

RUSSO-TURKISH DIVERGENCE (PART II): THE ENERGY DIMENSION

November 14, 2012

gloria-center.org

Part I of this article is available [here](#).

Energy issues figure prominently in the Russo-Turkish relationship. Their impact is not nearly as clear-cut as are the Iranian and Syrian issues. Turkey and Russia have a complex, evolving relationship characterized by mutual dependencies in the oil and gas spheres. As Richard Weitz stated, “Energy relations between Russia and Turkey have long been characterized by overt friendship and subtle competition.”^[1]

In the first part of this two-part series of research on Russo-Turkish relations, the authors contended that during 2009-2010, behind the surface of the rhetoric of convergence, there frequently lay strategic divergence between Russia and Turkey. In all those years, Turkish officials and experts described their relations with Russia as being the best ever and said that bilateral harmony featured prominently in the past decade’s international relations. However, Russia and Turkey had already begun to diverge during 2009-2010, and 2011 was a difficult year in Turkey’s relations with Russia in the security sphere. The year 2012 does not look much better.

There is no clear consensus in the academic literature as to how convergent or divergent Russo-Turkish energy interests are. This is the focus of this article. Is there a coherence between Turkey’s energy policy and its general foreign policy? What is a “gas hub”? More academic work is needed in this area, including the consideration of the implications for European and Central Asian energy security and political relations. The years 2009-2010 have seen sudden reversals of fortune in the acute geopolitical rivalries between Nabucco and South Stream. While uncertainty surrounding future demand and financing raised the possibility that neither pipeline ever become a reality, Moscow seemed to be gaining the upper hand. Nabucco was sinking. Turkey’s stance between Nabucco and South Stream was pivotal. Turkey faced difficult choices between two competing and mutually exclusive energy supply routes. The Nabucco and post-Nabucco routes served Western Europe’s interest in reducing its dependency on Russian gas, while South Stream would help Russia strengthen its position as the main energy producer for European and Turkish markets.

The natural disaster in Japan and revolutions in North Africa in the spring of 2011 ignited a new bout of the pipeline rivalry. By the end of 2011, Ankara had a pair of seemingly contradictory gas pipeline deals (both Nabucco and South Stream), which raised very interesting questions about the nature of Turkey’s energy policy. Although both deals may be part of Ankara’s plan to make itself a major energy transit hub, there was something that sounded dissonant about them coming so close together. With the Azeri agreement, Ankara appeared to be taking part in laying the groundwork for an energy corridor that would help Europe reduce its reliance on Russian gas and that would serve as a template for other pipeline projects—including, ideally, a modified version of the troubled Nabucco pipeline plan—that would bring non-Russian resources from the Caspian and the Middle East westward. On the other hand, with the Russian agreement, Ankara was now taking part in a project that many analysts see as designed to undermine Nabucco and the EU’s plans to dilute Gazprom’s influence in the European energy market.

The Russo-Turkish energy relationship is the most intimate aspect of the bilateral connection. Yet the evidence for an erosion of ties seemingly appeared to be contradicted by the December 30, 2011, Russo-Turkish energy agreement. On its face, this accord signals a high degree of amity and cooperation between Moscow and Ankara. If, however, one probes more deeply into both sides' energy goals and policies, it becomes clear that while this accord does signify positive aspects of the Russo-Turkish relationship, matters are much more complicated than a simple reading of the accord would indicate.

RUSSO-TURKISH ENERGY RELATIONS AND THE “ENERGY HUB” STRATEGY

Turkish elites take it for granted that geography makes Turkey a predestined energy hub for the transit of Eurasian energy through its territory whether concerning the Russian South Stream pipeline, the EU's Nabucco pipeline, both of these systems, or other alternatives like interconnectors. Beyond that deeply-rooted assumption is the corollary belief that because of this hub status, the more pipelines that traverse Turkey the better—irrespective of their origin.

For Turkey to become not just a transit country but a hub, it must compensate for its own lack of indigenous energy sources, which forces it into what one writer calls a “retroactive” strategy of depending on multiple international players and sources for energy, where Russia plays a major role. As domestic demand and consumption grow sharply, Turkey not only must maintain this large volume of imports traversing its territory, it will have to depend on increasing electric power and therefore most probably imported nuclear power to provide that electricity. Turkey, therefore, uses its geographical position to leverage pipeline rights through its territory in return for commitments to invest in its energy sector, including nuclear power plants, as in Russia's case.^[2] Yet even as it depends on Russia, it must balance that dependence with multiple other sources of energy to avoid excessive economic and/or geopolitical dependence on Moscow. In this context, one can better grasp the myriad complexities and repercussions of Russo-Turkish energy relations and explain the Russo-Turkish energy deal of December 30, 2011, as well as the earlier deal with Azerbaijan in October 2011.

TURKEY AND NABUCCO

For several years, Moscow's primary economic and geopolitical objective in Southeastern Europe has been to lock down the conditions necessary for the start and then completion of the South Stream gas pipeline. This pipeline will bring Russian and Caspian natural gas to Southeast Europe and then Central Europe, bypassing Ukraine and tying Central Asian gas producers to Russia's pipeline network for years to come. This project would then all but ensure Ukraine's lasting dependence on Russia, compromise its independence and that of the key Central Asian gas producers too, and tie Balkan states to Moscow. Hitherto, Turkey had been distinctly cool to South Stream. It got Russian gas through the bilateral Blue Stream pipeline and from multiple other suppliers—Azerbaijan, Iran, etc.

Turkey opposed South Stream, because its original course would have bypassed Turkey and gone through the seabed of the Black Sea to Bulgaria and then Europe. Yet Turkish officials had occasionally

argued that Gazprom could join Nabucco, i.e. reinvigorate the Blue Stream pipeline and integrate it to the Nabucco network. While this solution might work for Turkey, it did not satisfy anybody else. In the meantime, Russo-Ukrainian energy relations have steadily deteriorated as Moscow's power plays have become more overt and insistent and Turkish demand for gas is growing while the Nabucco pipeline remains on the drawing boards.[3]

At the same time, all of Azerbaijan's natural gas was contracted out to its immediate neighbors: Turkey, Russia, Iran, and Georgia. For this reason, Azerbaijan's Shah Deniz II gas field on the Caspian Sea was crucial to the Europeans' energy plans: It was projected to increase Azerbaijan's output considerably, from roughly 10 bcm currently to 25 bcm, once the field came online, with most of the natural gas from Shah Deniz II available for export. However, the natural gas produced by this field was not expected to come online for years. In fact, it was pushed back to 2017-2018 due to price rows between Azerbaijan and Turkey. As a result, all projects are effectively competing with each other for limited supplies.[4]

Turkey was already buying around 6 bcm of gas from the Shah Deniz I field, for a very good price. It sells half of that gas on to Greece at a much higher price. Eight bcm of gas was expected to come from Azerbaijan's new Shah Deniz II gas development. Baku and Ankara, however, could not agree on how much Azerbaijani gas should go to Turkey, at what price, and under what conditions. Baku insisted that the old pricing formula needed to be revised. Turkey disagreed. Katinka Barysch, deputy director for the Centre for European Reform in London, contended that the problems with Nabucco were due to Turkey and Azerbaijan. In her analysis, "As long as this issue is not resolved, an agreement on the Shah Deniz II gas looks unlikely. Without that gas, it is hard to see how Nabucco could get under way." [5]

At the turn of 2010, when Nabucco's fiasco was discussed far and wide, Azerbaijan began losing its interest in Nabucco. Early in September 2010, during President Medvedev's visit to Baku, Gazprom and the State Oil Company of the Azerbaijan Republic (SOCAR) signed a contract under which Azerbaijan pledged to double its gas exports to Russia to reach 2 bcm in 2011. In 2010, Russia bought 1 bcm of gas from Azerbaijan compared to .5 bcm in 2009.[6]

In March 2011, as a means to pressure Turkey, Moscow suggested it might give up on South Stream and review alternative means of supplying Europe with gas, notably LNG (liquefied natural gas), because Turkey would not agree to laying down South Stream along the bottom of the Black Sea in its territorial waters.[7] Turkey then decided to give Nabucco a boost by organizing a signing ceremony in Kayseri on June 8, 2011, for Project Support Agreements between the Nabucco companies and the ministries of the transit states, Austria, Hungary, Bulgaria, Romania, and Turkey.[8] The Kayseri deal signaled that after a long period of hesitation, the U.S.- and EU-backed project was at last gaining traction. Meanwhile, in early July 2011, the Bulgarian election brought to power former Sofia mayor Boyko Borisov, who was already on record as wanting to take Bulgaria out of the Russia-led South Stream consortium. Without Bulgaria on board, the South Stream project may well be dead.

At the same time Turkey was pressing Gazprom to cut its prices, warning that Turkey would otherwise end a 25-year-old supply agreement with Gazprom. Turkey's decision accords with the European and Chinese stance toward Russian gas, which demands lower prices and an end to rigid, multi-year take-or-pay contracts.[9] Energy Minister Taner Yildiz stated that Gazprom's prices had risen by 39 percent since mid-2009, despite falling demand, as it was tied to long-term take-or-pay contracts.

Therefore Turkey had to contain its losses. Ankara clearly felt that it had some leverage with Russia, since under present conditions, it is actually oversupplied with gas.[10] On this basis, Turkey proceeded to show its leverage by making the deal with Azerbaijan in October 2011.

On October 1, 2011, Turkey announced that it would not renew the purchase of Russian gas delivered through the Western Balkan pipeline route after 2012. The official reason was the high price of Russian gas. Since Gazprom would not grant the discounted prices it sought in a depressed market, Turkey annulled the agreement.[11] Russian media and business circles immediately reacted by claiming that this was part of a concerted anti-Russian attack by Europe and Turkey on Russian gas policy.[12] Yet the reality was different and casts a critical light on both states' policies, as does the subsequent December 2011 agreement.

Turkey already imports about 60 percent of its gas from Russia and therefore worries about strategic over-dependence. Second, Gazprom had rebuffed Turkey's requests for easing the onerous take-or-pay clauses in their contract, which raises Turkish payments even as imports contract.[13] Meanwhile, Russia has done everything in its power to block any alternative to its domination of Caspian and Central Asian gas flows to Europe, thereby ranging itself squarely in the path of Turkey's long-standing ambitions to be an energy hub for the distribution of that gas to Europe.[14]

Since Russia has also generally refused to accede to other customers' requests of price cuts, Turkey signaled that it would no longer depend exclusively on Russian gas and that it had other options. Ankara also responded to its domestic critics' complaints about the primacy of the state company BOTAS by allowing private importers to assume the contracts with Gazprom in search of better prices.[15] Turkey also hopes for contracts with Egypt, Iraq, the ITGI interconnector from Azerbaijan, as well as Turkmenistan to Romania, Hungary, and Italy, the projected Nabucco pipeline, and possibly hopes to force its way into the newly discovered Eastern Mediterranean gas fields.

Immediately after giving this signal to Russia, Turkey turned to Azerbaijan and signed a major gas deal with it on October 25, 2011. Turkey will get 6 bcm of gas annually from Azerbaijan's Shah Deniz-II field, recovering what it lost from Russia by its earlier termination of the contract from the Western Balkans pipeline. Turkey will also serve as a transit point for another 10 bcm annual supply of gas to Europe through spare capacities in its pipelines. These accords also envisage building the new Trans-Anatolian Dogalgas pipeline for Azeri gas through Turkey, while the existing line's operation—which transports Azeri Gas from Shah Deniz-II—should go into effect by 2017 and send gas until 2043.

These agreements ensure that Azeri gas can traverse a dedicated infrastructure to Turkey and then flow to Europe either through the Nabucco pipeline, the Trans-Anatolian pipeline, or through one of the many other alternative pipelines currently under consideration, e.g. the ITGI Interconnector.[16] Moreover, since the announced agreement refers to the new Trans-Anatolian pipeline as carrying an "initial" volume of 16 bcm, this suggests that Azerbaijan hopes to increase its volume to 24 bcm, especially as it projects an estimated annual production of 50 bcm by 2017.[17] Gazprom will thus lose significant revenue, and Russia considerable political leverage, as Azerbaijan is charging a significantly lower price to Turkey than Russia charges and received a side payment to make up the difference between its price and what Gazprom charged. These agreements also resolve all issues of gas transit between SOCAR—Azerbaijan's company—and BOTAS—Turkey's state-run energy firm—which have essentially replaced Gazprom with Azerbaijan as gas suppliers.

Finally, and worse for Russia, these accords open the way for Moscow's greatest fear, namely the southern corridor for gas that the EU is pursuing and by which Turkmen and Azeri gas will (if not also Kazakh gas) bypass Russia, flow directly to Europe, and strike a decisive blow to Gazprom and Moscow's power over them and Europe. This deal also strikes at the plans for the Nabucco pipeline, since there will be no need for a Turkish sector and the builder of Nabucco need only connect gas from Turkey to Bulgaria to the distribution point of Baumgarten in Austria. In other words, whether or not Nabucco is actually built, Turkey will get Azeri gas, and what it cannot use will then go to Europe. Thus, Ankara is protecting itself against Nabucco's continued dithering and inability to organize itself, even while insuring a dedicated European gas supply route.^[18]

Since 2002, Nabucco has been the only pipeline project for transporting Caspian gas to EU territory. However, the EU's southern gas corridor now includes a number of other potential projects for delivering gas from the Caspian region to Europe, including ITGI (Turkey-Greece-Italy), White Stream (across the Black Sea from Batumi to Ukraine), and TAP (Trans-Adriatic gas pipeline). Nabucco relied exclusively on Azerbaijani gas for the pipeline's first stage. The hopes to add gas volumes from northern Iraq proved unrealistic in any usable time-frame.

The European Commission's efforts notwithstanding, Nabucco lost momentum and, ultimately, credibility in its existing form. The tipping point may be traced to November-December 2011, when several adverse developments converged. The European financial crisis deepened, indefinitely postponing any decisions by lending institutions to finance Nabucco. In addition, the project's management did not come forth with a long-expected correction to its cost estimates. The Shah Deniz gas producers' consortium in Azerbaijan could no longer postpone the investment decision in that project's second phase, which necessitated determining the transportation solution in early 2012. With that clock ticking, Nabucco was seen to be far from ready with the solution. Conversely, the Nabucco project's planning assumptions outran the slow development of a trans-Caspian solution for Turkmen gas.

Ultimately, British Petroleum and Azerbaijan's State Oil Company offered in October and December 2011, respectively, transportation solutions to replace Nabucco outright. Prime Minister Erdogan correctly stated in December that Turkey was ready for the construction of Nabucco, but the EU was not.^[19]

TURKEY AND SOUTH STREAM

There is also a dimension of Balkan rivalry here. The immediate destination for Russia's planned South Stream and other existing pipelines are mainly in the Balkans, and Moscow has consistently used its gas weapon to leverage its influence in the Balkans. In Turkey's case, Moscow played to Ankara's long-standing ambition to become an energy hub. Ankara also welcomed the opportunity to create a vibrant energy and economic relationship with Russia that accepts large-scale Russian investment in downstream and domestic distribution of energy networks inside Turkey.

Consequently, Moscow eagerly invested in such projects.^[20] However, Moscow typically employed the same tactics in Greece and Bulgaria, promising them both that they would become hubs for the distribution of Russian oil and/or gas if they allowed such investment in their domestic energy networks

and gave Moscow majority shares in projected oil and gas pipelines through their countries.[21] For example, a Greek analysis observed that relations between Moscow and Athens had improved dramatically after the New Democracy Party won the Greek elections in 2004.

Russian sources soon realized that Prime Minister Konstantinos Karamanlis intended to follow an individual policy bolstering mutual cooperation on issues like arms sales to Greece. Russia fostered a common understanding with Greece on issues in energy and defense, supported Greece on the Cyprus issue, incited it against the United States, and pushed it to overcome Bulgarian reservations about an oil pipeline, the Burgas-Alexandroupolis pipeline. At the same time, Karamanlis publicly embraced the idea that the Burgas-Alexandroupolis oil pipeline and South Stream gas pipeline would turn Greece into an energy hub.[22] Through these mechanisms Russia clearly loosened Greece's support for unified European policies directed toward Russia.[23]

Russia made the same pitch about becoming an energy hub to Bulgaria. In speaking about the three current Russian projects with Bulgaria, Energy Minister Sergei Shmatko said:

We do not doubt that the implementation of those three projects is exceptionally important for Bulgaria itself. The projects will allow Bulgaria to become a very important energy center in South Europe and a powerful energy transit junction in Europe. I think that Bulgaria's current leadership, which has in mind the country's long-range national interests, must excellently understand this.[24]

Of course, should Bulgaria opt to choose other non-Russian alternatives—and this seems quite unlikely given its near total current dependence on Russian energy—Russian Ambassador to Bulgaria Yuri Isakov reminded Sofia that “Russia has other ways of implementing its energy interests.”[25] Likewise, Moscow has told Greece that it has alternatives to it as well. Thus, Moscow has frequently raised the possibility of Romania joining South Stream, a possibility that used to but ultimately did not frighten Bulgaria from leaving the program. Russia has also incited Serbia to join it lest it be left out. Although it appears Romania has definitively rejected participation in South Stream, it is clear that Moscow's strategy is not just to divide and conquer in Southeastern Europe, but also actively to incite rivalries among Balkan states to make them each feel they will all be energy hubs or simply left out of the game. The reality, however, is that they are merely cutting up the same existing pie and that will probably be insufficient in the future to meet European demands.[26]

The political results of this divide and conquer strategy were quite evident in 2008 as Romanian journalist Cristian Campeanu observed: “Moscow would thus dominate Europe's energy and political agenda by means of ‘divide and rule’ tactics, as we could see on the occasion of the war in Georgia, when the countries that had lucrative agreements with Gazprom—France, Germany, Italy, and Hungary—claimed to see nuances in something that was simply a brutal Russian aggression.”[27] In that context, Turkey's deal with Azerbaijan not only told Moscow that Ankara had other alternatives to it but also showed Moscow that it could lose South Stream given Romania's unwillingness to join, Bulgaria's retreat from the program, and Turkey's new-found alternative options to bring Azeri and possibly trans-Caspian gas to Europe. Furthermore, this Turkish-Azeri deal is seen in the West as complementing Nabucco, ensuring that Azeri gas reaches Europe and cementing an overall reconciliation between Ankara and Baku. Not surprisingly Washington also welcomed the deal.[28]

Meanwhile BP is also proposing a new concept and system for transporting Azeri gas to Eastern Europe

called the South-East Europe Pipeline (SEEP) that would use existing pipelines while leaving open for the future the option of Turkmen gas reaching Europe. This too would, if implemented, undermine Russia's South Stream grand design.[29] Ultimately, the accords with Azerbaijan eliminate all legal and political barriers to transporting Azeri gas through Turkey to Europe through any of the potential pipeline alternatives. The consortium operating Azerbaijan's Shah Deniz-II field can now proceed knowing it has a secure market and pipeline.

In the meantime, Turkey has reduced its current account deficit by an estimated \$2 billion annually. The Southern Corridor championed by the United States and the EU can now open without impediments and the way is open for Turkmenistan to supply gas to Europe directly, as it wants to do, rather than through Russia. Moreover, the EU is planning just such a pipeline that would link Turkmenistan to Azerbaijan along the Caspian Sea's seabed.[30]

Moscow quickly grasped what was at stake and resumed discussions with Turkey. Essentially Moscow retreated somewhat on its refusal to cut the price of gas sold to Turkey in return for Turkey granting permits to Russia to begin work on South Stream in Turkey's Economic Exclusion Zone (EEZ) in the Black Sea, which is the only way the project can be realized. This gives Moscow the prospects for revitalizing South Stream, as it desperately wanted, and Turkey gets price relief, even though it has consistently failed to take all the gas available from Russia due to the over-subscription of its gas market. In exchange for the permits to begin work in Turkey's EEZ, Turkey will buy 3 bcm of Russian gas originally slated for take-or-pay (at the earlier higher prices of several years ago). In addition, both sides have agreed to contracts for long-term delivery of gas to Turkey from two sources until 2021 and 2025 at discounted prices.[31]

From Russia's standpoint, South Stream can go ahead. Moreover, it has now gained considerably more leverage against Ukraine, which is undoubtedly the big loser here. Russia has long been pressing Ukraine for a takeover of its gas pipeline and domestic distribution network. The construction of South Stream has been the stick it uses to frighten Ukraine into believing that if it refuses Moscow, Russia will build South Stream and simply bypass it, leaving it without any gas at all. Therefore, Ukraine has long regarded South Stream as a direct threat to its number one national asset, its gas network.

The deal with Turkey places enormous pressure upon the Ukrainian parliament to legislate a Russian takeover lest Ukraine be totally bypassed by South Stream.[32] In the past, Ukraine had shown interest in building an LNG terminal in Turkey to reduce Russian pressure. Ukrainian Foreign Minister Konstantin Hryshenko had visited Turkey on December 22, 2011, to establish a joint working group on energy cooperation in order to facilitate their common goal of diversification of energy sources. Yet it is not known if Ankara disclosed its negotiations with Moscow to Kiev. [33] Along with this agreement, Moscow has moved up the timetable to start construction of South Stream to 2012. While it is very unclear if the gas is there to supply South Stream or if its supporters can meet the continually escalating costs of the project, Moscow is clearly trying to preempt the entry into force of the EU's Third Energy Package in March 2013. Time will tell if this deal helps Moscow with that goal. South Stream could turn out to be an enormous bluff to force Ukraine to submit to Moscow. Those, however, are certainly the costs to Ukraine—and possibly Europe—of this Turkish deal in December 2011.[34]

The value of this deal to Russia should not be underestimated. Without South Stream, not only would it lose leverage on Ukraine, but also on trans-Caspian producers. This is especially relevant as the Azeri-Turkish deal opens up more possibilities for them. In that context, Moscow has done everything

possible to intimidate Turkmenistan and Azerbaijan from shipping gas directly to Europe and destroying its grand strategic design of monopolizing gas flows to Europe and thus controlling the CIS.[35] To the extent that it loses the power to intimidate and corrupt Europe by exercising near monopoly power on European gas imports, Moscow will lose its most powerful instrument for influencing European politics on a day-to-day basis. Therefore, Moscow is prepared to coerce these states to join its deal to keep them from signing up to the European and Turkish networks.

On October 19, 2011, Turkmenistan's Foreign Ministry blasted Russia's politicized objections to the former country's participation in a Trans-Caspian pipeline (TCP). It stated that such a pipeline was an objective and vital economic interest of Turkmenistan. It further rebuked Moscow for "distorting the essence and gist of Turkmenistan's energy policy" and announced that the talks with Europe would continue.[36]

Moscow's response soon followed. On November 15, 2011, Valery Yazev, vice-speaker of the Russian Duma and head of the Russian Gas Society, openly threatened Turkmenistan with the Russian incitement of an "Arab Spring" if it did not renounce its "neutrality" and independent sovereign foreign policy, including its desire to align with Nabucco. Yazev said:

Given the instructive experience with UN resolutions on Libya and the political consequences of their being "shielded from the air" by NATO forces, Turkmenistan will soon understand that only the principled positions of Russia and China in the UN Security Council and its involvement in regional international organizations—such as the SCO (Shanghai Cooperation Organization), CSTO (Collective Security Treaty Organization), and Eurasian Economic Union—can protect it from similar resolutions.[37]

In other words, Turkmenistan should surrender its neutrality and independent foreign policy and not ship gas to Europe, otherwise Moscow will incite a revolution there leading to chaos. Other Russian analysts and officials threatened that if Turkmenistan were to adhere to the EU's planned Southern Corridor for energy transshipments to Europe that bypass Russia, Moscow would have no choice but to do to Turkmenistan what it did to Georgia in 2008.[38] This campaign represents another example of Russia's turn toward coercive diplomacy. It not only resembles what is happening in Russian policies toward Ukraine and Belarus, it also complements what has been seen in regard to missile defenses and Syria and what is described below in the case of Cyprus.

At the same time, Turkey's moves against Gazprom and Moscow in October 2011 were apparently long-planned and therefore part of its larger strategy. The agenda for the meeting with Azerbaijan's President Ilham Aliyev was kept secret. Turkey had continued to stall on South Stream while Moscow had disregarded Turkish demands for price cuts or for the Samsun-Ceyhan oil pipeline, in this case due to Turkish oil tariffs.[39] Russian sources saw Russia's deals with European governments and firms over the projected South Stream pipeline and Turkey's desire to join the EU as driving this "anti-Russian" campaign. In reality, though, the EU has been very divided over South Stream.[40]

Nonetheless, it is clear that as Russian pressure on Ukraine to hand over its gas pipeline network to Moscow grows, Turkey's dependence on Russian gas becomes more of a liability and increases its one-sided dependence on Russia. At the same time, Moscow thought it could disregard Turkish economic interests, as suggested above. Indeed, Gazprom's reluctance or even refusal to reduce its prices unless compelled to do so is clearly triggering resistance throughout Europe, including Turkey. Aiding this

resistance is the fact that European customers now rely on the appearance of Qatari and Algerian LNG or shale gas. Therefore, Moscow must hope to restore the cuts in deliveries by making deals with private Turkish importers who are ready to negotiate terms or make a deal with Turkey that would then open the way for both private and state-to-state deals. This is indeed what it chose.[41] Yet it is unlikely those Turkish companies will accept the onerous take-or-pay clauses and high prices that feature so prominently in Gazprom's contracts.

Therefore, the question arises, did Turkey gain or lose from its December 2011 deal with Russia? Ironically, that deal followed hard on the completion of the final accord to build the Trans-Anatolian pipeline with Azerbaijan prompting analysts to speculate just what Turkey had gained (as it is clear what Moscow gained and Kiev lost here) from these two deals. Some observers feel that Moscow called Turkey's bluff and insisted that South Stream be approved if Turkey wanted to get cheaper gas from Moscow, and that Turkey thus had no choice but to agree.[42]

Vladimir Socor argues that Turkey derives no real benefit from the deal with Russia, as it failed to get Black Sea oil through the Samsun-Ceyhan pipeline, which was not mentioned in the deals with Moscow.[43] Attila Yesilada, an analyst at Global Source Partners, also criticized the deal with Moscow for surrendering the EU to Moscow while apparently giving up on Nabucco (He believes that the deal with Russia also entailed Turkey's surrender of its position in Nabucco in return for Russian concessions on the take-or-pay clause in Russo-Turkish contracts.). Yet he withheld final judgment, because it is not clear that South Stream is a real project or a means by which to take over Ukraine's gas network. Since no source of new gas for South Stream has yet been announced, it is by no means certain that it would supplant the existing Ukrainian pipeline. In the latter case, Nabucco is still alive, and the Trans-Anatolian pipeline is feasible. Still, he worries that Turkey may be driven to seek revenge on the EU at the expense of its own and EU interests.[44]

On the other hand, Alex Jackson argues that Turkey's deal with Russia could actually bolster Nabucco, as the Trans-Anatolian pipeline is going to be built regardless of whether commitments to buy its gas come first. If this pipeline could undercut the demand for South Stream's product in Europe, South Stream—given its high costs and many uncertainties—may never be built. Then Turkey would get transit rights for gas going to Europe while still holding a binding contract with Russia for discounted gas.[45]

Jackson argues that Turkey has played both pipelines off against each other and that this too prompted Putin to move up the construction of South Stream to 2012 in order to preempt the Trans-Anatolian pipeline.[46] Indeed, Turkey and Azerbaijan can argue that they have established a route for Nabucco through Turkey, even if they have not formally signed onto the project. It should, therefore, be easier for Nabucco to scale its pipeline to Turkey's existing pipeline networks, namely the Trans-Anatolian pipeline and the interconnector to Greece and Italy.[47]

CONCLUSION

The complex Russo-Turkish energy relationship has hitherto been based on friendship and solid commercial interests, whereby Russia sells Turkey huge amounts of gas and oil to the point where about two-thirds of Turkish energy (especially gas) is imported from Russia. Naturally, this situation offers

Russia significant benefits beyond the revenue it gains from a steady customer. It also raises for some the specter of excessive Turkish dependence on Russia and its gas. Russia's ambition to dominate the European—and particular Eastern European (including Turkey)—gas market is quite visible. Yet that ambition conflicts with Turkey's overwhelming elite consensus to be the gas hub for Eurasia, a consensus based on a belief that geography—if not other factors—foreordain Turkey to enjoy the status of this energy hub.

As a result, elements of rivalry have entered into Russo-Turkish energy relations. Turkey's desire to escape a one-sided dependence on Russian energy and to advance Azeri interests may have compromised the EU's Nabucco program, but the Azeri-Turkish deals of late 2011 have put in its place a much more solidly based overland pipeline alternative to Russia's South Stream proposal, about which there are still many unresolved questions. In other words, Turkey has agreed to be a major conduit and player in a pipeline that by its very nature contradicts and clashes with Russia's grand design.

Considering the importance of energy to both states' overall geopolitical ambitions and perspectives, this likely means that there will be a growing disjunction between their policies—even if they strive to maintain the previous status quo. This can already be seen in Cyprus, where Turkish efforts to block Cyprus' exploration of gas off its coast has led to the appearance of Russian warships in Cyprus and statements of support for it as well as Russian interest in exploring for gas there. Likewise, Moscow's well-known ambition to dominate the Caucasus exclusively also encompasses Azerbaijan and its energy economy.

These recent events are therefore most likely harbingers of a new trend that may emerge slowly but will nevertheless make its influence felt. Moreover, these tensions will reinforce those chronicled earlier over the fate of Syria's revolution and concerning missile defenses integrated with the United States and NATO in Turkey. While both sides are probably loath to admit that the good old days of a halcyon relationship are over and will undoubtedly make efforts to retain that relationship, competition between Ankara and Moscow in the Eastern Mediterranean, Caucasus, and over energy is as likely as not to be the order of the day in the near future.

**This work was supported by a National Research Foundation of Korea Grant funded by the Korean Government (NRF-2010-327-B00053).*

**Younkyoo Kim (Ph.D., Purdue University) is an associate professor at the Division of International Studies, Hanyang University, Seoul, Korea, where he has taught international relations since 2004. Previously, he taught at various colleges in the United States, including DePauw University, Butler University, and Saint Mary's College. He is the author and co-author of over 30 scholarly articles and monographs, and author or editor of four books, including Russia and the Six-Party Process in Korea (2010), The Geopolitics of Caspian Oil: Rivalries of the U.S., Russia, and Turkey in the South Caucasus (2008), and The Resource Curse in a Post-Communist Regime (2003). His research interests have been focused on issues of energy security and international relations in East Asia and Eurasia.*

**Stephen Blank (Ph.D., University of Chicago) is Professor of Russian National Security Studies at the Strategic Studies Institute of the U.S. Army War College in Pennsylvania. Dr. Blank has been Professor*

of National Security Affairs at the Strategic Studies Institute since 1989. In 1998-2001, he was Douglas MacArthur Professor of Research at the War College. He has published over 700 articles and monographs on Soviet/Russian, U.S., Asian, and European military and foreign policies, testified frequently before Congress on Russia, China, and Central Asia, consulted for the CIA, major think-tanks and foundations, and has chaired major international conferences in the United States and abroad. He has published or edited 15 books focusing on Russian foreign, energy, and military policies and on international security in Eurasia. His most recent book is *Russo-Chinese Energy Relations: Politics in Command*, London: Global Markets Briefing, 2006. He is also author of *Natural Allies? Regional Security in Asia and Prospects for Indo-American Strategic Cooperation* (Strategic Studies Institute, U.S. Army War College, 2005).

NOTES

[1] Richard Weitz, "Nuclear and Gas Pipeline Woes Trouble Russian-Turkish Energy Partnership," *TurkeyAnalyst*, Vol. 4 No. 6, March 21, 2011, <http://www.silkroadstudies.org/new/inside/turkey/2011/110321B.html>.

[2] Mert Bilgin, "Turkey's Energy Strategy: What Difference Does It Make to Become an Energy Transit Corridor, Hub or Center?" *UNISCI Discussion Papers*, No. 23 (2010), pp. 125-26.

[3] Vladimir Socor, "Turkey's Stalling on Nabucco Hurts Europe, Azerbaijan, and Itself, Part One," *Eurasia Daily Monitor*, March 5, 2009.

[4] "Azerbaijan's Position in Europe's Energy Diversification Plans," *Stratfor*, February 24, 2011.

[5] Katinka Barysch, "Pipeline Politics: Why Nabucco Is Stuck," January 29, 2010, <http://centreforeuropeanreform.blogspot.com/2010/01/pipeline-politics-why-nabucco-is-stuck.html>.

[6] Arbakhan Magagomedov and Ruslan Nikerov, "The South Stream vs. Nabucco: 'The Pipeline War' Gains Momentum," *Central Asia and the Caucasus*, Vol. 11, No. 3 (2011), pp. 7-18.

[7] Radovan Z. Markovic, "New Route of South Stream Not to Affect Gs Pipeline Through Serbia" [in Serbian], *Belgrade Press Online*, March 18, 2011, *FBIS SOV*, March 18, 2011.

[8] Yigal Schleifer, "Turkey: Nabucco Pipeline Back to Life (Again)?" *Eurasia Insight*, June 6, 2011, <http://www.eurasianet.org>.

[9] "Turkey's Refusal to Import Russian Gas Fits in European Diversification Policy," *Menafn.com*, October 5, 2011, http://www.menafn.com/qn_news_story.asp?storyid={e9e6bec7-3e3c-4727-86d0-2313c87ad1dd}

[10] Vladimir Socor, "Turkey Seeks Gas Price Cut," *Asia Times Online*, October 3, 2011, <http://www.atimes.com>.

[11] "Turkey Refuses to Extend Gas Contract with Russia," *ITAR-TASS*, October 2, 2011.

[12] Mikhail Sergeyev, "In the Economy: How to Battle Consumers and Change Jobs" [in Russian], *Nezavisimaya Gazeta Online*, October 3, 2011, *FBIS SOV*, October 3, 2011; "UPDATE 2-EU, Turkey Pile Pressure on Gazprom," Reuters, September 29, 2011.

[13] "Turkey Refuses to Extend Gas Contract with Russia," *ITAR-TASS*, October 2, 2011; "Turkey's Refusal to Import Russian Gas Fits in European Diversification Policy."

[14] Bertil Nygren, "Putin's Use of Natural Gas to Reintegrate the CIS Region," *Problems of Post-Communism*, Vol. 55, No. 4 (July-August 2008), pp. 4-17; Bertil Nygren, *The Rebuilding of Greater Russia: Putin's Foreign Policy Towards the CIS Countries* (London: Routledge, 2008); Lena Jonson, *Vladimir Putin and Central Asia: The Shaping of Russian Foreign Policy* (London and New York: I.B. Tauris & Co., 2004); Oleg Gorupay, "Instrument of Long-Term Policy" [in Russian], *Krasnaya Zvezda*, December 27, 2008, *FBIS SOV*, December 27, 2008.

[15] "Turkey Allows Russian Gas Import Deal to Expire in Move to Open Up Market," *Zawya.com*, October 17, 2011, http://www.zawya.com/marketing.cfm?zp&p=/story.cfm/sidv54n42-1TS04/Turkey_Allows_Russian_Gas_Imj.

[16] John Roberts, "Turkish-Azeri Gas Deal to Hook Up SE Europe," *Resource Investor*, November 17, 2011, <http://www.resourceinvestor.com/News/2011/11/Pages/Turkish>—; "Azerbaijan-Turkey Gas Deal's Impact on Supply to Europe," *Moldova.org*, November 4, 2011, <http://www.economie.moldova.org>; Vladimir Socor, "BP's South-East European Pipeline: More Questions Than Answers on Nabucco and Turkmen Gas," *Eurasia Daily Monitor*, November 3, 2011; *Interfax* [in English], October 28, 2011, *FBIS SOV*, October 28, 2011.

[17] Robert M. Cutler, "Anatolia Gas Pipeline Races Towards Reality," *Asia Times Online*, January 4, 2012, <http://www.atimes.com>; Saban Kardas, "Turkey Reiterates Commitment to Southern Corridor with Trans-Anatolian Pipeline," *Eurasia Daily Monitor*, January 3, 2012.

[18] *Interfax* [in English], January 11, 2012, *FBIS SOV*, January 11, 2012.

[19] *Interfax* [in English], December 23, 2011, *FBIS SOV*, December 23, 2011.

[20] Mehmet Ogutcu and Danila Bochkarev, "Turkey and Russia Develop a 'Win-Win' Energy Partnership That Will Also Address European Security of Supply Concerns," *European Voice*, September 22, 2009.

[21] *ITAR-TASS* [in English], September 10, 2009, *FBIS SOV*, September 10, 2009; "Putin Sees Turkey As Energy Hub," United Press International (UPI), September 15, 2009, <http://www.upi.com>.

[22] *ITAR-TASS* [in English], September 28, 2009, *FBIS SOV*, September 28, 2009.

[23] Ang. Athanasopoulos, "Profits from the Karamanlis-Putin, Flirt" [in Greek], *To Vima Tis Kiriakis*, December 9, 2007, *FBIS SOV*, December 9, 2007.

[24] Tsvetana Krusteva, "Interview with Russian Defense Minister Sergei Shmatko," *BTA Radiotelevizionen Monitor Online* [in Bulgarian], September 17, 2009, *FBIS SOV*, September 17, 2009.

[25] Lyubomir Mikhaylov, "Interview with Russian Ambassador to Bulgaria, Yuri Isakov," *Standardrt News Online* [in Bulgarian], September 18, 2009, *FBIS SOV* September 18, 2009.

[26] Ang. Athanasopoulos, "Delicate Balances in Greek-Russian Relations: Their Complexity and the Twists and Turns in the Energy Chessboard" [in Greek], *To Vima Tis Kiriakis*, September 27, 2009, *FBIS SOV*, September 27, 2009; Ovidiu Nahoi, "Are We Going with the Russians Too?" [in Romanian], *Bucharest Adevarul Online*, October 24, 2008, *FBIS SOV*, October 24, 2008; Cristian Campenau, "Who Plays Into Russia's Hand?" [in Romanian], *Romania Liberta Online*, October 28, 2008, *FBIS SOV*, October 28, 2008; Vladimir Socor, "Romania Firmly Aboard Nabucco Project, Hints at Leverage Vis-à-vis South Stream," *Eurasia Daily Monitor*, November 3, 2008; R.Z. Markovic, "Romanians Snatching South Stream Away from Us" [in Serbian], *Press*, July 23, 2008, *FBIS SOV*, July 23, 2008.

[27] *FBIS SOV*, October 28, 2008.

[29] Socor, "Romania Firmly Aboard Nabucco Project."

[30] Vladimir Socor, "Azerbaijan and Its Gas Consortium Partners Sign Agreements with Turkey," *Eurasia Daily Monitor*, November 1, 2011; Robert M. Cutler, "Azerbaijan, Turkey Sign Gas Delivery Deal," *Asia Times Online*, October 27, 2011, <http://www.atimes.com>; Bruce Pannier, "Azerbaijani-Turkish Gas Deal Opens Southern Corridor," Radio Free Europe Radio Liberty, October 27, 2011; Yigal Schleifer, "Turkey: Gas Transit Deal with Azerbaijan Shakes Up Regional Politics," *Eurasia Insight*, November 17, 2011, <http://www.eurasianet.org>; Paul Goble, "'No Obstacles Remain' to Flow of Azerbaijani Gas to Europe," *Azerbaijan Diplomatic Academy Biweekly*, Vol. 4, No. 21, November 15, 2011, <http://www.ada.edu.az>; *Interfax*, November 4, 2011, *FBIS SOV*, November 4, 2011; Yuri Roks, "Azerbaijan Will Ensure Energy Security of Europe: Aliyev and Erdogan Wrecking Russia's Plans for Gasification of Old World" [in Russian], *Nezavisimaya Gazeta Online*, October 27, 2011, *FBIS SOV*, October 27, 2011.

[31] *Hurriyet Daily News Online* [in English], December 30, 2011; *FBIS SOV*, December 30, 2011; *Prime Minister of Russian Federation Website*, December 28, 2011, <http://www.premier.gov.ru>; Jacob Gronholt-Pedersen, "Turkey Approves Russian Gas Plan," *Wall Street Journal*, December 29, 2011, <http://www.wsj.com>.

[32] Vladimir Socor, "Turkey Gains Little, Ukraine Has Much to Lose in Ankara Backing Russian South Stream," *Eurasia Daily Monitor*, January 9, 2012.

[33] *Ibid*; *Interfax* [in English], November 24, 2011, *FBIS SOV*, November 24, 2011.

[34] Vladimir Socor, "Putin and Gazprom Juggle South Stream Project Options After Turkish Approval," *Eurasia Daily Monitor*, January 9, 2012.

[35] Nygren, "Putin's Use of Natural Gas to Reintegrate the CIS Region," pp. 4-17; Bertil Nygren, *The Rebuilding of Greater Russia: Putin's Foreign Policy Towards the CIS Countries* (London: Routledge, 2008), *passim*.

[36] *Interfax* [in English], October 19, 2011, *FBIS SOV*, November 19, 2011.

[37] "Senior MP Advises Turkmenistan to Stick with Russia to Avoid Libya's Fate," *Interfax*, November 15, 2011, also available from *BBC Monitoring*.

[38] Vladimir Socor, "Moscow Issues Trans-Caspian Project Warning," *Asia Times Online*, December 2, 2011, <http://www.atimes.com>.

[39] Adrian Vatansever, "The Risks of a Russian-Turkish Energy Bargain," Carnegie Endowment for International Peace, March 31, 2011, <http://www.ceip.org>.

[40] Ludmilla Alexandrova, "Attacks on Gazprom Will Not Impede South Stream Project," *ITAR-TASS*, March 10, 2011; Roman Kazmin, "EU Heavily Divided on South Stream," *European Energy Review* (July-August 2009), pp. 24-27.

[41] Abdullah Bozkurt, "Turkish Approval of South Stream Gives Huge Boost to Russia," *Today's Zaman Online*, December 28, 2011, *FBIS SOV*, December 28, 2011.

[43] Yigal Schleifer, "Turkey: In Pipeline Deal with Russia Did Ankara Get a Bargain It Can't Afford?" *Eurasia Insight*, January 11, 2012, <http://www.eurasianet.org>.

[47] Kardas, "Turkey Reiterates Commitment to Southern Corridor with Trans-Anatolian Pipeline"; Cutler, "Anatolia Gas Pipeline Races Towards Reality"; Vladimir Socor, "Direct Road to Europe: Azerbaijan's Trans-Anatolia Gas Pipeline," *Eurasia Daily Monitor*, January 4, 2012.