

**Contribution of TÜSiAD**  
**Draft Position Paper for Enhanced Energy Cooperation**  
**Between Turkey and the EU**  
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Energy is one of the key topics of interest in EU-Turkey relations, including the accession process. The Energy Chapter is currently not open to negotiations due to non-technical blockage by Greek Cypriots. In order for stimulating the cooperation efforts, “Enhanced EU-Turkey Energy Cooperation” was launched in 2012 within the framework of the “Turkey-EU Positive Agenda”, a process aimed at revitalizing the Turkey-EU relations. Several working groups have been established since then to serve the mutual interests by focusing efforts of cooperation in various fields of energy.

“There is great scope for cooperation on issues which are in the interest of both sides” as outlined by the officials of both sides. Turkey's further development as an energy bridge and potential energy hub will benefit both Turkey and the EU. In view of the geographic proximity of Turkey and the EU, a further market integration is in the interest of both sides. Turkey and the EU furthermore have many challenges and objectives in common to secure a more sustainable energy future.

**Turkey's further development as an energy bridge and potential energy hub will benefit both Turkey and the EU.**

Even though Turkey is limited in primary energy resources and is dependent on imported energy, it naturally acts as an energy bridge between resource-rich regions and demand centers. Approximately two-thirds of world hydrocarbon resources are located in close neighborhood of Turkey. Over the past decade Turkey has prioritized import diversification in its energy policies and developed itself as an important energy corridor in transportation of oil and gas resources in the region.

Improving the security of energy supplies is one of the central elements of EU energy strategies. Thus, diversification of imports, particularly in gas where import dependency is considered a key concern, both in origin and routes, has long been an important policy objective for the EU.

The EU, although it has some energy resources itself, also depends mostly on energy imports. 75 % of the EU-27's imports of *natural gas* in 2010 came from Russia, Norway or Algeria. A similar analysis shows that 58.5 % of EU-27 *crude oil* imports came from Russia, Norway and Libya, while 64.3 % of hard coal imports were from Russia, Colombia and the United States. (Although their import volumes remain relatively small, there was some evidence of new partner countries emerging between 2002 and 2010. This was notably the case for crude oil imports from Kazakhstan and Azerbaijan, or natural gas imports from Qatar and Libya.)

The EU has developed the “The Southern Corridor” concept, as the fourth artery of gas supplies into Europe, to foster secure and cost-effective gas supplies from Middle East and Caspian regions and through Turkey. Most recently substantial progress has been

achieved towards realization of the Trans Anatolia Natural Gas Pipeline Project (TANAP) that intends for the transportation of the natural gas to be produced in Shah Deniz 2 field and other fields of Azerbaijan (and other possible neighboring countries) to Turkey and Europe. The Shah Deniz 2 field project is expected to add a production of 16 billion m<sup>3</sup>/year. Additionally, the significant hydrocarbon potential in Iraq and newly discovered gas fields in East Mediterranean increase the role and importance of “Turkey and the Southern Corridor” for diversification of energy supplies into Europe.

Becoming a regional energy hub, beyond the role of pure transit, is one of the strategic endeavors for Turkey. Turkey’s transformation into a well-functioning energy hub to match supply and demand on market based, cost-effective, efficient and transparent grounds is in the interest of both Turkey and the EU for improving energy security.

Turkey is placed at the center of 68 % of world’s oil reserves and 75 % of world’s natural gas reserves.)<sup>1</sup>

Cooperation on development of necessary infrastructure for the purposes of increased volumes of transportation, including bi-directional flows, and on the establishment of the necessary physical infrastructure, such as construction of LNG terminals and storage facilities, will be important for further diversification of routes and sources and to the potential development of Turkey as a regional hub.

**Further energy market integration is in the interest of both EU and Turkey.**

Turkey is one of the fastest growing energy economies in the world. With per capita primary energy and electricity consumption at less than a half of the EU-27 averages, Turkish energy market is set to grow rapidly in line with economic growth, population increase and urbanization. Turkey is currently the sixth largest electricity market in Europe in terms of the installed capacity and will become one of three largest electricity systems around 2030. Turkey is also one of the biggest natural gas sectors in Europe in terms of consumption.

Already, the Turkish electricity market is one of the fastest growing in the world, with approx. 6 % annual growth on average, in the past two decades. By the end of 2013, Turkey’s installed capacity reached 64 GW, doubling from 32 GW from 2002. Natural gas demand, which stood at 48.5 billion m<sup>3</sup> as of 2012, is expected to rise with an annual growth rate of around 5 % until 2020 according to the Ministry of Energy and Resources.

Strong growth in demand necessitates sustainable investments along the energy supply chain over the next decades. Turkey started to liberalize its electricity and natural gas markets in 2001 to establish functioning, competitive markets to realize the required investments by private sector resources and in a secure and efficient manner, in accord with the EU Acquis and practices.

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<sup>1</sup> *Rethinking the EU-Turkey Energy Cooperation, Simone Tagliapietra, 07.09.2012, Review of Environment, Energy and Economics*

Although Turkey already has achieved important progress in electricity market liberalization, further steps are needed to develop competition to a more advanced stage as demonstrated by the best practices in the EU internal market. In the natural gas market, liberalization is still at early stages and further actions on legal and regulatory aspects are needed.

Intensifying the efforts for harmonizing Turkish electricity and natural gas markets with the EU internal energy market is important for Turkey to enhance competitiveness, with further benefits for the customers and the economy. Cooperation efforts, focusing on harmonization aspects, can contribute in further integration of the Turkish electricity and natural gas markets into the EU internal energy market. Physical integration of the markets through electricity interconnections (ENTSO-E membership of Turkey), natural gas pipelines and other infrastructure should also be fostered. Developing a more competitive and liberalized investment framework for Turkish electricity and natural gas markets is in the interest of Turkey and EU with increased investment and cross-border trade opportunities.

**Turkey and the EU have many challenges and objectives in common to secure a more sustainable energy future.**

Increasing the use and share of renewable energy sources and better utilization of the energy efficiency potential is a common energy and climate change related policy objective for Turkey and EU. The EU is currently working on defining its 2030 targets, furthering its objectives defined and being implemented for 2020. Turkey has prioritized renewable energy and energy efficiency related strategies with quantitative targets in its energy policy documents for 2023. In this field, a strong potential for cooperation exists as regards technical and regulatory matters for exchange of knowledge as well as investments. The experience and best practices from the EU can be used to facilitate effective development of the necessary legal and regulatory frameworks in Turkey.

By 2023, Turkey aims to increase the share of renewables above 30 % within the total electricity production. Share of renewables in total electricity generation was realized as 28 % in 2013 (including hydro power). As the generation is set to almost double in the next 10 years to meet the growth in demand, installed renewable energy capacity should also be doubled to meet the minimum 30 % target. In this respect; Turkey aims to utilize all the remaining economical hydro potential (out of the total potential of 35 GW (estimated), 23 GW in installed as of March 2014, and to install 20 GW of wind power (2.9 GW installed as of March 2014). Utilization of solar, geothermal and other renewable energy resources is among the main pillars of the energy policy.

Turkey aims at the reduction of its energy intensity by 20 % in 2023 compared to 2011, as stated in the Energy Efficiency Strategy Paper adopted in 2012

Turkey's significant potential for renewable energy resources, untapped energy efficiency potential and related strategies can contribute in 2020 and 2030 targets of the EU for a more sustainable energy future.

Turkey is also determined to develop indigenous fossil fuels, notably lignite. Promoting sustainable use of coal by promotion of clean coal technologies, carbon capture and storage and gasification can also be considered as an important area of cooperation. Cooperation is considered useful also in the field of nuclear energy, given Turkey's efforts for introduction of nuclear energy into its electricity generation mix.

## **Conclusion**

Turkey and the EU are important energy partners and share common strategic challenges and objectives in the field of energy. Eventual integration of the EU and Turkey energy markets can bring important mutual benefits in meeting the common objectives towards a more secure, competitive and sustainable energy future.

“Enhanced EU-Turkey Energy Cooperation” process initiated in 2012 can be used as an effective platform for intensifying and widening the efforts for cooperation and an instrument in support of the negotiation process. Opening of the Energy Chapter for negotiations by eliminating non-technical considerations and blockages should be considered as an objective with strategic benefits.

Deepening the dialogue and cooperation in energy topics will serve to common interests of Turkey and the EU to enhance energy security, improve competitiveness and sustainability and foster new business opportunities. Closer ties at commercial level should also be considered as an integral part of a deepened cooperation. Wider involvement of the business community can bring further momentum and synergies in joint efforts towards a more secure and sustainable energy future.