

# *Pipeline politics boosts Turkey's profile in Europe*



Photo: Alessandra Benedetti/Corbis.

| *By Marc Guillet*

Ceyhan reeks of gas and oil. It is the same smell that permeates the old oil town Baku on the western shore of the Caspian Sea, where some of the oil originates that is stored here in Ceyhan.

The citizens of Ceyhan had better get used to the smell. This Turkish oil complex on the eastern Mediterranean coast is fast becoming a major energy hub. Like Turkey itself.

As yet, however, nothing could be more tranquil than this area, which feels as if it is in the middle of nowhere. Along the road to Ceyhan, an hour from Adana, Kurdish migrant workers and their

children are picking cotton while the sun burns down on their aching backs. They camp and cook in the fields in improvised tents made of old plastic and wooden sticks. It is 36 degrees Celsius and it has not rained for months.

Between the oil storage tanks, deer roam around. 'The first ones were brought here by us some 30 years ago', says Adem Malci, head of the tank farm. 'All the trees you see here were planted by us too. We have our own private beach. I fish every day before going to the control room and I keep bees on the oil tank farm. Who has a life and a view like this?' Malci smiles as he

points towards the mountain range on the horizon where the Syrian border lies.

In the port, two oil tankers are waiting to be loaded with Iraqi crude. One is chartered by Exxon Mobil to load around 700,000 barrels. Spanish refiner Cepsa chartered the other vessel to load one million barrels.

Ceyhan is the destination for Iraq's northern oil export pipeline too. Since the US-led invasion of Iraq in March 2003, the pipeline from the Kirkuk oilfields has frequently been targeted by saboteurs and thieves and has remained idle most of the time. 'Kirkuk crude is being pumped to

Ceyhan again since the end of August', says Fuat Tülüce, the Turkish manager of the pipeline. 'Ten of our twelve storage tanks are full of Iraqi oil. We now have 8 million barrels of Kirkuk crude ready to be loaded. Two employees from Iraq's State Oil Marketing Organization (Somo) arrived yesterday to check the tanks before giving permission to export their crude.' The manager says that Baghdad has recently contracted hundreds of Arab tribesmen to protect the pipeline. However, they could not prevent the northern pipeline from being put out of order again when it was damaged in a bomb attack on 18 September that caused an oil spill in the Tigris river.

The other major oil pipeline that ends here, the Baku-Tbilisi-Ceyhan (BTC) pipeline, has been built underground to deter terrorist attacks and minimise the risk of rupture. 'The BTC pipeline, which carries Caspian Sea crude to Europe and other markets, has now been operational for a year', says Salih Pashaoglu, president of Botas International Limited (BIL), the operator of the pipeline's Turkish section, set up by the state-owned Turkish Pipeline Company (Botas). 'Its construction was a major success,' says Pashaoglu proudly. It is 1768 km long and the second longest oil pipeline in the world. The longest is the Druzhba ('friendship') pipeline that carries oil over a distance of some 4000 kilometres from Samara in south-eastern Russia to Ukraine, Hungary, Poland and Germany. 'A total of 248 tankers have taken 204.2 million barrels of oil from the BTC pipeline' says Pashaoglu. 'We expect returns from the pipeline to exceed \$1 billion by the end of the year.'

Transit fees (\$0.35 per barrel) and taxes (\$0.20 per barrel) fill the coffers of the Turkish state. The pipeline's full capacity is 1 million barrels per day. 'We are planning to upgrade the pipeline in 2008 and to increase the capacity to 1.2 million barrels per day,' says Pashaoglu. 'By adding the chemical substance DRA, we will reduce the friction. This will make it possible to pump more oil without adding more pumps.'

In the following sections, we look at the most recent developments in oil and gas pipeline construction plans in South-Eastern Europe, which are crucial for bringing new oil and gas supplies to the European market. EER's correspondent in Turkey, Marc Guillet, reports on the pivotal role Turkey is destined to play in bringing oil and gas from Central Asia and the Middle East to the European market, while circumventing Russia. EER's correspondent in Athens, Ioannis Michaletos, has written an overview of pipeline developments in South-Eastern Europe, with a particular eye to Greece and to the competing (Russian-dominated) Burgas-Alexandroupoli pipeline and (American-dominated) Ambo pipeline. He also interviewed the former Greek minister of energy Andreas Andrianopoulos, who advises the EU and is concerned about the ability of Russia to meet its supply obligations. See also the map on page 22-23.

The pipeline is owned by a consortium of energy companies led by BP, which has a 30.1% share in the consortium. Among the other shareholders are the State Oil Company of Azerbaijan (Socar) with a 25% share and TPAO of Turkey with a share of 6.53%. There are 290 people working for Botas International Limited in Ceyhan plus 250 at the 4 pump stations and 1 pressure reduction station. Cleaners, cooks, security personnel, drivers and other subcontractors are almost all locals. The pipelines thus contribute employment and revenue to the local economy.

Botas manager Pashaoglu says that Turkey 'is in the process of expanding Ceyhan and developing it into a modern energy hub and future energy stock market'.

'Three applications to build oil refineries here have been submitted. One was approved several months ago by Turkey's energy market regulator (EPDK).' The refinery will be built by a consortium of Turkey's Calik Enerji and the Indian Oil Corp. A second application for the construction of a 200,000 barrels per day refinery by Petrol Ofisi, Turkey's biggest petroleum distributor and a third application to build a refinery and petrochemical complex by a joint venture in which the state oil company from Azerbaijan (Socar) holds a majority stake are still under consideration by Turkey's energy market regulator. 'We are expecting an LNG terminal to be built here as well,' Pashaoglu says. 'By exporting oil from Azerbaijan and Iraq and expanding refining capacity, Turkey contributes to the energy security of Europe.'

Energy security – or security of supply – is the modern buzz word. For obvious reasons. 'Energy security is on the agenda of every energy minister, as well as that of every foreign, finance and industry minister across Europe,' said EU energy commissioner Andris Piebalgs in 2006. Europe's dangerous dependence on energy imports from Russia is well-known. To improve the situation, in March of this

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year the EU member states agreed on a road map, including diversification of gas suppliers. The three main sources for gas to the EU are Russia, the North Sea and Algeria. Turkey is in the process of becoming Europe's fourth artery. It is close to the gas fields in the Middle East, the Caucasus and Central Asia. And Turkey is the only viable land route to transport natural gas from these regions to Europe that bypasses Russia's territory.

Although Turkish relations with the EU have cooled considerably since the opening of the EU membership negotiations in October 2005, there is a growing awareness in Brussels of Turkey's vital importance as an energy hub for energy-hungry Europe. Turkish authorities are well aware of their strategic geographic location as an

alternative route for the export of oil and gas to Europe. That's why Ankara has been aggressively promoting Turkey as an east-west energy corridor. 'A fabulous bridge and a corridor between producers and consumers', according to Turkey's Energy Minister Hilmi Güler when he announced the start of the construction of the 700 kilometre Samsun-Ceyhan oil pipeline in April of this year. In Istanbul Andris Piebalgs, EU's energy commissioner, was clear as well: 'Turkey needs the EU and the EU needs Turkey.'

To cut its dependence on gas from Russia, for some years the EU has been promoting a new gas pipeline project to bring gas from Central Asia to Austria via Turkey. This so-called Nabucco pipeline is seen by the EU and the US as a vital project for providing Europe with an alternative source of gas supplies. Russia is trying to undercut Nabucco with its own initiatives of new pipelines (*see story on page 24, ed.*). Turkey is well aware of the ambitions of its big neighbour and historic enemy in the north and it knows how the game is played. Persistence, activating the help of powerful allies such as the US and promoting oneself as an escape route to former Soviet republics can produce results. The BTC pipeline that ends at Ceyhan's oil terminal is proof that successes are possible despite fierce Russian opposition.

Ceyhan will also be the export gate for the so-called Trans-Anatolian oil pipeline from the Black Sea port of Samsun, construction of which started in April of this year. The 550 kilometre long Samsun-Ceyhan Oil Pipeline is being built to reduce the oil transfer through the Bosphorus and Dardanelles straits. Italy's Eni and the Turkish Calik Group are constructing the \$1.5 billion pipeline which is expected to be operational in 2009. The capacity will initially be 1 million barrels per day, later 1.5 million barrels. However, the project faces several problems. 'There is stiff competition from the shorter and 50% cheaper Bourgas (Bulgaria) to Alexandroupoulos (Greece) pipeline project that was announced a couple of months

ago and in which Russian companies have a majority share of 51%', says Gareth Winrow, an energy and foreign policy expert at Bilgi University in Istanbul. 'The Samsun-Ceyhan consortium could not make any through-put agreement with any of the oil producing countries or companies. The Turks are pursuing a high risk strategy to build an oil pipeline when they don't have oil suppliers.'

After several meetings between Mr Putin and the Turkish Prime Minister Erdogan since 2004, the Turks gave the impression that some sort of deals were in the making on the oil, but the Russians have not signed anything. Pashaoglu in Ceyhan sounds more optimistic. 'Eni has promised 25% through-put. They are looking for supplies from other companies. We are hopeful. Yes there is competition from Bourgas-Alexandroupoulos, but that project is only in the planning phase. Whichever is first constructed and operational will gain the upper hand. That is why there is urgency in the construction. The projection is that our pipeline will be operational in 2009.'

The 3,300 km proposed Nabucco pipeline, an EU-project, which should bring gas from the Caspian region to Europe via Turkey faces problems too. Last June Gazprom announced a big new rival pipeline project known as 'South Stream' with the Italian oil firm ENI to take Russian gas under the Black Sea to southeast Europe. South Stream will bypass Turkey and undermines an earlier plan to extend the 'Blue Stream' pipeline from Russia to



Turkey. The 900 kilometre pipeline will have a capacity of 30 billion cubic metres. The Nabucco project that it has been on the drawing board for so long without making



Oil storage tanks at Ceyhan, Turkey.  
Photo: Marc Guillet.





Salih Pashaoglu, general manager of Botas International Limited, operator of the Turkish section of the BTC pipeline. Photo: Marc Guillet.

any progress. It frustrated Hungary, one of the five partners in the Nabucco consortium, so much that it started looking for alternatives. 'The key question for Nabucco remains how are they going to fill it up?' says Professor Winrow in Istanbul 'Where is the gas coming from? It will be a 30 billion cubic metres plus pipeline. How promising is the recent Turkish deal with Iran? The Americans are not keen at all for obvious reasons.'

In Ceyhan Salih Pashaoglu says that he is not authorised to answer questions related to the political complications with the US of the Turkey-Iran deal. 'But as the former deputy undersecretary of the Turkish Ministry of Energy, I can say that Caspian gas and the gas from Iran

are more than enough to fill the Nabucco pipeline. Nothing is certain yet. But if the agreement with Iran succeeds, then we hope a pipeline will be constructed from Turkmenistan through Iran to Turkey. We are also constructing the Arabian pipeline to bring Egyptian gas through Syria to Turkey. Furthermore we hope to implement a natural gas project from Kirkuk. This will be a pipeline parallel to the existing crude oil pipeline to Ceyhan. Turkey will convey this gas through the Nabucco pipeline to Europe.'

The US Congress is preparing legislation to punish foreign countries or companies that invest in Iran's energy sector. But Turkey is already importing gas from Iran through the Tabriz-Erzurum pipeline

and wants to increase its existing energy cooperation. Ankara wants to press ahead with a controversial deal it made last summer with Iran for more gas supplies. According to the memorandum of understanding between the two countries, Iran will be allowed to use Turkish territory to transfer 35 billion cubic metres of Iranian gas to Europe and in return, Iran will let gas from Turkmenistan flow to Turkey via an Iranian pipeline. Another part of the deal is that the Turkish petrol company TPAO will invest \$3.5 billion in three sections of Iran's South Pars gas field.

It is unclear, however, whether there will be enough Turkmen gas available to fill up the Nabucco pipeline, since Turkmenistan and Kazakhstan signed a deal in May with Russian President Vladimir Putin to build

a new pipeline to increase the amount of gas to go from Central Asia through Russia to Europe. It is also unclear whether US opposition could block the deal between Turkey and Iran. Professor Winrow thinks that Turkey will try to get the Europeans on their side. 'The Turks will follow what they believe are their own energy security

*'We should try not to irritate Moscow too much'*

interests, but will try to hook that up to European energy security at the same time. And in so doing, Turkey hopes that this will deter the Americans from making a big deal out of it.'

Erdal Shafak of the Turkish newspaper Sabah and several other columnists in the Turkish media as well as the Turkish government see the Nabucco project as a way to boost Turkey's profile in Europe and as a trump card in its EU bid, although officially energy is not part of the accession negotiations with the EU.

To back the Turkish deal for natural gas supply through Iran, Brussels can remind Washington that there is already a gas pipeline from Iran to Ankara, which has been operational since 2001. And it may also stress that other major sources for Nabucco – apart from the gas from the South Caucasus pipeline from Baku to Erzerum – are highly unlikely.

European MP Dorette Corbeyn has the impression that there has been a

change for the better in the atmosphere surrounding the Nabucco project. 'There is an added sense of urgency and I sense that there will be more speed in the implementation. A positive role will be played by the former Dutch foreign minister, Jozias van Aartsen, who was recently appointed as coordinator for Nabucco by EU energy commissioner Piebalgs. Enthusiasm for joining the five-company consortium is also growing from two big energy players: Gaz de France and RWE of Germany.' Commissioner Piebalgs echoed the same sense of optimism that the Nabucco pipeline is back on the agenda. In Budapest he said: 'Nabucco is more than just a pipeline, it's the embodiment of the existence of a common European energy policy.' ■



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