336]

The strategic impact of the BTC, on the other hand, has been more emphasized than the economic relief in Turkey. The BTC has improved the bilateral relations with Azerbaijan and Georgia. Thus, the BTC can be considered as a "catalyst" in the relations among these three countries. On the same grounds, since 1995, Turkey and the US have spearheaded NATO's engagement with the states in the Caspian region through the Partnership for Peace (PfP) Programme, and have encouraged the emergence of GUUAM grouping of Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova.[337]

Another strategic outcome might arise that with the accomplishment of the other leg of "East-West Energy Corridor"- that is the Shah Deniz Natural Gas Pipeline Project (South Caucasus Gas Pipeline) to be completed in 2006 along the BTC, Turkey might have a chance to secure its energy supply beside the Russian gas. The extension of the gas pipelines to Europe will be another source of prestige and prominence of Turkey. Moreover, the BTC might decrease the oil tanker traffic in the Turkish Straits.

Yet, one specific matter has to be underpinned that is the stance of Turkish rulers in the BTC, which has rather been pale and somewhat far from coordination among the state bodies. Provided the subsequent government changes and the alterations in the staff of the key institutions in energy policy-making are taken into consideration in Turkey, it has been examined that there were discrepancies among the domestic players in the BTC.

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[334] Pamir, "Bakü-Tiflis-Ceyhan Boruhattı'nda Son Durum", *op. cit.*, p.6.
[335] Baran, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey", *op. cit.*, p.109.
[336] *Ibid.*
[337] Winrow, "Turkish National Interests", *op. cit.*, pp.241-242.

For instance, TPAO bureaucrats emphasized the negative effects of the politically motivated interventions and thus, complained about the domineering attitude of Turkish MFA, while at the same time they were defending that the authority of co-ordination in the BTC should have belonged to MENR.[338] BOTAŞ officials, on the other hand, also complained that it was excluded from the decision-making mechanism as a result of political intervention, and believed that the task of co-ordination should have fallen within the jurisdiction of MENR.[339] Indeed, MENR had become a powerful force after signing the "early oil" agreement with Georgia in February 1995 and at a March meeting, the Minister of Energy, carried BOTAŞ to leadership in the BTC issue, and thus MFA and TPAO were pushed into a subordinate position.[340] It is argued that up until mid-1997, MENR has strongly opposed both the MFA leadership and the appointment of a powerful co-coordinator because the intention was ideologically motivated.[341]

The lack of harmony among state institutions was divulged once more in October 1998. A US oil consultant pointed out the inadequateness of Turkey in the BTC and said that oil companies in Turkey had not even known with whom they should have been negotiating.[342] Perhaps the most appealing development took place in the meeting for the discussion of the pipeline issues in March 1998. Turkish MFA invited the representatives from foreign ministries of Azerbaijan, Georgia, Kazakhstan and Turkmenistan to this meeting. A spokesperson for the Russian Ministry of Foreign Affairs stated their displeasure since they have not been invited. A source in the Turkish Energy Ministry noted that neglecting the Russian side was as if MFA has declared war on Russia.[343] It was also remarkable that shortly before this meeting, Turkish Energy Minister had been in Moscow hoping to obtain Russia's support for the BTC.[344]

In April 1998, Heydar Aliyev had informed the visiting Turkish Energy Minister that Azerbaijan had established a special commission to work on pipeline projects. However, Aliyev also complained about Turkey and the BTC and stated that Turkey had done nothing from its end to make the pipeline a reality.[345] Turkish government immediately formed a Working Group for the BTC comprising various energy experts and including

[338] Tayfur and Göymen, *op. cit*., p.109.
[339] *Ibid.*
[340] *Ibid.*, p.113.
[341] *Ibid.*, p.110.
[342] Winrow, *Turkey and the Caucasus…, op. cit.*, p.27.
[343] Citing *Cumhuriyet*, 9 March 1998, see footnote 34, *ibid*., p.29.
[344] Citing *TDN*, 21 February 1998, see footnote 35, *ibid*., p.29.
[345] *Ibid.*, p.28.

the deputy under-secretary of MFA. However, this group merely addressed the technical issues about the BTC.[346]

Another matter has been the ineffectiveness of key state institutions in the BTC pipeline project. A TPAO official had previously declared that his agency was placed at a serious disadvantage in its dealings with its international counterparts.[347] TPAO could only focus on exploration and production matters, and thus it has been unable to handle various tasks related to the oil sector. BOTAŞ has been responsible for transportation and marketing of oil while TÜPRAŞ has handled refining process.[348] In contrast to the other private enterprises in the AIOC, which were able to cover all phases such as drilling, production, sales and distribution, TPAO was not such a corporation that is vertically integrated. Nevertheless, in the end, TPAO and BOTAŞ were criticized by MFA officials that they "overstepped" their jurisdiction and even attempted to engage in matters of diplomacy.[349]

In sum, the political support of the US administrations (both Clinton and George W. Bush administrations) has played an important role in the realization of the BTC. Therefore, one can clearly argue that the parallel aims of both Turkey and the US, as two prominent members of NATO, proliferated their further intentions in the BTC story, though the US seemed much more assertive than Turkey. That is to say although Turkey cannot be considered as a weak state and it has got considerable power, the impact of the US – dealing with the US' strategic objectives - has been a crucial determining factor for Turkey's perceptions in the Eurasian energy politics. Indeed, the eagerness of Azerbaijan and Georgia to break the Russian influence in the Caspian and the middle Eurasia through the realization of the BTC have been the other facilitating factors on behalf of Turkey. The worth of the note is that Turkey's economic and military relations with Azerbaijan and Georgia since the early 1990s, and being an important NATO member intensified Turkey's significance in the BTC project. Yet, the improvement of military and economic ties with these two states, rather than a firm energy diplomacy, have set prior conditions for the realization of the BTC. The immediate repercussions of September 11 attacks, which propelled Russia to be more cooperative with the US and Turkey in the BTC pipeline issue, also created advantageous possibilities for Turkey. Provided that there is a strong political will as well as a coherence among the key state

[346] *Ibid.*
[347] *Ibid.*
[348] *Ibid.*
[349] *Ibid.*

bodies and the other non-state actors in Turkey, the potential hazardous effects of the Blue Stream Natural Gas Pipeline[350] may be lessened through the possible rise in Turkey's bargaining power. Therefore, the BTC may not only bring economic relief, but also convey strong strategic and political alternatives for Turkey in the long-term.

[350] These are the long-term "take-or-pay" agreements, huge economic burden of Russian natural gas, increasing dependency of Russian gas jeopardizing Turkey's energy security and Russian political pressure over Turkey.

CHAPTER 5

CONCLUSION

Since the establishment of modern Turkish Republic, the policy-makers in Turkey have always given emphasis to the industrial development. Energy, as a major input to the industry, has also been in the agenda of Turkish governments. In addition to the industrialization process, Turkish daily life met the benefits of using energy for satisfying basic needs, such as heating, transportation, etc. The rapid improvements in technology, changing environmental concerns, financial contingencies, differentiation in the composition of the energy resources used, and indigenous and exogenous factors, all have shaped Turkey's energy polices throughout the 20th century. Nevertheless, there have been certain parameters for the implementation of the energy strategy.

At this point, wise energy management within a country turns out be crucial since the energy supply is vital when it is needed at optimum prices. Certainly, the energy policy comprises a cobweb of many preconditions in the domestic level while it stipulates a balanced relationship with international energy trends and developments. In this sense, the incorporation of all relevant parameters on an integrated basis appears as a prerequisite to succeed in the implementation of the energy policy. Indeed, the contemporary energy planning already started to envisage a 20-30 years basis instead of handling short-term populist policies. It may not lead to such an understanding that the energy supply contracts should be signed for the following two or three decades. Rather, with respect to the scarcity of the energy resources, the evaluation of national capabilities to sustain the energy supply becomes determining within the nations' energy planning. Thus, countries seek to increase their indigenous energy production whenever it is feasible; otherwise, they rely on the importation of primary energy resources.

Turkey, as a net-importer of energy, has relied on the importation of energy and this has created major debates over its energy policies. Since the 1930s, there have been subsequent shifts in the use ratios of basic energy inputs to the industry in Turkey. Indeed, the energy management had vastly been carried out by the public sector with

major infrastructure investments and the State Economic Enterprises (SEEs) have had the energy fulfillments while the private sector contributed in part until the late 1970s.

The "January 24 Economic Reform Package", which was introduced in 1980, was an important milestone and this heralded the liberalization and the free-market orientation in Turkish economy. This was the reflection of the "economic globalization" and the concept of "financial deepening" in the developing countries has become the eminent discourse of the neo-liberal economic thought, which envisage the elimination of the barriers against the capital movements and private investors. Following in this vein, the decisions have become an informal layout for a letter of intent through a three-year stand-by agreement with the International Monetary Fund and for a further agreement with the World Bank in 1980. When looked at the letter of intents of the Turkish governments to the IMF, one could come across major privatization assurances of the SEEs in Turkish energy sub-sectors. Starting from 1984 new legislations have been put into practice in order to create an unrestrained market structure envisaging to reduce the state's role in Turkey. Certainly, the new amendments have been performed due to the requirements promoted by global finance institutions such as the IMF and the World Bank, and regional organizations such as the European Community (later the EU).

The EU Electricity Directive that was introduced in the EU in 1996 inspired the intentions behind the deregulation and unbundling process, and the enactment of Law No. 4628 in March 2001, which called for a liberal electricity market. Therefore, the Turkish Parliament adopted a similar electricity liberalization model with the United Kingdom. However, the transition has not been so easy for the Turkish case because of the legal, institutional and sectoral differences. What is more, new domestic actors in the energy sector have been introduced such as the Energy Market Regulatory Authority (EMRA) and Turkish Privatization Administration (PA). The critical point, here, is that while Turkey is in the quest of parallelizing its energy policies with the EU Acquis, Turkish rulers in the energy should take possible repercussions such as the corporate mergers and the oligopolistic conduct into consideration since the basic motive behind the corporate thinking is "profit" instead of "public interest". Thus, the "deregulation" in the electricity also requires comprehensive regulatory framework in order to prevent market failure and price hikes. Similar regulatory performance is also essential for the other energy sub-sectors.

Indeed, markets require public institutions and an appropriate regulatory framework. In a domestic economy, the theoretical implementation of free market approach and perfect competitive structure may lead to unfavorable repercussions due to the possibility of enterprise integrations unless there are concrete regulations and anti-monopolistic ruling. Since the set of expectations employed by the (energy) policy-makers is the enhancement of reliable, sustainable, clean and cheap energy for industry and households, the quality of the energy management need to hold the same features of the energy supplied. Furthermore, policy-makers should also regard a variety of other objectives such as reducing dependence on foreign sources, supplying basic energy needs, reducing the trade and foreign exchange deficits, priority development of special regions or sectors of the economy, raising sufficient revenues to finance energy sector development, ensuring continuity of supply, maintaining price stability and preserving the environment. In this sense, the regulation should not only comprise the written attributions to the energy markets, but also grip a strong will versus the distortions and violations of market actors who are whether public or private.

Regarding the liberalization process in Turkish energy sub-sectors, on the other hand, few state bodies have handled the energy policy-making, planning and implementation, thus, this raised many questions about the accountability and the transparency of the state policies. Indeed, "the lack of participation" (since the universities and the other governmental bodies were not densely included in this process apart from MENR, EMRA and PA) and "the hesitancy to appraise the indigenous energy reserves according to the decreased exploration and production facilities in primary energy resources" have been the major drawbacks for implementing a national energy strategy in Turkey.

The coal sector, for instance, has been "crowded out" by the other energy sub-sectors. The increasing dependency on the imported coal has created another source of vulnerability while undermining the rich indigenous coal reserves of Turkey. The divergence from the efficient management of indigenous lignite-fired power plants has made Turkey's competency diminish. Moreover, many lignite-fired power plants were put into the PA's privatization portfolio and this has caused similar apprehensions like in the other sub-sectors. In this sense, a serious and comprehensive assessment about the indigenous energy reserves should be taken into account in order to lessen the dependency on natural gas and oil, which are imported and which decrease Turkey's bargaining power not only in the economic relations but also in political and strategic terms.

Through the evaluation of alternative and renewable energy resources it can be said that nuclear energy and nuclear capability are now considered as a political and a strategic tool beside the alternativeness of nuclear energy in Turkey. By giving more emphasis to the renewable energy option, reliance on imported fuels can be reduced and Turkey's energy security can be safeguarded.

Turkey's foreign relations in the Eurasian region form another subject matter in this study. The facts that oil and natural gas have been the prevailing energy resources and that Turkey has insisted on using the primary energy resources as major inputs to its economy, have prevented Turkey to increase its international competency. This has severed Turkey's dependency on oil and natural gas and has eventually impelled Turkey to involve in major energy contracts with the energy exporting countries. In the case of energy supply security, Turkey has mainly dealt with the secure transmission and transportation of the primary energy resources. Nevertheless, the attempts to diversify the energy resources and fuel suppliers have remained vague due to the long-term "take-or-pay" agreements (particularly with Russia) in the natural gas.

In this sense, a retrospective assessment is handled about Turkey's relations with the European Union, the Middle East, the Caucasus, Turkic States, the United States and Russia. It is expressed that the energy matters between Turkey and the European could not go beyond several regional organizations and few intergovernmental agreements, which envisage the secure transmission of the Caspian and the Central Asian energy resources to the European Union. Besides, Turkey has always struggled for the accession to the EU and has tried to fulfill the EU's political and economic requirements. However, Turkey's role as a prominent energy transit country has not fully reverberated within the bilateral relations.

The energy dialogue of Turkey with the Middle East has also been crucial. Until the end of the Cold War, there were good trade relations with the Middle Eastern states, even though Turkey has been considered as a "Western dock" to the Middle East. The energy trade between Turkey and Iraq was challenged due to the UN embargo exposed to Iraq after the Iraqi invasion of Kuwait in the early 1990s. Turkey's keen participation in the first Gulf War, primarily with the United States, posited another major challenge to the energy dialogue between Iraq and Turkey, thus Turkey faced huge economic losses in the end. It was also appealing that the ideological stance among the Turkish governments prevented Turkey to manage a fully functioning energy strategy. The bilateral relations

between Iran and Turkey in a natural gas pipeline issue, for instance, were given more emphasis by Turkish Prime Minister, who was more willing in bilateral relations with Iran, instead of widening the energy relations with Turkic states in the mid-1990s. This furthered some reactions, especially from the United States. Although this had been tolerated by the other domestic actors in decision-making such as Turkish General Staff and Turkish Ministry of Foreign Affairs, it depicted a clear disparity between the energy policy and foreign policy issues.

Turkey's relations with the Caucasus and Turkic states have seemed more constructive when compared with those of the Middle East. Turkey hoped to benefit from the "power vacuum" after the disintegration of the Soviet Union. In particular, Turkish rulers have sought to have the chief leadership of the Turkic World. Even though there were considerable economic and military developments between Turkey and the newly independent Turkic states since the early 1990s, Turkey has somewhat failed to reckon the relative advantage of the Russian Federation in the energy issues. One of the reasons, which curtailed Turkey's hopes, could be said that the previous infrastructure of the energy reserves through exploration, production and transportation in Turkic states was inherited from the former Soviet Union; yet, the economic devotion of Turkey to Turkic states was not satisfactory for them. Moreover, the insistence of Turkish rulers on the Blue Stream Natural Gas Pipeline Project (BS) with Russia crowded out Trans-Caspian Natural Gas Pipeline Project (TCGP) with Turkmenistan. Furthermore, the natural gas pipeline agreements between Turkey and Azerbaijan in March 2001, after the exploration of the natural gas reserves in Shah Deniz field of Azerbaijan in 1999, has decelerated the revival of TCGP with Turkmenistan. Likewise, Kazakhstan, over which there was considerable Russian influence, could not be able to implement autonomous energy policies. The lack in having strong oil companies has also avoided Turkey to carry out an assertive energy dialogue with Kazakhstan. It was striking that Russia had pressured Kazakhstan to concede sizeable percentages of revenues from Kazakhstan's oil and gas projects in return for use of its pipelines through the Caspian Pipeline Consortium (CPC) in 1993. Thus, these could be regarded as the other challenges to Turkey within the bilateral relations with Turkic States. Finally, Turkey could hardly perceive the *specificity* of Turkic states and it somewhat implemented selective policies toward these states instead of an integral conduct. The relations between Turkey and Azerbaijan have been more decisive than Turkmenistan and Kazakhstan.

The foreign relations between Russia and the United States are also put under scrutiny. In particular, the implications of the Blue Stream Natural Gas Pipeline Project (BS) for Turkey is discussed and then, is concluded that the steps in the BS comprised implicit but "decisive" transnational elements such as the lobbies of the business persons both in Russia and Turkey. The "BS option", which was accompanied with the corruption allegations in Turkish MENR and BOTAŞ, prevailed over the other future natural gas pipeline projects. This might imply that while carrying out various policies toward the Caucasian and Turkic States to strengthen their independence, Turkey has also tackled with Russia in the energy issues. The inclusion of the BS to Turkey's natural gas supply portfolio has been a strong vindicate in this contemplation. However, this also conveyed apprehensions about Turkey's energy security and further entailed the disparities between and within the government institutions in Turkey. Clearly, the disparity within the BS issue has somewhat jeopardized Turkey's energy security. Moreover, the ideological contentions in the energy policy-making, non-state actors with several lobbies of the business persons, excessive forecasts for future energy demand, and the absence of mature legal and sectoral basis somewhat decelerated the implementation of a comprehensive energy strategy. Particularly the 1990s revealed that the implementation of Turkish energy policies lacked consistency and synchronization. Moreover, the discrepancies within this implementation failed to address the strategic acquisitions provided that the geo-strategic presence of Turkey is taken into consideration.

Turkish-American relations in the context of the Eurasian energy resources also deserve attention. It was remarkable that unlike its keen participation in the First Gulf War in 1991, Turkey remained reluctant due to its security concerns and it somewhat made a trade off between oil and the its foreign policy priorities vis-à-vis the US' demands for the deployment of troops to Iraq through the Turkish territories in 2003. Yet, limiting the bilateral relations to the Iraqi issue may be misleading since the expectations of both parties have corresponded particularly through the Caspian energy pipeline projects. Certainly, the keen support of the US administrations to the Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline Project (BTC) has been a strong vindicate to this understanding since the early 1990s.

The last part of the thesis is thus, reserved for a case study about the Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline Project (BTC). The realization of such a project was decisive since it might lessen the considerable dependency on the Middle Eastern oil with regarding the political instability in the Middle East. For Turkey, the BTC may be a

chance to reassure its geo-political significance as an energy-transit country, and to improve the bilateral relations with the main participant countries such as Georgia and Azerbaijan, and finally to provide economic relief for Turkey.

The strategic aspects of the BTC turns out to be more important despite the cost of the production and the transportation of the Azeri oil in Azeri-Chirag-Guneshli (ACG) oil fields are relatively higher than that of produced in the Middle East. Besides, September 11 attacks in 2001 have already increased the sensitivity of the US toward the diversification of its energy resources. Russian perspective in the BTC also changed after the attacks and Russia announced its eagerness to participate in the construction of the BTC in late December 2001 despite the fact that Russia was excluded from the main route of the BTC. This has brought about a new phase in the Caspian oil pipeline derby that the strong opposition of Russia to the Baku-Tbilisi-Ceyhan alignment has fairly diminished. For Turkey, this may further create some externalities such as an important bargaining tool in Turkish-Russian relations given the Blue Stream Natural Gas Pipeline Project will increase Turkey's dependency on Russian gas.

Lastly, there had been various discrepancies among and within the governmental institutions over which state bodies were authorized to handle the task of coordination on behalf of Turkey in the BTC project. In particular, BOTAŞ and MENR were criticized by the Turkish MFA that these institutions had overstepped their jurisdiction and they had diverged from their own task of providing technical assistance. It can be said that the keen support of Azerbaijan and the United States for the final decision of the Baku-Tbilisi-Ceyhan route has been the promoting factor after the realization of "early oil" rather than an intense involvement of the Turkish side. Turkey has been backed by the initiatives of Azerbaijan and the US, and this somewhat made Turkey's assertiveness debatable in the BTC game.

There has usually been an institutional disharmony toward the implementation of energy policies in Turkey. The contemplation of a "single-handed" economic policy, which envisaged economic liberalization and a free market orientation since the early 1980s, brought about eventual reverberations and basic vulnerabilities in Turkish energy sector. Yet, the lack of a long-term energy planning on the domestic basis has corresponded with the fragility to attain the strategic goals through the Eurasian energy axis. This has proven that there is not a separating line between the foreign policy and domestic policy issues as well as economic matters in Turkey. Particularly the mid-1990s had shown that the "high

acquisitiveness" of various "interest groups" and "energy lobbies" and the overall situation yielded in alleged corruptions and even portrayed a major challenge to Turkey's national interests. Therefore, apart from mere foreign policy activities, the energy implementations of the state in Turkey have been contentious and these have hardly produced a single voice in the energy issues.

In the final analysis, while Turkey's domestic quandaries such as the Kurdish issue (PKK), the so-called Armenian Genocide allegations, and the Cyprus issue (that are beyond the scope of this thesis) have also become Turkey's international issues, the case of energy have barely rendered such an intersected situation. Thus, a coherent "State Policy" has hardly been handled in the energy issues. Clearly, a consistent and harmonious energy strategy should be formulated and pursued with taking the national interests and the long-term strategic goals into consideration.

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The official web site of Turkish Privatization Administration (PA): http://www.oib.gov.tr

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APPENDIX A

Table 1- Coal-Fired Power Plants for Electricity Generation and Capacity Scheme in Turkey (2005).

POWER PLANT	ESTABLISHED POWER CAPACITY (MW)	CURRENT POWER CAPACITY (MW)
Elbistan	1355	250
Soma	1034	150
Kemerköy	630	170
Yatağan	630	130
Seyitömer*	600	120
Kangal	457	165
Yeniköy	420	165
Tunçbilek	365	115
Orhaneli*	365	0
Çan	320	0
Çatalağzı*	300	0
TOTAL	**6476**	**1265**

Source: "Enerji Dosyası 1", *Cumhuriyet*, 14 January 2006.

These power plants have already been taken into the portfolio of The Privatization Administration of Turkey (PA) on 30 May 2003. ("Electricity Sector, Distribution of the Companies in the Privatization Portfolio". Available from the official web site of the PA: http://www.oib.gov.tr, accessed on 6 October 2005.)

Table 2- Coal Use Ratios for Electricity Generation among some Countries (2004).

COUNTRIES	**PERCENTAGE USE OF COAL**
Poland	92%
South Africa	85%
Australia	77%
China	76%
India	75%
Czech Republic	72%
Greece	67%
Germany	53%
U.S.A	53%
Denmark	47%
Netherlands	28%
TURKEY	**22.7%**

Source: "Enerji Dosyası 1", *Cumhuriyet*, 14 January 2006.

Table 3- Forecasts about the Renewable Energy Resources in Turkey (2020).

ENERGY TYPE	MINIMUM AMOUNTS IN 2020		MAXIMUM AMOUNTS IN 2020	
	MTOE*	**PERCENTAGE**	**MTOE**	**PERCENTAGE**
Modern Bio-mass**	243	45%	561	42%
Solar	109	20%	355	26%
Wind	85	15%	215	16%
Geothermal	40	7%	91	7%
Minor Hydrolic	48	9%	69	5%
Sea Energy	14	4%	54	4%
TOTAL	**539**	**100%**	**1345**	**100%**

(*****Million tons of oil equivalent.)

(** Enhanced by CO_2 release from the plants.)

Source: Derived from Table 5, in Güngör Tuncer and M. Faruk Eskibalcı, "Türkiye Enerji Hammadeleri Potansiyelinin Degerlendirilebilirliği *İstanbul Üniversitesi, Mühendislik Fakültesi, Yerbilimleri Dergisi*, Cilt 16, Sayı 1, 2003, p.87.

Table 4- Population, Economy and Energy Projection of Turkey (1973-2020).

YEARS	POPULATION (IN THOUSANDS)	TOTAL GNP (THOUSANDS OF US $)	GNPΦ PER CAPITA (US $)	TOTAL ENERGY DEMAND (MTOE*)	ENERGY PER CAPITA (KOE**)	ENERGY INTENSITY$^{\Phi}$
1973	38,072	75,915,568	1,994	24.6	646	81
1990	56,098	150,006,052	2,674	53.7	957	50
1995	62,171	177,871,231	2,861	64.6	1,039	44
2000	67,618	223,342,254	3,303	82.6	1,218	40
2010	78,459	421,010,994	5,366	153.9	1,962	35
2020	87,759	812,736,099	9,261	282.2	3,216	33

Φ GNP= Gross National Product.

* MTOE= Million tons of oil equivalent.

** KOE= Kilogram of oil equivalent. (1 Mtoe = 10^9 Koe.)

$^{\Phi}$ ENERGY INTENSITY=Total Energy Demand / GNP per capita.

Source: Derived from TÜBİTAK - 2003 data in Murat Arsel and Kamil Kaygusuz, "Energy Politics and Policy in Turkey", in Fikret Adaman and Murat Arsel (eds.), *Environmentalism in Turkey: Between Democracy and Development* (UK: Ashgate Studies in Environmental Policy and Practice, 2005), p.156.

Table 5- Main State Organizations Responsible for Energy Policy-Making.

ORGANIZATION NAME	UNDER THE FOLD OF
State Planning Organization (SPO)	Prime Minister
Scientific and Technical Research Council of Turkey (TÜBİTAK)	Prime Minister
Research, Planning and Co-ordination Board	MENR*
Directorate-General for Energy Affairs	MENR
Directorate-General of Mineral Affairs	MENR
Directorate-General of Petroleum Affairs	MENR
Turkish Electricity Generation Company (EÜAŞ)	MENR
Turkish Electricity Transmission Company (TEİAŞ)	MENR
Turkish Electricity Distribution Company (TEDAŞ)	MENR
Turkish Electricity Trading and Contracting Company (TETAŞ)	MENR
Directorate-General of State Hydrolic Works (DSİ)	MENR
Turkish Petroleum Company (TPAO)	MENR
Electric Power Resources Survey and Development Administration (EİEİ)	MENR
Turkish Pipeline Corporation (BOTAŞ)	MENR
Turkish Coal Enterprises (TKİ)	MENR
Turkish Hard Coal Enterprises (TTK)	MENR
Turkish Atomic Energy Authority (TAEK)	MENR

* Turkish Ministry of Energy and Natural Resources.

Source: Derived from Table 4, in Durmuş Kaya, "Renewable Energy Policies in Turkey", *Renewable and Sustainable Energy Reviews*, 10 (2006), p.158.

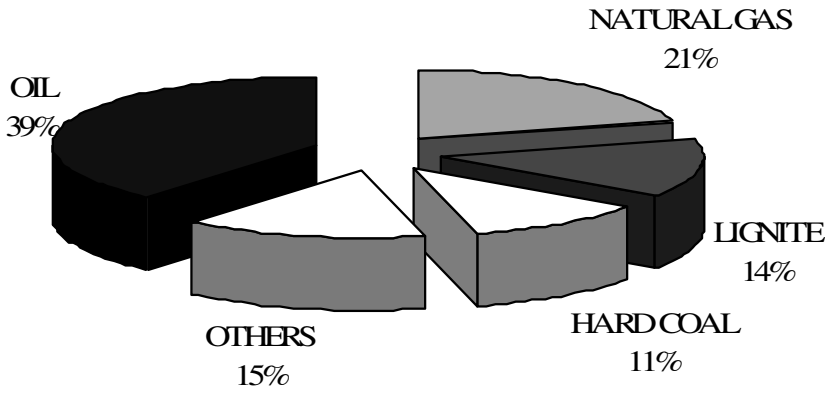
Table 6- Non-Ministerial Agencies in Energy Policy Making.

FUNCTIONS	UNDER THE FOLD OF
Energy Market Regulation	Energy Market Regulatory Authority (EMRA)
Energy Efficiency	TÜBİTAK Marmara Research Center (MRS), Some universities-presenting reports, organizing meetings, courses
Energy Standards	Turkish Standardisation Institute (TSE), International Electrotechnical Commission (IEC)
Research and Development (R&D)	Energy Systems and Environmental Research Institute/Marmara Research Center
Renewable Energy Resources	Clean Energy Foundation, Turkish Wind Energy Association, International Solar Energy Society Turkish Section, Geothermal Energy Association

Source: Derived from Table 4, in Durmuş Kaya, "Renewable Energy Policies in Turkey", *Renewable and Sustainable Energy Reviews*, 10 (2006), p.157.

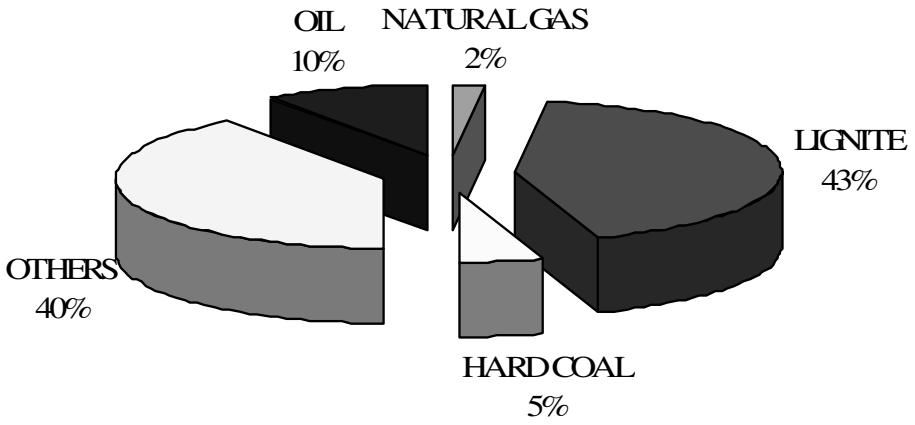
APPENDIX B

Figure 1- Primary Energy Consumption in Turkey (2002).



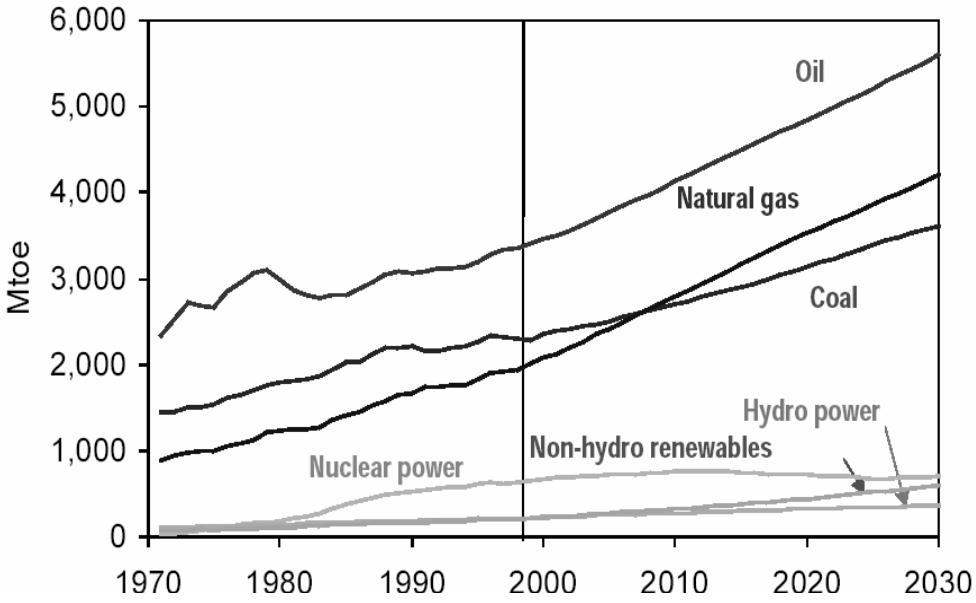
Source: Derived from the data in the official web site of Turkish Petroleum Corporation (TPAO). Available from: http://www.tpao.gov.tr accessed on 24 October 2005.

Figure 2- Primary Energy Production in Turkey (2002).



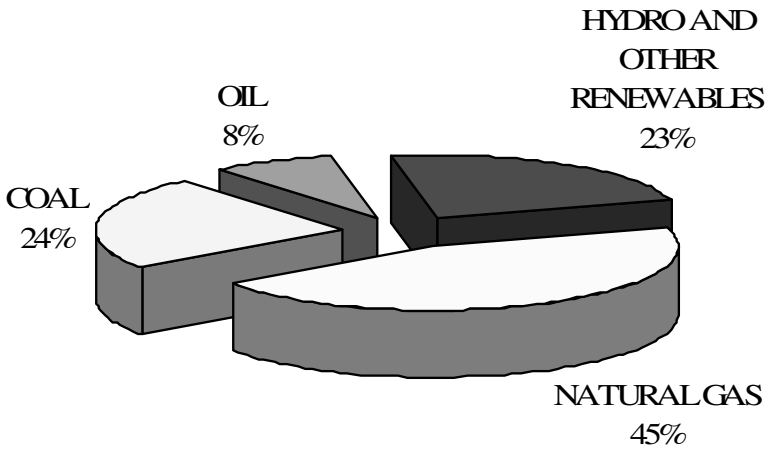
Source: Derived from the data in the official web site of Turkish Petroleum Corporation (TPAO). Available from: http://www.tpao.gov.tr accessed on 24 October 2005.

Figure 3- Resources in Global Primary Energy Demand (1970- 2030).
(Mtoe= Millions Tons of Oil Equivalent.)



Source: World Energy Outlook 2002, International Energy Agency (IEA). Available from the official website of IEA: http://www.iea.org_accessed on 26 October 2005.

Figure 4- Electricity Generation by Fuel Types in Turkey (2003).



Source: Derived from the data in the official web sites of Turkish Ministry of Energy and Natural Resources : http://www.enerji.gov.tr ; Energy Market Regulatory Board: http://www.epdk.gov.tr ; State Planning Organization: http://www.dpt.gov.tr ; Undersecretariat of Treasury: http://www.treasury.gov.tr accessed on 3 November 2005.