

## Turkey, Russia diverge over gas prices

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Turkey, like the EU, has been dependent on Russia's natural gas supplies for decades. But late in the summer, Ankara joined a chorus of European companies demanding that Gazprom, Russia's state-run gas monopoly, cut its natural gas prices, increasing pressure on the lucrative pricing model that underpins Russia's gas exports.

As the Russian side did not budge, the Turkish Energy Ministry decided last week not to renew the 25-year contract between the nation's Petroleum Pipeline Corporation (BOTAS) and Gazprom for the annual delivery of 6bcm of gas to Turkey along the TransBalkan pipeline.

Ankara was seeking a 20% gas cost rebate on Balkan purchases.

"This [decision] doesn't mean our natural gas purchases from Russia will stop or we will face any shortage in that sphere," Ahmet Erdal Feralan, ruling Justice and Development Party (AKP) member of the Parliamentary Energy Committee, told SES Türkiye. "Our private sector firms have already started negotiating with Gazprom to buy the rest of the gas," he said.

Mete Goknel, the former director of BOTAS, says the government would like a "just and fair" deal, although he admits there were some "tactical mistakes" during the negotiations with Gazprom. "We could have announced this [cancelation] a bit earlier and very confidently," he told SES Türkiye.

For Tugce Varol, an Istanbul-based Russian energy policies analyst, all of this is "kind of an AKP game".

"It is not termination but finalization of a long-term agreement [with Russia]," says Haluk Direskeneli, an Ankara-based energy analyst, questioning whether the Turkish gas market is ready to compensate for the natural gas shortage.

"We may face gas pressure drops, a shortage of gas supply in Edirne, Canakkale and Istanbul gas distributions," he said, emphasizing Russian gas is important for Turkish domestic energy generation and is a long-term commitment for both countries. "However supply security, too much dependency and the current account deficit are the difficulties of Turkey."

Varol warns that if Turkish firms don't manage to get the required gas in the middle of the winter, it could damage the AKP's reputation, because neither Azerbaijan nor Iran has capacity to fill this gap. "In fact, Ankara and Moscow are

playing their last hand before the beginning of construction of the South Stream," she adds.

**Alexander Jackson**, a Caspian analyst at the London-based **Menas Associates**, says that although energy disputes involving Russia are often political, in this case, Turkey is playing hardball when it comes to gas prices, a tactic it has also tried with Azerbaijan and Iran.

*"Turkey is less willing than previously to let Russia dictate gas prices,"* he says, adding any future pricing disagreements will be the subject of much fiercer negotiations.

"Time is working in favour of the consumer side. The link of gas to the oil price is out-dated," says **Friedemann Mueller**, chairman of the research group **Global Issues** at the **German Institute of International and Security Affairs**. Russia will keep its position as the main supplier of Turkey and the EU, but it will have to accept more competitive market rules.

"This is the game that will go on for more years and Turkey is well advised to keep cool in negotiations, but also to do more for a pipeline infrastructure that offers alternatives to Russia, not in order to exclude it as a supplier, but to have a choice among competitors," he told **SES Türkiye**.