

Turkey: A potential oil & gas hub

**Ozan Karaduman and
Direnç Bada of Istanbul-
based law firm Gun +
Partners examine Turkey's
potential to become a global
oil & gas hub**



Turkey is a country almost barren of oil and natural gas resources. Its production is minimal when compared to its hydrocarbon rich neighbours such as Azerbaijan, Russia, Iraq and Iran. Although recent exploration activities suggest a potential in terms of oil and natural gas, Turkey is not expected to be an important oil or natural gas producer in the short or even mid-term.

Although Turkey does not have the natural resources of its neighbours, it still has a specific advantage, however. It is located between the oil rich countries and the highly industrialised western economies which are large oil and natural gas consumers. Turkey bridges the gap between the energy-hungry West and the energy-rich East and is a connection point between the supply and demand of oil and natural gas. However, at present Turkey does not actually connect this supply and demand and does not currently use its potential.

Throughout history, oil and natural gas have never been separated from politics. The recent problems with Russia accelerated Europe's searches for alternative sources of supply and Turkey has now become their principal focus. With the

outstanding strategic importance its geographic location plays, Turkey is considered to be essential for the future of Europe's energy security.

Currently, crude oil and natural gas are carried via land pipelines to and within Turkey from countries such as Russia, Azerbaijan, Iraq and Iran. Crude oil is then transferred to oil tankers at the end-points of the oil pipelines destined to go to refineries in Turkey or abroad. Natural gas is mostly fed-in to the national transmission infrastructure for domestic consumption except for the Turkey-Greece pipeline which feeds the Azeri natural gas to Greece. In exceptional circumstances, it is also possible to transport crude oil via road or rail. However, this article will focus on the transportation of oil and natural gas into and out of Turkey via pipelines and Turkey's efforts to develop the pipeline projects to become an energy hub in its region.

Legal framework

The main legislation for transporting oil and natural gas through pipelines is the *Law on Transit Pass of Oil through Pipelines* dated 23 June 2000 (Pipeline Law). The *Oil Market Law* dated 4

December 2013 and the *Natural Gas Market Law*, 18 April 2001 are also relevant as these laws regulate the transmission and transportation of oil and natural gas within Turkey. Finally, the *Decree on Transportation of the Crude Oil and Jet Fuel via Road or Railway* published in the Official Gazette dated 11 November 2011 (Decree) is of importance as it prohibits the import, export and transit of oil through roads and railways unless a specific

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permit is obtained for such actions. The permit is obtained from the Ministry of Customs and Trade (MCT) only in cases

where the importation, exportation or transit of oil via roads or railways is beneficial to the interests of Turkey.

In addition to the exceptional cases of transport by road and rail, oil and natural gas can be transported by sea. However, pipeline projects are preferred instead, since they have the ability to transport larger amounts of oil or gas, reduce the risks involved and ensure better accountability. Although this type of project requires considerable capital, it is nonetheless the economically most favourable method overall.

The *Pipeline Law* aims to regulate the main principles and procedures of pipeline projects and for many issues it leaves room for the regulations of international treaties signed/to be signed for construction and operation of such pipeline projects. This is a practical approach as a pipeline project can cover many countries and it would not be wise to regulate all the issues related to such a project with a domestic law. The *Pipeline Law* mainly sets the principles regarding the local part of the pipeline projects such as how the expropriation will be made, how the security of the pipeline will be maintained, whether insurance for third party liability is required, etc.

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Article 6 of the *Pipeline Law* states that the security of pipelines will be maintained by the state security forces and Article 10 requires that a third party insurance policy be made to cover the losses of any third party arising from the pipeline.

Completed oil pipeline projects

Although Turkey has not maximised its geographical potential to be an oil and gas hub, this does not mean that the country has not made any progress, however. Turkey currently has a number of completed international oil and gas pipelines which are operational and is developing new pipelines.

The Baku-Tbilisi-Ceyhan Crude Oil Pipeline Project (BTC) came from an agreement between Turkey, Azerbaijan and Georgia and was approved by the Turkish government in June 2000. This is a 1,768-kilometer-long crude oil pipeline connecting Baku, the capital of Azerbaijan, to Ceyhan via Tbilisi in Georgia. The oil coming out at the end-point in Ceyhan is shipped around the world by oil tankers. The first batch of oil was transported in 2005 and arrived in Turkey in 2006. From then to the end of 2014, 2.1 million barrels of oil have been carried around the world from here.

The Turkish Petroleum International Corporation (TPIC) owns 6.53% of the project. The Azerbaijan and Georgia sections of the pipeline are operated by BP on behalf of its shareholders in the BTC company, while the Turkish section is managed by BOTAŞ International Limited (BIL).

The Iraq-Turkey Crude Oil Pipeline Project was the result of a 1973 agreement between Turkey and Iraq and approved by the Turkish parliament in March 1986. This pipeline connects Kirkuk to Ankara. The stored oil is shipped around the world. In 2014, it was recorded that 55.9 million barrels had been carried through this pipeline. Because of the problems in Iraq, however, Turkey has not benefited from this pipeline to the extent originally expected.

Completed natural gas pipeline projects

The 1,213 kilometre Blue Stream Natural Gas Pipeline Project was agreed between Turkey and Iraq and approved by Turkish government in May 1998. Blue Stream carries Russian gas to Turkey through the Black Sea. The Russian section is owned and operated by Gazprom, while the Turkish section is owned and operated by BOTAŞ. Italian Eni acted as a key partner involved in the project, especially during the construction period. The first gas supply was transported in 2003.

The Baku-Tbilisi-Erzurum Natural Gas Pipeline Project was approved in December 2001. The project was built in parallel to and with the same principles as the BTC Crude Oil Pipeline project, and carries Azeri gas to Turkey. The first delivery was received in 2007 and the agreement is presently in force.

The Interconnector Turkey-Greece-Italy (ITGI) Pipeline was approved in 2004 and carried its first delivery in 2007. The 296 kilometre ITGI Pipeline carries Azeri gas to Greece from Turkey and is recorded to carry 705 million cubic meters per annum. There are plans to extend the project to Italy, although there are no specific developments on that yet.

The Tabriz-Ankara Pipeline is the result of an agreement between Turkey and Iran to carry Iranian gas originating from Tabriz to the Turkish capital Ankara, through Anatolia. This pipeline has a potential to transport 10 billion cubic metres per annum.

Ongoing natural gas projects

The TANAP Natural Gas Pipeline Project was agreed between Turkey and Azerbaijan in June 2012 and approved by the Turkish Parliament in January 2013.

The primary goal of the TANAP Project is to deliver natural gas produced in Azerbaijan's Shah Deniz-2 gas field and other areas of the Caspian Sea, primarily to Turkey, but also to Europe. TANAP will run through 20 provinces in Turkey until it reaches the end of

its course at the Greek border in the Ipsala district of Edirne.

TANAP constitutes part of the Southern Gas Corridor along with the South Caucasus Pipeline (SCP) and the Trans-Adriatic Pipeline (TAP). The TAP will connect to this pipeline to convey natural gas to European states, initiating at the Greek border beside the Ipsala district.

TANAP will secure the delivery of gas to European markets, while also satisfying the growing demand for natural gas in Turkey. The State Oil Company of the Azerbaijani Republic

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(SOCAR) holds 58 per cent of the total stake. The country is heavily dependent on Russia for natural gas and needs an alternative source, while the state-owned Turkish company, BOTAŞ, holds 30 per cent. Construction of the project began on 16 March with the attendance of the Presidents of Turkey, Azerbaijan and Georgia.

The Turkish Stream Pipeline is a proposed project to transport Russian gas across the Black Sea to Turkey and the rest of Europe. The proposal was announced by Russian president Vladimir Putin on 1 December 2014, during his state visit to Turkey and is expected to replace the South Stream Pipeline project.

The planned capacity of the pipeline is to carry 63 billion cubic meters of natural gas per annum. This would mean that Turkey would receive about 14 billion cubic meters per annum, while the rest of the gas transported is planned to be exported

to Europe. The negotiation process between Turkey and Russia, however, is currently suspended.

Conclusion

Currently, Turkey is neither a corridor nor a hub for oil & gas but the potential of becoming a corridor or even a hub is there. Turkey has every reason to develop new pipeline projects; despite the financial turmoil, its economy continues to grow which results in greater consumption of oil and gas. The country is heavily dependent on Russia for natural gas and needs an alternative source. Its oil rich neighbours Iraq and Iran are both more than willing to supply it.

Europe's oil and gas consumption increases constantly and Russia's gas supply plays an important role for that demand as well. It is no secret that Europe also searches for an alternative. The barriers for taking Iranian gas and oil will hopefully be revoked for good as a result of the nuclear agreement, which will create an important source of supply. Iraq has the potential to be an even more important supplier if the issues between the northern regime and the central government can be resolved and the risks of war are reduced.

Turkey's domestic needs and Europe's requirements for alternative sources of supply create an excellent potential for the development of new oil and gas pipelines crossing the country. Turkey needs to aim not only for transition fees but also for enabling off-take stations within Turkey and for ownership rights over a considerable capacity so it can overcome its lack of oil and gas resources, begin to use its geographical potential and establish itself as an oil and gas hub.

Ozan Karaduman is managing associate and Direnç Bada a trainee associate at Istanbul-based law firm Gun + Partners