ANALYSIS

From South Stream to Turkish Stream: Underlying Reasons and Consequences of Transformation

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Abstract

The decision to halt South Stream, and reconfigure the project as Turkish Stream came as a surprise to many, and, indeed, the current geopolitical context makes reaching forecasts about the future development of large-scale energy projects almost impossible to make with any certainty. Keeping this in mind, this article lays out some thoughts on why Russian–EU negotiations on South Stream stalled, and the prospects for the future development and fulfillment of Turkish Stream. It suggests that the realization of Turkish Stream remains uncertain, and that its future will largely be determined by the wider context of development in Russia–Turkey, Turkey–EU and Russia–EU relations.

This article offers an interpretation of the recent and swift developments relating to the halting of the South Stream natural gas project, and the announcement of its reconfiguration as Turkish Steam. However, given the certain uncertainty surrounding this issue, it makes no claim to provide a final and exhaustive review of the subject, but is rather a reflection on the possible directions in which developments may go in forthcoming years. It is not that the interested parties are reluctant to make statements or comments regarding these drastic changes. However, these decisions and statements have been made under the influence of a complex global geopolitical setting that is still in a state of flux. In the current context, it is difficult, if not impossible, to make forecasts with any degree of certainty. Indeed, the destiny of the Turkish Stream project is itself not yet clear. This article thus aims to draw attention to some key points whose significance and consequences have already been defined with a good deal of certainty.

What Happened between Russia and the EU?

The primary task in accounting for the switch from the South Stream to the Turkish Steam project is to consider the key factors that have changed in Russian–European energy relations and which shaped the context in which this choice was made.

Firstly, it is important to remember that the project was initially conceived as "an important step towards the implementation of Gazprom's strategy to diversify the routes for supplying Russian natural gas to Europe".[1] In light of the current situation in Ukraine and the current uncertain global economic context, it would appear that an important aspect of such diversification is to develop a replacement route to that of gas shipments via Ukraine, so that Russian gas can be delivered to consumers in South-Eastern and Southern Europe via an alternative route. "The role of Ukraine, as a transit country, will be reduced to zero", Gazprom head Alexey Miller said on December 6, 2014, adding that "Gazprom has *de facto* abandoned Ukraine as a transit party".[2] The effective contract with Ukraine that deals with the transit of the Russian gas expires in 2018. From that year on, Russia has resolved to renounce the transit services offered by Ukraine. "There are no other options for Europe to mitigate the risks associated with gas transit through Ukraine, except to rely on the new Turkish Stream gas pipeline", Gazprom head Alexey Miller told journalists on January 14, 2015, following his meeting in Moscow with Maroš Šefčovič, Vice President of the European Commission, who is heading the Project Team "Energy Union".[3]

The second change is that the intention is no longer to supply gas directly to the territory of European nations, and instead it will be made available up to the Turkish[4] and Greek borders, from where the Europeans will have to make their own arrangements for it to reach their consumers. The objections to this new plan voiced by Maroš Šefčovič do not seem sufficiently convincing. Firstly, Šefčovič believes that the proposed volume of gas (reference is made to a projected volume of 63 billion m^3 per year), "is, most likely, not needed for Turkey and the countries of South-Eastern Europe".[5] However, taking into consideration that this gas will be shipped *instead* of, and *not in addition* to, the gas that is currently being transported through Ukrainian territory, such a volume

1 Gazprom Annual Report, 2013.

2 "Miller o blokirovke ES 'Yuzhnogo potoka', nulevom tranzite Ukrainy i perekhode na novuyu model' raboty", Moskovskii Komsomolets, 6 December 2014.

3 "'Yuzhnyi potok' zakryt okonchatel'no", Neft' Rossii, 16 January 2015.

4 This is why the new project was named the "Turkish Stream", at the suggestion of Turkish President R.T. Erdogan

5 "'Gazprom' ne sobiraetsya sozdavat' infrastrukturu po 'Turetskomu potoku' v ES", Energetika i ZhKKh, 16 January 2015.

does not seem to be unreasonably excessive. Indeed, in 2013, the amount of Russian natural gas shipped in transit via Ukraine was 86 billion m^3. In other words, the proposed volume is, in fact, lower than the current level. Secondly, in an interview with *The Wall Street Journal*, Maroš Šefčovič said: "We are tired of being worried every summer if we would have enough energy in winter".[6] However, it should be acknowledged that Russia's plans to develop the South Stream project were targeted at "building up a new sustainable infrastructure for gas supplies together with the European counterparts".[7] Indeed, in its updated version, the Turkish Stream, as well as discussions in the years prior to this, can be seen as aimed at insulating the European consumer from the impacts of any Russian–Ukrainian disputes over gas supply long before the present Ukraine crisis erupted. Finally, Maroš Šefčovič believes that as a result of the reconfiguration of the pipeline route, the reputation of Gazprom as a reliable supplier will be damaged, as "contracts always carry a reference to the point of gas delivery—and it is not the frontier between Turkey and Greece".[8] But, with respect to this last observation, it should be remembered that the EU was largely implicated in using protraction techniques to hinder the implementation of the project, which has eventually led to a change in the point of delivery. "If we are not welcome there [in Europe], it means we need to look for some other options, and the option that is being exercised now implies that we will bring all the gas volume to the EU frontiers", S. Kupriyanov, a spokesman for Gazprom, has noted.[9]

Perhaps, the arguments put forward by Maroš Šefčovič are easily refutable because they lack substantiation, and seek to conceal the main reason that has caused the EU's discontent with the South Stream project. However, the point is that Russia's decision puts the EU in a most precarious position, whereby it is now confronted with an uncomfortable choice: Accepting the new version of the Russian project would effectively imply Ukraine's exclusion from the gas transit system, which would have significant associated economic and geopolitical losses for Ukraine. Similar consequences might have been entailed if an earlier version of the project—the South Stream—had been accepted by the EU. However, during these initial stages of the project's development, Russia was not accentuating so strongly its intention to force Ukraine out of the gas transit deal.

In a recent report, Edward C. Chow draws attention to several important factors underlying the Russian–European energy relationship.[10] Europe will continue to import oil and gas from Russia, while Russia cannot shift its oil and gas export to Asia in the near-term. Hence, the Russian–European energy relationship is one of codependency. And, thus, ultimately it boils down to the economic terms for the trade of energy from Russia to Europe, and whether either side is politically willing to lessen its degree of dependence on the other and bear the higher costs of supply diversification by shipping or receiving oil and gas over greater distances utilizing expensive new infrastructure. Taking this into account, the best solution for all parties would be to ensure that Russia and Ukraine reach an agreement. The best case scenario would be an economic agreement.

However, currently for Russia, it is seen as preferable not to seek an agreement with Ukraine, but to strip it of its status as a party to the negotiating process. This choice was largely made according to political considerations. And, in view of the realities underlying the current conditions of bilateral relations between Russia and Ukraine, this decision has assumed an irreversible nature just because of its political implications. It is noteworthy that when Alexey Miller explained Gazprom's decision to reconfigure the South Stream gas pipeline route, he specified that the main reason was the lack of commitment and hesitation on behalf of the EU in matters relating to its implementation, but not the Third Energy Package, whose terms might have been agreed by the EU and Russia. In this context, we can see that a key aspect in the Russian stance is that the termination of gas transportation via Ukraine is a matter of top priority, which for Russia must addressed without any discussion. While the terms of gas sales to the European market are also a priority issue, but one which Russia considers can and must be negotiated. Insofar as the conclusion reached by Edward C. Chow on the codependency of Russia and Europe in terms of gas trade is correct, the EU and Russia have agreed to set up a high-level working group that should be entrusted with developing concrete aspects of the new plan to supply gas to the South-Eastern Europe.

What Can Be Expected in the Relationship between Russia and Turkey?

Having outlined several factors that saw Russian–European cooperation over the South Stream project stall, the article now turns to assessing the prospects for the recon-

6 "EU Energy Chief Says Russia's Turkish Stream Gas Project Won't Work", The Moscow Times, 23 January 2015.

7 "'Gazprom' ne sobiraetsya sozdavat' infrastrukturu po 'Turetskomu potoku' v ES", Energetika i ZhKKh, 16 January 2015.

8 Vedomosti, 15 January 2015.

9 "'Gazprom' ne sobiraetsya sozdavat' infrastrukturu po 'Turetskomu potoku' v ES", Energetika i ZhKKh, 16 January 2015.

10 Chow, Edward C., "Energy Codependency" in Cohen, C. & Gabel, J. (eds) Global Forecast 2015. Crisis and Opportunity (Center for Strategic and International Studies, Washington DC., 2014), p. 44.

figured project of Turkish Stream within the context of the past, present and future Russian–Turkish relationship.

On the one hand, the Turkish Stream agreement between Russia and Turkey opens up new vistas for the development of bilateral interaction. Throughout the years in which the Justice and Development Party (JDP) has been in power, an ambitious plan to turn Turkey—a country lacking its own energy resources—into an international energy hub has been advocated and pursued. Under this policy-concept, Turkey's lack of energy resources is deemed as compensated for by the advantages that its geopolitical situation affords it, allowing it to play a critical role in linking energy-resource producing (Russia, Caspian Sea region countries) and energy-resource consuming countries.

In view of these ambitions, a provision within earlier agreements between Turkey and Gazprom that banned Russian gas from being re-exported to any third-countries became a stumbling block for the further development of the relationship. Hence, the recent removal of this provision is significant. Had it remained in place, Russia's share in the Turkish natural gas market would have been likely to decrease in relative terms over the long-term, due to the growing role played by alternative suppliers with whom Turkey has sought closer energy ties in recent years (notably, Iran and Azerbaijan already have significant stakes in the Turkish natural-gas market), even though in absolute terms the volume of gas imported from Russia would have remained the same. However, the sudden and unexpected decision to remove this provision has made it possible for Turkey to realize its ambitious strategic plan of becoming an international energy hub by extending the scope of its partnership with Russia.

It should be borne in mind that the politics of natural gas supplies to the Turkish market will not be significantly affected by the Gazprom decision, as the Turkish Stream pipeline is expected to replace the gas volume currently received by Turkey through Ukraine and the Balkans. But, as far as the transit arrangements are concerned, one actor among the global natural gas producers will be the first to take advantage of the new opportunities offered by Turkey, and there is no reason why this could not be Russia.

On the other hand, however, it should be remembered that Turkey found itself in an identical situation several years ago, and this did not lead to greater Russian–Turkish energy cooperation. During a visit by the then Turkish President, Ahmed Necdet Sezer to the Russian Federation in the summer of 2006, the prospect of constructing the Blue Stream–2 natural gas pipeline was discussed. This pipeline was supposed to duplicate the existing natural gas pipeline from Novorossiysk, but to do so from the Turkish port of Samsun and be bifurcated, in one direction, to the South of Turkey and then to Israel, and in another, to the West and on to Europe. However, in 2005 negotiations regarding Turkey's application for membership in the EU were to the fore. Against this background, a decision by Turkey to implement the Blue Stream-2 project would have been seen as signal that Turkey was throwing down a challenge to its European partners, because it likely would have meant the shelving of the NABUCCO project (implying that Caspian Sea region natural gas delivery to Europe would be made not through Turkish territory but via Russia), which would have negatively impacted on Europe's core aim of diversifying its natural gas supply sources. So, Turkey was compelled to renounce the implementation of the Blue Stream-2 project, as it was apprehensive that pursing it would have created serious problems for its relations with the EU.

During this period, the priorities of Turkish foreign policy could be clearly traced. For example, a 2007 election declaration issued by JDP referred to Turkey's relations with the EU and the US as "well established", while emphasizing that they did not constitute the only options available, whereby Turkey did not intend to adhere to the logic of the Cold War or restrict the development of its contacts with the "biggest international actors in Eurasia, as Russia, China, Japan". The declaration, however, stressed that "the government would make efforts towards the earliest implementation of the NABUCCO project".[11] Ultimately, in 2007, Russia clearly formulated its own position on transnational natural-gas projects, making a formal announcement on its intention to pursue the South Stream project that bypassed Turkey.

As with the case of the Blue Stream-2 project, the most significant influence on the Turkish Stream project will be exerted by the present leadership of Turkey through its assessment of the relevance of and prospects for its relations with the EU, for whom the implementation of the Turkish Stream is burdensome both politically and economically (as a section of the gas pipeline is due to be constructed by the EU across its own territory). After the 2007 elections, Turkey—while formally pursuing the course of seeking EU membership and remaining a strategic partner of the US—has begun to more persistently position itself as an "influential global power", which "has abandoned the posture of a country that reacted to international crises and resorted to defensive tactics", and which "after formulating a regional and global vision, has become an actor blazing the trail for international development".[12] The current program of the Turkish government explicitly illustrates that the

11 AK Party [JDP], Güven ve İstikrar içinde durmak yok yola devam (2007), p. 205, p. 226.

12 Ibid., p. 210.

role of Turkey in the international arena has been greatly modified: today's Turkey is characterized "not as a country that follows other countries, but as a country that is followed by other countries". For the JDP government, partnership [on an equitable footing] is acknowledged to be a model for the advancement of relations with the US, while the basis for their advancement is deemed to be furnished through mutual respect. And the further progress in forging closer ties with the EU is conditional upon a very exacting request to allow visa-free movement for Turkish citizens within the EU territory.[13]

Western analysts contend that a process of strategic differentiation has been in evidence within Turkish foreign policy, referring to the example of Turkey distancing itself from European foreign policy by refusing to uphold the sanctions regime against Russia, with Russia considered to be "an important partner and a significant actor in regional cooperation".[14] Turkish President Erdogan is strongly political invested in this revised version of Turkey's foreign policy, and is too sophisticated a politician to yield to the pressure from the EU concerning Turkish Stream. Rather, he is more likely to use this cost-free new leverage of Russian gas in his dealings with Europe. It is most likely that Erdogan will wish to position Turkey as a mediator in negotiations over the new format for gas deals between Russia and the EU, and then, perhaps, to go beyond the role of mediator on gas deals alone … .

Although the Turkish Stream has many advantages for Russia, there is a certain risk in the fact that Turkey is not going to undertake any resolute actions, especially during the initial stages of the project. Many times in history it has been the case that, during periods in which relations between Russia (USSR) and the West are strained, Turkey reaches its peak of strategic importance, as it leverages greater interest from both sides to gain the maximum benefit for itself by employing the proven tactic of balancing opposing poles. This time of importance comes to an end when Turkey ultimately has to make a final choice between the two. This is why the Turkish political elite will try to evade this moment of definitive decision for as long as possible. So, alongside the point made by some analysts that Turkey has no clear vision for the future of Turkish Stream, it also necessary to add that Turkey will be in no hurry to develop such a vision. Perhaps, it will make a few steps in this direction, but Gazprom's expectations that by the second quarter of 2015 Russia and Turkey will sign an agreement on the Turkish Stream pipeline project may well not materialize.

There is also a certain degree of concern that Turkey's newly acquired strategic leverage—the Russian natural gas on its territory—could also be used adversely in relation to Russia itself. After the announcement was made about the reconfiguration of the South Stream route, many posed a question: "Is it feasible that Turkey will be another Ukraine?" Over recent years, some Russian analysts have suggested that the Turkish natural gas market is nothing more than a *bazaar*, because Turkey has been rather insistent in asserting its interests in all issues associated with the price of Russian natural gas. The basic arrangement behind the reconfiguration of the South Stream route involved a 6% price discount for Turkey. However, there is a certain rationale to assuming that Turkey, with its ambitious plans to become an energy-hub, has more far-reaching plans than simply retaining a portion of gas destined for European consumers on its territory. As for tough bargaining over the price, Turkey is likely to be true to itself for the time being and afterwards.

Finally, within the Turkish Stream framework, some complementary cooperative-tracks for Russia and Turkey may be identified in connection with the hypothetical situation in which, having agreed to a new route for gas shipments, Europe will entrust Gazprom with the responsibility of developing the gas supply infrastructure. Under such a scenario, thanks to Turkey, Gazprom will be provided with extra possibilities to comply with the requirements set out under the Third Energy Package, in particular, to allow a third parties to have access to the natural gas pipeline. For instance, either it might be possible to sell natural gas to Turkey and for it then to be supplied to Europe as gas from Turkey, or it might be possible to sell gas to Europe through Turkish gas traders (such traders have now emerged in the Turkish gas market—in the natural gas imports and wholesale sector—within the framework of market liberalization), which Gazprom has already bought a stake in (Bosphorus Gaz) or plans to buy a stake in (Akfel Gaz). These opportunities look more tentative than realistic at this stage, but they can turn into reality upon the completion of the Turkish Stream, within a period of three years.

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13 62. Hükümet Programı (2014), pp. 169–170.
14 Ibid., p. 174.