

INTERNATIONAL BLACK SEA-CAUCASUS CONGRESS

“Economy, Energy and Security; New Opportunities”

KEYNOTE ADDRESS

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Excellencies, Distinguished guests,

Allow me first and foremost to welcome you all here in Istanbul on the occasion of the International BlackSea-Caucasus Congress. Let me also express my congratulations to the organisers of this congress for identifying a topical issue as the main theme of this event, namely “Economy, Energy and Security; New Opportunities”. It is indeed a distinct pleasure for me to address this congress and to share my views with you on this topic, a topic not only timely and appropriate under the current circumstances, but valid also for a foreseeable future in front of us.

Turkey, being in the heart of Eurasia, is a country that lies at a critical geographical juncture which connects the European and Asian continents. For centuries, Turkey has been referred to as a country of the Balkans, the Black Sea, Caucasus, Middle East, the Eastern Mediterranean and Northern Africa. Today, this geographical and geo-strategic location of Turkey has become much more important as we continue to depend and also to rely on the existing lines of transport and communication between the east and the west as well as between the north and the south.

The concept of security has also developed in a wider and deeper context in terms of energy, environment and climate. We cannot talk about the security of our own national states without making reference to the regional developments and to the challenges we face which may impede connectivity and endanger the existing cooperative structures that bring our countries together in this vast geography. Black Sea and the Caucasus, in that sense, play a very significant role and we have to identify the challenges we face with a view to preventing the rupture of such cooperative structures.

First of all, overall, Energy has an important place in the global agenda and it has become an essential factor in the formulation of economic, political and environmental aspects of the global outlook. It is also important to underline, however, that the energy sector is full of many uncertainties. Several questions are being asked: How long are the fossil fuels going to dominate energy consumption? How rapidly are the new energy technologies going to be adopted and when they are adopted, how is this new situation going to affect the global energy equation? What will be the role of nuclear energy? Is it still going to be a reliable source after the incidents we have all witnessed in Chernobyl and Fukushima? And, what will be the role of alternative energy?

Secondly, we all witness that low energy prices seriously affect the world economy, but in the good sense or in the bad sense? Is there a strategic risk of underinvestment? Certainly, for a country like Turkey, which is heavily dependent on energy imports, low energy prices affect the economy positively. In the last twelve months, Turkey's current account deficit has declined and it is no secret that this is mainly due to the falling oil prices. International institutions such as the IMF also forecast that, on balance, the fall in oil prices are expected to be positive for the global economy. Yet, this question has different consequences when you look for its answer from the angle of a net importer or of a net exporter. True, that Turkey is happy with the current low oil prices, but this is a zero-sum game on a global basis because what benefits net importers hurts net exporters, for example, countries such as Russia, Iran, Venezuela, Mexico, and even perhaps Saudi Arabia. Obviously, in the short, and maybe in the mid term, consuming countries will benefit from cheap oil and gas while producing countries are likely to lose.

Let me now cite a few characteristics of Turkey as an actor in the overall energy equation in the region. It is definitely not a secret that Turkey is a country which is heavily dependent on energy imports. It is predominantly a fossil fuel consuming country. Many estimates about the future of global energy outlook forecast that fossil fuels are going to dominate energy consumption for several decades to come. Turkey is a net energy importer and 98% of its energy demand is met by suppliers outside of Turkey. It is also estimated that Turkey's annual energy demand increases by 5% every year.

As a country with growing energy demand, Turkey attaches importance to securing its supplies. To this end diversification of both routes and supply countries is of great importance for Turkey.

It is also important to note, however, that Turkey being located between the European markets in the West and the gas rich neighbours in the East, has a desire to become an energy corridor in the Eurasian gas trade too. Several years ago, when I was the Ambassador of Turkey in Baku, Azerbaijan, I used to look at the Baku-Tbilisi-Ceyhan crude oil pipeline and the Baku-Tbilisi-Erzurum natural gas pipeline as two main arteries of Turkey's energy supply but also as two important pipelines to enhance the connectivity between Azerbaijan, Georgia and Turkey. Those two pipelines were also the reassurance of diversified export routes of hydrocarbon resources of the Caspian region from the east to the west. Today, however, the Eurasian pipeline game has effects beyond the Anatolian peninsula. Today, we look for the realisation of the Trans Anatolian Natural Gas Pipeline, in other words the TANAP project, before the end of 2018, which will enhance the connectivity between the east and the west not only in a limited geography but within a larger context between Asia and Europe. TANAP and its partner extension TAP, the Trans-Adriatic Pipeline, play a significant role under the famous name "Southern Corridor" in terms of European energy security. Turkey, in that sense is a major transit country between the Caspian basin and the European Union. Southern corridor reassures supply security of Europe by means of

diversification and introduction of new players such as Azerbaijan, Iraq, and perhaps at a later stage, Iran into the energy equation. Through these projects, Turkey aspires to contribute to Europe's energy security as well.

Let me expand for a few moments on the TANAP project because I consider this project to be the backbone of the link between the east and the west in terms of energy cooperation. As you would know, the project initially aims to supply to Turkey 6 billion cubic meters of gas from Shah Deniz Phase II and transport a further 10 billion cubic meters of gas to Europe. According to data gathered from the officials, the capacity of TANAP is actually 31 bcm, but with some additional technical work, the capacity may even exceed 50 bcm.

Although its market is sizeable, one cannot consider Turkey as a country to have significant impact on global balances. Turkey is neither a strategic energy producer nor a huge consumer. It has established itself as a reliable transit country, offering short, secure and sustainable route for the energy resources of its energy-rich neighbourhood.

As Turkey is becoming more involved in energy issues however, Turkey is also becoming aware that World energy scene is rapidly transforming. International actors are also changing. For example, China is now the world's second largest oil importer. China's monthly imports of crude oil surpassed those of the USA. On the other hand, the USA itself, being a major importer, is now a net energy exporter in the world energy market and this new trend is considered to be one of the major factors affecting global strategic balances.

I would now like to identify a couple of new trends and features prevailing in international relations which may have a bearing on the future of regional as well as global economic and energy related issues.

The first trend that I would like to mention is the transforming nature of great power politics. This is particularly affecting our immediate neighbourhood, namely the Black Sea and the Caucasus. Let us be realistic and transparent: Russia, Russian effectiveness if not assertiveness, is affecting our region. The Ukrainian crisis, annexation of Crimea has opened a new era in Russia's foreign policy conduct. We cannot underestimate the impact of souring Russian-Ukrainian relations on the regional cooperation schemes in the Black Sea area. The pattern of Russia's behaviour tomorrow would be important and will play a defining role in the regional balances. Moreover, the reaction of the west, namely of the US and the EU will also influence the future of the Black Sea region not only in terms of politics but also in terms of economics and in terms of energy relations. Russia is still a major power in the Caucasus and has a very significant status in affecting the Caucasus security and stability in Georgia, but also in Armenia and Azerbaijan, two countries which are at war due to the unresolved conflict in Nagorno Karabakh. Finally, Russia is now expanding its

influence to the south, particularly to the Eastern Mediterranean due to the Syrian quagmire. Russia is important and what Russia has to say in this neighbourhood needs to be seriously heard.

I have to underline the fact that Russia and Turkey have been competitors rather than partners with regard to the transportation of Caspian oil to the Western markets. There has been a fierce competition between the two in order to have a main export pipeline constructed across their own territory to carry Azerbaijan's and also perhaps Kazakhstan's oil and gas to the European markets. This competition has never come to an end. Today, particularly after the rising tension and also deterioration of Turkish-Russian bilateral relations due to the shooting down of the Russian military airplane in Syria, this competition is likely to become more acute. It is not unlikely to affect the energy equation in the region and it is not unlikely to affect a project which is important for Turkey and Azerbaijan, namely the connection of Turkmenistan's gas to Azerbaijan and its further continuation in access to the European markets via the TANAP project. Connectivity is a reality of today's international relations under the rapidly developing effects of globalisation. Its hinderance due to political reasons will only end up with new dividing lines and will only negatively affect cooperation between countries. Today's world is very much dependent on mutual interdependence and connectivity is an important dynamic to ensure the sustainability of such interdependence.

Secondly, as we are talking about the Black Sea and the Caucasus, we cannot overlook the physical continuity and the vast hinterland beyond the Caspian basin, namely Central Asia. And when we talk about Central Asia, or Asia for that matter, we have to look at the way how China is behaving too. Is China pursuing an assertive foreign policy in Asia? How will the situation in South China Sea and East China Sea unfold and how will those issues affect the links between Asia and Europe?

Thirdly, what is going to happen to the EU? Will the UK leave the union after the critical referendum to take place on the 23rd of June? And if it does, how is this going to affect the European Union's future? I personally do believe that a new European Union is already in the making no matter what the outcome of the UK referendum is and no matter whether the UK stays in or leaves the EU. And this new EU is also going to have an impact on the future of the Black Sea region because two of the littoral states in the Black Sea basin are EU members and EU has developed a so-called eastern neighbourhood policy to expand its association and partnership relations with a number of other Black Sea countries too.

And finally, the changing nature of US involvement in Europe... After the presidential elections, will there be a new reset in US-Russia relations? How is this going to affect US foreign policy vis-a-vis the Ukrainian crisis, the Black Sea and the Caucasus?

The second trend that I would like to underline here is the changing role of international organisations in world politics. I think you would not disagree with me if I mentioned that the global organisations such as the UN, the OSCE are becoming less and less significant in the resolution of conflicts and this is also having an impact on regional politics too. In the geography that we plan to cover today in our Congress, the Black Sea Economic Cooperation Organisation is probably showing increasing vulnerabilities and weaknesses as we continue to see the protracted conflicts in our neighbourhood to persist and new problems to appear.

The third trend that I would like to underline is the expansion of unlimited authoritarianism particularly in our geography. Democratic deficit is increasing, corruption is becoming widespread and international terrorism is exploiting the bad governance in many countries in our immediate neighbourhood. The result is growing population displacement. When we talk about Syria it is now very classical to mention that Turkey is hosting some three million refugees and that thousands of refugees are trying to escape to Europe with unprecedented apocalyptic consequences in the Mediterranean rarely seen in the history of mankind since the second world war. Today, the deal between Turkey and the EU seems to have affected the flow of refugees into Europe to a great extent, but this does not mean that they will not dare to try other routes. In that context, Caucasus and Black Sea also appears to be a likely candidate.

So ladies and gentlemen, dear guests, dear participants, maybe I did not kick off this important congress with much optimism and perhaps flagged several issues which may endanger the security and stability of our region. But I thought it would be perhaps pertinent to mention those challenges because I see that there is a strong intellectual presence here and I have full confidence that your deliberations during the day will somehow address these issues too with a view to ensuring a better prospect for our peoples, for our economies and for the younger generations to follow us who in fact are very much looking forward to the world that we would be handing over to them. Afterall, it is also necessary to remember that opportunities arise in difficult times. And with this optimistic note, at least with my trust and confidence that you will be delivering, I would like to conclude and wish you all success in your congress. I am sure, regional ownership, solidarity and centuries of common heritage which bring us together will help us to find the correct path to follow.

Thank you.