
Turkey Seeks Bigger Pipeline Role, Roils Europe It Aims To Join

By Celestine Bohlen
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Turkey is playing hardball in the geopolitical struggle over an \$8 billion pipeline at the center of Europe's efforts to cut dependence on Russian natural gas. The nation, which bridges Europe and Central Asia, is trying to profit from its strategic location and become a key part of Europe's energy plan. This might bolster its push to join the European Union -- if its negotiating tactics don't exhaust Europe's patience. Europe wants Turkey to be a transit corridor along the Nabucco pipeline's 3,300-kilometer route from the Caspian Sea region to Austria. Turkey wants more control: acting as a regional energy hub, collecting gas from the east, buying some domestically at below-market prices and passing on the rest to Europe for a variable fee. "Nabucco is a demonstration project of Turkey's intent to join the European Union," says Brendan Devlin, assistant to Jozias van Aartsen, the EU's Nabucco negotiator. "By delivering on this project, Turkey would clearly underline its importance to the EU." Named after the Babylonian king in the eponymous opera by Italian composer Verdi, Nabucco is comprised of energy companies BotaÅ~ in Turkey, Bulgargaz AD in Bulgaria, Transgaz SA in Romania, Mol Nyrt. in Hungary, RWE AG in Germany and OMV AG in Austria, which is also a shareholder in the Turkish company Petrol Ofisi, which belongs to the Istanbul-based Dogan group. From its inception in 2002, the project has been the focus of a political scrum over European energy security.

Pipeline monopoly:

Moscow-based Gazprom OAO has a monopoly on gas pipelines from Russia and Central Asia to Europe. Russia accounts for a quarter of the EU's gas consumption and more than 40 percent of gas imports. With gas demand rising 3 percent a year, the EU will consume 620 billion cubic meters by 2020, 500 billion imported, its figures show. Nabucco has political backing from the EU and U.S. as an alternative to Gazprom. Meanwhile Gazprom and Eni SpA, Italy's largest oil company, are promoting a new \$15 billion pipeline, named South Stream, to rival Nabucco. In January 2006, Nabucco catapulted to the top of the EU's agenda after Russia briefly cut gas deliveries to Ukraine over a price dispute, blocking flows to Europe. Although Nabucco's capacity of 31 billion cubic meters would account for only 5 percent of the EU's 2020 gas needs, it would provide competition and may help lower prices, the EU says. "The Nabucco pipeline is a clear economic and political necessity," said EU Energy Commissioner Andris Piebalgs in a March 2006 interview.

Gas-rich regions:

Turkey, a member of the North Atlantic Treaty Organization and an EU candidate since 2005, has long aspired to link the oil-and gas-rich regions of Central Asia with Europe. Its port city of Ceyhan receives 1 million barrels daily of Azerbaijani oil through the Baku-Tbilisi-Ceyhan pipeline. Turkey's push for more control over Nabucco, and more revenue, clashes with the EU's proposal that Turkey -- like EU members Bulgaria, Romania, Hungary and Austria -- collect only transmission fees tied to costs. "All Turkey is trying to do is get some of the gas for domestic consumption, and its fair share of commercial transactions," says Mithat Balkan, who until six months ago was the Turkish Foreign Ministry's energy coordinator. Turkey doesn't feel any obligation to abide by rules set by a club that hasn't yet accepted it as a member, Balkan says.

'No logic'

"Turkey's future in the EU is still not very clear, so to say Nabucco is a test has no logic," he says. Negotiations over Turkey's entry into the EU have stalled, partly because of opposition to letting a predominantly Muslim country into the 27-member group. Turkey has already exerted influence over Nabucco, last year blocking Gaz de France SA from joining after the French parliament made it a crime to deny that the mass killing of Armenians by Ottoman Turks during World War I was genocide. Negotiations between the EU and Turkey over Nabucco are due to end this summer, when the group must decide on future gas contracts. Even if they can resolve their differences, Nabucco's future isn't certain. The start of construction, set for this year, was put off until 2010, pending questions about gas sources. The project has pledges from Azerbaijan and Turkmenistan for 18 billion cubic meters, or 58 percent, of the pipeline's total capacity. Other possible suppliers, Iran and Russia, are problematic options.

Energy politics:

"If you have a Nabucco that is largely dependent on Russian gas, that defeats the purpose," says Gareth Winrow, an expert on energy politics at the Bilgi University in Istanbul. Turkey has lobbied Europe to accept gas from Iran, which the United Nations has sanctioned for its nuclear program. Turkey signed preliminary energy deals with Iran last year worth \$3.5 billion, earning it a scolding in March from U.S. Vice President Dick Cheney. Several European countries have suggested they would consider Iran as a gas supplier once it abides by UN demands to halt uranium enrichment.

As the summer deadline nears, both the EU and Turkey face pressure to find a compromise. "Nabucco is the best commercial option for both Europe and the Caspian suppliers, but the participants need to conclude the necessary agreements if they want to stay competitive," says C. Boyden Gray, U.S. special envoy for Eurasian Energy Affairs.

Turkey's gas links with Greece, Italy don't undermine Nabucco:

Turkey said its shipments of Azeri natural gas to Greece and Italy don't compete with the Nabucco pipeline project because the Caspian Sea can provide enough fuel for both links. Turkey began pumping the gas it imports from Azerbaijan to Greece last year. The countries are further planning a \$1.1 billion undersea extension to Italy by 2012 for a total capacity of 12 billion cubic meters. The Nabucco pipeline, which aims to take Caspian gas when it opens in 2013, will link Turkey to Austria and other European markets. "These two projects are not in competition but are complimentary ones," Murat Ilmaz of Bota, Turkey's state pipeline operator, said at an energy conference Monday. "The supply source may seem the same but there is enough gas to supply both of these projects." There is not yet a gas supply agreement for Nabucco, which will eventually ship 31 billion cubic meters of gas. Azeri and Turkmen sources are expected to supply the pipeline initially as part of efforts to cut the European Union's reliance on Russian gas, which accounts for a quarter of the bloc's consumption. It may also take gas from Egypt, Iran and Iraq. The Italian link "in principle" competes with Nabucco, though the latter's capacity means it must acquire more sources than the Azeri fields that will supply the Greek and Italian links, said Mario Cumbat, a development manager at Italy's Edison SpA, which will have access to 80 percent of the Turkish-Greek-Italian connector. "The main question today is to find new sources of gas, and the real concrete possibility is the eastern side of the Caspian Sea with the realization of the trans-Caspian" pipeline, Cumbat said. Turkmenistan, the largest Central Asian producer of gas, may back a trans-Caspian link to reach European markets to diversify its buyers. Azerbaijan may also connect its fields in the Caspian to produce another 15 to 20 billion cubic meters of gas,

should it resolve territorial disputes in the sea, Cumbat said.

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