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THE ANKARA FORUM ON ENERGY AND ENERGY SECURITY

Round Table Discussion

“EUROPEAN ENERGY SECURITY AND TURKEY”

Friday, 23rd March 2007

The Ankara Forum on Energy and Energy Security is an initiative of the International Relations Department of TOBB – University of Economics and Technology, the Economic Policy Research Foundation of Turkey (TEPAV) in cooperation with the London based non governmental organization LINKS. This initiative aims to generate a venue for regular debate among experts from academia, state and government structures and the energy sector to discuss substantial policy alternatives based on expertise, market knowledge and experience, as well as to raise awareness amongst the public on challenging energy related issues.

The first table discussion in the framework of the Ankara Forum on Energy and Energy Security was held at the TOBB University of Economics and Technology in Ankara on Friday, 22nd March 2007 on the theme “European Energy Security and Turkey”. Opening remarks of Mr. Dennis Sammut, Director of LINKS and Prof. Mustafa Aydin, Director of International Politics Research Institute (IPRI) were followed by presentations of three speakers. Energy expert Mr. Mehmet Ögütçü approached the energy security issue from an international oil company perspective, while Mr. Mehmet Ulu, Director of Strategy Department of National Oil and Natural Gas Company of Turkey (TPAO) provided national oil company view. Dr. Richard Marriot, a senior economist from the United Kingdom Department of Trade and Industry, focused on the role Turkey as an energy trading hub in the gas sector. Their presentations were followed by a lively discussion.

Summary of Proceedings

(1) Europe's energy needs: The European Union is currently assessing its energy dependency and trying to diversify its energy sources as well as ensuring future supplies. Other great powers, too, are seeking to generate alternative strategies to halt the continuation of high oil and gas prices. The Finnish Presidency of the European Union [in 2006] actively promoted development of bio-energies.

The events of last winter emphasized the EU's dramatic dependence on Russia and Middle Eastern countries for crucial hydrocarbon energy supplies. Nevertheless, the EU member states have so far failed to launch a well-coordinated and comprehensive common energy policy, mainly because national strategies in recent years have been planned independently from one another. However, the mainstream opinion in Europe is to pursue an effective common energy policy, so that Russia cannot play one European player against the other and cannot generate an inner competition within the EU.

(2) Dynamics of oil and gas: There are no more easy oil discoveries. Ultra deep waters and unconventional geographies are the new frontiers for oil companies. In this case, technology is the most important element for successful extraction. The record high oil prices led to increased activity in upstream sector, resulting in soaring costs and lack of resources. In terms of supply and demand balance, which is believed to be controlling the long term price in the markets, geopolitics emerged as the key factor for short and even midterm trends

(3) Increasing dependence on imported energy and interdependence of states: The demand for energy resources will continue to increase in coming years. European Environment Agency reports indicate that EU energy import dependence will jump from 50% of total EU energy consumption today to 65% in 2030. It's reliance on imports of gas is expected to increase from 57% to 84% by 2030, and of oil from 82% to 93%.

(4) National Oil Companies (NOCs) versus International Oil Companies (IOCs): On the supplier side, increasing government control, resource nationalism and related political/fiscal issues are the main drivers of policies. Yet, at the same time shortage in human resources and equipment are also important. For the industry, competitors face some barriers for entry including limited acreage and data access, technological and environmental constraints, **NOC** ownership of most of the reserves and ever increasing costs. NOCs hold reserves equivalent to more than 10 times those of IOCs, whereas production from NOCs represent only 2.3 times the output from IOCs.

(5) Turkey has a key role: During the last EU Summit in spring, EU leaders formally agreed upon a European Energy Policy, which is mainly built upon effective **diversification** of energy **sources** and transport **routes**. Turkey has the ability to play an important role concerning all of the three key words; (energy diversification, energy sources, transportation routes).

(6) Turkey as an energy hub to ensure sustainable and diverse energy supply: Sustainable energy supply is necessary to guarantee economic development and quality of life. For the EU, maturity of Turkey as a transit route fosters promotion of energy security through diversification of supply routes. Turkey has the potential to be an energy hub with its special strategic location. Turkey as an energy hub is capable of bringing energy resources from the Caspian, Central Asia through southern corridor and potentially from Iraq to the world markets and to Europe. Standing right in the middle of this reserve bearing geography, Turkey has a distinctive and significant role. Turkey has proved to be a giant and reliable market of the region in terms of its current level of consumption which is rapidly increasing. The market is not only huge and growing but also very well defined and profound in terms of transparent and EU compliant legislation and regulations. The role of Turkey as a transit country is also recently had proved itself by realization of giant pipeline projects and the ongoing ones. Therefore, this role is quite significant in terms of its importance in contribution to security of supply.

The cost for switching to another resource like hydrogen energy is quite high. Ethanol and solar power however, have shown considerable improvement in some countries. The energy security problem for gas necessitates most of the governments to take a look at their nuclear plans as well.

(7) Turkey as an energy market: There is a need to have a regulatory investment framework that provides transparent and stable rules and that promotes trading and competition. That way Turkey can become a place where a vigorous trade in gas can actually develop. By hosting such a market, Turkey can secure its energy needs and competitive energy prices can be provided to consumers.

Referring to UK example; the characteristics of a successful energy trading hub consists of an infrastructure which has a capacity to make arrangements allowing many buyers and sellers to meet. Along with the infrastructure, a storage capacity is crucial that can be accessed by both sellers and buyers. Regulations need to be formulated as stable but light touched to oversee simple access arrangements which encourage market liquidity. For instance, while regulations set low barriers of trade, they should allow high degree of transparency.

(8) Benefits to Turkey: If it is managed to generate a competitive market, Turkey's energy supplies will be competitively priced. Price will be determined by supply and demand. **Furthermore** Energy needs will be secured because that market will be on its territory.

(9) Diversification of energy resources and supply security: Since the EU foresees an increasing dependence on external energy sources, improving energy diversification and the issue of supply security are crucial in the EU agenda. EU has been seeking for alternatives to promote diversification of resources and supply routes.

(10) Energy Mix: Europe's energy mix is changing; this is largely because of Europe's leadership in climate change. It is deploying more renewable energy, and it is using more gas in power generation. EU has set an ambitious target. During the Spring European Council in 2007, one of the fundamental conclusions that the leaders drew was binding 20% target by 2020 in renewable energy. It is mainly designed to show political leadership.