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Turkey: accelerating the diversification of gas supply sources

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A rapid change in the structure of gas imports by Turkey has been visible since the beginning of 2019. According to estimates from the ICIS energy market information provider, in the first two months of this year Turkey bought almost the same number of LNG cargoes as it did in the whole of 2018, and is continuing to buy more on the spot market. At the same time, gas imports via the Trans-Balkan Gas Pipeline running from Russia via Ukraine, Moldova, Romania and Bulgaria have been shrinking at a hitherto unprecedented rate. According to data from the Bulgarian gas pipeline network operator Bulgartransgaz, the average gas transport volume at the Bulgarian-Turkish border checkpoint in Malkoçlar between 1 January and 19 March 2019 was less than 13 mcm/day, i.e. over three times lower than the same period last year (an average of c. 44 mcm/day).

In 2018, according to data from the Turkish regulator EPDK, gas demand in Turkey fell by almost 9% compared to the preceding year (reaching 48.9 bcm), as did gas imports (50.36 bcm). The reduction in imports was linked to restrictions on gas transport via pipelines: imports via pipeline in the first ten months of 2018 fell by 14% compared to the preceding year (they also fell in 2017, by 17%). The most visible trend was the fall in gas imports from Russia, both via the Trans-Balkan route (by over 18% year-on-year) and Blue Stream (by over 17%). In turn, LNG imports via Turkey rose in January–October 2018 by 14% compared to the same period in 2017. The full-year result is set to be even higher, considering the increase observed in Turkey's LNG imports in the winter season. According to data from the US Department of Energy, in 2018 Turkey was the second largest importer (after the United Kingdom) of US LNG in Europe, and the eleventh largest worldwide.

Commentary:

- Turkey is importing increasing amounts of liquefied natural gas, capitalising on its higher import capacity (it has an annual regasification capacity of around 43 bcm) and attractive conditions on worldwide gas markets. Over the past few months LNG has been more easily available, and its price has become more attractive, owing to the milder winter, falling demand in Asia, and higher output in the United States, amongst other factors.
- The recent cuts in Turkey's gas imports from Russia are above all a result of the implementation of the policy of diversifying supply sources, falling domestic demand for

gas (*inter alia* due to Ankara's policy of limiting gas usage [particularly in power generation] in order to reduce the current account deficit) and the reduced attractiveness and flexibility of Russian gas supply prices compared to other available alternatives. Turkey is obliged to import Russian gas by the terms of the long-term contracts signed by the state-owned company Botaş and independent gas importers, including the 80% threshold of the take-or-pay clause. Two independent Turkish gas importers lost their appeals to reduce Russian gas prices towards the end of 2018. The arbitration proceedings initiated by Botaş, Turkey's largest importer, ended in a compromise, but did not result in supplies from Russia becoming much more attractive in price compared to other increasingly available options.

- The cuts in gas imports from Russia via the trans-Balkan route may also be a form of preparation for organising gas supplies to Turkey starting from next year, after the Russian-Ukrainian transit contract ends, as well as the expected (and announced on numerous occasions by Russia) significant reduction or complete halt to gas transit via Ukraine (also in the Turkish direction). It is unclear what the rules of the future transit via the trans-Balkan route will be, not only due to the Russian-Ukrainian tension, but also considering the non-transparent, complex formal links between the operators in individual countries (Ukraine, Moldova, Romania and Bulgaria) and Gazprom or their transit contracts, which do not fully meet EU requirements. According to estimates presented by Botaş, in 2020 the route's capacity may in effect drop from 51.4 mcm to 14.7 mcm daily at Malkoçlar, as a result of the changes linked to Ukrainian transit and the planned launch of TurkStream. According to media reports in March, Gazprom has announced the total discontinuation of transit via the trans-Balkan route as of 2020. It is still uncertain when supplies of Russian gas to Turkey via TurkStream would start, at what volumes, or under which conditions.
- Last but not least, the reduction of gas imports from Russia and the increase in LNG imports are also an element of Ankara's game to determine the overall framework of its gas relations with Moscow, including the terms for building the TurkStream gas pipeline and its export leg running to Europe, and the rules of future Russian gas supplies to Turkey (several long-term Turkish contracts with Gazprom and one of the contracts with Azerbaijan will expire in 2021). For almost two decades Turkey has had the ambition of becoming a gas hub and playing an active role in the trade and re-export of gas to Europe. While pursuing this goal, it wants to capitalise on the fact that its neighbours include several gas producers, both traditional and new – in addition to Russia, there are also Iran, Iraq, the Caspian countries, Egypt and Cyprus. Bearing its gas (and other) interests in mind, Ankara has been making efforts to develop a position for itself as an equal partner in its relations with Russia, and to gain a decisive influence on the development of infrastructure on its territory – including the manner in which the TurkStream project (and its branch running to Europe) is implemented, and the changes to the routes of Russian gas exports to the EU which this entails.