

A NEW ERA FOR TURKEY

NATURAL GAS DISCOVERY IN THE BLACK SEA

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- What is the current natural gas situation in Turkey?
- What does the future hold for Turkey's energy market?
- How will Turkey's economy and foreign policy be affected?

INTRODUCTION

On August 19, 2020, Turkish President Recep Tayyip Erdoğan, during his speech at the opening of the first integrated solar panel manufacturing facility of Europe and the Middle East in Ankara, stated that on the following Friday, he will give some “good news.” Accordingly, Erdoğan asserted that this would usher in a new era for Turkey by stating, “We are imagining, dreaming of this good news right now. I believe as of now that by giving this good news to our people on Friday, God willing, a new period will be opened for Turkey.”

While different speculations emerged regarding what the “good news” could be, the enthusiasm in Turkey started to raise. This had a direct impact on the Turkish Lira which firmed more than 2 percent against the U.S. dollar.

Finally, on Friday, August 21, President Erdoğan declared that Turkey has discovered natural gas in the Black Sea, specifically in the Tuna-1 region. The reserve is 320 billion cubic meters (bcm) and it is expected to meet approximately 7-8 years of Turkey's needs in natural gas.

For more than four decades, Turkey has been a net importer of natural gas and a discovery like this

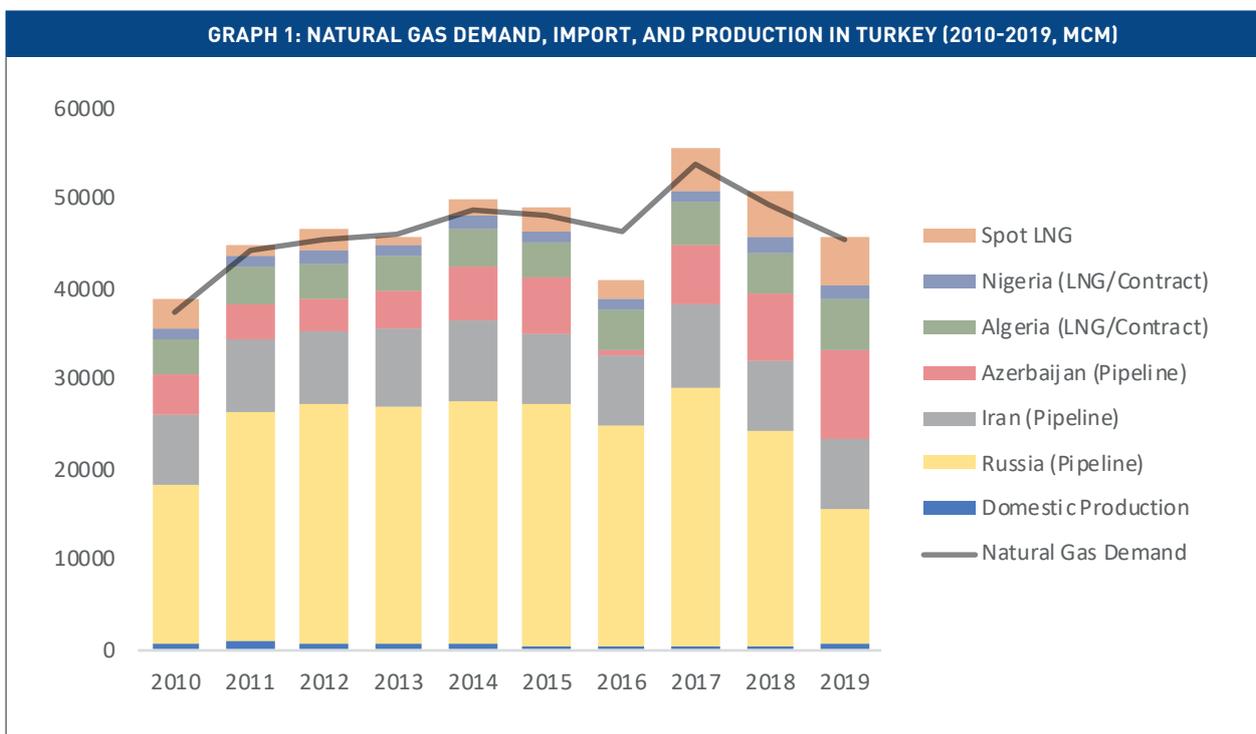
opens a new door for Turkey. Not only will it decrease Turkey's dependency on natural gas exporter states, such as Russia, Iran, the U.S., etc., but it will bring Turkey closer to its goal of becoming a natural gas hub. The discovery of natural gas in the Black Sea will also give Turkey the necessary leverage to become a stronger regional actor.

NATURAL GAS IN TURKEY

Turkey started to use natural gas in 1987 after BOTAŞ signed a contract with the Soviet company Soyuzgazexport – now known as Gazprom. Lacking the necessary infrastructure and finance, it was impossible for Turkey to discover and produce natural gas. As a result, for more than four decades, Turkey has been a net importer of natural gas; 99 percent of the Turkey's consumed natural gas is imported. In an attempt to decrease its dependence on Russian natural gas, Turkey started to import natural gas from other states such as Algeria, Nigeria, Iran, Azerbaijan, the U.S., etc. Concurrently, Turkey signed new projects, i.e. Turk Stream, TANAP, etc. and increased its Liquefied Natural Gas (LNG) imports. (Graph 1)

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Source: EMRA, (2010-2019)

Furthermore, one of the main goals of the current government has been to transform Turkey into an energy hub. Within this framework, in the last years, Turkey has taken important steps. One of them is related to the increase of the storage and regasification capacity, and, as a result, the total entry capacity of natural gas has increased to 330 mcm/day while the target has been set as 400 mcm in the following years. Currently, there are four LNG terminals in Turkey, two of which are floating storage and regasification units (FSRU): Marmara Ereğlisi LNG Terminal (1994), Egegaz Aliğa LNG Terminal (2006), Etki Liman FSRU LNG Terminal (2016), and Hatay Dörtöyl FSRU LNG Terminal (2017).

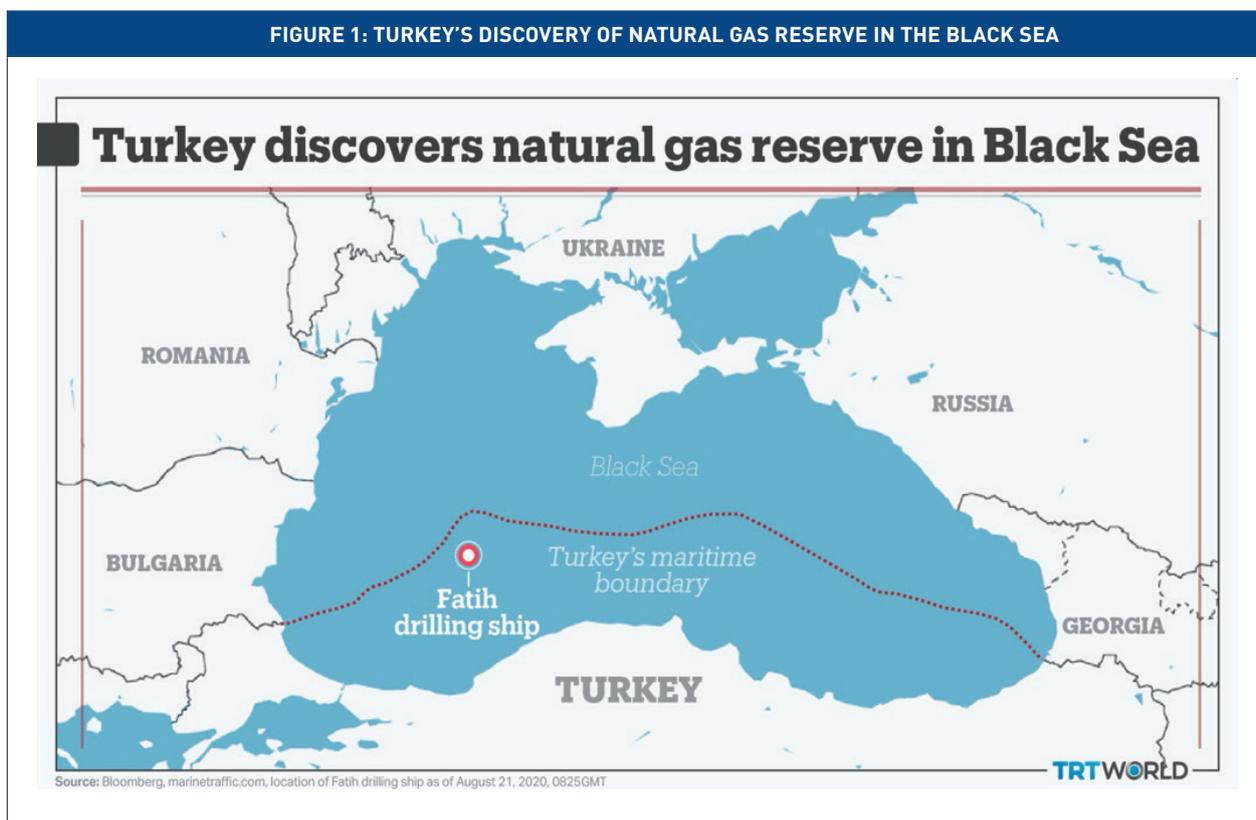
At the same time, in the last years, Turkey has been conducting offshore drilling in the Eastern Mediterranean and the Black Sea with its drilling ships (*Fatih*, *Yavuz*, and *Kanuni*) and seismic vessels (*Oruç Reis* and *Barbaros Hayrettin Paşa*). The current discovery of natural gas in the Black Sea came as a result of the abovementioned successful policies undertaken by the Turkish government.

A DREAM CAME TRUE: TURKEY'S NATURAL GAS RESERVES IN THE BLACK SEA

Finding natural gas sources has a crucial importance in Turkey's energy policies. In that respect Turkey has conducted 9 drilling operations; the operations of the drilling ship *Fatih* in the Black Sea are among these. It is important to mention the fact that the water borders in the Black Sea are not disputed and Turkey has conducted its operations within its Exclusive Economic Zone (EEZ). On July 20, 2020, after a period of suspension, *Fatih* sailed to the Black Sea in order to conduct drilling operations in the so-called Tuna-1 zone. As a result of these operations, *Fatih* found a reserve of 320 bcm which is expected to cover at least 7-8 years of Turkey's natural gas demand (Figure 1). Based on President Erdoğan's announcement further drilling operations will continue, and it is expected that new reserves will be discovered.

Furthermore, while discovering a natural gas reserve is important, starting the production and delivering the natural gas to the domestic market is equally important. Within this context President Erdoğan stated that their aim was to start delivering in 2023.

FIGURE 1: TURKEY'S DISCOVERY OF NATURAL GAS RESERVE IN THE BLACK SEA



Source: TRT World, (2020)

Lastly, President Erdoğan, who at the beginning of his speech emphasized the importance of energy in terms of national independence, announced that a similar discovery is expected in the East Mediterranean as well, where two drilling ships and one seismic vessel are currently stationed.

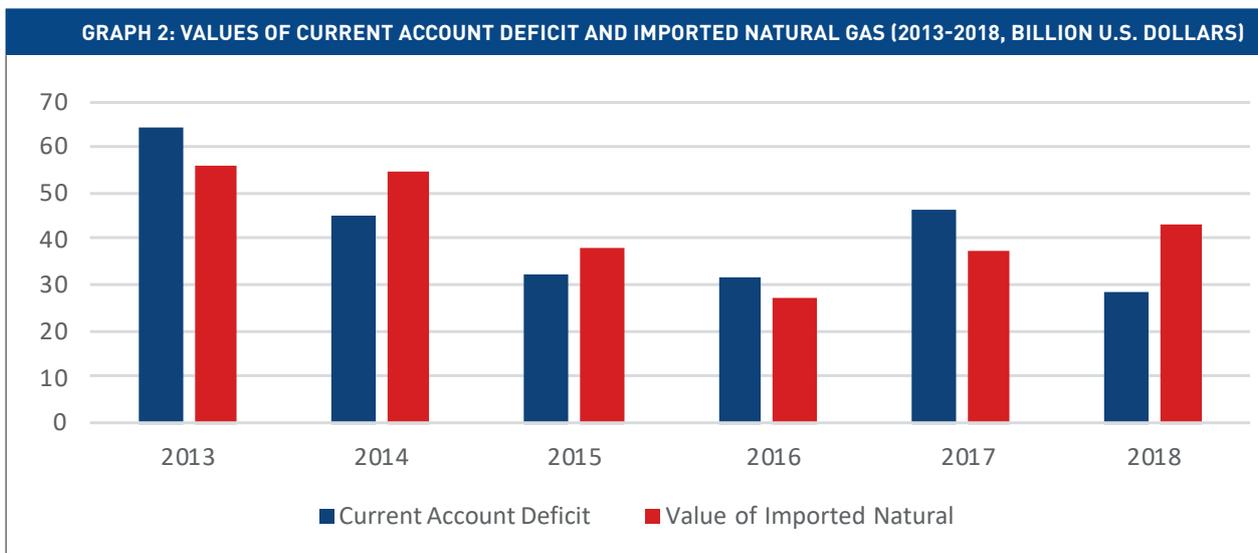
WHAT DOES THIS MEAN FOR TURKEY?

When analyzing the importance of the natural gas discovery for Turkey it is necessary to focus on three different perspectives: energy, economy, and geopolitics.

In terms of energy, as mentioned above, Turkey is a net importer of natural gas. More specifically, more than 99 percent of the consumed natural gas is imported. As a result, Turkey is highly dependent on natural gas-exporting states, including Russia. The need for the diversification of sources became even more urgent after Turkey shot down the Russian fighter jet alongside the Turkish-Syrian border for violating the Turkish air-

space in November 2015. Especially in the last months, Turkey, benefiting also by the low prices, has tried to diversify its sources by increasing its LNG spot imports, especially by importing American LNG. (Graph 1). The discovery of natural gas in the Black Sea would automatically decrease the dependence of natural gas imports as the discovered amount would cover at least 7-8 years of Turkish natural gas demand.

Still in terms of energy, the recent discovery would provide a leverage for Turkey considering that many long-term natural gas contracts are about to expire. (Table 1) Now Turkey has the possibility to request and sign new contracts with lower prices. Furthermore, it is estimated that the price of the Russian pipeline gas is relatively high, especially when compared to the current LNG spot prices. Discovering a 320 bcm reserve gives Turkey the necessary leverage not only for the future agreements but also for a possible revision of the existing contracts.



Source: Central Bank of the Republic of Turkey, Anadolu Agency, (2019)

TABLE 1: TURKEY’S LONG-TERM NATURAL GAS CONTRACTS

States	Period (Year)	End Date
Russia (Western Line)	23	2021
Algeria (LNG)	27	2021
Nigeria (LNG)	22	2021
Azerbaijan	15	2022
Iran	25	2026
Russia (Blue Stream)	25	2028
Russia (Western Line)	23	2036
Russia (Western Line)	30	2043

Source: A Haber, (2020)

Lastly, for many years now, Turkey has stated its aim to become an energy hub in order to increase both national and regional energy security. Finding natural gas in the Black Sea falls in with Turkey’s latest policies of diversifying its sources, and increasing its storage and regasification capacity. This way, Turkey comes one step closer to its goal which will positively affect its economy and give strategic leverage in the regional and global politics.

In terms of the economy, the discovery of natural gas in the Black Sea will have a significant impact, especially at a time when the Turkish economy has been under attack by outside actors for a long time. As the Minister of Treasury and Finance Berat Albayrak stated, now Turkey is able to close its current account

deficit and maybe in the future we will see a current account surplus. For many years, energy has been one of the main reasons of the current account deficit. (Graph 2) However, if in the following years Turkey satisfies its own demands with national production, it would be possible to have a current account surplus and, as a result, the economy will be affected positively.

The impact on the economy would be even greater if more reserves are found considering that the research is ongoing and that the chances of finding new reserves are very high. From a net importer of natural gas, Turkey would be able to start natural gas exports, which would spur an economic growth.

Seen from the geopolitical perspective, it can be said that Turkey’s position in the regional and global affairs will change. As mentioned earlier, the discovered reserve of natural gas will give Turkey the leverage to be more independent. As such, Turkey will continue to follow a more autonomous foreign policy in respect to issues such as the PKK/YPG, the Syrian civil war, Libya, or even the Eastern Mediterranean. President Erdoğan for some time now has been emphasizing the importance of depending on national resources and production. Buying and using its own drilling ships and seismic vessels is a manifestation of this policy. In this manner, Turkey has the possibility to follow a foreign policy that puts its national interests first.

CONCLUSION

August 21, 2020 will be a day to remember among the Turkish citizens. It will be the day that ushered in a new era for Turkey. The discovery of 320 bcm of natural gas in the Black Sea will change all calculations when it comes to Turkey's energy future. From a net importer of natural gas, Turkey is just a few

steps away from becoming an energy hub. National energy stability will not be the only result of this discovery: in the years to follow, we will see Turkey pursue more autonomous policies that put its national interest first. Furthermore, Turkey's economy is expected to grow considering that energy prices were a burden on it.