IAI WORKING PAPERS 14 | 12 - NOVEMBER 2014 ISSN 2280-4341 | ISBN 978-88-98650-17-0

Istituto Affari Internazionali

EU-Turkey Energy Cooperation: Challenges and Opportunities

by Sohbet Karbuz

ABSTRACT

The aim of this paper is to analyze EU-Turkey relations from an energy perspective. Energy is of mutual strategic interest to Turkey and the EU, insofar as both face serious and multiple energy challenges. Both Turkey and the EU seek to bridge supply and demand, and to establish a more competitive, diverse, secure and sustainable energy system. Common challenges and complementary objectives offer an unparalleled opportunity for the EU and Turkey to intensify cooperation and deepen integration in this field. To that end, this paper discusses the growing relevance of energy in the EU-Turkey relationship, focusing on Turkey's increasing importance in enhancing EU energy security. It then examines how future energy challenges could be turned into opportunities. Turkey and the EU have a lot to gain from close cooperation and deeper integration in the field of energy. However, the full potential of such cooperation and integration can best met by opening the energy chapter in Turkey's accession negotiations.

Turkey | European Union | Energy | EU enlargement

keywords

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1. A brief history of EU-Turkey relations and membership negotiations

Turkey's involvement with European integration dates back to Turkey's application for an association agreement with the (then) European Economic Community (EEC) on 31 July 1959. An agreement establishing an Association between the EEC and Turkey ("Ankara Agreement") was signed on 12 September 1963.[1] Turkey applied for full membership on 14 April 1987. On 20 December 1989 the European Commission delivered a negative opinion on the opening of accession negotiations, citing both economic and political reasons.[2] Turkey entered the Customs Union on 31 December 1995. Two years later, Turkey was declared eligible to join the European Union (EU). The European Council granted Turkey the status of candidate country at the Helsinki summit in December 1999. The accession negotiation process started in October 2005.[3]

The accession process involves a set of intergovernmental negotiations on 35 policy areas, known as "chapters", of the *acquis communautaire*, the total body

[1] It entered into force on 1 December 1964.

[2] Commission of the European Communities, *Commission opinion on Turkey's request for accession to the Community* (SEC(89)2290 final/2), 20 December 1989, http://aei.pitt.edu/4475.

[3] For an overview see, Tamás Szigetvári, "EU-Turkey Relations: Changing Approaches", in *Romanian Journal of European Affairs*, Vol. 14, No. 1 (March 2014), p. 34-48, http://ssrn.com/abstract=2406851. Also see the European Commission website, *Enlargement: Countries: Turkey*, updated 6 November 2013, http://ec.europa.eu/enlargement/countries/detailed-country-information/turkey; Turkish Ministry for EU Affairs, *Turkey-EU Relations*, updated 29 May 2007, http://www.abgs.gov.tr/index.php?p=4&l=2; and Turkish Ministry of Foreign Affairs, *Turkey-EU Relations*, http://www.mfa.gov.tr/relations-between-turkey-and-the-european-union.en.mfa. The Turkish Ministry underlines that Turkey's goal "to become an EU member is a strategic choice."

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· Paper produced within the framework of the IAI-Edison project "The Changing Regional Role of Turkey and Cooperation with the EU in the Neighbourhood", October 2014.

of EU law.[4] So far, accession negotiations have been opened on 14 chapters,[5] one of which (science and research) was provisionally closed. Most chapters are still blocked: 8 by the EU Council in 2006, 4 by France in 2007 and 6 by the Republic of Cyprus (called Greek Cypriot Administration in Turkey) in 2009.

In refusing Turkey's candidacy the Commission argued that "any decision to open negotiations with a particular country must be based on a strong conviction that a positive conclusion is possible, indeed probable, within a reasonable period."[6] Despite this statement, the prospect of Turkish membership has been pushed further and further into the future, so that today several EU members talk about the open-ended nature of the accession process. In addition, some on the EU side have started to question what kind of membership Turkey should have: a fully-fledged membership versus something less than that, like a privileged partnership or associate membership.

Despite the fact that Turkey's EU adventure "has been going on for more than half a century, the belief that there are double standards for Turkey, the visa obstacles faced by Turkish citizens and on-going political problems such as the Cyprus issue", Turkey's EU accession is "a strategic goal which is pursued with determination" as it is considered a modernization and democratization project, according to *Turkey's New European Union Strategy* released in September 2014.[7] Turkey's New European Union Strategy aims at eliminating the obstacles on Turkey's path to EU membership by accelerating the dynamics of Turkey-EU relations. The Strategy is based on three pillars: political reform, continuing socio-economic transformation, and a communication strategy which solidifies the perception of the EU in Turkey and vice versa.

It would be unfair to put all the blame for the snail pace of EU-Turkey accession on negotiations on the EU. Turkey also shares part of the responsibility. For instance, domestic polarization and mounting concerns over the deterioration and state of democracy in Turkey over the past few years, particularly following the events in 2013,[8] have hurt both the accession process and Turkey's relations with the EU.[9]

[4] Two chapters (34 and 35) do not require negotiation.

[5] Negotiations are opened on chapter 22 (Regional Policy and Coordination of Structural Instruments) in November 2013, after France lifted its veto on the chapter in February 2013.

[6] Commission of the European Communities, *Commission opinion on Turkey's request for accession to the Community*, cit., par. 6.

[7] See, Turkish Ministry for EU Affairs, *Turkey's New European Union Strategy*, 18 September 2014, p. 4 and 6, http://www.abgs.gov.tr/files/foto/icing.pdf.

[8] These included the escalation of domestic turbulence in May-June 2013 Taksim Gezi Park protests in Istanbul and other cities, and the December 2013 police investigations into alleged corruption and bribery targeting senior government officials.

[9] In the same month Turkey and the EU signed a readmission agreement and launched a roadmap for lifting of EU Schengen visas on Turkish citizens in 3 years, which would finally allow the effective functioning of the Customs Union agreement, even if the extension of customs union to services and agricultural products are left aside.

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The Cyprus problem[10] remains a formidable stumbling block in Turkey's accession to the EU, even though several other reasons (e.g., Turkey is too big and too Muslim etc.) are often publicly pronounced. Turkey ignores the fact that any agreement with the EU requires unanimity on the side of all existing Member States.[11] In other words, it is impossible for a candidate to become a full member unless it recognizes all members of the union. Seen from this perspective, it will be next to impossible or take something close to a miracle for Turkey to become a full member of the EU.

Nevertheless, somehow both sides have managed to keep the accession process alive. Neither the EU nor Turkey is willing to make the first move to abandon the process. It is not clear how long this game will last. It seems that much will depend on the evolution of attitudes of the EU member states on Turkish membership as well as on developments in Turkish domestic politics. On Turkey's side, mistrust and disaffection towards the EU has grown and much has changed in Turkey since its application for membership decades ago. A 1977 European Parliament document was describing Turkey as largely a peasant country with more than half of the people still living in villages, and well over half of the labour force engaged in agriculture.[12] Since then Turkey has strengthened its position in economic terms and its profile has grown. Today Turkey is an upper-middle-income country with a population of 75 million and a GDP of US$786 billion, making it the 18th-largest economy in the world. Turkey is also a member the G20 (Turkey will chair the G20 during 2015) and an increasingly important donor to bilateral Official Development Assistance.[13]

In contrast, the attractiveness of the EU has faded, as demonstrated by the Iceland's decision in June 2013 to put its accession negotiations on hold. The UK may vote for a referendum on leaving the EU. Moreover, crisis-stricken EU is facing an existential crisis with EU citizens' growing distrust of the EU.

Turkey's on and off accession process has been not only a source of frustration on both sides but also a comedy of errors. In time, as Turkey-sceptics in the EU became more vocal, so did Euro-sceptics in Turkey. The recent escalation of tensions between Turkey, Greece and Republic of Cyprus over maritime borders

[10] The Cyprus question has remained one of the most complicated international disputes since 1963 (since 1974 according to the Greek Cypriots). In July 1974, a Greek-based coup d'état had deposed the Cypriot President Makarios triggering a Turkish invasion in northern Cyprus for the protection of the Turkish minority.

[11] Frank Emmert and Siniša Petrović, "The Past, Present, and Future of EU Enlargement", in *Fordam International Law Journal*, Vol. 37, No. 5 (2014), p. 1349-1419, http://fordhamilj.org/?p=650.

[12] European Parliament, "EC Accession of Four Mediterranean Countries and Regional Policy", in *Research and Documentation Papers, Regional Policy and Transport Series*, No. 7 (October 1977), http://aei.pitt.edu/42182.

[13] In recent years Turkey has developed into being a significant foreign aid provider. A large part of it is provided bilaterally. Turkey's bilateral development assistance encompasses project and program support, technical cooperation, scholarships, support for refugees, and emergency relief. In 2013, Turkey's net official development assistance amounted to 3.3 billion dollars, according to the OECD statistics.

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and offshore oil and gas exploration continues to add additional frictions to already complex relations.[14]

In sum, long is the way that leads up to the accession of Turkey to the EU as a full member. 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.[15] What required is to have desire and willingness for a well-balanced cooperation, open and frank dialogue, true partnership between the EU and Turkey based on the principles of transparency, common responsibility, mutual confidence, respect and benefit, with sustained commitments and action plans with clear targets.

The field of energy seems to be a potential catalyst to improve relations between Turkey and the EU, and to re-energize the accession process. If given a chance, energy can become a common denominator for better relations and a game changer of common interests and benefits.

2. The growing role of energy in EU-Turkey relations

Energy is one of the key topics that are of mutual strategic interest to both Turkey and the EU, simply because they share common energy challenges, objectives and policies.

Available forecasts indicate that the energy futures of the EU and Turkey will become deeply intertwined.[16] The energy futures of the EU and Turkey will remain fossil fuel based. While fossil fuels will continue to account for over 80% of Turkey's energy mix, their share in the EU's energy mix will stay above 70%. The EU and Turkey will be in the future increasingly dependent on imported energy resources to meet their demand. Reliance on net fossil fuel imports will increase to 78% in

[14] For a comprehensive overview, see, Hubert Faustmann, Ayla Gürel and Gregory M. Reichberg (eds.), "Cyprus Offshore Hydrocarbons: Regional Politics and Wealth Distribution", in *PRIO Cyprus Centre Reports*, No. 1/2012, http://www.prio.org/Publications/Publication/?x=7237; Ayla Gürel, Fiona Mullen and Harry Tzimitras, "The Cyprus Hydrocarbons Issue: Context, Positions and Future Scenarios", in *PRIO Cyprus Centre Reports*, No. 1/2013, http://www.prio.org/Publications/Publication/?x=7365; International Crisis Group, "Divided Cyprus: Coming to Terms with an Imperfect Reality", in *ICG Europe Reports*, No. 229 (14 March 2014), http://www.crisisgroup.org/en/regions/europe/turkey-cyprus/cyprus/229-divided-cyprus-coming-to-terms-on-an-imperfect-reality.aspx.

[15] Katinka Barysch, "Turkey's Role in European Energy Security", in *CER Essays*, December 2007, http://www.cer.org.uk/publications/archive/essay/2007/turkeys-role-european-energy-security.

[16] Figures in this paragraph are obtain from: (a) European Commission, *In-depth Study of European Energy Security* (SWD(2014)330 final/3), 2 July 2014, http://ec.europa.eu/energy/doc/20140528_energy_security_study.pdf; (b) Eurostat Energy Balances, http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/other_documents; (c) P. Capros et al., *EU Energy, Transport and GHG Emissions, Trends to 2050. Reference Scenario 2013*, Luxembourg, Publication Office of the European Union, 2014, http://dx.doi.org/10.2833/17897; (d) OME, *Mediterranean Energy Perspectives - Turkey*, Paris, OME, 2014.

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2030 in the EU while in Turkey it will be 82%. Russia will most likely remain the largest oil and gas supplier of both the EU and Turkey. For net fossil fuel imports the EU will spend 1.3 billion euros per day in 2030 (compared with 1.1 billion euros in 2013). Turkey's weekly net energy import bill will increase to 2.6 billion euros from 1.3 billion euros in 2013.

By looking at these common challenges and considering their energy objectives and policies which overlap in many aspects and are complementary, one could even argue that Turkey and the EU are bound to be irreplaceable partners on regional, if not global, energy issues. This is why both value highly enhancing energy security in order to reduce energy import dependency, become less vulnerable to energy shocks, and consider diversification of sources as the key instrument to ensure such security.

Ensuring sufficient energy supply at affordable prices to its growing economy remains the Turkish government's main policy concern on energy. Rapid growth in demand in all segments of energy sector over the last decade has also made energy security a political concern. Energy security has also become a political priority for the EU.[17] On 28 May 2014 the EC prepared an Energy Security Strategy and a plan to reduce energy import dependency in order to cope with new energy security challenges, and presented it to the European Council in June 2014. Energy security, more precisely, ensuring security of supply is at the top of the EC's new strategy agenda. Diversification in terms of supply sources and routes as well as energy technologies is an important policy tool in order to achieve and improve energy security for both Turkey and the EU.

At a meeting in Brussels, EU Energy Commissioner Günther Oettinger criticized last year the slow and long drawn-out process of Turkish accession to the EU. He said "one day in the next decade a German chancellor and his or her counterpart in Paris will have to crawl to Ankara on their knees to beg the Turks, 'Friends, come to us.'"[18] He expressed his personal view based on a widely shared assessment of Turkey's role and potential.[19]

Turkey may help the EU to improve its security of supply and the EU may help Turkey to better establish the functioning of its domestic energy market. In 2030, Turkey will be the third biggest energy consuming and second largest net energy importing country in Europe. Turkey will also have the third largest electricity generating capacity in Europe.

[17] The natural gas-related concerns resulting from the tensions between Russia and Ukraine in the past 5 years have played an important role in that.

[18] "EU-Kommissar Oettinger kritisiert EU-Kurs zur Türkei", in *Bild*, 20 February 2013, http://www.bild.de/politik/ausland/guenther-oettinger/eu-kommissar-kritisiert-eu-kurs-zur-tuerkei-29190992.bild.html.

[19] European Parliament, *Joint answer given by Mr Oettinger on behalf of the Commission, Written questions :E-002319/13, E-001845/13*, 6 May 2013, http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2013-001845&language=EN.

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Table 1 | Rank of Turkey in EU energy scene

	Rank in 2012	Rank in 2030
Primary Energy Production	10	5
Primary Energy Consumption	6	3
Coal	4	2
Oil	7	2
Natural Gas	4	2
Renewables	6	5
Gross Electricity Generation	6	3
Net Energy Imports	5	2
Coal	3	2
Oil	6	3
Natural Gas	3	1

Source: EC and OME.

In this sense, Turkey's further development as an international energy centre - linking demand and supply centres of East and West as well as North and South - will benefit both Turkey and the EU. It is also an imperative for both parties to engage in an effort to align their energy markets and policies in the areas of mutual interests and to help address various geostrategic challenges. Since both have a common interest in closer integration of their energy markets and energy policies, there is great scope for cooperation on energy issues. However, further efforts are needed to ensure better synergies for such cooperation.

The slow pace of the accession process led the EU to launch the so-called "Positive Agenda" in May 2012 to complement and enhance the negotiations by fostering co-operation in a number of areas of joint interest (including energy)[20] with practical steps and to advance economic integration. In their June 2012 joint statement[21] on enhanced energy relations in the framework of the positive agenda for Turkey, EU Commissioners Oettinger and Füle and Turkish Ministers Bağış and Yildiz listed five topics of mutual interest[22] to deepen EU-Turkey energy relations. It is hoped

[20] The others are political reforms, alignment with the *acquis*, dialogue on foreign policy, visas, mobility and migration, trade, counter-terrorism and participation in EU programs.

[21] European Commission, *Enhanced EU-Turkey Energy Cooperation*, Stuttgart, 14 June 2012, http://europa.eu/rapid/press-release_MEMO-12-434_en.htm. See also, *Turkey-EU Positive agenda, Enhanced EU-Turkey Energy Cooperation*, Outcome of the above mentioned meeting, http://ec.europa.eu/energy/international/bilateral_cooperation/doc/turkey/20120622_outline_of_enhanced_cooperation.pdf.

[22] (1) Long term perspectives on energy scenarios and energy mix; (2) Market integration and development of infrastructures of common interest; (3) Global and regional energy cooperation; (4) Promotion of renewable energy, energy efficiency and clean energy technologies; (5) Nuclear

that these issues will facilitate the eventual EU-Turkey energy markets integration which will create important business opportunities and improve security of energy supply in Europe and Turkey.

The EC acknowledged in its 2013 Enlargement Strategy that "given Turkey's further development potential as an energy hub and the common energy challenges it shares with the EU, it is important that the enhanced dialogue develops on all issues of joint interest."[23] In its 2013 Progress Report conclusions on Chapter 15 (Energy) the EC emphasized that "Overall, Turkey is at a rather advanced level of alignment in the field of energy."[24] In its latest progress report on Turkey, dated 8 October 2014, the EC dropped the word "rather" from its conclusion of last year. The new conclusion reads: "Overall, Turkey is at an advanced level of alignment in the field of energy."[25]

The aspiration of Turkey to become a member of the EU has been one of the factors for the still ongoing energy sector restructuring in the country. Since 2001 Turkey has been taking important steps by enacting numerous Laws in order to establish a liberal and competitive market structure with an investor-friendly environment. In fact, an important factor contributing to the attractiveness of the Turkish energy market is that Turkey has, to a large extent, harmonized its legal framework on electricity and gas markets, renewable energy and energy efficiency with the EU. Nevertheless, there is still room for improvement[26] and further alignment in some areas is still needed due to some important recent developments in EU energy policy and *acquis*.

The electricity market in Turkey is quite advanced and the electricity market law is largely compliant with the EU's third energy package. The share of private sector in electricity generation is currently about 80%. Organized wholesale operations in the market will soon be carried out by recently created Energy Markets Operation Joint Stock Company (EPIAS, or Turkish Energy Exchange). The ownership unbundling of the Turkish electricity transmission company (TEIAS) is already in place. Electricity distribution is privatized. The Turkish experience in liberalizing the electricity distribution sector can be considered as a real revolution, because it is something that has not yet been achieved even in most European countries.

safety and radiation protection.

[23] European Commission, *Enlargement Strategy and Main Challenges 2013-2014* (COM(2013)700), 6 October 2013, p. 44, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52013DC0700.

[24] European Commission, *Turkey 2013 Progress Report* (SWD(2013)417), 16 October 2013, par. 4.15, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52013SC0417.

[25] European Commission, *Turkey 2014 Progress Report* (SWD(2014)307), 8 October 2014, par. 4.15, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52014SC0307.

[26] Even though there has been considerable progress on the harmonization of current legislation with the EU, the pace of implementation of the legal framework needs to be increased and deficiencies in the legal and regulatory framework that impede further progress should be removed, according to the EC.

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Moreover, the transmission system design characteristics and operation principles in Turkey are in accordance with the Transmission System Grid Code Regulation and Electric Transmission System Supply Reliability and Quality Regulation. Both of the regulations and system operation principles are in line with ENTSO-E (European Network of Transmission System Operators for Electricity) best practices. The Turkish system has been synchronously connected to the ENTSO-E system since September 2013. The parallel trial interconnection of the Turkish power grid with the ENTSO-E's Continental European Synchronous Area is in the final stage. It is expected to be fully functional by the end of 2014. Today, Turkey has two tie-lines to Bulgaria and one to Greece. The Turkish electricity system can benefit from the synchronous interconnections with the European platform of ENTSO-E, which will be further developed in the future to increase the cross-border capacity with Europe, and thus improve trading opportunities.

Figure 1 | Turkish electricity transmission system is interconnected with neighbours

Source: OME.

Although the rules and regulations on natural gas are in compliance with the EU directives,[27] there are some delays in reducing BOTAŞ's market share and dominant position due to implementation of the existing legislations. Turkey has been more successful in its deregulation efforts on the distribution side. BOTAŞ was given the

[27] The purposes of the 2001 Turkish Natural Gas Market Law was (a) to harmonize Turkey's legislation with the EU *acquis*, (b) to abolish the natural monopoly of BOTAŞ by unbundling the corporation's transmission, storage, and sales & import activities and hence, help establish a competitive gas market in the country. This Law was amended in 2008 to liberalize spot and long-term imports of LNG.

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option of reducing its share through contract transfer to private enterprises, but so far the implementation of the contract release program has been slow when compared with the targets given in the Natural Gas Market Law. In compliance with this Law, studies are being carried out by Turkish officials to transfer further amounts of gas contracts to private companies.

BOTAŞ is yet to complete the legal unbundling of its activities. When this will happen is not yet known but it is planned to divide BOTAŞ into three entities: one will be for transmission system operatorship, the second for LNG and storage, and the third for foreign trade and wholesale activities. The Turkish gas market needed a new legal and regulatory framework, which would better define the changing role of BOTAŞ and present a better pricing mechanism in a gas balancing system by including provisions for third party access and capacity allocation, and removing cross subsidies. This is why there is a new gas market law underway.

It is true that further efforts are needed on cost based pricing mechanism and in the areas of energy efficiency and nuclear energy to align them with relevant EU Directives. Although the Energy Efficiency Law and related legislation are not harmonized with the 2012 Energy Efficiency Directive yet, works continue on the effective implementation of the Energy Efficiency Strategy Paper and on improving the Energy Efficiency Law. Turkey has already integrated many efficiency and pollution-reducing measures into production and consumption activities, largely driven by existing policy signals from national legislation, EU Accession requirements or by market demand for cleaner and greener products.

3. Turkey's increasing importance in enhancing EU's energy security

Energy corridor or energy hub concepts have been put forward in political discussions as slogans for Turkey's strategic role and on the prospects for EU-Turkey relations.[28] In a nutshell, Turkey's ambition to become an energy bridge of international significance had been partly fulfilled thanks to the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline, which also helped ease the increasing oil traffic through the Turkish Straits. Furthermore, the port of Ceyhan has already become one of the most important outlets for Iraqi oil shipments. Alongside the BTC runs the South Caucasus pipeline, carrying Azeri gas to Erzurum in Turkey. With the inauguration of the Greece-Turkey natural gas pipeline in 2007, Azeri gas started to be transported further to Greece, thereby breaking Russia's monopoly on transporting Caspian gas to Europe.

[28] Most frequently used slogan points out that Turkey is geographically close to some three-quarters of the world's oil and gas reserves and thus constitutes a natural energy bridge linking major oil and gas producing areas in Russia, the Caspian region and the Middle East to European markets.

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The EU is dependent on three principal external suppliers of natural gas: Russia, Norway and Algeria. Many EU members, particularly those in central and eastern Europe, are concerned about their dependency on Russia. Since Norwegian and Algerian gas exports to Europe will mostly likely start declining from the mid-2020s onwards, the EU needs to find new supply sources and intensify its diversification efforts.

Turkey has been considered a key transit corridor for transporting gas from the Middle East and the Caspian region into the EU markets. Promoting EU gas supply security through the Southern Gas Corridor concept has been one of the top energy priorities of the EU. This concept aims at connecting the EU markets via new routes to large scale reserves in Caspian and the Middle East. The EU and Turkey's energy supply diversification strategy merge through the construction of a Southern Gas Corridor which will become a reality most probably towards the end of this decade.

Although Turkey is likely to be the main beneficiary of Southern Gas Corridor, such a corridor will help diversify both Turkey and EU's supplier portfolio, reduce the share of Russian gas supplies, and introduce price competition.[29] The significance of this corridor goes beyond energy, as it can also constitute an important additional bridge between Turkey, Europe, Middle East and Caspian that promises to bring mutual economic, trade and political benefits. The final investment decision for the second stage of the Shah Deniz gas field development in December 2013 has given the green-light for the plans to expand the South Caucasus pipeline and to link it with TANAP and TAP. This will open the door for delivering Caspian natural gas to markets in Europe, and hence will help boost the energy security of Europe in general, and of south-eastern Europe in particular.[30]

On 14 October 2013, the EC adopted a list of 248 key energy infrastructure projects carrying the label projects of common interest. Several gas pipeline projects to bring Caspian gas to the EU via Turkey are identified as the projects of common interest. These include TANAP, the Expansion of the South- Caucasus Pipeline, the Trans-Caspian Gas Pipeline, TAP, and Interconnector Turkey-Greece-Italy.

In addition, the other planned gas pipelines from Iraq, Iran and perhaps eastern Mediterranean may strengthen Turkey's role as a major corridor in the Eurasian energy landscape. Once realized, these potential new suppliers and routes to Europe may strengthen the EU's hand in negotiations with Gazprom, and allow Turkey to realize its ambition to establish itself as an interregional energy hub.

[29] Both EU and Turkish gas markets are dominated by long-term contracts with prices indexed to oil. Gas-to-gas competition (or spot prices) is not well developed partly because destination clauses have restricted competition.

[30] The currently envisaged TANAP design capacity could potentially transport up to 25 billion cubic meters per year (bcm/yr) for the European market. TANAP is planned to reach the maximum design capacity of 31 bcm/yr by 2026. It is scheduled to start carrying initially 16 bcm/yr of gas from Azerbaijan's Shah Deniz II field. Turkey will receive 6 bcm/yr of this gas beginning in 2018. The remaining 10 bcm/yr will be transmitted to European markets through TAP beginning in 2019.

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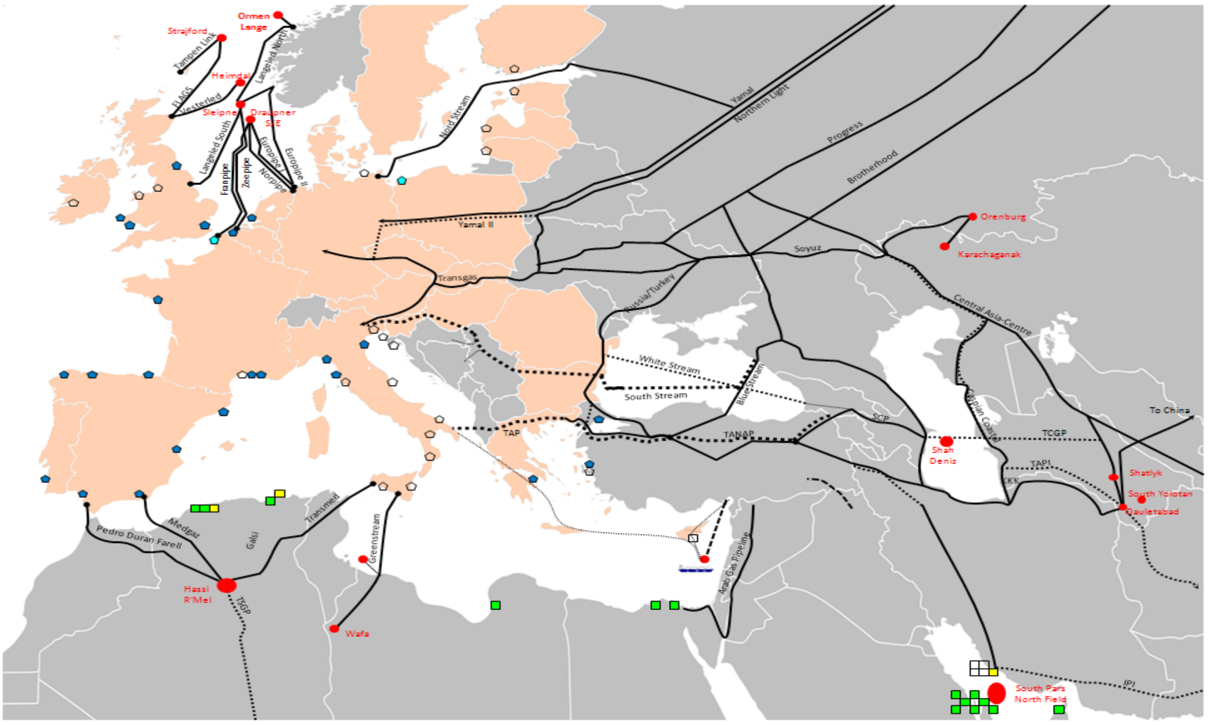
Figure 2 | The place of Turkey in European gas supply security



Source: OME.

Turkey aims at becoming not only a transit state, but also an energy hub. Turkey's strategic location between resource-rich suppliers in its neighbourhood and the energy hungry EU market could enable Turkey to act as a transit country for the oil and gas from the Caspian region and the Middle East to Europe - allowing it to become a major energy hub in the long run. This would increase Turkey's geopolitical standing, create lucrative business through transit fees, re-exports and financial transactions. However, while the EU may underestimate Turkey's strategic importance, Turkey should not overestimate it.

Turkey is not yet ready to become a real gas hub where suppliers and consumers trade in an open, transparent, stable, fully liberalized and well-regulated competitive market. Besides these commercial features, such a hub must have in place the necessary physical infrastructure (an extensive transport infrastructure and sufficient storage capacity) and allow for the uptake of large volumes of gas.

Although the reality could put Turkey's energy corridor and hub wishes into question in the short to mid-term, the long run will depend on numerous factors. The changing geopolitical situation might work to Turkey's advantage as more non-Russian oil and gas may be transported across Turkey to international markets. The world oil market is desperately searching for a new light crude oil benchmark.

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It has been argued that establishing the southern corridor could significantly increase the EU's gas supply security, and accelerate Turkey's economic and political integration with the EU.[31] In this sense, it was also thought that opening the energy chapter would accelerate Turkey's adoption of EU energy law and thus help in developing the southern corridor. And yet, due to political reasons negotiations on the energy chapter in Turkey's accession process have not been started.

4. Energy Community Treaty and energy chapter

When the EU wanted Turkey to be a member of the Energy Charter Treaty, Ankara had questioned why it should accept the applicability of EU laws on Turkish territory. The EU is now trying to persuade Turkey to align itself with the energy *acquis* through joining the European Energy Community.[32] Being a member to the Community would entail Turkey's adoption of the EU energy *acquis*. By joining the Energy Community, the Contracting Parties commit themselves to implement the relevant EU rules on energy, environment and competition.[33] This is why Ankara does not like the idea of unilaterally aligning the EU energy *acquis* and hence prefers to adopt them as part of its accession negotiations.

Perhaps Turkey could have benefited from Energy Community membership a decade ago, because adopting the EU *acquis* would have helped with creating an attractive investment climate for foreign investors much earlier. Today, it is rather late. Turkey has already become an attractive place for energy investors and undertaken major steps to align its energy market rules with EU standards. Turkey believes that the opening of the energy chapter will surely pave the way for negotiations with the EU on Turkey's membership to the Energy Community.[34] In a way, opening the energy chapter could be used as leverage for a political commitment to Energy Community.

Although candidate countries may have smoother progress in their accession discussions on the Energy Chapter in return for implementing the *acquis* under the Energy Community Treaty,[35] not opening of the energy chapter naturally

[31] Kristin Linke and Marcel Viëtor (eds.), "Beyond Turkey. The EU's Energy Policy and the Southern Corridor", in *FES International Policy Analysis*, November 2010, http://library.fes.de/pdf-files/id/07553.pdf.

[32] The Energy Community Treaty, in force since June 2006, is an initiative of the EU to extend its internal energy market towards third countries in its Eastern and South Eastern neighbourhood. As indicated in its website "the leitmotiv behind the Energy Community Treaty is rather the import of the EU energy policy into non- EU countries." Turkey is an observer of the Energy Community.

[33] European Commission, *Report under Article 7 of Decision 2006/500/EC (Energy Community Treaty)* (COM(2011)105), 10 March 2011, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52011DC0105.

[34] Turkish Ministry of Foreign Affairs, *Turkey's Energy Strategy*, http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa.

[35] European Commission, *Report under Article 7 of Decision 2006/500/EC (Energy Community Treaty)*, cit.

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encourages a less cooperative stand on this issue from Ankara. It is suggested by some that by acceding to the Energy Community and thus adopting the energy *acquis* will ultimately benefit Turkey without undermining Turkey's negotiating positions with Brussels on eventual EU membership.[36] However, this kind of thinking rather ignores the fact that the harmonization of Turkey's energy rules with the EU's energy *acquis* and Turkey's entry in the Energy Community can only be realized through the opening of the energy chapter in accession talks.[37] Moreover, the full potential of energy cooperation between Turkey and the EU can only be realized within the confines of a credible accession process.[38]

While Turkey is prepared to start negotiations on the energy chapter, its opening is politically blocked in the European Council by the Republic of Cyprus. This is one of the reasons why a comprehensive settlement of the Cyprus Problem is needed to bring real benefits to the accession negotiations. In addition, resolving this decades-long problem would increase the possibility of East Mediterranean gas to contribute to the much-discussed European security of gas supply by diversifying both supply sources and routes.[39]

Besides being counter-productive for both Turkey's and the EU's wishes to cooperate in the field of energy, non-opening of the Energy Chapter will put some limits to the scope and timing of the EU-Turkey energy policy coordination and market integration. Market integration requires cross-border infrastructure and a stable, transparent legal and regulatory framework. Not opening the Energy Chapter could hamper the continued development of physical infrastructure; slow the adaptation of EU energy laws and their implementation; pave the way for likely prolongation of existing loopholes[40] in Turkey's energy laws and regulations; and also lead the EU and Turkey to continue to have fragmented energy policies and rules which separate markets and undermine security of supply.[41]

[36] David Koranyi and Nicolò Sartori, "EU-Turkish Energy Relations in the Context of EU Accession Negotiations: Focus on Natural Gas", in Senem Aydın-Düzgit et al. (eds.), *Global Turkey in Europe II. Energy, Migration, Civil Society and Citizenship Issues in Turkey-EU Relations*, Roma, Nuova Cultura, 2014 (IAI Research Papers 13), p. 23-39, http://www.iai.it/content.asp?langid=2&contentid=1091.

[37] Nathalie Tocci, *Turkey in Europe. The Imperative for Change*, Third Report of the Independent Commission on Turkey March 2014, http://www.independentcommissiononturkey.org/report_2014.html.

[38] Ibidem.

[39] For more on this see, for instance, Elif Burcu Günaydın, "Turkey's Potential Role in the Emerging South-Eastern Mediterranean Energy Corridor", in *IAI Working Papers*, No. 14|05 (13 March 2014), http://www.iai.it/content.asp?langid=2&contentid=1078; Sami Andoura and David Koranyi (eds.), "Energy in the Eastern Mediterranean: Promise or Peril?", in *Egmont Papers*, No. 65 (May 2014), http://www.egmontinstitute.be/?p=13861.

[40] These include, among others, the issues concerning cross-subsidies, unbundling, and transfer of some activities of the regulatory authority (monitoring and supervision of electricity distribution companies) to the ministry.

[41] In its 2014 European Energy Security study the EC emphasized that the existing main transport pipeline that transports gas from Turkey is not operated in line with EU legislation and therefore separates markets and undermines security of supply instead of being an interconnection that can

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5. The road to enhance EU-Turkey energy cooperation

Turkey and the EU have similar long-term priorities focusing on the themes of supply security, diversification of sources, increased use of renewable and indigenous resources, energy efficiency and conservation. Nonetheless, discussions on Turkey's strategic importance for the EU in the field of energy and EU-Turkey relations have mainly revolved around cross-border gas pipeline projects.[42]

The EU and Turkey have similar energy policy goals: achieving a sustainable energy future, improving security of energy supplies, and ensuring competitive energy markets. However, they have very limited synergies in formulating their energy strategies. Unfortunately, Turkey still does not have a well-established energy policy and strategy. There is an urgent need for formulating longer term energy policies in line with both the economy as well as Turkey's foreign policy and security goals.[43] A similar argument could be extended to the EU. There is no common or integrated EU energy policy, and European energy policies remain fragmented. Instead of converging, member states energy policies diverged and better cooperation did not materialize. Cooperation in these fields desirably within the context of a shared vision over common energy policy and strategy would be mutually beneficial to both. Increased energy cooperation in these areas will also provide mutual business opportunities.

In terms of market integration and development of infrastructures of common interest, Turkey continues to make progress in implementing the EU Third Energy Market Package. However, cooperation to enable the integration of the Turkish gas and electricity markets into the European Union's internal energy market could be intensified. In this framework, the active cooperation of TEIAS (Turkish electricity transmission company) with ENTSO-E and of BOTAŞ with ENTSO-G (the European Network of Transmission System Operators for Gas) should be enhanced, and the level of their participation to ENTSO-E and ENTSO-G activities should be increased. Diversifying sources of supply and routes is a necessary but not sufficient element in the process of improving energy security. Two other important elements have to be pursued in parallel to the diversification efforts: Interconnections must be built and regional cooperation must be enhanced.

be flexibly used to transport gas between vulnerable markets. See, European Commission, *In-depth study of European Energy Security*, cit.

[42] See for instance, European Commission, *What is at stake - Background document on the Green Paper*, 8 March 2006, p. 37, http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_working_document_en.pdf. See also, Simone Tagliapietra, "The EU-Turkey Energy Relations After the 2014 Ukraine Crisis. Enhancing The Partnership in a Rapidly Changing Environment", in *Note di lavoro*, No. 75.2014, http://www.feem.it/getpage.aspx?id=6679.

[43] Sohbet Karbuz and Bariş Şanli, "On Formulating a New Energy Strategy for Turkey", in *Insight Turkey*, Vol. 12, No. 3 (2010), p. 89-105, http://file.insightturkey.com/Files/Pdf/insight_turkey_vol_12_no_3_2010_karbuz_sanli.pdf.

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In terms of oil, the EU and Turkey may consider cooperation on oil transport infrastructure projects that would ease the burden on the tanker traffic through the Turkish Straits. As Turkey is a member of the International Energy Agency, Turkey's policies regarding oil stocks and emergency response mechanisms are mostly aligned with those of the EU policies. Sulfur limits in gasoline and diesel are fully compatible with the EU directives. EU could enhance Turkey's potential as a strategic oil and gas bridge and hub. This would also require enhanced foreign energy policy cooperation with the existing and potential energy partners in the Caspian region, Russian Federation and the Middle East.

Turkey and the EU aim to promote renewable energy resources, energy efficiency and conservation. Cooperation in these issues could focus on regulatory matters, which eventually could trigger investment opportunities and attract financing particularly for the development and adaptation of efficient solar PV modules, concentrated solar power applications and solar heat for industrial purposes.

The push for biofuels in Turkey could be spurred by excise tax reduction and enforced biofuels contents set by the government following the EU's regulations. Moreover, the EU could help Turkey in assessing its energy saving potential through energy efficiency and conservation. This would allow Turkey to determine an energy efficiency target compatible with the EC's 2030 policy framework for climate and energy.[44]

Assuring the highest standards of nuclear safety in Turkey is a mutual interest. The EU may offer expertise on the development of adequate legal standards and an appropriate administrative framework for matters of nuclear safety as well as the responsible and safe management of spent fuel and radioactive waste. Turkey and the EU could establish common energy emergency and solidarity mechanisms on the areas of mutual interests. Furthermore, the EU could provide expertise to support the development of Turkey's legal framework, technical and administrative capacity relating to these issues.

There is also significant potential for more effective EU-Turkey joint efforts in energy research and development to advance clean coal technologies, carbon capture and storage, new technologies for mobility (electric cars, batteries, and infrastructure), biogas, and smart grids.

Finally, the enhanced energy cooperation is part of the "positive agenda" for enhanced EU-Turkey relations. With a view of achieving the enhanced EU-Turkey energy cooperation agreed between both sides in June 2012, several technical meetings on energy issues were organized between the EC and Turkish officials

[44] The EC is considers proposing an EU level of energy savings of some 25%-30%. See, European Commission, *Energy Efficiency and its Contribution to energy security and the 2030 Framework for Climate and Energy Policy* (COM(2014)520), 23 July 2014, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52014DC0520.

in 2013 and 2014. This momentum should be maintained and expanded regardless of the situation of the energy chapter in the accession negotiations. As stated in the EC's enlargement strategy in October 2014,[45] strengthening of the EU-Turkey energy cooperation as well as relevant progress in the accession negotiations would facilitate further progress towards the interconnection and integration of energy markets.

One important avenue for the way forward is to jointly prepare a transposition table comparing the EU laws and directives with those in Turkey. Although the screening process on energy was completed in 2006,[46] much has changed in the field of energy both in Turkey and the EU since then. Such a table would provide an up to date overview of the discrepancies and commonalities in energy laws. Then it could be used as a tool for identifying the bottlenecks and for determining the direction of the harmonization work.

Concluding remarks

The EU and Turkey will face multiple energy challenges in the future: securing energy supply, meeting growing energy needs in most efficient ways, fostering rational use of resources, and ensuring a sustainable future. These common energy challenges are an unparalleled opportunity for the EU and Turkey to intensify cooperation and deeper integration.

It is clear that both Turkey and the EU have a lot to gain from close cooperation on energy issues. This is why they must further develop and intensify dialogue and cooperation on energy matters of common interest to respond to current and emerging energy challenges.

Given the interest of the EU in establishing a productive dialogue with Turkey as an energy partner, it is counterintuitive that the energy chapter has not been opened yet. The slow pace of accession negotiations and the not opening of the energy chapter represent serious barriers to the deepening of EU-Turkey relations.

Some seem to believe that EU-Turkey cooperation in the field of energy can deepen, irrespective of the destiny of the accession process and without actually opening negotiations on the chapter. This holds some truth: Turkey and the EU will continue to cooperate on energy matters and deepen their dialogue irrespective of Turkey's EU membership prospects. In the mean time, Turkey will continue harmonizing its energy laws with those of the EU, albeit rather selective manner and at a slow pace. However, the full potential of cooperation between the EU and Turkey on this

[45] European Commission, *Enlargement Strategy and Main Challenges 2014-15* (COM(2014)700), 8 October 2014, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52014DC0700.

[46] The screening report is still pending approval by the Council of the European Union and hence is not officially communicated to Turkey.

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strategic issue can be best utilized by opening the energy chapter in negotiations.

One the one hand, opening of the Energy Chapter will not change anything for the EU but will limit Turkey's current leverage and freedom in making gas trade deals and cross-border oil and gas infrastructure projects without going through Brussels.

On the other hand, opening of the Energy Chapter would bring numerous benefits to all, perhaps more to the EU than Turkey because it could provide a rationale for a deeper cooperation and market integration. More specifically, it would accelerate Turkey's adaptation and implementation of the EU laws (particularly those regarding gas transit regime, energy efficiency and nuclear energy); it would allow Turkey move faster towards cost-based energy tariffs; it would facilitate the interconnection of EU and Turkey energy markets; Turkey would contribute to implementation of the EU's new energy security strategy; it would increase cross-border electricity and gas trade between Turkey and the EU; it would pave the way for Turkey's potential membership to the Energy Community; and it would help creating a positive environment in the Turkey-EU accession process.

Moreover, opening of the Energy Chapter would also provide a level playing field for European companies to operate in Turkey. The commonly applied legal and regulatory framework would facilitate and encourage the private sector to develop new projects (e.g., on gas storage, gas transport, renewable energy technologies), increase their participation in existing ones (e.g., privatization of electricity generation plants), accelerate progress on on-going projects, and also help reduce uncertainties for financing and hence investments.

If the EU is serious about its energy security, it needs to do its utmost to open the energy chapter and systematically include Turkey in developing its energy strategy, not only on diversification of gas supply routes and sources but also on all aspects of energy cooperation, including foreign energy policy.

Mutual understanding and dialogue in between both parties is rising, and several initiatives are already under way to foster cooperation. However, these efforts should go beyond rhetoric and be turned into tangible actions. Healthy and stable relations between the EU and Turkey, as well as the quality of the dialog between them, must remain a priority.

Updated 31 October 2014

IAI WORKING PAPERS 14 | 12 - NOVEMBER 2014 ISSN 2280-4341 | ISBN 978-88-98650-17-0

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