

Turkey's role in European energy security

By Katinka Barysch

- ★ Worried about its dependence on Russian gas, the EU is looking for alternative sources of supply. Turkey – located between big energy producers and the EU market – can make a substantial contribution to Europe's energy security.
- ★ The Nabucco pipeline is the flagship project of the EU's diversification strategy. It is also crucial to Turkey's ambition of becoming a Eurasian energy hub. But Nabucco will only be built if Turkey bases its energy policy on open, transparent rules, and lets business interests prevail over political considerations.
- ★ The EU must work harder to unblock the accession talks in the energy area. Ankara and Brussels should also discuss how Turkey's own plans fit the EU's emerging energy policy, not only for pipelines, but also for renewables, energy savings and market liberalisation.

Turkey is different from other countries currently queuing for EU entry: it is big, fast-growing and strategically placed. Turkish politicians like to stress that their country's accession would add to the EU in many ways: its young, dynamic economy could give a boost to an ageing, sclerotic EU market; it could help the EU to bring stability to the Middle East, the Caspian and the Caucasus; and it could add to the EU's energy security by acting as a bridge to the resource-rich regions in its neighbourhood. Turkey's development as a European energy hub looks natural, given its lucky location between countries that harbour 70 per cent of the world's oil and gas reserve to its east, north and south, and one of the world's biggest energy markets in the west.

However, whether Turkey will in fact be able to fulfil this potential depends on a mind-bogglingly complicated array of factors. Some are within Turkey's control, such as the speed with which it opens up its own energy market, and how it supports the Nabucco pipeline project (see the map on page 8). But many depend on outside developments, ranging from the cohesion of the EU's own emerging energy policy to the political and commercial isolation of Iran. At times it seems that Turkey is in the middle of a great European energy game: the EU wants to build new pipelines for importing non-Russian gas, including one (or more) through Turkey; the Russians will do their utmost to keep their grip on the continent's gas transport; Turkmenistan and other gas producers want access to new markets, but without alienating Russia.

Turkey and the EU could benefit a lot from working together in the energy field. The EU would gain a reliable alternative supply route. Turkey would gain transit fees and other energy-related business; and, perhaps more importantly, the opportunity to prove that it is an indispensable partner for, and eventually part of, the European Union. But at the moment, the fact that Turkey is a candidate for EU accession appears to hinder rather than help EU-Turkey energy co-operation. Even technical co-operation becomes politicised because non-energy related issues tend to intrude. So the EU and Turkey need to work out a more strategic plan for collaborating in energy. Otherwise Turkey's potential as an energy hub may well be wasted.

Turkey's energy policy

Like in most countries, Turkey's energy policy is driven by domestic needs. And these are pressing.

★ **A looming power crisis:** Power demand in Turkey is growing faster than anywhere else in the world bar China, according to Hilmi Güler, the country's energy minister. He estimates that the electricity sector alone will need \$100 billion in new investment by 2020. As the government is still struggling to reduce its debt, much, if not most, of this money will have to come from the private sector. However, a lack of market opening and tightly controlled energy prices have long put off potential investors. Although plans for new power plants, wind farms and even a nuclear power station are now being worked out, these will take time to materialise. In the meantime, blackouts seem almost inevitable. If they persisted, they could do serious damage to Turkey's fast-growing economy. They could also destabilise politics: the government of Bülent Ecevit was forced out in 1979 partly because much of Turkey was affected by severe power cuts.

Aware of the need for change, the Turkish government passed ambitious plans for energy market liberalisation and privatisation in 2001. If implemented, these would go further even than the EU's own current liberalisation plans, for example by fully separating the supply of energy from its transportation and sale (a process the EU refers to as ownership unbundling). In practice, however, there has been little progress. Planned privatisations have been put off time and again, although the sale of distribution networks is now scheduled for 2008.

★ **The gas conundrum:** Turkey's own oil and gas reserves account for only a tiny fraction of its rapidly rising demand. So as global oil prices have risen, Turkey's bill for energy imports has spiralled, to more than \$30 billion in 2007. While Turkey gets oil from a variety of sources, 60 per cent of its gas needs are met by just one supplier: Russia's Gazprom. So Turkey is keen to maintain good relations with Russia. But at the same time it is exploring ways of lessening its dependence on Gazprom.¹

¹ Igor Torbakov, 'Making sense of the current phase of Turkish-Russian relations', *Jamestown Foundation Occasional Papers*, October 2007.

Turkey's demand for natural gas has grown more than three-fold in the last decade. Scant rainfall in recent years has forced power stations to rely more on gas rather than hydropower, of which Turkey usually has plenty. At the moment, Turkey is not short of gas. On the contrary, the long-term contracts that it has signed with Russia, Iran and other suppliers commit it to buying more than it actually needs. This leaves it potentially liable to pay penalties for breaching these contracts. So Turkey needs to build infrastructure for storing gas, for re-exporting surpluses to the EU and, most importantly, to distribute the gas imports around the country so that factories and households can use it.

However, Botas, the state-owned gas company, has little money for investment. On the contrary, it has piled up more than \$8 billion in debt, as gas import bills have risen (gas prices tend to follow oil prices up and down). At the same time, electricity price caps have made state-owned power stations and municipalities unwilling or unable to pay for the gas they use. The cash crisis has made the government reluctant to follow through on pledges to subject Botas to more competition at home. In principle, Botas is obliged to reduce its domestic market share to 20 per cent by 2009. In practice, it keeps a tight grip on imports and distribution.²

² *Energy Charter Secretariat, 'Turkey: Review of the investment climate and market structure', 2007. David Tonge, 'Turkey's energy sector under stress', IBS Research, March 2007.*

Following its re-election in July 2007, the government of Recep Tayyip Erdogan has been making encouraging noises about energy market reform. Investors, however, will remain cautious after so many years of muddle, delays and reversals. Independent power producers that tried to enter the market in the past have struggled with tariffs that were set too low for them to recover their costs. The EU's energy market laws – which Turkey will eventually have to put in place before it can join – would be an ideal framework to give investors much-needed certainty. However, as explained later, accession preparations in the energy sector are stuck because of political disagreements.

Turkey as an energy hub

Turkey has ambitions to become a major Eurasian energy hub. Better connections with supplier countries and energy consumers would not only increase Turkey's geopolitical standing. They would also bring lucrative business, in the form of transit fees or through new refineries, LNG terminals and trading facilities. And they could make it easier for Turkey to diversify its own energy supplies and to re-export any surplus gas it may have. In many ways, Turkey already fulfils the role of an energy hub. It does so through the Bosphorus strait and through several new pipelines that link it to Russia and the Caspian.

Every year, some 10,000 tankers pass through the Bosphorus strait, which connects the Black Sea with the Mediterranean. Traffic keeps growing rapidly, and today a tanker manoeuvres through these narrow, busy waterways every 20 minutes during daytime.³ Although Turkey has spent billions on high-tech navigation systems and other safety features, maritime experts say that it is only a matter of time before one of them spills its toxic cargo. This would be a disaster for Istanbul's 13 million residents. And a big headache for the transporting companies that run up costs of tens of thousands of dollars for every day that one of their tankers' crossings is delayed.

³ John Daly, 'EU missing opportunity to use Turkey as reliable energy corridor', *Jamestown Foundation Eurasia Daily Monitor*, March 26th, 2007.

Turkey and the other Black Sea countries have been looking at a number of bypass options. So far, only one – a Russia-backed pipeline from Bulgaria's Black Sea port of Burgas to the Greek port of Alexandropolis – is under serious consideration. Other projects, such as Turkey's preferred option of a line running north-south across Anatolia, will only stand a chance of being built if sufficient supplies can be guaranteed. Turkey only levies very limited charges on tankers transiting the Bosphorus. So there is little incentive for the oil companies to invest in an expensive bypass pipeline.

Nevertheless, Turkey has the potential to become an important hub for oil and gas transported through pipelines. Some important connections are already in place:

★ **Blue Stream for Russian gas:** The 'Blue Stream' gas pipeline from Russia snakes along the bottom of the Black Sea and resurfaces in the Turkish port of Samsun. Opened in 2003, Blue Stream was due to deliver 10 billion cubic metres of gas in 2007, with its full capacity of 16 billion cubic metres scheduled to be reached in 2010. Russia has been exploring the option of doubling Blue Stream's capacity, to 32 billion cubic metres a year, with the aim of selling the gas on to Europe – and perhaps forestalling the Nabucco pipeline through which the Europeans want to import Caspian, Central Asian and perhaps one day Iranian gas without crossing Russian territory (of which more later).

★ **BTC for Caspian oil and gas:** Turkey's profile as an energy hub rose considerably with the opening of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in May 2006. The US had been pushing hard for BTC, as the first pipeline specifically designed to export Caspian oil without going through Russia. BTC can transport 1 million barrels of oil a day from Azerbaijan via Georgia to the Turkish port of Ceyhan. Alongside BTC runs the Baku-Tbilisi-Erzurum (or South Caucasus) gas pipeline through which Turkey imports gas from Azerbaijan.

★ **The interconnector to Greece:** The recently completed 'interconnector' pipeline between Turkey and Greece will for the first time allow the delivery of Caspian gas to Europe without crossing Russian territory. In its current shape, the interconnector will transport only limited amounts. But there are ambitious plans to link it to a mooted Greek-Italian sub-sea line and boost its capacity.

★ **Links to Iran and Iraq:** Turkey also has smaller pipelines to import oil from Iraq and gas from Iran, although both have been used only intermittently in recent years. Limited amounts of gas come from Algeria and Nigeria through an LNG terminal on Turkey's Mediterranean coast. And Turkey would like to add Egypt to the list of its gas suppliers, although it is not yet clear whether this will make commercial sense. If all the oil and gas pipelines that are currently under discussion were built, Turkey would see 10 per cent of global oil exports and up to 15 per cent of global pipeline gas deliveries go through its territory.⁴

⁴ John Roberts, 'Testimony concerning Russia, the Caspian and the EU from an energy security perspective' for the House of Commons foreign affairs committee enquiry into 'Global security: Russia', May 2007.

The EU is looking for alternative suppliers

Turkey's plans for becoming a major energy hub tally with the EU's need to find new suppliers of, and routes for, oil and gas. The EU's gas needs are forecast to rise by a quarter by 2050. And because gas fields within the EU are being depleted, the share of gas imported from outside the Union is expected to rise from around half today to as much as 80 per cent by 2030.⁵ But where will these massive amounts of gas come from? At present, around a quarter of the EU's gas (or 40 per cent of imports) comes from Russia. The EU never worried much about its dependence on Russian gas – until January 2006, when Gazprom temporarily cut off supplies going through Ukraine. As the pressure dropped in gas pipelines in Hungary, Austria and other EU countries, the Europeans launched into a panicky debate about how to secure their future energy. Even those who do not worry that the Kremlin may one day use gas as a political weapon against EU countries are increasingly concerned about persistent underinvestment within Russia. Any growth in Russia's gas output

⁵ This figure counts Norway as a non-EU supplier, despite the fact that it is inside the EU internal market. European Commission, 'European energy and transport. Trends to 2030 – 2005 update', May 2006.

is gobbled up by a fast-growing domestic market. Although this is already limiting Russia's export capacity, it has ambitious plans to sell more energy to China, Japan and the US.

Russia is bound to remain the EU's single biggest gas supplier for decades to come. But the Europeans want their additional future demand to be met by a broader range of other producers. So when the European Commission published its energy policy package in January 2007, it put the diversification of sources of supply right at the top of the priority list.⁶ The Caspian and Central Asian regions are central to the Commission's diversification plans. Although exploration is still at an early stage, analysts say that the region contains 4-5 per cent of global oil and gas reserves. It also offers Western oil majors reasonably good access, in contrast to the Gulf states and (increasingly) Russia, which prefer to exploit their natural resources through state-controlled companies.

⁶ http://ec.europa.eu/energy/energy_policy/documents_en.htm.

Until now, Europe has only been able to import gas from Central Asia and the Caspian via Russian territory (the Turkey-Greece interconnector breaks this monopoly, but the quantities are small so far). Gazprom, Russia's state-controlled gas giant, has a monopoly over all gas pipelines, which turns gas imports from other countries into Russian gas at the border. This set-up provides the Kremlin with political clout and Gazprom with windfall profits: it buys Turkmen gas for \$100 per 1,000 cubic meters and sells it to Europe at 2.6 times that. For Russia, the transport monopoly will get more important if and when its own gas production falls short of domestic and European demand. It could then use Turkmen and other Central Asian gas to make up for shortfalls – but not if these countries have good alternative outlets.

Test case Nabucco

The Europeans have been exploring various options for accessing Central Asian and Caspian energy without relying on Russia. The Turkey-Greece interconnector is a small first step. But the project that could make a bigger difference to Europe's energy security, and to Turkey's role as an energy hub, is Nabucco. This 3,300 kilometre pipeline would run from eastern Turkey via Bulgaria, Romania and Hungary into Austria. Once it reaches full capacity, it could transport 31 billion cubic metres of gas to the EU every year. Critics say that this would be insignificant compared with the EU's overall gas needs, and with the amounts that it is still likely to buy from Russia. But for John Roberts, an energy expert at Platts, the doubters are missing a point. He argues that the mere existence of an alternative supply route would strengthen the EU's hand in negotiations with Russia, and thus force Gazprom to sell gas on a more competitive basis. "If Nabucco prompted Russia to drop its prices by as little as €1 per thousand cubic metres" he claims, "then – even if not a single cubic meter of gas ever flowed through Nabucco – it would provide a good return on its €5 billion investment."

Nabucco would not only be good for European consumers. It is also a test case for the EU's emerging energy policy; an important ingredient in Turkey's plan to expand its role as a Eurasian energy hub; and a priceless opportunity for the EU and Turkey to prove that co-operation and integration are good for both sides. However, the planned pipeline has suffered from setbacks and delays. The potential start of construction has already been pushed back from 2007 to 2009. And even in the best-case scenario, gas will not start flowing before 2012.

The basic dilemma is this: international gas pipelines are expensive to build. So they usually involve a long-term agreement between the gas supplier and the consumer, to make sure that enough gas flows through the pipeline over the years to pay off the initial investment. Nabucco is different in that there is uncertainty at both ends. The demand side seems rather more secure: a third of the Nabucco gas would be bought by the countries that lie along its route. The rest would flow into Baumgarten, a gas trading hub in Austria. From there it could be fed into existing EU pipelines to Germany, Italy and elsewhere. On the supply side, however, there is real uncertainty. Nabucco's gas would come from Azerbaijan, and possibly Turkmenistan, and maybe one day Iran and Iraq too. Because of this uncertainty, it is not the ultimate suppliers and buyers that are planning the pipeline but a consortium of companies from the transit states.

The consortium members will only put up the money to build the pipeline if they can be sure that it will be filled in the future. But a lively game of political and pipeline poker has aggravated existing doubts about potential supplies.

Nabucco's gas would initially come from Azerbaijan, namely from the giant Shah Deniz field in the Caspian Sea. But this development has been much slower than initially expected. And, having been embroiled in a struggle with Gazprom over the price of Russian gas deliveries, Azerbaijan will now need more of its gas for domestic industries and households. It has also promised to help neighbouring Georgia, which, after a similar disagreement with Gazprom, also needs more non-Russian gas.

Shah Deniz will produce enough to feed the new Turkey-Greece interconnector, but not to get Nabucco up and running by 2012. Some experts say that Nabucco will have to wait until Shah Deniz goes into its second phase of development, expected around 2013. The companies involved in the Nabucco project are confident that Azerbaijan will produce enough gas to make Nabucco viable. But some independent energy analysts warn that other sources would be needed to fill Nabucco in the long term.

Additional gas from Iran and Turkmenistan?

Additional gas could come from Turkmenistan and Iran but both have big problems as potential suppliers. Iran has the world's second biggest gas reserves after Russia. However, their exploitation has been held up by domestic political wrangles, misguided investment policies, and the threat of US sanctions against any foreign company that invests more than token sums in the Iranian energy sector (although these have not yet been enforced). In 2007, Turkey's Botas signed a memorandum of understanding with Tehran for investment of up to \$3.5 billion in a giant gas field called South Pars, and for shipping Turkmen gas through Iran into Turkey.⁷ The US administration called the move "unwise" at a time when Washington was tightening economic sanctions on Iran to prevent it from proceeding with its alleged nuclear weapons programme. By investing in Iran, Ankara would risk a renewed deterioration in its relations with the US, recently strained over attacks in Turkey by PKK terrorists based in northern Iraq.

⁷ Austria's OMV also signed a preliminary agreement in 2007 for helping to develop South Pars. Since this gas would be transported to the EU as LNG, it is not directly related to Nabucco.

If Iran is not a near-term option, this leaves only Turkmenistan as an additional major non-Russian supplier for Nabucco. Turkmen gas reserves are big. But just how big remains an issue of contention because the government has never allowed an independent assessment of its resource base. What is known is that a lot of the gas that Turkmenistan will produce over the next 20 years is already committed through long-term contracts that the country's late dictator signed with Russia. To reinforce this dependence, Russia's president, Vladimir Putin, in May 2007 struck a preliminary deal with his Turkmen and Kazakh counterparts to build a new gas pipeline from Turkmenistan through Kazakhstan into Russia. If this agreement was implemented, most future Turkmen gas would continue to flow northwards into Russia, rather than westwards towards Turkey, and from there to the EU.

But Turkmenistan's new president, Gurbanguly Berdimukhammedov, appears reluctant to tie his country's energy future to Russia alone. He is eyeing the fast-growing Chinese market; and he has expressed an interest in reviving long-standing plans for a trans-Caspian pipeline. Such a pipeline would ultimately be needed to feed Turkmen gas into Nabucco. Shipping it with tankers across the Caspian looks possible but would probably be very expensive. However, Moscow insists that a trans-Caspian pipeline cannot be built as long as Russia disagrees with Iran and the other littoral states about how the Caspian seabed (and the resources underneath) should be shared. Russia has shown little interest in an early resolution. On the contrary, Moscow has done everything in its power to prevent Nabucco from being built. For much of 2007, it looked as if Russia was succeeding through a series of shrewd moves in which it has tried to prise the Nabucco investors out of the consortium one by one:

- ★ **Blue Stream extension through Hungary:** Austria would be the main distribution centre for the gas arriving through Nabucco. So Moscow has cleverly promised Hungary that it, too, could become a European gas hub, provided it chose to back an alternative project, namely the extension of the Blue Stream pipeline from Turkey into the EU. Since parts of this extension (sometimes referred to as 'Blue Stream 2') would run along the same route as the planned Nabucco pipeline, it could easily render the latter superfluous. Although Hungary's oil company MOL is part of the Nabucco consortium, in March 2007, the country's prime minister, Ferenc Gyurcsány, came out in support of the Blue Stream extension. Nabucco, he said, was "a long dream and an old plan"; at least the Blue Stream extension had a chance of being built, he added.
- ★ **OMV's tie-up with Gazprom:** The fact that Hungary's MOL has been trying to shake off a take-over bid from Austria's OMV has not helped the consortium's cohesion. Nor has some perceived uncertainty over OMV's own role. The partly state-owned gas company remains the main driving force behind Nabucco. But in May 2007, it announced a joint venture with Gazprom for extending Baumgarten's storage and distribution capacity. Although OMV insists that this project has nothing to do with Nabucco, some took it as a sign that the Austrians were secretly hoping that Russian gas could fill Nabucco, if other supplies did not become available. Other consortium members are not enthusiastic about this idea, arguing that the whole purpose of Nabucco is to make the EU less dependent on Russia.

★ **Italy and the South Stream plan:** Hungary and Austria were not the only countries to be courted by Russia. In June 2007, Gazprom announced that it would team up with Italy's ENI to build the 'South Stream' pipeline from the Black Sea, through Bulgaria, the Balkans and into Italy. Coincidentally, South Stream could supply some of the same markets as Nabucco, again fuelling doubts about the latter's commercial viability. South Stream would also make it less likely that Gazprom gas would be available to make up for any shortfalls in Nabucco, should the consortium members decide to involve Russia.

Having spent a couple of months watching Russia always being one step ahead in the pipeline poker, the Nabucco members decided to pull together again. In September 2007, Hungary's prime minister said he remained committed to Nabucco after all. Germany's RWE and Gaz de France announced that they were both interested in joining the consortium, which would add much-needed financial muscle, as well as access to these companies' big home markets.

The EU has also stepped up its support for the project, which it has included in a shortlist of four 'priority projects' under its common energy policy. The EU paid for the initial feasibility study on Nabucco in 2004; it has offered financing from the European Investment Bank and possibly the European Bank for Reconstruction and Development; and in September 2007, it appointed Jozias van Aartsen, a former Dutch foreign minister, as special co-ordinator for the Nabucco project.

Accession talks matter for energy

While the EU side now looks a little more united and determined, problems persist on the Turkish side. At present, Turkey does not allow foreign companies to use Botas' pipeline network. With regard to Nabucco this means that Turkey would buy gas from Azerbaijan (and Iran and Turkmenistan), transport it across its territory and sell it on at the border with Bulgaria. The other companies in the consortium (and the EIB) say that they will only invest in Nabucco if Turkey moves to a different regime which would allow the ultimate customer (say, Germany's RWE or Austria's OMV) to buy the gas directly from Azerbaijan and pay Turkey, and the other countries along the route, a fixed fee for using the pipelines on their territory. The consortium members say that relying on Botas to transport the gas would entail too much commercial and political uncertainty. In Ukraine, a similar transit regime has brought huge profits for murky intermediaries and encouraged political corruption. Moreover, some in the EU think that leaving Turkey with such strong control over EU gas imports is not a good idea, especially as the enlargement negotiations are not going as well as they should.

EU law requires all member-states to open their pipelines for companies from other countries. Although Turkey has implemented certain parts of the *acquis* under its 1995 customs union agreement with the EU, its alignment with EU rules for the electricity and gas sectors is limited.⁸ The EU is now trying to persuade Turkey to align itself with the energy *acquis* through joining the Energy Community Treaty (ECT).

⁸ *European Commission, 'Screening report, chapter 15 – energy', March 2007.*

The ECT, signed in October 2005 and in force since June 2006, is aimed at creating an integrated energy market in potential accession states on the basis of the *acquis*.⁹ All the Balkan states have joined the initiative. But Turkey has so far contented itself with observer status. The EU argues that Turkey would benefit from full membership through a more open and predictable investment climate in its energy sector; by gaining access to EU expertise and new funding options (for example from the European Investment Bank or Germany's KfW, a state-controlled investment vehicle); and by giving Turkey a say in the EU's external energy policy, so allowing the two to co-operate in the Caucasus and Central Asia.

⁹ <http://www.energy-community.org/>.

Turkey says that there are technical problems with some of the ECT's provisions. But more fundamentally, it does not like the idea of unilaterally signing up to a big chunk of the *acquis* without being able to ask anything in return. Turkish officials say that such an arrangement may suit countries that are not eligible for membership. But Turkey is already an EU candidate and it does not want to be fobbed off with what it sees as a 'privileged partnership' in the energy field.¹⁰

¹⁰ *Remarks by Ali Babacan and Hilmi Güler to the conference 'Turkey and the EU: Together for a European energy policy', Istanbul, June 5th 2007.*

EU officials never tire of stressing that the ECT has nothing to do with accession, and that one does not pre-judge the other. They point out that two of the original ECT signatories, Bulgaria and Romania, have joined the EU, and a third one, Croatia, is well on its way. But Turkey has a point when it says that it wants the EU energy *acquis* as part of its accession negotiations, not as part of some alternative process that is also available to countries that have not yet achieved official candidate status. The fact the EU is now offering the ECT to Ukraine and Moldova as part of its neighbourhood policy has only reinforced Turkey's argument.

Ankara says that it is ready to go ahead with accession negotiations in the energy sector. It has finished the 'screening' of its energy laws against the *acquis*, it has prepared its negotiating position and it has received a go-ahead from the European Commission. Unlike in most other parts of the *acquis*, energy does not have 'opening benchmarks' (steps that Turkey needs to take before the talks can begin in earnest) so the negotiations could start in principle. The main reason why they have not is that Cyprus is blocking them because it objects to Turkish plans to look for oil near its coastline. The energy talks are also being held hostage to the wider debate surrounding Turkish accession, in particular Nicolas Sarkozy's reluctance to let accession negotiations progress until the EU has set up an expert group on the future of Europe.

Broader energy co-operation is needed

Some EU officials say that energy is too pressing an issue to wait for the accession talks to make progress. They add another argument for decoupling energy from the enlargement process, namely that Turkey should not be allowed to use its strategic location to get concessions from the EU. This, they fear, could set a dangerous precedent: once Nabucco and other energy links are in place, Turkey could try to use them to get ahead in negotiations with its EU partners in unrelated areas.

Such fears are probably overdone. They certainly should not be used as an argument for not opening the energy chapter. If the EU is serious about the diversification of its energy supplies, it needs to do its utmost to unblock the accession talks in this area. Cyprus will hopefully take a more co-operative stance after its presidential election in February 2008. The EU should continue prodding Turkey to improve the investment climate in its energy sector and thus make it easier to attract funding. And it should systematically include Turkey in developing its energy strategy, not only on diversification but also on energy foreign policy more generally, as well as on plans for energy efficiency, renewables and so forth.

Ankara, in turn, must do more to prove that it is looking for a genuine energy partnership with the EU, rather than mere short-term political advantages. It could do so by showing how it fits in with the EU's emerging energy policy: it could explain how its own plans to liberalise electricity and gas markets fit those of the EU. It could outline its contribution to the EU's plans for building a strong post-Kyoto regime for fighting climate change (Turkey did not sign up to the original Kyoto protocol). It could align its own ambitious plans for reducing energy consumption with the EU's plan to raise energy efficiency by 20 per cent by 2020. And it could highlight the contribution it could make to the EU's ambition to increase the share of renewables in total power consumption to 20 per cent by 2020. Many Europeans would be surprised to learn that Turkey already gets 12 per cent of its energy from renewables. With the right policies, it could become one Europe's leaders in geothermal energy and hydropower, and it has lots of unexploited potential in solar and wind power.¹¹

¹¹ International Energy Agency, 'Energy policy reviews of IEA countries: Turkey', 2005.

Turkey's accession to the EU will only make progress if both sides keep reminding themselves of the benefits that deeper integration and closer co-operation would bring for both sides. Energy is an area where early gains are available. The fact that Turkey is negotiating for membership should help, not hinder, progress in this area. The evolving nature of the EU's energy policy gives Turkey a great opportunity to make sure that its own energy policy contributes to Europe's energy security.



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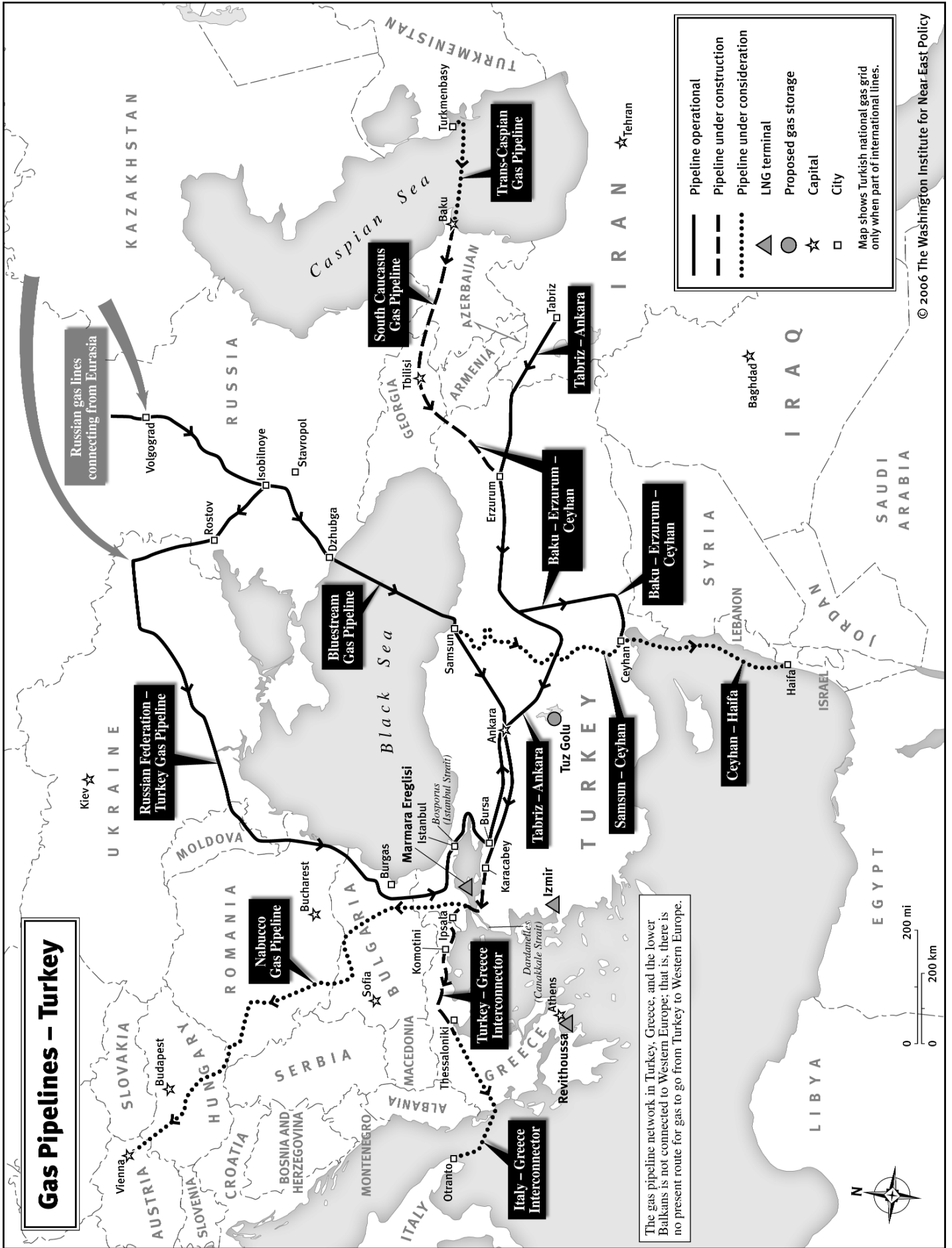
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The gas pipeline network in Turkey, Greece, and the lower Balkans is not connected to Western Europe; that is, there is no present route for gas to go from Turkey to Western Europe.