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EU and Turkish Perspectives on Black Sea Regional Cooperation

**SPEECH BY
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Dear Ambassadors, Distinguished Guests, Ladies and Gentlemen,

It is my privilege today to address such a distinguished audience as the Vice President of the Energy Working Group of Turkish Industrialists' and Businessmen's Association (TÜSİAD). I hope this gathering will be a fruitful occasion to explore mutual interests of Turkey and the European Union regarding the Black Sea Regional Cooperation.

At the outset, I would like to thank the organizers of this event for giving me the opportunity to convey the views of TÜSİAD Energy Working Group on the wide range of possibilities of energy cooperation in the Black Sea, an emerging region with a growing geostrategical importance.

First of all let me give you a brief overview on the activities of TÜSİAD Energy Working Group. With its 46 active members, the Energy Working Group incorporates the presidents of consumers, producers and distributors of various companies and NGOs of petroleum, natural gas, electricity, bio-ethanol, wind power and hydroelectric power. The Working Group, including members with such diverse interests, considers the security of energy supply to be the most imminent issue to be surmounted in short term in Turkey.

Hence, we cooperate with the Turkish government to assess alternative energy policies and to determine precautionary actions to prevent an energy gap in the near future. We regularly submit the private sector's views on the energy market and make policy suggestions on the initiated deregulation and liberalization processes to improve the investment climate in the country. As we wish to contribute to the restructuring of the sector, we also work to raise public awareness in the energy related issues such as increasing energy efficiency, alternative energy potentials of Turkey.

Ladies and Gentlemen,

the energy sector is a key area of cooperation in the new landscape of the 21st century within which the world's economic regions are interdependent for ensuring energy security and stable economic conditions. Acquiring sustainable, competitive and secure energy is indispensable where world energy consumption is expected to rise by 60% in the next 25 years.

It is foreseen that within the next 20 to 30 years around 70% of European Union's energy requirements, compared to 50% of today, will be met by imported products – some from regions threatened by instability.

Turkey faces similar concerns as the country is currently 72% dependent on imports for energy products. This ratio is expected to rise to 80% by the year 2020. Therefore, strengthening of energy security is one of the key common interests of Turkey and Europe.

Turkey is a promising new and secure market with strong growth rate predictions and also a reliable partner of the EU, to be the main contributor to the security of supply of Europe due to political and economical stability of the country, good relationships with the neighbouring countries and its geographical location. We should keep in mind that 73% of the crude oil and 72% of the proven natural gas reserves of the world lie in the Caspian, Middle Eastern regions and Russia, surrounding Turkey. (Graph 1) As a country that started the liberalization and deregulation process of its market Turkey is a promising market and a reliable partner strategically positioned to become a secure energy bridge and an energy hub. (Graph 2) (Graph 3) Turkey is a major consumer with 36 bcm annual gas consumption in 2007. This growing demand has the third rate in Europe and expected to reach a level of 10% of the EU market by 2020. In this respect, an important portion of the incremental European supplies from new sources may flow across the country and besides Turkey can also supply its national demands. Turkey has already taken certain initiatives in that direction with 7 international transmission projects already completed:

- 1 □ Baku-Tblisi-Ceyhan Crude Oil Pipeline (From the Caspian coast of Azerbaijan via Georgia to the Mediterranean Port of Ceyhan in Turkey)
- 2 □ Kirkuk-Yumurtalik Crude Oil Pipeline (From the city of Kirkuk in Northern Iraq to the Mediterranean Port of Yumurtalik in Turkey right beside Ceyhan)
- 3 □ Blue Stream Natural Gas Pipeline (From Russia passing below the Black Sea and reaching Durusu terminal, some 60 km from the port of Samsun in Turkey)
- 4 □ Baku-Tblisi-Erzurum Natural Gas Pipeline (From the Caspian coast of Azerbaijan via Georgia to the eastern province of Erzurum in Turkey)
- 5 □ Turkey-Greece Natural Gas Pipeline (Running from Western Turkey via Thrace to reach Komotina in Greece and further to be expanded to Italy passing under the Ionian Sea)

6□□Iran-Turkey Natural Gas Pipeline (Running from Tabriz in northwest Iran to reach Ankara in Turkey)

7□□Russian West Natural Gas Pipeline (Running from Russia via Ukraine, Moldova, Romania and Bulgaria to reach Thrace Region of Turkey to be further distributed in the country)

(Graph 4 – Map of Pipelines surrounding Turkey)

The planned “Nabucco Natural Gas Pipeline” and “South European Gas Ring” projects passing through Turkey will certainly contribute to the energy security of Europe. Nabucco Pipeline, running through Turkey via Bulgaria, Romania and Hungary into Austria is expected to meet 10% of the EU demand in 2015 with its full capacity reaching 31 bcm per annum. The EU has to show its determination for both the South European Gas Ring and especially the Nabucco Pipeline initiative, being currently undermined with the interference of existent suppliers, as these projects will serve to guarantee affordable, secure and uninterrupted flow of hydrocarbon resources into the Continent.

It should also be recognized that alternative energy initiatives introduced by some other countries and existing suppliers and welcomed by some EU partners such as “South Stream” gas pipeline and “Burgaz (Bulgaria)-Alexandropolis (Greece)” crude oil pipeline can also supply energy to the same markets, however, these projects undermine the principle goal of diversifying the source of energy supplies for Europe. Hence, the EU should show a clear leadership and prioritize its projects, ensuring that one should not be an impediment to the viability of the other.

Turkey has so far acted very responsibly towards its European partners in line with its firm belief in the diversification of energy supplies. Therefore, we expect the same kind of attitude from all EU members, like in the case of Nabucco consortium countries, which, according to our understanding, should act collectively in line with the objective of creation of a “Common European Energy Policy” and should not be misled with opportunistic calculations on economic level and short-term thinking. A lack of a single coherent voice among EU members may shatter the credibility of Brussels in front of its energy suppliers.

TÜSİAD believes that both Turkey and the EU have mutual interests from cooperation in the Energy field. Besides the economic gain from the business opportunities to be created by energy-related interactions which will surely contribute to the increase of welfare in the countries of the

Region, Nabucco is a key asset for Turkey to become a secure and reliable energy bridge for our allies in the west and eventually a hub for the Wider Black Sea Region. For the EU, on the other hand, which seeks to diversify its gas resources and secure adequate import, the realization of Nabucco is vital, as it would help achieve the goal of diversification of both the source of supply and the supply route of the EU. The full capacity of the pipeline is far from meeting the EU's energy need, however, the mere existence of an alternative route could give the EU the leverage it needs in its negotiations with traditional suppliers and can help create a more competitive energy market.

Financial strength of the project has been enhanced by the recent inclusion of German RWE as the sixth partner to the project on February 5, 2008. Moreover, financing from European Investment Bank has been offered to initiate the project. As the business community of Turkey, partner to the project, we welcome the financial support of the EU, however, we want to underline once more that political support is also crucial for the success of the Nabucco Pipeline. Considering the huge reserves explored in Iraq and Iran recently, it shall be possible for EU to derive benefit from these sources via Nabucco pipeline.

I believe at this point we have to reemphasize that the EU has to show its determination and leadership for the realization of the project in the political realm if the real aim is to diversify the supply sources and the supply routes of gas. Turkish business community gives its full support to Nabucco, recently called “the peace project” by our Energy Minister. TÜSİAD is ready to be a platform of cooperation in the name of the Turkish business community for this project and welcomes all projects that contribute to the security of supply of the Region. We believe that the full benefits from and the realization of similar projects can only be attained with the creation of the right investment climate. We hope that the liberalization and deregulation process that has taken start will be completed, stimulating further investments for Turkey. This will mark a new era for the strengthening of cooperation between Turkey and Europe.

Thank you very much for your attention.