

# The New Energy Politics of the Black Sea Region

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## Abstract

*Turkey signed two significant energy agreements at the end of 2011. As a consequence, these accords set off a new competition for natural gas-centred energy projects around Turkey. Russia, Azerbaijan, Ukraine, Iran and the EU are the main actors of this competition. This paper aims to assess all the related and ensuing developments in the Black Sea Region through the lenses of Turkey's role in it.*

Turkey closed 2011 with two important energy agreements. The first one was the agreement signed on 27 December for the construction of Trans-Anatolia Gas Pipeline (TANAP) that aimed to transport Azeri natural gas from Shah Deniz II across Turkey to Europe. The second agreement, signed in Moscow on 29 December, called for cooperation in the field of natural gas regarding the construction of South Stream.

TANAP is expected to be completed in five years at the cost of five billion US dollars. Turkey will be able to use 6 bcm (billion cubic meters) of the 16 bcm natural gas that will flow through this pipeline for its own needs. Despite the partnership, the structure of the agreement can be changed in time. Under the current terms, Azerbaijan will own 80% of the pipeline and Turkey the remaining 20%.<sup>1</sup> Most importantly, this pipeline will extend the construction of the infrastructure to transport gas from the Shah Deniz II field to Turkey and to Europe across Turkey as well as Turkmen and Kazakh gas and even Iranian gas if favourable conditions exist.

The second agreement provided an advantage to Russia in the energy game.<sup>2</sup> The South Stream

1 "SOCAR to Take 80% of Trans-Anatolian Pipeline," *Natural Gas Europe*, 27 December 2011, <http://www.naturalgaseurope.com/socar-to-take-80-of-trans-anatolian-pipeline-4186>.

2 Jacob Gronholt-Pedersen, "Turkey

pipeline project will have a capacity of 63 bcm and enable Russia to sell natural gas directly to Europe through the Black Sea by bypassing Ukraine. By signing the agreement, Turkey allowed the new pipeline to pass through its exclusive economic zone (EEZ) in the Black Sea. In return for this, Russia discounted the cost of natural gas that Turkey purchases from Russia. Moreover, it was decided that Turkey will purchase in 2013 the three additional bcm natural gas which have not yet been consumed but was to be purchased from the already existing Druzhba pipeline within the framework of "take or pay" contracts. Thus, although no figures have been announced yet, Turkey secured more favourable terms regarding its accumulated payments for its natural gas purchases.

These two agreements set off a new competition for natural gas-centred energy projects around Turkey. There has been a revival in terms of projects to transport natural gas to European markets particularly across alternative pipelines to Russia's. The most important factor that revived this competition is the prospective introduction of Shah Deniz II gas to international markets by 2017. The possibility that this gas and potentially Turkmen and Kazakh gas may bring an end

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Approves Russian Gas Plan," *The Wall Street Journal*, 29 December 2011.

to the Russian monopoly has revealed the antagonism among alternative pipelines. The partners of the Trans-Adriatic Pipeline (TAP) and the Interconnector-Turkey-Greece-Italy (ITGI) projects competing for Azerbaijan's Shah Deniz gas announced that they saw TANAP as the main supplier for their pipelines. In addition to claims that this project may spell the end of the Nabucco pipeline project, it is also asserted that Nabucco's partners offered Azerbaijan to collaborate in the TANAP project under certain conditions. It would not be wrong to argue that Nabucco took a backseat with Turkey, paving the way for South Stream.

Considering these agreements in general, it can be pointed out that Turkey has reinvigorated its energy policy. This reinvigoration is not without problems though. Russia remains the country's main natural gas supplier with Turkey's purchase of natural gas from Russia increasing to 44% in 2011. Disagreements with Iran, the second largest supplier, about the price of gas remain unresolved. Turkey has taken the issue to international arbitration. Turkey is also the biggest customer for Azeri natural gas. It is still unclear how Turkey will move beyond being a transit country and become a game-maker in the international arena after satisfying its domestic market in terms of price and amount. For the last few years, Turkey has been trying to implement a comprehensive energy and foreign policy by considering alternative pipelines. This has not been an easy task for a transit country. In this context, a change is noticeable in the general approach followed until recently. In terms of policy preferences a shift from projects that provide for cooperation with consumers to projects that aim toward collaboration with producers is obvious.

According to credible sources in the Energy

Ministry, Turkey has given priority to TANAP by putting Nabucco on the backburner. When Nabucco-South Stream competition is analysed in this context, it is understood that Turkey has shown its preference for the South Stream project. It can also be argued that Turkey's relations with Russia have taken precedence over its relations with the European Union. It is also understood that Turkey has strengthened Russia's hand in the discussions about whether the South Stream is really a new pipeline to be constructed or a lever in the hands of Russia against Ukraine.<sup>3</sup> In fact, Prime Minister Vladimir Putin's depiction, during the signing ceremony in December, of Turkey's permission to allow for the South Stream pipeline across its EEZ as a "New Year's gift" supports this evaluation. The intensification of Ukrainian-Russian negotiations in January 2012 and Russia's relaxed attitude in this process are also indicative of this situation.

From a different perspective, the competition between the Nabucco and South Stream pipeline projects affects the energy policy balances within the European Union. The main partners of South Stream are the big powers of Europe while those of Nabucco's are the smaller countries. While Europe's big powers such as Germany, France, and Italy cooperate with Russia, especially in the energy field, independently of the various elements of the EU, countries like Ukraine, Bulgaria, Romania,

3 "Turkish Approval of South Stream gives huge boost to Russia," *Today's Zaman*, 28 December 2011; Wojciech Kononczuk et.al., "Russian-Turkish agreement on the South Stream pipeline – an instrument of pressure on Ukraine," *Eastweek*, Center for Eastern Studies, 4 January 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-01-04/russianturkish-agreement-south-stream-pipeline-instrument-pressure-uk>.

and Austria seek to guarantee their positions by playing alone (in the absence of a specific EU energy policy). It can be argued that the implicit big power-small power competition in Europe puts Russia in a more advantageous position. In this process, questions about whether the Azerbaijan agreement supported by Turkmen and Kazakh resources will increase Turkey's influence in the area and possible new partnerships come to mind. East European countries come into play as possible new partners for Turkey. It would, thus, be rational for Turkey to re-evaluate partnerships with countries like Poland, Czech Republic, Hungary, and Slovenia.

Energy competition in the Black Sea region, which was not in the spotlight in the post 2008 Russia-Georgia war period under the influence of the international financial crisis, has also been showing signs of revival with the prospects of economic recovery and the signing of new agreements. In this respect, the focus should be on addressing questions such as: "who will influence the new game?" and "who will be controlling the regional energy game?". Russia's near-abroad policy and the limits of its influence in this game should be well understood. It is obvious that Russia aims to keep its near-abroad, EU markets and the energy network under its control. Russia's uses almost standard tools to apply its policies: cooperation under Russia's control; sizing energy cooperation and creating dependency; dominating domestic markets; constructing-purchasing distribution, storage lines and pipelines; price discounts; signing particular agreements; acting tough when the situation requires it and applying different sanctions; and, when necessary, building new pipelines. Turkey's relations with Russia in the energy field have been compatible with Russia's expectations until now. Although this

situation has placed a heavy financial burden on Turkey's shoulders, it has been caused by necessity. Energy accounted for 23% of Turkey's total imports in 2011. In other words, more than one-fifth of Turkey's import bill comes from energy imports with Russia being the main benefactor in the trade balance. In this vein, the natural gas agreements which were signed recently indicate that Turkey has taken affirmative steps in, at least, the energy field. This situation may have negative implications for Turkish-Russian relations in the future although currently these are assessed as being positive.

Another situation that compels Russia and seems to affect Turkey as well is the negotiations between Russia and the EU. The EU adopted the Third Package for Electricity and Gas markets in 2009. This Package aims to separate production and supply from transmission networks, facilitate cross-border trade in energy, introduce more effective national regulators, promote cross-border collaboration and investment, enhance greater market transparency on network operation and supply, and increase solidarity among EU countries. This has had strong effects on the operations of vertically integrated companies such as Gazprom or, in other words, Russia. This item is still on the table among the issues that remain unresolved between the two sides. The Russian Energy Ministry proposed an intergovernmental agreement establishing a special regime for major international infrastructure projects while the EU has rejected this proposal.<sup>4</sup> It is

4 "Russia eyes legal opportunities to challenge EU's Third Energy Package," *Rianovosti*, 18 December 2011, <http://en.rian.ru/world/2011118/16881305.html>; James C. Coyle, "Russia Offers Possible Compromise on Third Energy Package," *Eurasian Energy Analysis*, 10

possible that this package will influence the agreements that Russia aims to shape through its bilateral dealings. Moreover, despite the claims that Russia will not be affected due to the natures of the South Stream and Nord Stream pipelines, there might be trouble in the future. Problems in Turkish-Iranian relations and EU-Iranian relations, decisions to go to international arbitration and embargo enforcement, and the recent developments in the Eastern Mediterranean region demand comprehensive thinking and consideration by Turkish energy policy-makers. Iran is Turkey's second largest natural gas supplier, providing some 20% of the country's needs. The basis for the supply is a major contract signed in 1996, set to run for 25 years, under which Iran would supply Turkey with 10 bcm per year. Despite the fact that some clauses in the "take or pay" agreement with Iran favoured Turkey in 2002, those clauses in the agreement were not deemed to be sufficient.<sup>5</sup> Newly signed agreements with Russia and Azerbaijan also encouraged Turkey to take further steps with respect to Iranian gas. Moreover, the decisions by the United States and EU member states to implement sanctions against Iran have also strengthened Turkey's position.

Another actor that should be considered in terms of regional energy balance is Ukraine. In addition to problems in energy field, Ukraine has difficult relations with Russia due to the EU's efforts to deepen its cooperation with

January 2012, <http://eurasianenergyanalysis.blogspot.com/2012/01/russia-offers-possible-compromise-on.html>.

5 Alex Jackson, "Turkey puts Pressure on Iran over Gas Prices," *Natural Gas Europe*, 23 January 2012, [http://www.naturalgaseurope.com/turkey-iran-over-gas-prices-;](http://www.naturalgaseurope.com/turkey-iran-over-gas-prices-; Iranian Sanctions and European Energy Security,) "Iranian Sanctions and European Energy Security," *Natural Gas Europe*, 29 January 2012, <http://www.naturalgaseurope.com/iranian-sanctions-and-european-energy-security>.

it. In order to lessen its dependence, Ukraine aims to halve the gas it imports from Russia. It seems that the regional balance might be affected by the Ukrainian efforts to implement a joint venture agreement for the construction of LNG (liquefied natural gas) plants to import natural gas directly from Azerbaijan. There have been attempts to construct an LNG plant in the Kulevi oil terminal on the Black Sea coast of Georgia for the direct transportation of Azeri gas to Ukraine. This is not a usual step in the Black Sea region as the system in the region is to transport the gas through pipelines which are usually under Moscow's control. Thus, technological developments and economic-political constraints can make LNG an alternative in the region, which may reduce Russia's influence.<sup>6</sup>

This also implies for Ukraine, which aims to collaborate for shale gas production with Exxon Mobil and increase its coal production, entry to the energy game through these diverse initiatives. Another option is to import natural gas across Turkey. The perception that the one who controls the pipelines will also control the markets and regional energy politics faces a challenge. Technological advances and regional as well as extra-regional developments pose challenges to Russia's dominant position. This situation also suggests new opportunities for Europe.

In sum, the Turkey-centric energy game in the region embracing the Black Sea, the Caspian Sea, the Middle East and Europe is reminiscent of the one of the 2004-2008 period, during which the energy prices and the rivalry for constructing alternative pipelines were peaked. Under the dominance of traditional actors such as Russia, transit countries like

6 Michael Hikari Cecire, "Azerbaijani LNG Deal Boosts Ukraine's Energy Leverage," *Natural Gas Europe*, 31 January 2012.

Turkey and Ukraine have started to show their ambitions in the Black Sea Region's energy dynamics by seeking cooperation with producers such as Azerbaijan and Iran that also want to have their say in the new energy politics along with the major consumer, the EU. Advances in technology and the preferences of big actors are the factors to affect the course of the relations among the states of the region. For a while, thus, the issue of regional and global energy security will continue to take a large place in the security agenda.

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## Conflict Resolution Trends in the Black Sea Region

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*Abstract*

*The article assesses the main trends of the various conflict resolution processes in the Black Sea region. It emphasizes the transformation of the mediators' role, including the increase of the EU efforts in the various peace processes. The author states that the absence of military actions, the narrowness of the existing peace formats and competition between the various mediating parties for leadership lead to the militarization of the region, the absence of the conflicts' 'ripeness', new peace initiatives and an 'all or nothing' position on the part of the conflicting parties.*

The Black Sea – Caspian Sea region emerged on the international arena after the collapse of the Soviet Union with a series of so-called 'ethnic conflicts' in Abkhazia, South Ossetia, Nagorno-Karabakh and Transnistria. From the very beginning these conflicts attracted the attention of the world community, leading to a number of

different mediation and peacekeeping efforts. Despite the efforts of concerned state actors and relevant international organisations the prospects for the final resolution of these conflicts remain distant.

The Russian-Georgian conflict of 2008 and the recognition by the Russian Federation of the independence of two former Georgian