

## Turkey's Long Road To Become An Oil & Gas Hub



**Turkey is on a journey toward becoming an oil and gas hub. But the country has to face geopolitical and financial challenges to achieve this goal, while it enjoys a perfect geographic location and has the necessary legislation;** *say Ozan Karaduman, managing associate of Istanbul-based law firm Gun and Partners, and associate Direnç Bada.*

Turkey is not a large producer of oil and natural gas resources. Its oil-gas production is minimal when compared to its hydrocarbon-rich neighbors such as Azerbaijan, Russia, Iraq and Iran. Yet, it still has a specific advantage: it is located between those oil-rich

countries and the highly industrialized and developed western economies, which are large oil and natural gas consumers.

Currently, crude oil and natural gas are carried via land pipelines to Turkey from Russia, Azerbaijan, Iraq and Iran. Crude oil is then transferred to oil tankers at the end-points of the oil pipelines destined for refineries in Turkey or abroad.



Natural gas is mostly “fed-in” to the national transmission infrastructure for domestic consumption.

In exceptional circumstances, however, crude oil is transported via road or rail.

This article focuses on the transportation of oil and natural gas out of Turkey via pipelines and on Turkey’s efforts to develop the pipeline projects to become an energy hub in the region.

### Legal framework and projects

The main legislation in Turkey relating to the transportation of oil and natural gas through pipelines is the Law on Transit Pass of Oil through Pipelines of June 23, 2000, numbered 4586 (Pipeline Law).

The Oil Market Law of December 4, 2013, numbered 5015, and the Natural Gas Market Law of April 18, 2001, numbered 4646, 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* on November 11, 2011 (Decree) is of importance as it prohibits the import, export and transit of oil via roads and railways unless a specific permit is obtained. Such a permit is obtained from the Ministry of Customs and Trade (MCT) and 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 described above, oil and natural gas can be transported by sea.

However, pipeline projects are the preferred means of transportation as 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 sums of capital, it is nonetheless the economically favourable method overall.

The Pipeline Law establishes the principles regarding the local part of the pipeline project, such as how the expropriation will be made, how the security of the pipeline will be maintained and whether or not insurance for third party liability is required etc.

Although the Pipeline Law aims to regulate the main principles and procedures for pipeline projects, for many issues it leaves room for the regulations of international

treaties signed (or to be signed) for the construction and operation of such pipeline projects.

In this respect, the Pipeline Law is realistic as international pipelines are the result of long-lasting, thorough negotiations and carefully written international agreements.

### Current Efforts

An international pipeline project is never solely commercial; it is a political project wrapped in a commercial package. It may create political advantages for the parties to the project and disadvantages for the parties which are left out.

Turkey is trying to balance its disadvantage due to lack of fossil fuel resources with its geostrategic importance for the pipeline projects. In addition to the current oil and gas pipelines, Turkey has been in negotiations for a number of important pipeline projects. The negotiations for the Nabucco project that did not bear any fruit, the TANAP Project and the current negotiations for the Turkish Stream project with Russia which restarted after President Erdogan's visit to President Putin demonstrate Turkey's willingness to become a crossing point for oil and gas pipelines.

It is not an easy venture. In addition to considerable amounts of funds, pipeline projects also require stability in foreign and local politics. A brief look into the relationship between Turkey and Russia would show this fact clearly.

Russia and Turkey started to talk about the Turkish Stream again only after the tension between the two states decreased. Even negotiating a pipeline project requires good and strong relations between the relevant states.

Currently, Turkey is neither a corridor nor a hub for oil and gas. Its legislation does not represent a challenge. On the contrary, the legislation allows and facilitates international pipeline projects. The country also has the perfect geographical location to become the crossing point for the pipelines.

However, challenges lie in the stability in foreign and local politics and in finding the necessary financial resources. The turmoil in the Middle-East and the involvement of various states in the situation is not promising for the pipeline projects. However, Turkey will continue to try to overcome the challenges to achieve its goal.

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