

THE ROLE OF TURKEY'S ENERGY SECURITY IN CALCULATIONS OF
FOREIGN POLICY: IRAQ AND IRAN

by
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Abstract

Energy imports have become the Achilles heel of the Turkish economy. This thesis seeks to show that in the current political and economic context, solving the high cost of energy imports is a dominant and persistent factor in Turkish strategy. How and if Turkey resolves its high energy import costs, will dramatically impact the country's future. This is particularly the case in the event that foreign currencies coming into the Turkish economy from abroad exit the Turkish economy for investments elsewhere. Additionally, this paper hopes to examine Turkish foreign policy in light of energy policy, to reveal the close connection between the two. Turkey's role in the existing conflict and competition between the United States and the Russian Federation over energy supply to Europe is well understood and frequently discussed, but Turkey's strategic relationship to the United States and its impact on both foreign policy and energy importation as regards Turkey's Middle Eastern neighbors is a topic which deserves further inquiry. In particular, Turkey's policy towards Iran and Iraq is deeply influenced by discussions of Turkey's own energy security. Recent events reveal the growing importance of these relationships and the complexity of Turkey's foreign policy gamble.

TÜRKİYE’NİN ENERJİ GÜVENLİĞİNİN DIŞ POLİTİKA HESAPLAMASINDAKİ ROLÜ: IRAK VE İRAN

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Ekonomisi

Özet

Enerji ithalatı Türkiye ekonomisinin Aşıl’ın topuğuna dönmüş durumda. Bu tez mevcut siyasi ve ekonomik durum içerisinde, enerji ithalatının yüksek maliyetinin çözümünün Türkiye’nin stratejisi içerisinde ne kadar etkin ve sürekli olduğunu göstermeye çalışmaktadır. Türkiye’nin bu sorunu nasıl çözdüğü ülkenin geleceği üzerinde önemli bir etki yapacaktır. Bu aslında özelden, yurt dışından Türk ekonomisine giren dövizin başka yatırımlar için ülke dışına çıkması durumudur. Ek olarak, bu tez enerji politikaları ışığında dış politikayı incelemek ve ikisi arasındaki yakın ilişkiyi ortaya çıkarmaya çalışmaktadır. Avrupa’ya enerji arzı noktasında Amerika Birleşik Devletleri ve Rusya arasındaki çatışma ve rekabette Türkiye’nin rolü üzerinde yeterli tartışma yapılmışken aynı bağlamda Türkiye’nin Birleşik Devletler ile stratejik ilişkisi ve bunun Orta Doğu’ya komşu ülke olarak Türkiye’nin enerji ve dış politikası üzerindeki etkisi daha fazla araştırılmıyıp gerektirmektedir. Özellikle, Türkiye’nin Irak ve İran politikaları Türkiye’nin enerji güvenliği tartışmalarının derin etkisi altındadır. Son yaşanan olaylar Türk dış politikasının ne kadar karmaşık olduğunu ve bölge ilişkilerinin ne kadar önemli olduğunu göstermiştir.

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List of Abbreviation

AKP	Justice and Development Party
CHP	Republican People's Party
OECD	Organization of Economic Cooperation and Development
EU	European Union
IMF	International Monetary Fund
IEA	International Energy Agency
IREA	International Renewable Energy Agency
Bcm	Billions of cubic meters
Bcf	Billions of cubic feet
U.S.	United States
PKK	Kurdish Worker's Party
TPAO	Turkish Petroleum Incorporated Company
IAEA	International Atomic Energy Agency
KRG	Kurdistan Regional Government
ISIS	Islamic State of Iraq and Sham

Chapter 1

INTRODUCTION

Much has been written and discussed about the unique qualities that commonly develop in states dependent on fossil fuel production and export for their economic existence (Karl, 1997.; Philip, 1998; Okruhlik, 1999). Focusing on the unique qualities that arise in states that are dependent on imported fossil fuels from abroad presents different generalizations. While petrol-states use their oil and gas wealth to spur internal developments, often becoming reinter states, petrol importing states must align their domestic and foreign policies heavily towards the maintenance of vitally important energy imports. Thus, one principle concern or motivation behind foreign policy inexorably moves towards the maintenance of energy needs. This is particularly the case in the context of nations that fit the criteria of having relatively low exports, which can't balance the outflow of foreign currencies, and Turkey is such a state.

Turkey has grown impressively in the last decade, and Turkey's annual real GDP growth rate between 2002 and 2011 was the highest in Europe, averaging 5.2 percent (IMF, 2012, p.194). At the same time, this growth has benefited substantially from the inflow of capital from abroad, which has been used to cover a high current account deficit. The Turkish current account deficit was nearly \$65 billion in 2013 alone (FT, Feb.13th 2014). To sustain growth into the future and avoid a crisis, Turkey is looking to solve the high costs of its energy importation needs, which account for nearly 60% of the current account deficit. Turkey is positioned at a strategic geographic location between many nations with significant energy reserves. As such, Turkey's future appears

bright. On the other hand, Turkey is often buffeted by the foreign policy of the United States, which has policies designed to maintain and expand its own interests globally, but which often move Turkey towards policies it might wish to avoid. Decreases in the 2013-2014 Turkish growth rate, the inflow of foreign capital and fluctuations in the lira have all highlighted the importance of securing Turkish energy supply in a region of the world fraught with political and economic conflicts.

At the moment, Iran and Iraq have become some of the most vital and important suppliers of fossil fuels to Turkey, and Turkish foreign policy is aimed at solidifying these relationships. At the same time, Turkey's relationship to both Iran and Iraq are issues of potential contention between Turkey and its Cold War ally, the United States. Much has been written about how Turkey's role as an energy conduit could benefit U.S. strategy by undermining the Russian Federation's monopoly on supply of fossil fuels to Europe (Tekin & Williams, 2009). Iran and Iraq present a more complex context. On the one hand, they could present the American strategists with another opportunity to undermine Russian "power over power." On the other hand, Turkey's growing relationship to Iran and Northern Iraqi Kurds could become and has become at different times a stumbling block in otherwise amicable relations towards the United States.

1.1 Motivations

The motivation behind this paper is to provide an understanding of Turkish strategy towards Iran and Iraq, with a focus on the leading role energy security plays in Turkish foreign policy. This is differentiated from analysis that shows other concerns, such as regional security, to be the key motivation behind Turkish foreign policy. Energy imports are the Achilles' Heel of the Turkish economy, yet it still not clear if expanding relations towards Iran and Iraq is possible. Turkey has pursued a "zero-problems" with its neighbors policy, and has a very important and close relationship to the United States. As such, the state will need to carefully and skillfully negotiate in a region fraught with conflict and powers larger than itself.

1.2 Objectives

The objective of this paper is to make clear the importance of resolving Turkey's

energy needs in the current political and economic environment. While Turkey faces many domestic and external obstacles, the thesis of this paper is that solving the high cost of energy imports is vital for the future of Turkey's economy, and has become a principle objective of Turkish foreign policy. “As a growing energy market and with a 90 percent import-dependency on natural gas and oil, energy security has all the more importance for Turkey” according Turkey's Minister of Foreign Affairs, Ahmet Davutoğlu (Appendix 1). Ultimately, Turkey's energy security is the key factor in the country's economic security. Therefore, foreign policy does and needs to reflect this concern.

1.3 Outline

This paper is structured as an exploration of Turkey's foreign policy towards Iraq and Iran in light of Turkey's economic and energy security following a qualitative analysis. Thorough review of the most up-to-date information on the economic position of Turkey is given with detailed notes on the dangers foreseeable today. A brief overview of government efforts to address the economic problems are presented to show how and why energy remains the key factor in addressing Turkey's economic uncertainty, particularly in the short-term. The specific policies of Turkey towards Iran and Iraq are presented to reveal the close concern for energy, even in light of mistrust and misgivings about collaboration. The American role in calculations of Turkey's strategic and foreign policy is shown to highlight the likely consequences of Turkish policy, and create a framework for future analysis. While this paper was being completed, dramatic events in Iraq radically changed the circumstance, and an updated section has been included with commentary on these developments. In addition to secondary sources, data collection has been accomplished by utilizing structured interviews with Turkey's Minister of Foreign Affairs, Ahmet Davutoğlu, and Turkey's Minister of Energy and Natural Resources, Taner Yıldız (Appendix 1).

1.3 Literature Review

This essay contributes to the current literature in several important ways. Firstly, energy security is discussed with a clear emphasis on how it effects the overall

economy, and how energy contributes to the current account deficit. The detailed risks of Turkey's current account deficit relative to other nations are discussed more fully in the IMF's Oct., 2013 World Economic Outlook, which concludes that high debt and sluggish growth are global problems, but ones that are particularly risky in the case of Turkey (among a group of emerging economies to which Turkey is commonly compared) (IMF, 2013). A May 2014 World Bank study released as a Turkey Economic Memorandum provides similar analysis (World Bank, 2014), while the International Energy Agency's publication "2013 Oil and Gas Security of IEA Countries: Turkey" discusses the specifics of energy security in the Turkish case (IEA, 2013).

Secondly, energy security is hotly debated in regards to Turkey's possible role as an energy conduit bypassing the Russian Federation's supply of energy to Europe, but Northern Iraq and Iran in this strategy are largely new considerations. Turkey was bombing parts of Northern Iraq well into 2008, while the U.S. position on Iran has made relations difficult. For more detailed analysis of Turkey's continuing role as a possible conduit undercutting Russian supply, the American based Brookings Institute released in April of 2014 a Turkey Project Policy Paper entitled "Realization of Turkey's Energy Aspirations: Pipe Dreams or Real Projects?" (Winrow, 2014).

Thirdly, Turkey's own relationship to the United States, and how this constricts Turkish energy policy is a topic which deserves greater attention. Generally, it is understood that Turkey is a strong ally of the United States, but when it comes to energy security, some contradictions have emerged. In the case of Turkey, Iran and the U.S., these contradictions are documented in a RAND corporation study for the National Defense Research Institute conducted in 2013 and titled "Turkish-Iranian Relations in a Changing Middle East" (Larrabee & Nader, 2013). More general contradiction between Turkey's political elite and the United States are detailed in another 2010 study conducted by the RAND corporation on behalf of the United States Air Force, titled "Troubled Partnership: U.S.-Turkey Relations in an Era of Global Geopolitical Change" (Larrabee, 2010). For a Turkish perspective on regional energy calculations, Insight Turkey published a lengthy article in 2013 (Fackrell, 2013).

Finally, the most recent events culminating in the ISIS invasion of Iraq place a new and growing importance on the relationship that Turkey and the United States will form around issues of energy security. A decrease in American hostilities towards Iran or the support for a growing relationship of Turkey towards Northern Iraqi Kurds would both have significant impacts on Turkey's future. These are new events and this paper

hopes to add to the current volume of newspaper articles with some deeper insight.

Academically, the conceptual framework of this thesis builds on many sources. Numerous definitions of energy security do exist. It is argued that the lack of a commonly acceptable definition has made energy security more difficult to measure and to balance against other policy considerations (Wizner, 2011). Löschel et al. (2008) comments that “The concept of ‘security of energy supply,’ or in short form ‘energy security,’ seems to be rather blurred.” Far from representing a radical departure from the consensus, other academics agree. Checchi, Behrens, and Egenhofer (2009) conclude that “There is no common interpretation,” while others have called defining energy security “elusive” (Kruyt et al., 2009, Mitchell, 2002), “slippery” or “difficult” (Chester, 2001). Creating some consensus, energy security's definition can be commonly defined by the general sources of risk, and the magnitudes of a specific risks' impact, as broken into the speed, size, sustention, spread, singularity and sureness of risk (Winzer, 2011). Generally, the definition of the International Energy Agency, that “Energy security is defined in terms of the physical availability of supplies to satisfy demand at a given price” (International Energy Agency, 2001), appears insufficiently narrow. However, the debate over definitions of security is often a way of subtlety arguing for a specific policy. Indeed, “cloaking normative and empirical debate in conceptual rhetoric exaggerates the conceptual differences between proponents of various security policies and impedes scholarly communication” (Baldwin, 1997, p. 5).

In this thesis it is argued that understanding energy security in the case of Turkey requires an understanding of the economics of energy security. This follows the works of Douglas R. Bohi, and Michael A. Toman (1996) among others, who have built a deeper and more complete literature on the relationship between energy security and economics. Indeed, the relationship between energy security and economics has been a developing topic since the Group of Five, precursors to the Group of 8, first met in 1975 to coordinate energy policy. The context of the meeting was the 1973 Arab oil embargo, which brought the issue of energy prices and economic stability to the fore of public and academic debate. Realistically, the importance of energy security to economics should be apparent.

Commentary on Turkey's relationship towards Iran includes many different approaches, but this paper shares the position that “regional energy equations and foreign policy” are “more interrelated than ever” (Insight, 2010). On the other hand, other concerns should not be ignored and a sizable literature exists on the other

motivations and factors underlying Turkey's relationship to its region neighbor (Kirisci, 2006, David, 2009, Philip, 2007.).

1.4 India Similar Case to Turkey

Although, it is not the objective of this thesis to investigate the similarity between Turkey and another country with same problem of energy import, current account deficit or energy security, it would be helpful to briefly explore a similar example. The particular risk presented by energy imports contribution to the current account deficit is specific to the Turkish case, but not unique. Many parallels can be drawn between Turkey's position and the position of other nations. For example, Greece is one of the most vulnerable countries in the EU in terms of energy supply and a reliance on imports from abroad (European Commission, 2013). In addition to high energy import costs adding significantly to the current account deficit of Greece, Greece is also similar to Turkey in having so substantial exports capable of balancing these and other costs and has instead relied on the inflow of currencies from abroad and borrowing.

Since the performance of Greece in recent years diminish the possibility to be comparable with Turkey, India may be more appropriate example to look down. India has been shining with its impressive economic success during recent years and its economic growth rate. Although India is rising up by its growth and gaining more effective place in the world economy, the need and demand for energy is another growing and significant issue of not just the economy of India but the political and social situations for all this growing giant. Indian economy has been growing averagely %5 for year and it expected to keep on having the same record for the next 5 years (Madan, 2006). The most significant point is that economic growth results high demand and need for energy resources and in 2011, India is the fourth largest energy consumer in the world after U.S., China and Russia, and it is expected to be third by exceeding Russia in 2030 (EIA, 2014).

Additionally, the economic growth and increasing need for energy resources are not the only similarity between India and Turkey. Disregarding the size of Indian economy, the characteristics of economy in Turkey and India in terms of energy usage

enable the comparison. One of the deterministic indicator of the relations between economy and energy is energy intensity that is showing how much GDP is produced with usage of one unit of energy. The increase in energy intensity means increase in technology used in economy and efficiency in energy consumption. So, energy intensity ratio of India is \$5.860 and for Turkey it is \$5.438. The ratios of both countries are close enough to draw a conclusion that their characteristics of economy and energy consumption are quite similar.

Also, the energy insecurity is a persistent factor in the foreign policy of many states, including India, which is now the world's fifth largest consumer of energy (Brookings, 2014). Similarly to the Turkish case, U.S. foreign policy towards Iran has likewise constricted one of the possible sources of energy that India would enjoy and benefit from utilizing. A so-called "Peace Pipeline" was agreed to in 2012, that would run from Iran through Pakistan, into India and possibly to markets in China, potentially helping to bring some stability to Pakistani-Indian relations and Indian-Chinese relations in addition to making Iran a significant regional player into the future. The situation and the impact of U.S. policy is similar enough to be worth noting. Analyzing the relative worth of energy security in calculations of foreign policy should be case specific, but one way of valuing energy security against other concern is to ask what life would be like without it. Of security generally, Thomas Hobbes famously wrote that life without it would be "solitary, poor, nasty, brutish, and short" (Hobbes, 1651) In the case of Turkey, this paper argues that some of the risk associated with energy insecurity now presents a similar list of negative outcomes.

Since the energy security is a clear issue for both India and Turkey, both states are trying to diversify the energy sources by pipeline projects, increasing the efforts of researching or in many ways. It may be contributive if there is an indicator and comparison of how much diversified the energy import of India and Turkey. For this brief comparison, Shannon Wiener index among many indexes is applied to the data of EIA. Shannon Wiener index is very simple and successful indicator to determine the diversification and it is using a formula ($SW = -\sum x_i (\ln x_i) b_i$) to find the diversity in a number samples (Jansen, Van Arkel and Boots, 2004). The graph of EIA is showing the percentages of oil import of India according to countries. The data of Turkey is taken from the report of EIA as well. The result of Shannon Wiener index gives the diversification ratios of oil import; 1.653 for Turkey and 1.863 for India. Higher value of Shannon Wiener index indicates better diversification. Therefore, although the oil

import of India is more diversified than Turkey with minor difference, the index results shows that characteristically energy import of both countries are quite similar.

1.5 Methodology

The data collection and analysis of this thesis has been conducted following a qualitative methodology which builds a logical narrative of key concerns, their possible values and risks and does so on the basis of the available information. Thalos (2009, p. 13) explains that “Qualitative researchers are interested in understanding the meaning people have constructed, that is, how people make sense of their world and the experiences they have in the world.” But this definition is more appropriate to cultural or media studies. Denzin and Lincoln (2005, p.3) argue that qualitative researchers “turn the world into a series of representations, including field notes, interviews, conversations, photographs, recordings, and memos to the self. At this level, qualitative research involves an interpretive approach to the world.” Following this general trend of thinking, qualitative methodology is often defined as working with words, texts or even images or sounds (Nyamongo, 2001). At the same time, these explanations may insufficiently recognize one of the most significant distinctions between qualitative and quantitative works. Qualitative studies are appropriate when looking at situations and questions which cannot be explained mathematically, and while containing some perceivable pattern or logic, contain a human element which makes them fundamentally different from scientific inquiries. For example, the dislike of the United States towards Turkey's current business relationship with Iran cannot be understood quantitatively, but can only be approached through the collection and organization of information and opinion to draw a logical and well substantiated conclusion.

One of the best possible ways to learn and then analyze the reasons and motives behind the decision making processes is to have access to the opinions and statements of prominent policy makers themselves. This study has benefited from unique interviews with Turkey's Minister of Foreign Affairs Prof. Ahmet Davutoğlu, and the Minister of Energy and Natural Resources, Mr. Taner Yıldız.

There are three basic types of interviews; unstructured, semi-structured and structured. In the interviews conducted as part of this thesis, the interviews were structured. During structured interviews, all the interviewees are asked the same

questions prepared beforehand, and the interviews and the interview questions are worded carefully to create space for interviewees to give open-ended answers (Gal & Borg, 2003). The open-ended nature of the questions provides the opportunity for the participant to be able to express his/her ideas in detail.

The structure of the interviews followed eleven questions (Appendix) that were designated to reveal the real motives behind the decision making considerations of the ministers. This was accomplished following the tactics of McNamara (2009). The questions were open-ended, giving space for the interviewee to express a response. The questions were clear. And finally, the questions were designed to avoid evocative and judgmental wording, and to sound relatively neutral. Perhaps most importantly, while open ended, each question included a probe designed to illicit additional information. This was largely successful, except in one case. The minister of foreign affairs, Mr. Davutoğlu, found the wording of the fifth question “In Northern Iraq, how did Turkey go from bombing, to a having an agreeable relationship to the Kurds there?” to be objectionable (Appendix, p. 68).

When interviewing the Ministers, it was important to explain what would be covered by this thesis and the reason for conducting the interview, as is standard practice (Goldstein, 2002). In addition, less threatening questions were asked at the beginning of the interview and later on harder question were asked following the standard interview guidelines (Leech, 2002). Other suggestions for the ordering of the question were also considered when forming the interview questions. The questions went from more general matters to more direct questions following the methodology suggested by Prindham (1987)

Methods of content analysis are also an area of widespread debate. Content analysis is defined as a method which can be replicable and valid to make specific inferences from a text (Krippendorf, 1968). Hsieh and Shannon (2005, p.127-9) defines contents analysis as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns.” According to Mayring (2000), content analysis is a methodologically controlled way of analyzing the text step-by-step by following analytical tools.

In the end, the interviews were an excellent and occasionally useful addition to this thesis. However, it would be wrong to interpret their inclusion as the principal source of data collection behind this paper. On the contrary, the interviews provided

unique and additional validation to a concise and logical series of claims about the specific considerations underlying Turkey's relationship to Iraq and Iran.

Perhaps the biggest validation of this paper's methodology is recent events revolving around ISIS's military advancement into Iraq. This paper builds on the importance of energy importation in Turkey's economic and political stability to reflect on Turkey's relationship towards the United States, Iran and Iraq. As the paper was being concluded, events in Iraq present an opportunity for these relationship to become even more significant, and showcase the importance of this kind of analysis.

Chapter 2

ECONOMIC SECURITY

The development of energy resources and technologies plays a crucial role in shaping economics and the relations between states, therefore Hamilton claims that second only to national defense, energy security is the critical policy component for both developed and developing countries (Hamilton, 2005). Energy security is multidimensional, and includes both external as well as internal policy calculations. Political and security measures need to be combined with economic measures to create the proper mix of policies to address fully national energy security. It is only an integrated approach that is likely to succeed, and this is well understood by Turkey's political elite. "In international politics, neither international capital nor international relations and energy relations are disconnected processes. On the contrary, they are processes which support each other" according to Turkey's Minister of Energy Taner Yıldız (Appendix 1). Energy security, economic development policy and foreign policy are all part of the same complex puzzle.

The understanding of energy security is often flexible and there is no universally accepted definition. Hancher and Janssen (2004) defines energy security as the condition of a nation or state in which adequate energy resources can be provided at reasonable prices for the foreseeable future, and without the risk of interruption of supply. Indeed, energy security is commonly understood to mean that supply can be maintained without disruption and at a just price (Yergin, 2006; European Commission,

2000). Diversifying the number of sources and therefore the dependence on any one foreign state or industry is another theme which is commonly emphasized, and included in this paper's analytical framework. Sir Winston Churchill once explained that; “Safety and certainty of oil lie in variety and variety alone” (Yergin, 2006, p. 76). At the same time, none of these concepts of energy security sufficiently highlight the role that energy imported from abroad can play in calculations of foreign currency reserves and in calculations of dependency on monies flowing into the domestic economy from abroad. Therefore, to fully understand the implications of energy security in the case of Turkey, a much more thorough review of Turkey's economic security needs to be made.

2.1 Turkey's Economic Security: Impressive Growth in the Wake of the Global Recession

During its 11 years of stewardship, the government of the Justice and Development Party (AKP) has been successful in creating what Turkish Foreign Minister Davutoğlu calls “an unprecedented level of economic growth.” Prosperity has been central to maintaining the party's popularity, and holding AKP's position at the head of the Turkish state. Between 2002 and 2011, Turkish GDP per capita increased impressively from \$3,500 to \$10,444 (TurkStat, 2012). Coming into office during a financial crisis, AKP was able to stabilize the Turkish economy by adapting wide ranging reforms and combating inflation. With reform came a large influx of capital investment from abroad. This foreign capital inflow persisted for more than a decade and continues, but is far from guaranteed.

Turkey has benefited from U.S. Federal Reserve policies that push nearly 85 billion dollars of investment into the global economy each-month (Forbes, August 24rd 2014). The “easy” monetary policies of the U.S. Federal Reserve have been a long standing policy, which existed even before AKP, but one whose importance to Turkey became particularly pronounced following the global recession. While the U.S. Federal Reserve has been pushing money into the financial sector by giving American financial institutions money at near-zero interest, this becomes particularly significant when investors are looking to diversify their risk and seek higher profits by investing outside the United States. Turkey was among the “emerging” economies that were highlighted for having continuing growth opportunities in the wake of the 2008 American mortgage

crisis.

“Turkey stands out as a promising emerging market alongside Brazil, Russia, India and China.”

-Zafer Çağlayan, Minister of Economy, (Ernst & Young, 2013).

Besides the opportunities inside Turkey, which became more open to international investments as a result of the AKP government, foreign investors can benefit from the “carry trade”, by which banks and investors exploit differences in the interest rates offered by the Turkish financial sector, and which can be charged to borrows, and the essentially free money being offered by the U.S. Federal Reserve (Ernst & Young, 2013). Turkey's loans to the private sector have more than quadrupled since 2008 (Colombo, 2014). Turkish property markets are another area that international finance has played a role in, with large loans made towards Turkey's real-estate development leading some commentators to ask if Turkey is likely to have its own real-estate driven crisis in the event that current property prices are discovered to be a “bubble” based on speculative investment and the sense that property markets can never go down.

“Like many other emerging nations, Turkey’s economic boom since the financial crisis has been heavily predicated upon a combination of foreign 'hot money' inflows, ultra-low interest rates across the yield curve, rapid credit growth, and soaring asset prices.”

-Jesse Colombo. Forbes. (Colombo, 2013)

The inflow of foreign capital can be used for the development of new industries, and capacities inside Turkey. Unfortunately, not enough of the foreign funds have been used to create long-lasting investments. For this reason, the inflow of short-term portfolio investment is regarded as “hot money,” meaning that the money can leave Turkey almost as quickly as it came into Turkey. This is a clear and present danger, which is particularly dangerous in the Turkish context. Even if the inflow of capital from outside Turkey is sometimes used for the development of competitive industry, as opposed to asset price inflation in the property markets, the funds have generally been used poorly by markets which are risk adverse. Turkey's government is the leading

sponsor of new developments in science and other potential game changers, but has thus far been unable to dramatically organize capital around national development policies (Colombo, 2014). Turkey's lack on investment in a range of products, including in the automobile industry, means that the country has to import many of its capital intensive needs from abroad. Turkey's current account deficit is its net imports minus net exports and represents the gap currently being filled by the inflow of “hot money” from outside of Turkey. In 2013, the current account deficit was nearly 8% of GDP (IMF, 2013). According to Turkey's Minister of Foreign Affairs, Ahmet Davutoğlu, “one of the structural problems of Turkey’s economy is its high current account deficit” (Appendix 1) For this reason, reducing the current account deficit has become one of the main objectives of Turkey's Medium Term Economic Program (2014-2016).

Most importantly, energy imports currently represent a majority of the current account deficit. Energy imports of approximately 60\$ billion in 2013 alone mean that Turkey is extremely vulnerable to an outflow of investment capital from abroad (IMF, 2013). At the same time, the world is replete with examples of countries which are forced to import their energy needs from abroad, but which have enough competitive export industries that they do not suffer the same current account deficit. “Of course, the current account deficit becomes harmless if it can be controlled, however; in the countries where exports are depending on imports, it requires to be ultimately careful,” commented Turkish Minister of Energy Taner Yıldız (Appendix 1). A working paper presented by the Turkish Central Bank in 2010, highlights a survey of 145 leading Turkish manufacturing companies, finding that in key sectors such as electronics and metals, imports accounted for more than 80% of expenses (TCMB, 2010). The strength of the lira and the Customs Union with the European Union are shown to be two reasons for these imports, but Turkish manufacturing companies make clear that the absence of an adequate supply chain within Turkey is the principle problem. Solving the current account deficit would require a rapid decrease in imports and an unlikely boom in exports.

Turkey exported more in 2012 than ever before in the country's history. Nearly \$152.6 billion in exports was generated with trade to over 241 countries. At the same time, the nature of Turkish export industry remains symptomatic of countries at the global periphery. Turkey imports goods which are high value added, such as consumer electronics, and exports goods which are low value added, such as textiles. In the long run, this fundamental imbalance in the economy will need a solution. Turkey aims at

becoming the 10th largest economy in the world, with a GDP of \$2 trillion, but would need to accomplish at least \$500 billion in export by 2023 according to Turkish Minister of Economy, Zafer Çağlayan, before his recent resignation (Ernst & Young, 2013, p. 18-22).

2.2 Turkey's Economic Security: Growing Uncertainty

The Turkish AKP government is aware of the dangers presented by the current account deficit and the dependence on foreign investment. During his January 6-8, 2014 visit to Japan, Turkish Prime Minister Recep Tayyip Erdogan spoke on the issue of the economy, and Turkey's growing relationship to Japan. Japan has become one of Turkey's biggest partners in the attempt to create two nuclear power plants inside Turkey, a project which represents a massive technical challenge. And which is being done with an eye towards the recent Fukushima Daiichi nuclear accident, in which a Japanese nuclear reactor melted-down in the aftermath of an earthquake and continues to pour nuclear waste into the Pacific Ocean and skies above. Unfortunately, Turkey's own planned nuclear power plants would be at risk from earthquakes. Prime Minister Erdogan innumerate the problem with reliance on imported oil and gas, but ended by expressing the hope that "For the next four or five years we believe that this current account deficit will (not) be a threat for us. It has never been a threat for our economy" (JapanDailyPress, March 31, 2014)

While confident, it is clear that the Prime Minister does consider the issue to be crucial and immediate, demanding action by the Turkish government, and a unified policy response. Besides nuclear energy, Turkey's relationship to Japan is growing on a number of fronts, including a recently scraped effort to collaborate with Japan on the creation of Turkey's main battle tank's engine. Included in the discussion of Turkey's current account deficit, foreign policy, and energy needs is the recent emphasis of AKP on the development of Turkey's own domestic arms industry, concentrated around Ankara. Turkey would not be the first country to organize the growth of its industrial capacities around state expenditures on weapons and defense equipment. This would likely close the gap between market forces distribution of capital and national interest. Developing the arms industry without giving more support to the Turkish military, which AKP fought hard to undermine and which has historically been the source of

many coups in Turkey, is possible. At the same time, it remains to be seen if the Turkish arms industry will receive more dramatic investments. The Turkish Undersecretary for Defense Industries, Murad Bayar, has commented that “Over the past decade, Turkey’s procurement focus has been on product development activities... following a pattern similar to that of the United States” (Ackerman, 2010). If Turkey can become a significant arms exporter remains to be seen.

Even as policy and policy makers attempt to address the supply chain problems, and organize investors to take the necessary risks in attempting new ventures they are unaccustomed to, the energy needs of Turkey will need a solution. No one policy is likely to bring one-hundred percent success in solving this difficult conundrum, but many simultaneous programs are being explored.

The alternative or renewable energy resources of Turkey are potentially great, and Turkey is a founding member of the International Renewable Energy Agency (IREA). When investors and bankers came to Turkey in 2009 for a meeting of the World Bank and International Monetary Fund, they were greeted with signs proclaiming “Sustainability is our favorite topic” made by Akbank. Indeed, with 60% of Turkey's energy needs coming from imported fossil fuels, the drive to exploit wind, geothermal and hydroelectric power is being made by a number of different actors (World Bank News, August 19th 2009). Turkey is already the largest user of geothermal power in Europe, and the sixth largest user of geothermal power in the world. At the same time, like most of the world, Turkey's long term commitment to alternative energy is uncertain. Current agreements plan for 30% of Turkey's energy needs coming from renewable energy, but by the year 2023, a date with little foreseeable future (Turkey Ministry of Foreign Affairs, 2014).

The solution to Turkey's energy needs demands both long term and immediate planning. The recent numbers released by the Turkish Statistical Institute confirm the energy import dependence that endangers long term Turkish growth. The total energy imports of Turkey for 2013 amounted to nearly \$55.9 billion. This represents 22.6% of total imports and 56% of the current account deficit, which reached roughly \$65 billion in 2013. The foreign direct investment made in Turkey in 2013 was only a little more than half of the investments made five years ago, an investment in 2013 of around \$6.9 billion. This difference has been made up for by a large increase in the borrowing of Turkish banks. The \$65 billion deficit represents roughly 8 per cent of Turkish gross domestic product, and is a significant reason why the U.S. Federal Reserve classified

Turkey as one of the most vulnerable developing economies in February of 2013 (Dombay, 2014).

The analysis of the U.S. Federal Reserve follows an Oct., 2013 study done by the IMF which concludes that Turkey is the “most vulnerable” country in a group of leading emerging economies to which Turkey is commonly compared (IMF, 2013). Figures released by the Turkish government in January 2014 show that Turkish companies exchange liabilities had grown from \$65 billion in 2008 to over \$170 billion by October 2013 (Dombay, 2014). Combined, the public and private sector has \$168 billion in foreign exchange debt due before January 2015. \$168 billion is nearly a quarter of Turkish GDP (\$820 billion nominal for 2013), and vastly larger than the Turkish Central Banks \$35 billion in foreign reserves (IMF, 2013). With lower levels of foreign direct investment, Turkey is turning towards shorter term debt. The shorter the terms of the debt, the more risk it presents to the country's stability.

The exchange liabilities also increase the difficulty of closing the current account deficit through increased exports. While inflation has been the principle fear of the Turkish government, the inability to lower the exchange of the lira closes another policy option normally available to spur export. The large amount of foreign denominated debt held by the Turkish public and private sectors would make it disastrous if the lira saw a rapid depreciation in its exchange rate. Because domestic groups borrow in U.S. dollars, it means that the government must maintain a system that looks like a fixed exchange rate regime to the dollar.

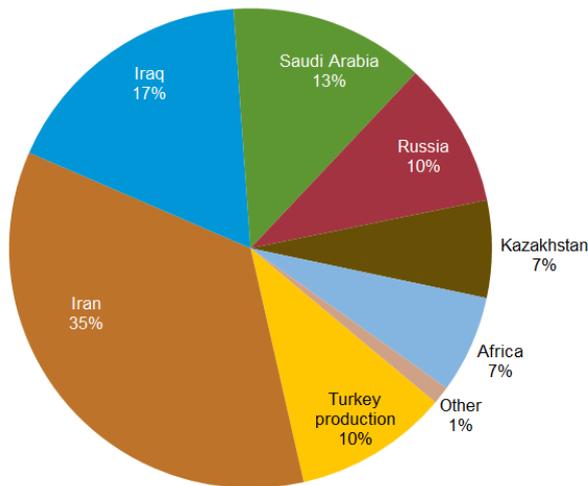
Therefore, the economic future of Turkey appears closely tied to the United States. With the unsustainable current account deficit, small changes in U.S. Federal Reserve policy and the whims of global investors will both have a significant impacts on Turkey's economic success. This makes calculations of Turkey's foreign policy heavily dependent on judging the future direction of U.S. economic and political decision making. Geographically, Turkey is between many energy producing states, the supplies of which could potentially bring stability to Turkey's economy, but this will heavily depend on the position stuck by the United States.

Chapter 3

TURKEY: ENERGY SECURITY

Understanding the growing importance of Iraq and Iran in calculations of Turkish foreign policy is greatly aided by an examination of the figures on Turkish

Turkey crude oil supply mix, 2012



 Source: U.S. Energy Information Administration, International Energy Statistics, Eurostat

fossil fuel use and importation. In 2013, Turkey consumed 734,800 barrels of crude oil, with more than 90% of oil consumption and a significant amount of petroleum products coming from imports. The International Energy Agency (IEA) projects that Turkey's crude oil importation will need to double before 2023 to maintain the current growth expectations.

This growing need highlights the importance of maintaining and expanding energy security in the Turkish foreign policy arena. Oil is one of the primary energy sources in Turkey, representing nearly 28% of Turkey's primary energy supply (TPES) for the year 2012, with most oil used in the transportation sector. At the same time, domestic oil production in Turkey has been decreasing and was never very significant, totaling little over 6.7% of the total consumption or about 45 kb/d in 2012 (IEA, 2013, p. 24).

The Turkish Ministry of Energy hopes to discover significant domestic reserves

of oil. As Turkey has 700.000 km² of land and some 300.000km² territorial waters, and borders many energy rich nations, it seems likely that some reserves maybe found eventually, but as Turkish Minister of Energy Taner Yıldız comments “If there is none, of course we cannot find the petroleum which does not exist” (Appendix 1). In addition, any reserves found inside Turkey are likely to have significant political ramifications. Some speculate that the Black Sea region could contain undiscovered reserves, but this would potentially become a conflict with Russia. The most likely domestic reserves probably reside in the East of Turkey, and come with a host of politically concerns concentrating on Turkish Kurds desire for autonomy and PKK terrorism. According to Minister Taner Yıldız, “the strategy of Turkey is to take the ownership of petroleum from different countries more than the petroleum found from national reserves” (Appendix 1)

Today, Iran is the single largest supplier of crude oil to the Turkish market, supplying nearly 39% of Turkey's total crude oil. A lessening of American sanctions on Iran would likely greatly increase this amount. While, Iraq is now the second largest importer of crude oil to the Turkish market, making up some 19% of total imports (IEA, 2013, p. 35). Development of northern Iraqi oil reserves would significantly increase this amount, perhaps providing enough to supply all of Turkey's needs.

Previously, Russia was the single largest source of crude oil imports, but Russia has in recent years fallen to the forth-largest by volume supplier of crude oil to the Turkish market (11%), behind Saudi Arabia (15%). Importantly, Russia remains the largest importer of refined oil products, importing 28% of Turkey's needs in 2012 (IEA, 2013, p. 38).

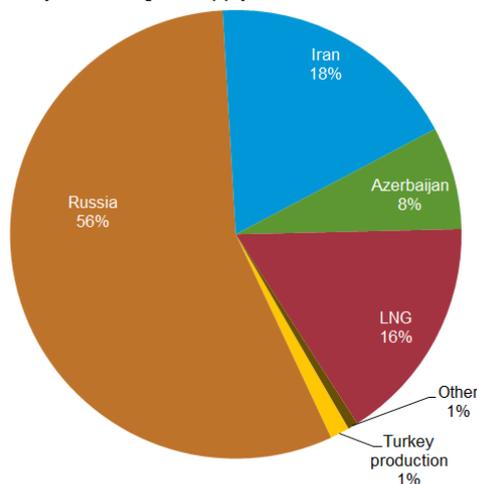
In addition to crude oil, Turkey is also a major importer of oil products, and according to the IEA Turkey's refinery production is insufficient to meet domestic demands. In 2012, Turkey refined only 52% of domestic distillate fuel use and only 21% of domestic liquefied petroleum gas (LPG). The rest of Turkey's refinery needs are met through importation. Even while this situation maybe improving, these capacities will also need to be increased if Turkey wants to achieve true energy security. Building new refineries would help Turkey to reduce its import costs, a policy being currently implemented by the Turkish Minister of Energy, but which requires significant investments (Winrow, 2014 p. 13-15).

Currently, Turkey has difficulty in maintaining its 90-day oil stock-holding obligation to the International Energy Agency, and does so by placing a stock-holding

requirement on its industry. In the event of an emergency, these reserves would need to be added to by demand restraint measures. Turkish policy requires that refineries and fuel companies hold a minimum of 20 days of stocks, and that consumers of more than 20,000 tonnes annually hold a 15 days reserve of the relevant fuel. Nationally, Turkey held roughly 61 million barrels of oil stocks in January 2013, which is roughly 99 days of the net imports recorded in 2011. Oil prices fluctuated rapidly in both 2008 and 2010, with extremely steep increases in price. This benefited oil exporters, but in the event that oil prices again rose rapidly, Turkey would be negatively affected. Energy price fluctuations are a threat which needs to be fully considered and prepared for (IEA, 2013, p. 42-44).

Current reserves could be potentially used to counter the effect of rapid increases in price, but a similar increase would badly damage Turkey as a net importer if it was unable to switch to an alternative energy source. Rapid and quick increases in price are particularly threatening in the Turkish context, and would place a huge economic burden on both Turkish consumers and Turkish industry. Previously, Turkey was able to balance the increasing price of imports with monies flowing into the Turkish economy as a result of U.S. Federal Reserve policy, but this is far from guaranteed in the future.

Turkey natural gas supply mix, 2012



Source: U.S. Energy Information Administration, *International Energy Statistics*, Eastern Bloc Research, Cedigaz

In 2010, nearly 50% of Turkey's oil consumption was driven by the use of automobiles, while Turkey's industrial (24%) and chemical industries (14%) were also heavy users of petroleum. Future growth of the Turkish economy will depend to a great extent on securing reliable sources of oil (IEA, 2013, p.42-44).

Natural gas is an even more important source of energy for Turkey. In 2012, natural gas amounted to nearly 32% of Turkey's primary energy supply (TPES). This demand has been significantly increasing, and went from 0.7 billion cubic meters in 1987 to nearly 45.3 bcm by 2012. In 2014, natural gas represented nearly 41% of Turkey's primary energy supply. Domestic natural gas production is a paltry 0.63 bcm, again creating a serious dependence on imports from abroad. Electrical production represents the majority of gas consumption or about 48% in the year 2011. Russia is the single greatest importer,

providing roughly 58% of the total imports for the same year. Iran is the second largest supplier of natural gas to Turkey, supplying about 18 percent of total needs (Winrow, 2014 p. 5-7).

Today, gas importers are required to hold 10% of their annual imports in reserve. In the event of an emergency, BOTAS, the transmission system operator, would push for constraints on the use of natural gas, interrupt existing contracts, and help facilitate power plants switching to an alternative fuel. However, such an event would be disastrous for Turkey's energy security and the overall economy if it persisted in combination with a rapid increase in the price of other energy sources. Roughly 98% of Turkey's domestic natural gas demand is either imported through existing pipelines or transported as liquified natural gas (Winrow, 2014, p. 4).

Chapter 4

TURKEY: CURRENT PIPELINES OVERVIEW

Both Turkey's geographic significance and the foreign policy options it faces are highlighted by an examination of its existing pipelines and supply routes. The import of crude oil and petroleum products is conducted by both pipeline and tanker. The Izmit and Izmir refineries import crude oil by sea, while the Kırıkkale and Batman refineries are connected via pipelines.

The two major international oil pipelines that run through Turkey are the Kirkuk-Ceyhan Pipeline and the Baku-Tbilisi-Ceyhan Pipeline from Azerbaijan. The Kirkuk-Ceyhan Pipeline stretches from Kirkuk in Northern Iraq to the Ceyhan Oil Terminal in the Mediterranean, and was originally constructed in 1976. A second and parallel pipeline was built in 1987, extending the pipelines maximum daily capacity. In September of 2012, Iraq and Turkey signed an agreement extending the pipelines crude oil important for the next 15 years, and today they would like to add a natural gas pipeline to the existing oil pipelines (IEA, 2013, p. 16). This becomes politically complicated, as discussed in a later chapter of this article.

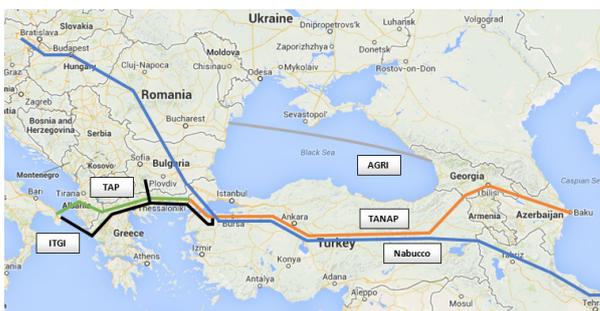
The Baku-Tbilisi-Ceyhan Crude Oil Pipeline begin operations in 2006, and brings Caspian oil from Baku, through Georgia and finally to the Ceyhan Oil Terminal. Turkey is at the heart of US and European attempts to bypass Russian power by gaining access to the Caspian region's energy reserves, of which the Baku-Tbilisi-Ceyhan and

proposed, but now far less likely, Nabucco gas pipelines are both important parts.¹

Natural gas is imported into Turkey via four existing pipelines. The Russia-Turkey West Gas Pipeline is the largest with a capacity of 16 bcm, while the Russia-Turkey Blue Stream Pipeline is nearly as big with a capacity of 14 bcm. The Iran-Turkey Pipeline has a capacity of 10bcm, but sanctions have seriously effected its regular supply. The Baku-Tbilisi-Erzurum Pipeline has a capacity of 6.6 bcm, but none of these pipelines would be as potentially significant as the proposed Nabucco Gas Pipeline, which would deliver gas from Azerbaijan to Europe with a capacity of 31 bcm (Winrow, 2014, p. 15). A new natural gas pipeline from Kirkuk in Iraq would be the most significant “game changer” in the Turkish context.

Nabucco project is the one of main parts of South Corridor vision drawn by European Union and United States to break the energy hegemony of Russia over Europe. Russia answered Southern gas corridor plans of Europe by putting vigorously South Stream project. Considering the structural problems and enumerated obstacles before Nabucco project, Turkey has opened new path to be an energy conduit by declaring the new project of Trans Anatolian Pipeline (Tanap). Turkey and Azerbaijan has signed an agreement in October 2011 to realize Tanap which transfer the Caspian gas through Turkey to the western border and finally to Europe. Although, at early stages, the capacity of Tanap seems to be less than the capacity of Nabucco project, when Tanap will be fully functioning, the capacity of the project will be 60 bcm which more than planned capacity of Nabucco (Çağaptay, 2013).

Graph of Tanap and Nabucco.



Besides being an alternative energy route for Europe under heavy dependency to Russia, project like Tanap or planned pipeline with Northern Iraq shows that Turkey is following a strategy of providing energy security for foreseeable future on strong fundamentals. Turkey is not just trying to be a conduit to transport the gas or petroleum but by realizing big project, the target is

1 It maybe unexpected therefore that Turkey expressed unease and relative neutrality when Russia recognized Abkhazian and South Ossetian independence in 2008. While a member of NATO, Turkey's Foreign Minister issued a brief statement of anxiety, far from condemning Russian policy. However, Russia is expected to replace Germany as Turkey's most important trading partner, and provided Turkey with 70% of its natural gas needs in 2008 (Winrow, 2014, p. 6).

to possess the energy resources. On that, Minister of energy Taner Yıldız repeatedly emphasized the concept of “ownership of the petroleum”. He stated that

“In today’s world, transportation sector has come to a point that you are able to transport one barrel of oil from one edge of the world to another for just nearly 2 dollars. That’s why it does not matter where you find the petroleum but it matters to own it. The strategy of Turkey is to take the ownership of petroleum from different countries more than the petroleum found from national reserves. So thanks to God, we are heading that way very well” (Appendix 1).

Taner Yıldız did also give an example of ownership of the petroleum that “On condition that your political borders remains same, you can enlarge your economic borders. Turkey made such kind of decision when its shares in Sah Deniz 2 oil drilling field has increased and Turkey bought 10% share of Total Co. and becomes 2nd biggest stakeholder after BP in Caspian Sea projects” (Appendix 1).

4.1 Turkey: Energy and Domestic Policy

Included in discussions of Turkey's energy capacities and existing pipelines should be a sense of the importance AKP places on energy security in the domestic political arena. Ultimately, the ability of Turkey to negotiate with international actors will decide the future direction of Turkish energy security, but the consequences domestically should be briefly enumerated. In addition to the general concerns over the Turkish economy and the current account deficit, AKP would benefit enormously from balancing energy costs for consumers. With great frequency, critics of the AKP government have turned to the record high costs of oil at the pump as an example of AKP mismanagement of the economy. AKP's principal political rival, the Republican People's Party, blames the taxes implemented on oil at the pump for creating a 210% increase in the cost to consumers during AKP's 11 years of political rule (Hurriyet, March 30th 2014).

“Turkish people are paying many times more than other countries for fuel because of steep tax rates,” Republican People’s Party (CHP) Deputy Umut Oran said in a written statement released March 29, 2014.

From the perspective of AKP, high taxes are maintained for at least two principle reasons. The current account deficit is widened by domestic spending, which AKP

regards as irresponsible. AKP ministers have been critical in accusing the Turkish people of enjoying unsustainable consumer habits and Turkey is one of the least energy efficient countries in the OECD. High taxes on oil at the pump are designed to curb domestic spending and reduce overall importation. As a result of aggressive taxes placed on both oil at the pump and vehicles with larger engines, Turkish consumers are motivated to purchase more efficient and smaller automobiles. Unfortunately, Turkey does not produce its own cars, although several international firms operate production plants inside Turkey. Dangerously and to take advantage of the slightly cheaper prices, Turkish consumers have frequently switched to natural gas tanks in augmenting their automobiles.

The high taxes placed on oil at the pump are also a product of AKP's inability to effectively collect taxes. Regressive taxes placed on consumers as opposed to progressive wealth and income taxes are easier to implement in the Turkish political context. Therefore, taxes on oil at the pump are part of a bundle of taxes collected for a variety of goods. Taxes on income and profits in Turkey amounted to only 5.9% of total taxes, while taxes on goods and service amounted to 12.5% according to the OECD. At the same time, AKP attempts to target goods considered luxuries, and imports in their tax regime (OECD, 2014).

Solving the foreign policy conundrum and resolving Turkey's energy security is principally important because of the looming threat of the current account deficit, which is a threat to Turkish economic stability and growth, but lowering energy costs and taxes which hit consumers would also represent a significant political victory for AKP. Reducing the taxes placed to curb domestic consumption on energy would silence one of the most common criticisms leveled against AKP by rival political parties.

Chapter 5.

IRAN

Iran is the single largest supplier of crude oil in the Turkish market, supplying nearly 39% of Turkey's total crude oil. The importance of this energy supply would greatly increase in the event that U.S. sanctions were less restrictive. Geography binds Turkey to Iran even as their respective leaderships disagree or regard each-other with suspicion. According to Foreign Minister Davutoglu,

“There is not one but many major accomplishments in terms of Turkish-Iranian relations. First and foremost, our countries share a 560 km long border which is unchanged for almost 400 years; and this is an achievement in the Middle East” (Appendix 1).

Iran is also the second largest gas supplier to Turkey after Russia. Like in the Russian case, the relationship has never been easy and has included many incidents. Frequent quality control issues have sometimes soured Ankara and Tehran towards each-other. In 2007-2014, Iran was contracted to supply Turkey with 9.4 billion cubic meters (bcm) of natural gas annually, but has thus far been unable to provide more than half of this amount. In 2014, Turkey moved to sue Iran over breach on contract. Recent moves by Ankara indicate a desire to import as much as 20 bcm of natural gas from Iran, but problems persist (PressTV, May 14th 2014).

Ankara and Tehran have often come into conflict over Tehran's failure to respect commercial contracts. Following the American invasion of Iraq, the Islamic Revolutionary Guard were used to force the Turkish construction company TAV from Tehran's airport in May of 2004. This was despite a 15-year service agreement that had

been made with TAV. At the same time, Turkcell's successful bid to begin service in the Iranian cell phone market was canceled by government fiat (Larrabee & Nader, 2013. p. 6). These kind of issue lead to deep distrust between Ankara and Tehran, but the economics can likely over these kind of small conflict.

Turkey would like to make larger investments in the Iranian market, but these are often problematic because of Iran's debacle over possible nuclear weapons development and the harsh stance stuck by the United States ever since the Iranian Hostage Crisis and the fall of the Shah in 1979. At different points in the last decade, many predicted that Iran could become the locus of another war in the Middle East, and the United States and Israel are both definitively hostile towards the government in Iran. During the AKP period in Turkey, tensions between the United States and Iran flared both under the Presidency of George W. Bush, and later under President Obama.

At the same time, the Turkish government under Prime Minister Erdoğan has been attempting to expand the energy relationship of Turkey with Iran. In July of 2007, the two nations agreed to a memorandum of understanding on the future construction of a new natural gas pipeline that would bring Iranian natural gas from the South Pars field and natural gas from Turkmenistan to market in Turkey (Larrabee & Nader, 2013. p. 7).

Such a project would be extremely costly, and would require a long term commitment based on political stability. From the outset, it appears that such a project would be anathema to Washington, which would view such a project as giving Iran greater importance in the region. In the words of Energy Minister Yıldız “Sometimes energy is a burden over the shoulders of politics and sometimes politics is a burden over the other” (Appendix 1). The key to American sanctions aimed at Iran has been the assault on Iran's precious foreign currency reserves. As Iran is starved of foreign currency, import from abroad become more and more costly and the country faces steeply rising inflation. At the same time, the inability of Iran to properly develop and maintain its South Pars field has also been a result of U.S. foreign policy. Beside the difficulty in maintaining and expanding existing infrastructure, sanctions complicate investment by international oil companies. This has major implications for Iran, for the region, and for Turkey.

If the proposed pipeline was constructed, it would transport around 40 bcm of natural gas to European markets via Turkey each year. This would actually contribute to U.S. policies designed to undercut Russian imports to Europe (Winrow, 2014, p. 10). Today, Iran and Turkey have already agreed to the construction of new power stations.

These power stations are being envisioned around eastern Anatolia, where power shortages have become a common occurrence, and which have dramatically effected development. The region is particularly blighted during the long and extremely cold winters. New developments in eastern Anatolia would also help to alleviate the ongoing Turkish struggle with the PKK.

The current power plant proposal is supposed to be conducted by two private sector companies. This is done to circumvent the current sanctions on Iran. Current sanctions allow for some private companies to operate trade, as opposed to government agencies. At the same time, the conversation and the prospects for the South Pars field remains far from certain or concluded.

In November of 2008 the Iranian negotiators signed a memorandum of understanding giving the development rights of several phases of the South Pars field to the Turkish state-owned upstream oil and gas operator TPAO, but four years later the details of the agreements were still being reworked. Despite frequent meetings of the Working Group tasked with the project, no agreements had been made on the details of the memorandum by 2012, and on January 28th, 2014, Turkish Energy Minister Taner Yildiz announced that TPAO had dropped out of the negotiations, stating that "If Iran wants to make a new proposal with new conditions we will look at it, but as it stands at the moment there has been no decision for TPAO to invest in Iran" (Platts, February 14th 2014).

At the same time, Turkey hopes that these negotiations might still prompt further negotiations on Nabucco and potentially other pipeline projects aimed at providing energy to Europe. Iranian natural gas is one option for feeding these and other projects with an alternative energy supply. Azeri gas would not be enough to fuel later phases of such an ambitious project for the Forth Corridor. For this reason, the Shah Deniz, Iraqi and trans-Caspian connections will need to be initiated and completed with some resolution. Iran is seen as feeding into these other projects, and is not an alternative (Winrow, 2014, p. 10). Far from it, Turkey is hoping that some progress in the Iranian negotiations will be the impetus for bringing the overall strategy forward.

The foreign policy establishment in Turkey views engagement with Turkey's geopolitical neighborhood as part of Turkey's traditional Western strategic alignment, even while it might appear contradictory. "We are trying to transform the threat of importing oil and natural gas from Iran, Azerbaijan and Russia into benefits" according to Energy Minister Yildiz (Insight, 141). In Iran's case, Turkey argues that without a

dialogue, Iran will not be convinced to bring its policies in line with the international community, the United States, the commitments of the Nuclear Non-Proliferation Treaty (NPT) and the International Atomic Energy Agency (IAEA). The principles that are often sighted as guiding Turkey's new foreign policy revolve around security, stability and prosperity. Establishing regional institutions, greater cooperation and increased economic integration are seen as the key to reducing political conflicts that may occur. (Insight, 142).

It is an open secret that cooperation between Turkey and Iran on energy exports has been an issue of contention between previous U.S. administrations and Turkey, even while Turkey attempts to couch this efforts as part of U.S. grand strategy. The U.S. plausibly argues that energy cooperation of this type undermines the American efforts aimed at isolating Iran and strong-arming Iran into compliance. On the Turkish side of the aisle, it is understood that some relationship to Iran is absolutely vital to Turkey's energy security, even while the relationship is often fraught with mistrust. Prime Minister Erdoğan has announced on numerous occasions that Turkey's cooperation with the Islamic Republic is limited to diversifying Turkish energy supplies, and is being done for the same reasons as Turkey's cooperation with African petrol-states such as Nigeria. When the Georgian war escalated in 2008, Prime Minister Erdoğan announced that it would be “out of the question to stop imports from either country [Iran or Russia]” (Insight, 143).

5.1 Iran: Gold for Gas- Speculation at its Finest

In the second half of 2013 and first half of 2014, the Turkish economy faced a major wake-up call to the dangers of its current economic predicament. Inflation grew, growth slowed dramatically compared to the year before, and the lira weakening against dollar denominated debts.

“The Turkish economy entered a period of uncertainty in 2014 with political conflict resulting in the lira plummeting against the dollar. The decision of the U.S. Federal Reserve to taper its monetary stimulus threatens to reduce vital capital inflows to Turkey. The energy import bill will not be helped by a falling lira.” (Winrow, 2014)

Among the many concerns that AKP officials faced, the high current account deficit had come to the fore. While the current account deficit was regarded as a risk

before 2013, the rapid reduction of investment in the Turkish economy, combined with the weakening of the lira threw the issue into sharp relief. In October 2013, Former Turkish Economy Minister Zafer Caglayan called the deficit “unsustainable” in an interview with a CNBC affiliate. It would soon be revealed that the government was taking clandestine efforts to help resolve the issue. National police investigators secretly took recordings of Economy Minister Caglayan in a private discussion of how Turkey should increase its exports by at least \$1 billion per month through transactions with Iran. The validity of these specific records remains disputed, but the strategy Turkey was pursuing in regards to Iran became public knowledge (Bloomberg, August 20th, 2014).

Importantly, increased dealings with Iran endanger Turkey's relationship towards the United States. The key obstacle in increasing trade and particularly fossil fuel imports has always been American sanctions. The American sanctions are principally geared at reducing the foreign currency reserves of Iran. This endangers the Iranian currency, and has led to dramatic and damaging inflation in the domestic economy. In addition, sanctions reduce the ability of Iran to import the necessary technology and supplies to take advantage of resources such as the South Pars field.

It is claimed that Turkey has secretly engaged in was the arrangement of gold transfers to Iran. Gold could be used to support the Iranian currency, while Iran provided Turkey with energy and increased trade. Gold transfers made from Turkey to Iran went from \$53 million in 2011, to nearly \$6.5 billion in 2012 (Cordesman, et al., 2013, II). These figures also help to explain the stronger Turkish trade figures shown in 2012 according to Atilla Yesilada, the Turkey expert at New York-based GlobalSource Partners Inc., an economic advisory firm. If correct, this also helps to illustrate what Turkey and Iran’s future might look like in the absence of U.S. sanctions. In an article for Bloomberg, Yesilada is quoted as saying,

“I don’t know what Caglayan’s motivations were, but he was a huge supporter of the gold trade with Iran. It never made any economic sense. This is not the kind of export that’s associated with a strong economy. What was the purpose of the gold trade with Iran? We’ve never gotten an explanation” (Bloomberg, August 20th, 2014)

At the same time, it is quite clear what the motivation was, and the advantage of this gold trade. Turkey had found a clever way around American sanctions, and from all appearances, the United States had chosen to look the other way, until Turkish politics brought the issue into sharp relief.

5.2 Turkey-Iran: Nuclear Cooperation

In the last 10 years, Turkey's growth in the demand for energy has increased at a rate second only to that of China (IEA, 2013, p. 4). As such, Nuclear energy is deeply attractive in the Turkish context. Importantly, nuclear energy is another area in which Iran and Turkey may potentially find reason to cooperate, particularly as Iran pushes to further develop its own nuclear energy program. Despite some resistance on behalf of the international community, Iran is permitted to explore nuclear energy development, as are all states, under the existing international agreements of the Nuclear Non-Proliferation Treaty (NPT).

Rosatom, the Russian State Atomic Energy Corporation, has provided nuclear fuel to Iran and is also expected to construct Turkey's first nuclear power plant, although the plan has experienced difficulties due to Rosatom's tardiness in submitting an environmental impact and risk analysis. Even while Turkey has stood by the United States, European Union and United Nations in efforts to deter Iran from acquiring a nuclear weapon, Turkey will remain an important interlocutor in the nuclear negotiations. The enriched uranium exchange completed on May 17, 2010 between Turkey, Iran and Brazil is completely in agreement with international laws (World Bank, 2014, p. 145). Any and all arrangements will take years to complete, but Turkey has good reasons to pursue a closer nuclear energy partnership with Iran.

5.3 Turkey's Nuclear Power Plant Ambitions: Iran and Russia

Turkey has proposed the construction of two nuclear power plants aimed at helping aid the development of Turkey's energy independence. The largest and closest to completion is located in Mersin on the Southeast Mediterranean coast of Turkey, which is unfortunately within an earthquake zone. If constructed, the power plant will generate a maximum of 4,800 MW, which amounts to nearly 10% of Turkey's 2013 energy consumption, and will cost an estimated 20-25 billion U.S. dollars. The Russian state-owned company Rosatom won the power plant's construction contract. Russian calculations appear pragmatically based on their own expectations of Turkey's future.

Assuming stability, Turkey's importation of Russian natural gas would be worth more than the development of the power-plant, but sustained imports at current prices are far from certain.

The nuclear power plant deal could represent another conflict in U.S. Turkish relations. American analysts highlight the Muslim oriented rhetoric of AKP and the antagonism of AKP supporters towards the United States as issues of growing concern, while construction of a nuclear power-plant near Iran is sometimes viewed as making the American position on Iran's own domestic nuclear energy ambitions more problematic. In interview, Turkish Energy Minister Yildiz responded that good relations with Iran made Turkey's own nuclear ambitions easier commenting that

“Of course, those are inseparable pieces. In international politics, neither international capital nor international relations and energy relations are disconnected processes. On the contrary, they are processes which support each other. Thus, I believe that our constructive attitude toward Iran and the world during the nuclear negotiation is an example for our today's relations. From that perspective, we are at really good point today” (Appendix 1).

For its part, Turkey has taken a leading role is trying to help arrange a diplomatic settlement between the United States and Iran. Economically, decreased hostility between the United States and Iran would help to aid the export of Iranian oil and gas to Turkey, the development of Iranian reserves, and increase trade between the two countries. Politically, Turkey's role in the nuclear negotiations might make its own pursuit of domestic nuclear energy easier. Under the terms of the Nuclear Non-Proliferation Treaty, and the agreements of the Atomic Energy Agency, all countries have the right to pursue the development of atomic energy, including Iran. This fits well with Turkish Minister of Foreign Affairs Ahmet Davutoğlu position that the regional actors must be aligned towards “maximum mutual-interest-based” policies. When asked about the current relationship, Turkish Energy Minister Yildiz commented that

“During nuclear negotiations, Turkey had a constructive attitude which can be shown as an example to the world... I believe that the energy sector, importing natural gas from Iran, and being one of the biggest petroleum importer to Turkey are all helpful for the relations with neighbor, friend and brother country Iran” (Appendix 1)

Chapter 6

KURDISTAN REGIONAL GOVERNMENT AND NORTHERN IRAQ

Iraq became a key focus of Turkish foreign policy beginning in the 1990s and the First Gulf War. Iraq became the most significant country influencing Turkey's own security in the region, because of its own instability, and Iraq's Kurdish minority. At the time, Turkey was engaged in its own military struggle against domestic Kurds, and Iraq's large Kurdish minority presented a strategic threat on the boarder of Turkey. The uncertain future of Iraq, something which became even more pronounced following the 2003 U.S. invasion of Iraq, again threatened Turkey, a country still regularly experiencing conflict with its own Kurdish minority. At different times, Turkish and American relations became constrained by the United States taciturn support for Turkish incursions into Northern Iraq, perusing members of the rebel terrorist Kurdish Workers Party (PKK). Large scale Turkish military incursions in 2008 ended with a change in Turkish policy, and favoring the government of President Masoud Barzani.

Turkey moved away from policies of hostility and towards cooperation with the Kurdistan Regional Government (KRG) in Northern Iraq. Concurrently, Turkey negotiated successfully a range of agreements with the federal government of Iraq on wide range of issues. Trade, security, water and most importantly energy exports became the basis of a growing relationship. Today, increased economic cooperation is seen by the Turkish political elite as a way of promoting peace, following the emphasis on mutual benefit outlined by Turkish Foreign Minister Davutoğlu. The successful

campaign of isolation conducted against the PKK in Northern Iraq has rapidly changed the diplomatic context from Turkey's perspective. Economic integration is seen as the key to combating support for terrorism from inside Iraq, but security is not the only Turkish agenda. The autonomous Kurdish regions of Northern Iraq have emerged as possibly significant suppliers of oil and natural gas to Turkey at an extremely significant junction. Highlighted by Turkey's energy insecurity, this makes the autonomous Kurdish regions particularly important in the current discourse. At the same time, the picture is complicated by ongoing geographic and economic disputes between the autonomous Kurdish regions and the Government of Iraq in Baghdad (Insight, 2013).

In the capital of Kurdish held Northern Iraq, Erbil, the role of Turkish business is both significant and immediately apparent. Turkey's Minister of Foreign Affairs, Ahmet Davutoğlu, testifies that “an estimated 70 % of the total trade volume between Iraq and Turkey (16.5 billion USDs by the end of 2013) is conducted through the KRG. Turkey is the leading foreign investor in terms of the number of foreign enterprises operating in the region and number two country in terms of foreign direct investment (Mills, 2013, p. 52). While merchants and business with ties to Iran are common, the area is heavily Turkified in the realm of both business and culture. At the same time, it is still not clear how the complicated relationship between the governments of President Barzani, Nouri al-Maliki and Prime Minister Recep Tayyip Erdogan will resolve itself, even while there are clear reasons to believe it is vitally important for Turkey's future energy security.

In addition to Kurdish, Iraqi and Turkish actors, both the United States and Iran are watching carefully to see in which direction the various competing political forces will eventually push. Publicly, the United States praises the lessening of hostilities and growing relationship between Turkey and KRG in Iraq, but the American position could change. For its part, Turkey could make significant gains in establishing a deeper economic connection to the autonomous region, in the realm of both natural gas and oil. At the same time, Turkey has evident reasons to pursue and grow its relationship with the whole of Iraq, and would likely suffer from any compromise in these relations. In 2014, instability in federal Iraq is complicating Turkish strategy. In addition, it remains deeply unclear how the United States will interpret Turkish policy. According to Turkish Foreign Minister Davutoğlu,

“Establishment of good relations between Turkey and the KRG has always been promoted by the US administration...We have been sharing all developments with the US authorities from the very beginning of this process” and “We assume that the US administration is welcoming these good relations” (Appendix 1).

Importantly, the government of President Barzani has been seeking to use its own gas and oil wealth to gain further independence from Baghdad, albeit in a federal context. For some, Northern Iraq is the closest the world has come to a real independent Kurdistan. Baghdad opposes this move towards deeper independence, which is believed to threaten both the national unity of Iraq, and at the same time would remove from Iraqi control large energy reserves and the following export income. Despite a complicated and troubled past, the geography of the region means that the autonomous Kurdish regions of Iraq will inexorably be brought closer to Turkey as a principle trading partner and export route. Given a deep history of conflict between previous Turkish governments, the AKP government and Kurdish groups inside Turkey, it is perhaps surprising that attitudes, prejudices and old animosities are losing to economic realities, but it helps highlight the rational nature of Turkish policy, and the focus on energy security under AKP.

6.1 Northern Iraq: Energy Resources

Northern Iraq's, especially KRG's energy resources are the source of its growing importance. However, compared to the energy reserves of greater Iraq, they are relatively modest. Federal Iraq has reserves of oil estimated to be around 143 billion barrels (bb) . This places Iraq as the fifth largest oil reserve on the planet. Additionally, there is growing evidence that Iraq may actually contain as much as 200 billion barrels of oil or more according to some experts (Mills, 2013, p. 55). For Turkey, a closer relationship to Iraq is a potential game changer in the realm of energy security, and this larger prize should not be sacrificed easily. Additionally, according to Energy Minister Yildiz, "The United States is urging that the territorial integrity and the unity of political boundaries of Iraq should be provided and secured" (Appendix I).

The natural gas wealth of Iraq is also great, with as much as 127 trillion cubic feet (Tcf) of gas estimated to exist for future exploitation. This places Iraq as having the 12th largest reserves of Natural Gas, far behind Russia or Iran, but this number too is believed to be a conservative estimate. In future negotiations, adding significant quantities of Iraqi natural gas as an alternative would greatly assist Turkey. Russia has made previous bids to provide Turkey with significantly cheaper natural gas, but the

Turkish foreign policy elite view these offers as both politically antagonizing Turkey's Western allies, and tying Turkey unfavorably to Russian influence. Even with the successful completion of its nuclear energy facilities, natural gas importation will need be high, and a reliable source from Iraq would give Turkey greater bargaining power with respect to Russia and Iran, and quite possibly greater significant to the United States and Europe (Mills, 2013, p. 54).

The oil reserves that KRG expects to find in the near future are significantly less than those of Federal Iraq. The expected range is somewhere between 30 and 60 billion barrels, when the Kirkuk field is excluded. Kurdish power in Kirkuk would dramatic raise these reserve estimates, but is currently disputed by the Iraqi government, although this situation is rapidly change, as discussed later in this essay. Already, Northern Iraq currently has approximately 12 billion barrels of crude oil, with the Shaikan and Bardarsh fields being the largest, with a combined 4.5 billion barrels. However, Turkey would prefer not to antagonize Baghdad unnecessarily. Importantly, Kurdish ambitions are for a much larger share of Iraqi oil, potentially enough to make jeopardizing the relationship with Iraq less of a gambit (Mills, 2013, p. 55-6).

The oil reserves of Kurdistan may only represent around one tenth of Iraq's total reserves, but this should be considered in light of the small population of little more than five million inhabitants, providing further resources for export and further reasons to pursue export. The current reserves of Kurdish region already dwarf those of Azerbaijan and the Kurdistan Regional Government (KRG) has as a goal a production capacity of 1 million or more barrels per day (bpd) by the year 2016. For the Kurdistan Regional Government, this is the most important economic project, as it would provide an estimated \$35 billion per year at the current oil price in income to develop the region. For Turkey, 1 million or more bpd would be enough to entirely meet its current import needs (Mills, 2013, p. 55).

Kurdish region also has natural gas. The natural gas reserves of Kurdistan are currently around 22 Trillion Cubic Feet. The largest fields are Khor Mor and Chemchemal with roughly 10 Trillion Cubic Feet. Even now, the Turkish company Genel is already the major company in many of these fields, supplying gas to the local power stations, which operate more effectively than the rest of Iraq, providing incentives for further investment in the area. Dramatic imports of natural gas from Kurdish region would require a new pipeline from the disputed fields in Kirkuk (Mills, 2013, p. 55-6).

More than anything, it is the Federal budget of Iraq that helps to tie the Kurdish Regional Government to the rest of Iraq, at least for the moment. The KRG is dependent on a share of the national budget of federal Iraq. The Iraqi government provides the KRG with nearly \$12 billion annually, but this is a small sum compared to the \$35 billion that export at 1 million barrels per day would bring to Kurdistan. Potentially, oil and gas could be the foundation of a thriving and autonomous economy in Kurdistan. The reserves of Kurdistan are recently new disclosures, opening the tantalizing hope for more dramatic revelations. While the companies selected by the Kurdistan Ministry of Natural Resources (MNR) have been chosen from a variety of nations including of which Turkey is just one, the geography of the region will determine Kurdistan's natural partner, either as a part of federal Iraq or more independently. With instability in Syria, Turkey appears to be Kurdistan's only transit rout.

6.2 Northern Iraq: Energy Politics

Kurdish region has seen a rapid increase in the number of international companies willing to make an investment in the area as compared to Iraq generally. Perhaps the biggest single difference is the widespread availability of electricity in the Kurdish controlled regions. Kurdistan is gifted with some 650 MW of hydroelectric capacity, and has additional power provided by burning natural gas, providing some of the most reliable electric generation in Iraq on an almost 24/7 basis. In Dec. 2013, electricity for the rest of Iraq was generally available between 8-12 hours per day, creating a striking contrast, depending on weather and the specific area. Indeed, the Kurdistan Regional Government has been supplying electricity to some of its boarding areas, such as Kirkuk, in an effort to gain greater political significance in federal Iraq (Mills, 2013, p. 56).

In addition to the reserves of Kurdish region, the energy reserves of northern Iraq outside the Kurdistan Regional Government's jurisdiction are impressive. The Kirkuk field, which was first discovered in the 1920s, is still the most important field in northern Iraq and therefore hotly disputed. The Kurds have developed the Khur-mala Dome, on the edge of Kirkuk. Already existing, the main export pipelines begin in Kirkuk, travels through territory under the Kurdistan Regional Government and eventually terminate in the port of Ceyhan, Turkey. These twin pipelines are capable of

transporting 1.6 million bpd, but currently operate at .3 to .4 million bpd because of a combination of sabotage and poor maintenance. A new natural gas pipeline is currently being debated that adds to the existing oil pipelines, bringing natural gas to market in Turkey (Mills, 2013, p. 56).

6.3 KRG and Baghdad

The relationship that has developed between Baghdad and the Kurdistan Regional Government located in Erbil suffers from deep distrust and a variety of competing interests. The most significant disputes revolve around the control of territories in Kirkuk, Ninewa, Salahaddin and Diyala provinces, and the signing of independent oil exploration contracts by the Kurdistan Regional Government, the negotiations of which are rumored to often command much higher profits for international oil companies than those signed by Baghdad (Mills, 2013, p. 56). Related to these major disputes are questions about the KRG's percentage of the national budget, oil exports, and who should receive which payments by foreign oil companies operating in the KRG. Therefore, questions of political and economic power are often difficult to distinguish from issues surrounding oil revenues.

The territories of Kirkuk, Ninewa, Salahaddin and Diyala, which have become the center of ongoing disputes between the KRG and federal Iraq, are all important because of their natural gas and oil wealth. Among these, Kirkuk is the most significant source of both conflict and energy reserves. Political control is one issue, which has become particularly important in light of the political context existing inside a deeply fractured Iraq. Iraqi society was ripped apart as a result of Saddam Hussein's violent rule, the First Gulf War, international sanctions and the polarizing American invasion of 2003. The current government of Iraq, under Nouri al-Maliki, is accused of trampling on minority rights, and riding roughshod over his political rivals. At different times, the security forces of Iraq and the independent military of the KRG have come into direct conflict, often requiring the intervention of the United States and Iran. The maintenance of an independent military has been one of the key reasons the KRG can afford to conflict with al-Maliki's government, even as part of federal Iraq.

The Kurdish position in North Iraq is that the Iraqi constitution allows the Kurds to sign contracts for the exploitation of “future fields.” This definition includes the

major fields under the Kurdish Region Government, all of which are recently being developed, and some of which are largely new discoveries. Currently, international oil companies operating in Kurdistan operate under Production Sharing Contracts (PSCs) which are often more generous to international oil companies than those which are signed by the government in Baghdad. This is a deeply political conflict, which is sometimes striking in its details. For example, some international oil companies have signed agreements which theoretically provide them 20 percent of the profits per barrel, as opposed to the 1 or 2 percent profits agreed to when negotiating with Baghdad (Mills, 2013, p. 57). From the perspective of the KRG, taking a smaller, even much smaller, percentage of the profits may still be preferable to the percentage offered by Baghdad. The political ramifications of the KRG signing its own oil contracts are additionally significant, and the KRG would likely attempt to sign better contracts if it won the acceptance of the practice.

Oil companies argue that there are additional risk associated with operating in Kurdish region, but these arguments seem to fall flat when comparing stability in the region to the rest of federal Iraq. At different times in the years between 2011 and 2013, the government in Baghdad allowed oil to be transmitted through the existing pipelines from Kirkuk and into Turkey, paying the KRG a percentage, but it is a difficult negotiation. Instead, international oil companies are mostly selling to the domestic market, or as some charge, illegally to Turkey and Iran via the black market (Mills, 2013, p. 58).

The role of Kurdish participation in the Iraqi government is complex, but the Kurds are widely acknowledged to wield significant power in the parliament. In addition, Iraqi President Jalal Talabani has been a strong voice of Kurdish interests. Until very recent events, it appeared possible that oil resources could potentially be developed jointly, ignoring territorial disputes. International oil companies seeking to do business directly with the KRG have been blacklisted by the Iraqi Energy Ministry, while Iraqi Kurdistan regards these efforts and restrictions by Baghdad as “economic warfare” according to Kurdistan’s de facto foreign minister, Falah Mustafa (Washington Post, July 1th 2014). At the same time, there are examples of companies, such as Exxon Mobile, ignoring these threats and the efficacy of Baghdad's efforts remain to be seen, particularly in light of the current instability in Iraq.

“The scale of the opportunity for Kurdistan and for Iraq is so large that there will be a resolution. Over the next year or two, Kurdistan production capacity will grow

towards 1 million barrels a day—that's too much oil to be shut in as a consequence of a political dispute. So one way or another, it's going to get resolved.” –Former CEO of BP, Tony Hayward- (Mickey, September 7, 2013)

6.4 Turkey and the Kurdish Regional Government: Pipelines

The real limitation on the KRG's ability to export is Baghdad's control over the existing pipelines from Kirkuk. While Turkey has circumvented the Iraqi government in negotiating the exchange of crude oil for refined products directly with the KRG, the export capacity by tanker is greatly limited, and not worth risking a major diplomatic confrontation. KRG will remain closely tied to the government in Baghdad until an independent gas or oil pipeline is constructed or the oil pipelines from Kirkuk definitely held by the KRG. Thus far, Turkey has not announced its intention to construct such a pipeline, which would represent a significant blow to federal Iraqi relation. However, the announcement of Turkish support for such a project (for natural gas) was widely expected for the planned December 4, 2012 visit of Turkish energy minister Taner Yıldız. Instead, Minister Yıldız was denied entry into Iraq by Baghdad, and the Turkish position continues to develop behind closed doors.

Oil and natural gas from Northern Iraq is potentially important for Turkish interests in the event that energy export ceases from the rest of Iraq. In light of recent events, this scenario appears more possible. In the event that exports from Iraq were cut off, it would be hugely beneficial for Turkey to have a reliable alternative. In addition, if imports from the Gulf were cut off, repairs to the existing Kirkuk-Ceyhan pipeline or a new Kurdish pipeline would save Turkey from the worst of the crisis, and theoretically provide enough oil to meet all of Turkey's needs.

6.5 Turkey and the Kurdish Regional Government: Politics

Construction of an oil pipeline to Kurdistan would signal a significant break with the government of al-Maliki. In addition, AKP would likely be attacked by domestic political interests. The AKP government would be accused of supporting Kurdish independence movements by interests hostile to Turkey's own Kurdish

population's ongoing struggles. Rival political parties, and even some of the nationalists inside the AKP party might object loudly.

Importantly, construction of a natural gas pipeline is now less significant than it was during the 2005 natural gas demand peak. Turkey would like to mix gas from Northern Iraq with gas from other sources to supply the Nabucco pipeline undermining Russia, but Nabucco is a project which now appears to have a much reduced future do to a lack of commitment and difficulties in the negotiations. Meanwhile, the Russian South Stream pipeline will bring massive quantities of natural gas to European markets, likely undercutting prices. On the other hand, Turkey's own gas consumption is growing, even while gas consumption by the rest of Europe shrinks (Winrow, 2014, p. 16). The 1.45 Bcf per day that Kurdistan could potentially provide would be enough to replace Iranian supply to the Turkish market, and provide a good alternative to some of the massive imports from Russia (Mills, 2013, p. 59). Most significantly, Turkey would be Kurdish region's only export route, which could additionally be used as leverage to negotiate cheaper prices.

KRG's economy is already heavily dependent on Ankara, and further developing this relationship seems to be Ankara's current ambition. Greater Iraq is much more important in geopolitical terms, and could potentially court Turkey by placing a greater emphasis on repairing the Kirkuk-Ceyhan pipeline and offering more competitive terms, but has thus far not done so. In this context, Turkey's relationship to Arbil can also be seen as a tool in negotiating with Baghdad, but the relations between Ankara and Iraq are tenuous. Developing Kurdistan in Iraq would also help to solve some of Ankara's relationship to Turkey's own Kurdish population. The PKK has attacked pipelines running through some of the poorest areas of Turkey, and the prosperity brought to these areas by deeper ties to Northern Iraq would potentially end these kind of incident. On the other hand, greater autonomy on behalf of Syria's Kurds, which have thus far been unable to cooperate with the Kurds in Iraq, might provide Arbil with a second potential export partner, but this seems unlikely.

6.6 U.S. Reaction to Turkish Energy Needs and Policy in Iraq

As Turkey has started to follow an active foreign policy in the region, in concert with energy objectives, the U.S. has intensified its scrutiny of Turkish policy in what is

one of the most vital and crucial regions of the world. While investigating how the U.S. has and will likely react towards Turkish foreign policy actions and energy calculations in Iran and Iraq, it is beneficial to address the reasons why the Middle East is so crucial for the United States' interests. In this capacity, the testimony of former U.S. Secretary of State Condoleezza Rice before the U.S. Senate Foreign Relations Committee in 2006 clearly exemplifies the implication of Turkey's regional environment;

“We do have to do something about the energy problem. I can tell you that nothing has really taken me aback more, as Secretary of State, than the way that the politics of energy is [...] 'warping' diplomacy around the world. It has given extraordinary power to some states that are using that power in not very good ways for the international system, states that would otherwise have very little power” (U.S. Senate Committee on Foreign Relations, April 16th, 2006)

Hyperbole and rhetoric aside, the United States defines its own energy security quite differently from a country like Turkey. In essence, energy security for the United States has come to mean power over energy globally, irrespective of meeting domestic demand, and for reasons of maintaining and expanding U.S. power.

Therefore, the Middle Eastern region, and especially Iraq and Iran, have utmost significance for the United States in terms of political influence over the region and controlling the impact in the global arena of oil exporting countries. Today, Iraq enjoys a unique position in the region because it is estimated that Iraq may have the ability to produce almost 45 percent of global oil supply in the next ten years, according to the energy outlook released by International Energy Agency in 2012 (IEA, 2012). Considering that nearly one-third of the total oil reserves of Iraq are located in territories controlled or claimed by the Kurdistan Regional Government, in addition to immense natural gas reserves, which are almost five times bigger than the reserves in Azerbaijan, it is not hard to grasp why United States has such a large stake in the foreign dealings of Turkey.

When Turkey realized the tremendous energy capacity lying just one hundred kilometers from its south eastern border, inside KRG territories, and begin its quest for additional sources of energy, it became inevitable that this would illicit a U.S. reaction. The U.S. quickly stated its opposition towards a bilateral oil-trade agreement between Turkey and KRG. As oil transfer from the KRG to Turkey by truck begin, U.S. State Department spokesperson Victoria Nuland asserted the opposition of U.S. towards the direct trading between Turkey and KRG by stating that U.S. cannot approve any trade agreement in the absence of the approval of the central government of Iraq (Gönül,

2013, p. 111).

One year after the decoration of the aforementioned State Department spokesperson, when Turkey announced that KRG petroleum was about to flow to Turkey on a more frequent basis, the State Department expressed its disfavor more clearly;

“We don’t support oil exports from any part of Iraq without approval of the Iraqi federal government. We continue to urge the federal government of Iraq and Kurdistan Regional Government to reach a constitutional solution, and that has consistently been our position. And it also has not changed” (Gönül, 2013, p. 113).

Despite these repeated warnings, Turkey risked conflict with the U.S. and federal Iraq over its oil trade with the KRG. On this particular subject, Turkish Minister of Energy, Yıldız, has emphasized the attention paid by Turkey to the impact of oil trade on the internal political balances of Iraq. Yıldız asserted that

“What we have been doing in Iraq is to establish a system through which the problems between Bagdad and Erbil can be solved. So, I believe that carrying this system on as a right policy will be quiet accurate for both two countries and for the region as well. That’s why, all our actions and policies have been in that line. Thus, the petroleum transfer from Northern Iraq has started recently and will continue. I hope that we are going to have very good potential. The owners of petroleum is both Bagdad and Erbil. Turkey’s responsibility is to systematize the income of the petroleum which they benefit and Turkey does successfully carry on doing its part” (Appendix 1).

The Turkish Minister of Energy, Yıldız, carefully argues that Turkey has considered the internal politics of Iraq while conducting the oil importing agreement with the KRG and Turkey has been careful to implement the right policy to avoid any problem which can jeopardize the unity of Iraq. At the same time, one logical conclusion which can be derived from both the statements of the U.S. State Department and the answers given by Turkish Minister of Energy Yıldız, is that Turkey is fully aware of why and how oil agreement with KRG may become problematic for the U.S.

Chapter 7

STABLE IRAQ? ISIS AND THE FUTURE IRAQ

Recent events in Iraq present radically different possibilities for the region, and bring Turkey's relationship to Northern Iraq into sharp relief. The jihadist group ISIS (Islamic State in Iraq and Sham or also called as Levant) was formed in April of 2013 as one of the main fighting forces battling President Bashar al-Assad in Syria's civil war. The group is led by Abu Bakr al-Baghdadi, who first appeared as the leader of al-Qaeda in Iraq in 2010, although al-Qaeda and ISIS have since splintered from each-other. In Syria, ISIS won a major military success in March 2013 taking the provincial capital of Raqqa from forces loyal to Assad. First in January 2014, ISIS surprised the world by taking control of Falluja close to Baghdad, a predominately Sunni city hostile to Iraqi's Shia led government, sometimes capitalizing on the Iraqi government's inconsiderate and openly hostile treatment of minorities. Concurrent victories in Ramadi and in a number of boarder regions with Turkey and Syria has brought ISIS to the fore of regional politics. In June of 2014, ISIS successfully took control of Iraq's second largest city, Mosul, chasing Iraqi security forces from the city in advance of the attack despite a much smaller force. In addition to military successes, the group is believed to possess as much as \$2bn in funding from captured banks, oil exports from regions in eastern Syria occupied by ISIS, general looting, and support coming from wealthy individuals in Kuwait and Saudi Arabia. The advance of ISIS has major ramifications for Iraq, and has

become the unexpected wild card in regional political calculations (BBC, August 2nd, 2014).

7.1 ISIS and KRG

The government in Kurdish region is using the opportunity presented by the emergence of ISIS to push for the autonomy they have long desired. The President of the KRG, Massoud Barzani, asked the members of the Iraqi Parliament to organize an independence referendum on July 3rd, 2014. In an interview with the BBC, President Barzani revealed how the advances made by ISIS and the unraveling of Nouri al-Maliki's government, made the issue of independence immediate. The Iraqi security force have already abandoned Kirkuk to Kurdish control, and Barzani has announced that the dispute over control of Kirkuk is now “finished,” while the comment was strongly rejected by al-Maliki. In the Iraqi border of Syria, ISIS's al-Qaida linked rivals, the Nusra front, has had to withdraw after its January 2014 assault on ISIS control (The Guardian, July 3rd, 2014).

From the Kurdish perspective, the political window created by ISIS is potentially the very opportunity that they have been waiting for. While the rest of Iraq is in turmoil, Kurdistan is under tight control, and has moved to close its borders against the inflow of refugees. From a Kurdish perspective, the poor treatment of the al-Maliki government and frequent disputes between the government and minority groups is as much of a reason for the breakdown as the ISIS assault (Washington Post, July 1st, 2014).

7.2 U.S. Calculations in Iraq

The United States now finds itself partnered with Tehran is trying to encourage the Kurds to take a more active role in combating ISIS. U.S. Secretary of State John Kerry in addition to several ranking Iranian diplomats have been active in urging the Kurdish leadership to become actively involved. At the same time, the KRG has little

immediate reason to bow to the urgings of either state. Kurdish history provides ample reasons to distrust the partnership of the United States. President Massoud Barzani, declared that “The time is here for the Kurdistan people to determine their future.” Even while the U.S. has emphasized that President Barzani should remain with Baghdad, Barzani commented to U.S. Secretary of State John Kerry in a June 2014 meeting, it was "very difficult" to see Iraq remaining whole and unified (Washington Post, July 1st, 2014).

Significantly, both Israel and Turkey have now thrown their collective support behind an independent Kurdistan in public announcements. With Iraq in turmoil and badly in need of allies, Turkey likely judges the opportunity to be appropriate to solve its own difficult conundrum. If an independent Kurdistan appears to be a reality, Turkey can perhaps win closer economic and energy ties to an independent Kurdistan without alienating a now greatly weakened Iraq badly in need of support. In other words, Ankara may attempt to “have its cake and eat it to,” a scenario which seemed unlikely until the emergence of ISIS as a real military threat.

U.S. calculations in this developing context are opaque. On the one hand, the United States has greeted Turkey's developing relationship with Kurdistan as generally positive. On the other hand, the U.S. now finds itself closely allied with Tehran in trying to save the failing regime in Iraq. Turkey's move to become an interlocutor between Tehran and the United States appears well timed. Meanwhile, the recent victory of AKP in Turkey's elections, and the increased importance of Turkish support in the region maybe bringing the United States again closer to a government it was publicly feuding with since the eruption of opposition to AKP concentrated around Gezi and the following corruption scandals.

7.3 U.S. Policy in light of ISIS: Iran

While the United States has taken a hard stance in regard to Iran, Iran has emerged as the United State's chief ally in Iraq. While Kurdish groups remain unwilling to combat ISIS, and wealthy Saudi Arabian individuals are known to be directly supporting ISIS, Iran has been the most aggressive defender of the Iraqi government. At the same time, the International Atomic Energy Agency (IAEA) reported on June 20th,

2014 that Iran did not enrich any uranium beyond the 5% standard for nuclear energy at any of its declared facilities, and continues to provide daily access to its nuclear facilities. These reports follow the general trend of IAEA observation efforts, which have thus far failed to find any evidence of the supposed nuclear programs justifying sanctions. Despite this, Israel and neo-conservative groups inside the United States continue to insist that a lessening of tensions between the United States and Iran would be a mistake (IAEA, 2014).

Even while the U.S. has misgivings about Iran as an ally in Iraq, and different American interests continue to warn that pressure on Iran must be maintained to prevent Iran from acquiring nuclear weapons, there is a growing sense that the emergence of ISIS might inexorably bring the two states closer together. “We are open to any constructive process here that could minimize the violence, hold Iraq together — the integrity of the country — and eliminate the presence of outside terrorist forces that are ripping it apart,” Secretary of State John Kerry commented on June 17th, 2014 in Washington D.C. (Washington Post, June 19th, 2014)

A lessening of tensions between the United States and Iran, even if it was modest, would be greatly beneficial for Turkey. Less tension between the two countries would potentially open the door to increased trade. If the situation persisted, Iran might be able to export energy reserves at the negotiated volumes. These conclusions are deeply speculative, but reveal the importance of recent events.

Chapter 8

ANALYSIS OF THE INTERVIEWS

As discussed in the section on methodology, qualitative content analysis was applied to the data retrieved from the interviews conducted with the Minister of Foreign Affairs Ahmet Davutoğlu and the Minister of Energy and Natural Resources Taner Yıldız for this thesis. Content analysis has systematic steps that are followed for the successful examination of the interviews. Mayring (2003) asserts that the data should be analyzed step-by-step by following specific procedures to separate the data into analytical units such as themes and categories. Zhang and Waldemut (2009) suggest two basic steps for utilizing content analysis. In the first stage of preparing the data, the recordings are transcribed into text, as shown in the appendix. In the second step, a unit of analysis is determined. In qualitative content analysis, the unit of analysis is not just linguistic item such as an individual word or sentence, but coherent and accurate phrases regarded as leading themes, sometimes described as codes.

Before giving the details of coding, the method of coding deserves inquiry as it is hotly debated in the field of qualitative content analysis. Although there is no single correct way of coding, there are two principle and opposing camps. One claims that codes are the essence and core of analysis and coding should be done before conducting data collection. Possible codes are to be prepared according to theoretical considerations, research questions or a general areas of study (Miles & Huberman, 1994). Another method of coding is to derive the codes from the textual data itself to

avoid the effect of previous theoretical consideration, a bias which is described by Kelle as “theoryladenness” (Kelle, 2005, p.10). Glaser and Strauss (1967, p.37) states that “literally to ignore the literature of theory and fact on the area under study, in order to assure that the emergence of categories will not be contaminated.” In this analysis, the codes are retrieved directly from interviews with the ministers, and were not created beforehand, as is appropriate for the subject matter and approach of this thesis.

When the codes are developed, the next step in coding is the process of categorization. This is the most critical phase of analysis because describing the categories determine the quality and accuracy of analysis. Titscher (2000, p.58) states this point very clearly, writing that “The core and central tool of any content analysis is its system of categories: every unit of analysis must be coded, that is to say, allocated to one or more categories.” Preliminary codes are described according to their significance, similarity or differentiation between the interviews or latent attribution to an important point. Ely, Anzul, Friedman, Garner and Steinmetz (1991) defines the code as “a statement of meaning that runs through all or most of the pertinent data, or one in the minority that carries heavy emotional or factual impact.” Codes can be words, phrases or intimation implied by the participants. After the codes have been assigned for the significance, categories are described according to the patterns and connections which exist between the codes. The categorization is also called extraction because the researcher is able to extract necessary information from the text (Glaser and Laudel, 2004).

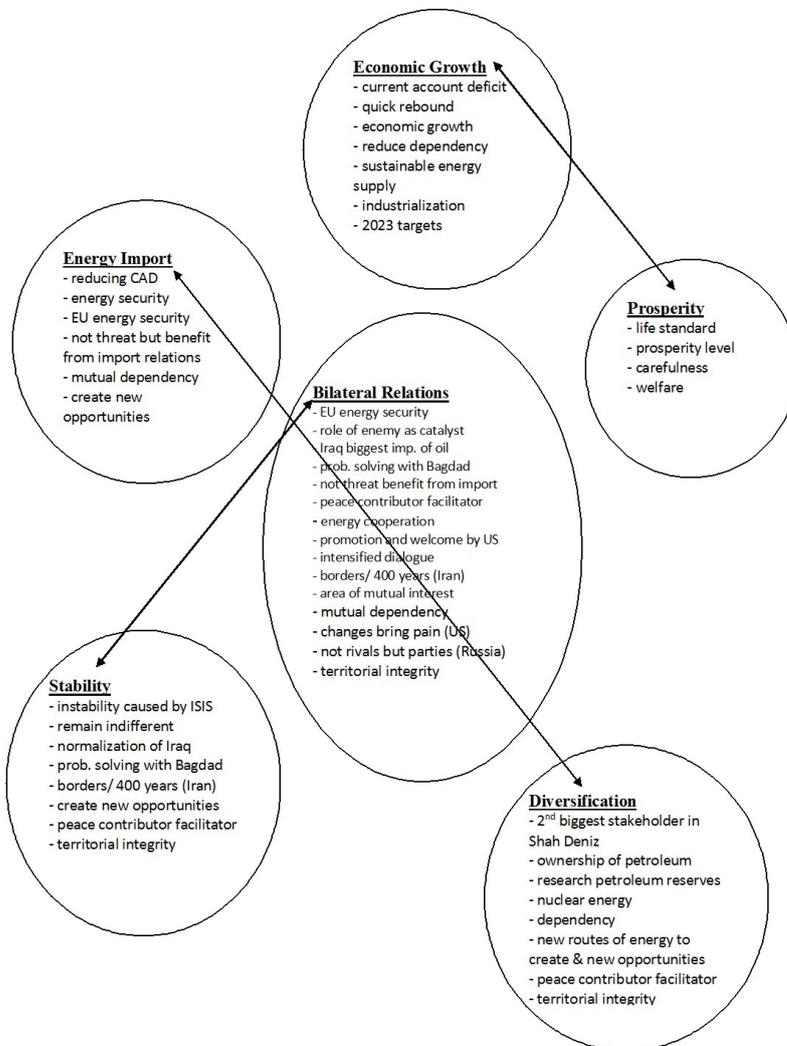
8.1 Results

As stated above, codes are determined according to the emphasis, repetition,

Codes		
<ul style="list-style-type: none"> • reducing current account deficit • quick rebound • economic growth 	<ul style="list-style-type: none"> • promotion by U.S. • welcoming by U.S. • exemplary relations 	<ul style="list-style-type: none"> • share the wealth (Iraq) • changes bring pain (US) • territorial integrity
<ul style="list-style-type: none"> • reduce dependency 	<ul style="list-style-type: none"> • transparency 	<ul style="list-style-type: none"> • constructive attitude
<ul style="list-style-type: none"> • cad harmless if controlled 	<ul style="list-style-type: none"> • energy cooperation 	<ul style="list-style-type: none"> • not rivals, parties (Russia)
<ul style="list-style-type: none"> • carefulness for domestic policies • prosperity level 	<ul style="list-style-type: none"> • 560km border/400 years (Iran) • intensified dialogue 	<ul style="list-style-type: none"> • mutual dependency • nuclear negotiation support
<ul style="list-style-type: none"> • energy import 	<ul style="list-style-type: none"> • raise cooperation 	<ul style="list-style-type: none"> • stability
<ul style="list-style-type: none"> • welfare increases 	<ul style="list-style-type: none"> • area of mutual interest 	<ul style="list-style-type: none"> • instability caused by ISIS
<ul style="list-style-type: none"> • huge potential (Iraq) 	<ul style="list-style-type: none"> • energy burden 	<ul style="list-style-type: none"> • reducing cad
<ul style="list-style-type: none"> • sustainable energy for growth 	<ul style="list-style-type: none"> • peace contributor facilitator 	<ul style="list-style-type: none"> • import
<ul style="list-style-type: none"> • industrialization 	<ul style="list-style-type: none"> • problem solving Bagdad 	<ul style="list-style-type: none"> • multidimensional energy policies
<ul style="list-style-type: none"> • stability 	<ul style="list-style-type: none"> • create new opportunities 	<ul style="list-style-type: none"> • diversification of energy routes
<ul style="list-style-type: none"> • strategic integration 	<ul style="list-style-type: none"> • stability in the region 	<ul style="list-style-type: none"> • energy security
<ul style="list-style-type: none"> • indifferent 	<ul style="list-style-type: none"> • normalization of the Iraq 	<ul style="list-style-type: none"> • nuclear energy
<ul style="list-style-type: none"> • biggest oil supplier 	<ul style="list-style-type: none"> • structured energy policy for the region 	<ul style="list-style-type: none"> • dependency/single supplier
<ul style="list-style-type: none"> • 2023 targets • enlarge economic borders • research of energy resources 	<ul style="list-style-type: none"> • 2nd biggest stakeholder at Shah Deniz • easy transport of oil • political burden 	<ul style="list-style-type: none"> • European energy security • ownership of the petroleum • role of catalyst
<ul style="list-style-type: none"> • nuclear projects 	<ul style="list-style-type: none"> • biggest oil importer (Iran) 	<ul style="list-style-type: none"> • not threat, benefit

significance or influence they carried. In the table below, the initial codes chosen from the interviews are listed.

Having the codes out the raw data, relevant codes are to be labeled under the



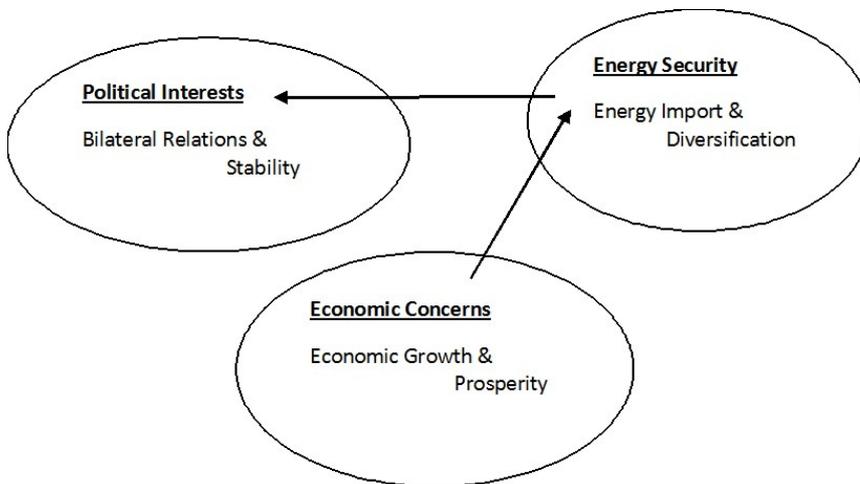
same categories. In this analysis, codes are categorized according to the meaning and the topic which they carry significance. Some codes can be under several categories because they may be significant for different groups and the number of codes under each category are not equally distributed. At the first step, relevant codes are initially grouped under six categories. First category is named “bilateral relations” that consists of codes which are identifying the relations between Turkey

and other related countries. Second category is called “economic growth” which consists of codes about the idea and arguments related with the economic growth of Turkey. Under another category, the codes of the words and phrases emphasizing the living standards of Turkish people are grouped and this is named as “prosperity”. The fourth category is “energy import” including the codes about the importation of energy resources, the measures to be taken or the risks of high energy import. The fifth one is the category of stability containing the codes about the emphasis on stability of neighboring regions or countries. The last one is consisting of the codes indicating the phrases about the variety of energy resources and this theme is called as

“diversification”.

In this analysis, codes are categorized according to the meaning and the general topic under which they carry significance. Some codes are under several categories simultaneously and the number of codes under each category are not equally distributed. At first, relevant codes are initially grouped under six categories, chosen for their importance in illustrating general themes.

Finally, the initial six categories are grouped under three main areas to ease the analysis and because certain categories overlap each-other. The points at which the main categories overlap are theoretically significant for this thesis. The codes in both



categories of energy import and diversification are indicating the risks of energy import and the way of varying the sources to

reduce the risks of dependency. Also, categories of economic growth and prosperity contains the codes underlining the importance and processes of economic development whose influences affect the life standard of people living in Turkey. For the last two categories, the codes are indicating the importance of the relations between Turkey and neighboring states and the concerns of Turkey towards our immediate neighbor. Therefore, first two categories; energy import and diversification are brought to same category and named as “energy security. The category grouping the themes of economic growth and prosperity is called as “economic concern”. And “political interests” is the last category bringing the themes of bilateral relations and stability together. The last categories are demonstrated in the table below

8.2 Discussion

The relations between the categories of codes helps to illustrate how both ministers interpret the connection between foreign affairs and energy needs. As the category of economic concern indicates, the continuation of Turkey's economy growth is a basic anxiety for both ministers. Furthermore, the demand for energy imports is recognized as a threat to the continuation of Turkey's future economic success. Minister of Foreign Affairs Davutoğlu punctuates the effort to diminish the structural problems of Turkey's economy by stating that “For addressing the structural causes of the problem, we have also included the reduction of current account deficit as one of the main objectives of the Medium Term Economic Program (2014-2016)” (Appendix 1).

There is strong connection between the average living standard in Turkey and current account deficit revealed in the interviews. Minister of Energy Taner Yıldız explains that imported energy is mostly “used in the transportation sector where Turkish people feel the prosperity level. So when we complain about the current account deficit, we should also know that it reflects that our welfare increases.” Therefore, cutting energy importation would affect negatively the average prosperity level in Turkey, and thus Turkey needs to find new, cheaper and reliable energy resources.

The category of energy security indicates two major topics that are significant risks presented by Turkey’s energy import. Firstly, it is clear that Turkey does not have enough domestic energy resources to fuel its economic growth, and as the economy grows, this situation will become more problematic. Secondly, Davutoğlu underlines the risks of dependency on importation from other nations, stating that “As a growing energy market and with a 90 percent import-dependency on natural gas and oil, energy security has all the more importance for Turkey” (Appendix 1).

Hence, Turkey is trying to find alternative solutions for sustainable energy supply. Although Turkey has made efforts to investigate the possibility of domestic energy reserves, the demand still is far more than the domestic energy production and known reserves. In the long run, Turkey has initiated the construction of two nuclear power plants to reduce the import of natural gas used for electricity production. However, two nuclear power plants will not be able to address the growing energy demand alone and these plants are still not operational. Therefore, the policy is to provide for the diversification of energy sources by implementing new energy pipeline

projects, enlarging the portfolio of energy suppliers to Turkey, and keeping the current supply stable.

Implementing this diversification policy is where energy security and foreign policy become interconnected and interrelated. It is clear that the diversification of the energy import plays a crucial role in the foreign policy of Turkey as regards the neighboring region. Gigantic projects like Nabucco or Tanap have been initiated to provide stable energy supply and create mutual dependency among the participant countries. These big project also offer the opportunity of Turkey becoming a significant supplier of energy to Europe, undermining both Turkish and European dependency on Russian natural gas. However, Taner Yıldız claims that “we (Turkey-Russia) are not rivals but parties of the same project in that means... We have a target of creating mutual dependency for our conducts with the countries from which we import our primary energy resources, petroleum and natural gas because unless you act, importing primary energy needs creates otherwise” (Appendix 1).

Implementing these pipeline projects is not the only policy being implemented to secure the stable supply of energy. Increasing its share in the Shah Deniz 2 field is one example of a policy designed to increase Turkey's exploitation of existing resources. Taner Yıldız expresses his ideas about this energy policy stating that “the strategy of Turkey is to take the ownership of petroleum from different countries more than the petroleum found from national reserves.” In foreign policy, international energy projects are considered to be an opportunity to create new and friendly relationships between Turkey and neighboring countries. Indeed, the stability of neighboring countries carries crucial importance for Turkey and energy policies may play a significant role in shaping foreign policy options. In the case of Iraq, Taner Yıldız's statements are highly interesting, the minister comments that “Now, every changes bring some sort of pain... U.S is urging that the territorial integrity and unity of political boundaries of Iraq should be provided and secured. Of course we have been asserting that territorial and political integrity of Iraq must be provided since the beginning. However, sometimes it is not risky to do something but not to do something. We believe that we need to do something” (Appendix 1).

Of course, the statements of both ministers are not always in concert. When asked about the involvement of Turkey's mediation effort in Iranian negotiation with western countries and the nuclear ambitions of Turkey, Davutoğlu strongly refuted to draw a connection between the two topics. On the other hand, according to Taner Yıldız,

the nuclear attempts of Turkey have benefited from the constructive attitude of Turkey during the Iranian negotiations. In conclusion, and disregarding the sometimes contradictory remarks of the ministers, the analysis of the interviews has demonstrated clearly the degree to which energy security and foreign policy concerns overlap.

CONCLUSION

The exploration of Turkish foreign policy through the lens of energy policy is an approach with strong logical appeal. Clearly, the current account deficit “should” make securing new and cheaper energy imports a major concern for Turkish policy makers. This paper was not structured to demonstrate the case that Turkish policy makers “are” principally concerned with energy, and recognizes that a variety of political, internal and external issues vie for the attention of Turkey's political elite. However, the interviews with Turkey's Minister of Foreign Affairs Prof. Ahmet Davutoğlu, and the Minister of Energy and Natural Resources, Mr. Taner Yıldız, do help to reveal that Turkey's governing elect are concerned with these issues.

With Turkish elections indicating that the AKP government will near certainly continue its control over Turkish political life, the perception that energy is being treated with importance is a positive sign for the future. For the moment, Turkey appears to have an opportunity to pursue enhanced relations with both Iran and the KRG, to the net benefit of Turkey's energy security. This was an unexpected outcome, and events surrounding the emergence of ISIS were concurrent with the writing of this paper.

It is unusual for scholarly work to receive some validation of its methodology and perspective in the way that events in Iraq and Syria have now pushed Turkish energy calculations to the fore of public discussion.

In the end, the position struck by the United States in both Iraq and Iran will likely dictate the direction of Turkish policy. Although, it may seem unlikely that Turkey would choose to alienate an ally of the importance and power of the United States, energy policies conducted by Turkey in the its neighboring region shows that the government accepted to face against the U.S. policies for the same region. Despite this, there is uncertainty surrounding the future policy of all regional actors, and it may be difficult for Turkey to properly gauge the U.S. response to any one particular policy.

Scholarly work can build on this thesis in several important ways. Firstly, this thesis presents a case specific example of one country whose energy security and energy

importation jeopardizes its economic future. Turkey is not alone when it comes to the problem of energy importation emerging as a significant political and economic threat. Secondly, this thesis reveals the connection between energy security and foreign policy. It is useful to reflect on the just how intertwined policy decisions are. Finally, for those interested in Turkey's future, this thesis suggests that some policy options were available during a time of uncertainty, and it will be left to future scholars to look at whether they were taken, or could have been, and to what effect.

Appendix 1

Complete Interviews:

Interview with H.E Prof. Ahmet Davutoğlu, Turkish Minister of Foreign Affairs (13/072014)

1. Can you please describe to me what you see as Turkey's efforts to address the current account deficit?

Turkey has recently sustained an unprecedented level of economic growth. With a population of 76 million, dynamic and open market economy, Turkey is a country with substantial and growing market. Thanks to the level of our GDP fast approaching one trillion USD level, we now have the world's 17th and Europe's 6th largest economy. The resilience of Turkey's economy was seen during the quick rebound it showed after the contraction it suffered in 2009 as a result of the global financial crisis. However, partly due to its high energy dependency, one of the structural problems of Turkey's economy is its high current account deficit. This problem gains a particularly acute form at times of high growth rates. In the aftermath of registering stellar growth rates of 9 percent and 8.5 percent in 2010 and 2011 respectively, Turkish economy faced with high current account deficit and accumulation of foreign liabilities. Immediately responding to this situation, we made the gradual eradication external imbalances a priority area for our economic policies. In this respect, the Central Bank (CBRT) and Banking Regulation and Supervision Agency (BRSA) has taken several measures since the second half of 2011 to slow down domestic demand and address current account deficit by limiting the credit growth. As a result, we have manage to reduce our current account deficit by almost four percentage points in 2012.

Due to a tendency in the current account deficit to reverse in early 2013 (mainly

as a result of high level of gold imports, rebound in consumer demands and weak recovery in our trade partners), we have introduced further measures to limit domestic demand for foreign goods.

For addressing the structural causes of the problem, we have also included the reduction of current account deficit as one of the main objectives of the Medium Term Economic Program (2014-2016). Reducing dependency on energy imports, increasing private savings, enhancing competitiveness and investment environment and improving quality of financing are the main structural reforms envisaged during the Medium Term Program for eradicating external imbalances.

2. How do you see Turkey dealing with its problems related to energy importation?

As a growing energy market and with a 90 percent import-dependency on natural gas and oil, energy security has all the more importance for Turkey. Turkey's import portfolio demonstrates that its oil and natural gas sources are to a large extent diversified. Turkey imports hydrocarbon resources from the Russian Federation (RF), Azerbaijan, Iran, Iraq, Kazakhstan, Algeria, Nigeria, Saudi Arabia and Libya. Accordingly, Turkey has been one of the least affected countries by the 2006 and 2009 crises between the Russian Federation and Ukraine.

Turkey's multi-dimensional energy strategy is designed to strengthen its energy security through diversification of energy routes and sources, as well as promoting the use of renewables and nuclear energy while increasing its energy efficiency. In this respect, Turkey, together with its partners, will continue to realize major projects to further strengthen both its national and European energy security.

3. What do you see as the major accomplishment of Turkish foreign policy in Northern Iraq?

The short answer is the current stability in the Kurdish Regional Government (KRG) of Iraq. KRG is our immediate neighbor within Iraq. Therefore, Turkey considers KRG's stability vital for its own stability. Turkey's choice to develop an approach of strategic integration with the KRG in the fields of commercial, cultural,

social relations is a result of this consideration.

In this regard, some figures may help understand the current state of affairs: An estimated 70 % of the total trade volume between Iraq and Turkey (16.5 billion USDs by the end of 2013) is conducted through the KRG. Turkey is the leading foreign investor in terms of the number of foreign enterprises operating in the region and number two country in terms of foreign direct investment. There is a total of 110,000 Turkish nationals living and working in the region. Turkish companies, hospitals, schools are operating in the region and contributing to the improvement of the standard of life. Also, as part of our efforts to further strengthen the commercial, cultural, social relations on the borders, we are working to open up five new border crossings in addition to the current one.

4. How important do you think Turkey's energy needs are to these negotiations?

Safe, secure, sustainable and affordable energy constitutes a priority for Turkey. In this respect, Iraq, with its 143 billion barrels of proven oil reserves and 3.1 trillion m3 of proven natural gas reserves, is of great importance to Turkey in terms of satisfying its increasing energy needs.

In the same spirit, we cannot remain indifferent to KRG with its 45 billion barrels of estimated oil and around 3 to 6 trillion m3 of natural gas reserves. These numbers are equivalent to those existing in countries such as Azerbaijan, Libya and Norway. Moreover, the vicinity itself is very attractive for both the suppliers and consumers. It is also worth mentioning that more than 40 energy companies, including the world's biggest energy companies such as ExxonMobil, Chevron, Total and Gazprom Neft, are involved in the region.

5. In Northern Iraq, how did Turkey go from bombing, to a having an agreeable relationship to Kurds there?

I would like to make it clear that Turkey has never bombed civilian targets in northern Iraq. We have always made this point very clear to the KRG, Baghdad and international community. During the airstrikes Turkey has targeted the terrorist camps

located in the mountains of northern Iraq. When these strikes were taking place, utmost attention was paid to prevent loss of civilian life.

6. How do you see the reaction of U.S. on the agreement between Turkey and Northern Iraq?

Establishment of good relations between Turkey and the KRG has always been promoted by the US administration. We have also been working hard to improve our relations with the KRG for a long time. Today, Turkey and the KRG has established an exemplary relationship in the region and we are coordinating our efforts on several fronts, such as energy, commerce, culture and politics. This coordination also includes the oil agreement that we signed with the KRG. We are attaching importance to the transparency of this operation. We have been sharing all developments with the US authorities from the very beginning of this process. We assume that the US administration is welcoming these good relations.

7. How has Turkey's desire to pursue nuclear energy effected its relationship to other countries?

Turkey is determined to continue its nuclear energy projects in order to enhance its energy security. We will take all steps and measures to make sure that the use of nuclear energy is undertaken in the safest way possible.

Two nuclear power plant projects are currently underway. A nuclear power plant (NPP) is being built by the Russian Federation in the Mediterranean town of Akkuyu. We have signed also an intergovernmental agreement with Japan, regarding the second NPP to be constructed in Sinop. Japanese and French companies are part of the consortium which will build the Sinop NPP. Accordingly, nuclear energy has become one of the most important dimensions of Turkey's energy cooperation with the countries involved in these projects.

8. What do you see as the major accomplishment of Turkey's foreign policy on Iran, and Turkey's constructive role in the negotiations? What importance is the

current account deficit being given in international negotiations?

There is not one but many major accomplishments in terms of Turkish-Iranian relations. First and foremost, our countries share a 560 km long border which is unchanged for almost 400 years; and this is an achievement in the Middle East.

Secondly, although Turkey and Iran have some differences, they enjoy an intensified dialogue in terms of frequency and substance, and exchange high level visits to nourish this dialogue.

Last but not least, the two countries decided to raise the level of their cooperation by establishing the High Level Cooperation Council which provides the necessary basis for enhancing this dialogue, deepening their cooperation and structuring this collaboration in areas of mutual interest.

With regard to the negotiations, Turkey has aimed at intensifying dialogue and mutual understanding among the parties. Our unique position that enjoys the trust and confidence of both sides enabled us to convey messages to all parties involved in negotiations, in a direct, frank and transparent manner.

9. How can Russia's current foreign policy change Turkey's position as a possible energy conduit?

Diversification of both energy routes and sources constitutes the backbone of Turkey's energy strategy. In parallel to the multi-faceted partnership and strong ties of cooperation between the two countries, we see energy as a field of cooperation, rather than competition with Russia. As such, Russia will remain as Turkey's main and reliable energy partner. However today, we see all the more clearly the necessity for Europe in general and countries in particular that are to a large extent or completely dependent on a single supplier, to diversify their sources. We maintain that the most viable route for uninterrupted and reliable flows of the resources from the Greater Caspian region and the Middle East to Europe is via Turkey.

With the recent developments in Ukraine, the timely realization of Southern Gas Corridor projects and strengthening of European energy security with additional

projects have become even more crucial. Turning the Southern Gas Corridor into a reality is a priority for Turkey. The Trans-Anatolian Pipeline (TANAP) project will constitute the backbone of the said corridor.

10. Does Turkey's current role in the Iranian negotiations make Turkey's own nuclear program easier?

In a nutshell, the ongoing negotiations between Iran and the P5+1 aim at ensuring the exclusively peaceful nature of Iran's nuclear program. On the other hand, Turkey is on the verge of establishing its own nuclear program and it goes without saying that this program is of a peaceful nature. Therefore, there is no connection or relevance whatsoever between the two issues.

11. Finally, What would be your assessment on ISIS group emerged in Syria and invaded some part of Iraq? How does it affect Turkish foreign policy and security of energy import?

As the Assad regime has chosen to wage a war against the Syrian people and suppress their legitimate demands by force instead of accommodating them with democratic transition, Syria has entered into a period of pain, bloodshed and destruction. Such an unstable environment created a fertile ground for extremist groups which also took advantage of the frustration of the vast majority of the population due to discriminatory policies of the ruling elite for a long time.

The Assad regime used every available means against the people just to maintain its grip on the country and its people. Assad's campaign included heavy artillery, ballistic missiles, aerial bombardment and chemical weapons. The Assad regime did not hesitate to introduce foreign militias like Hezbollah in its fight against the people in Syria. The regime also created and supported ISIS, starting from 2013, to divide the opposition groups and to force them to fight on two fronts at once. There is credible evidence substantiating the active cooperation between the regime and the ISIS in Syria.

Rising extremism and the presence of ISIS in the region, Syria in particular, constitute the number one security threat to Turkey. If its declared objective is achieved,

the ISIS will have a state authority on the neighboring provinces of Iraq and Syria. And this authority will share borders with Turkey, Syria, KRG, Iraq and Jordan. We consider the establishment of such an authority with Al Qaeda ideology as a direct threat to our strategic security interests.

Foreign fighters and those groups affiliated with Al Qaeda in Syria also constitute an imminent threat for the security and stability of the wider region. The latest advance of the ISIS in Iraq clearly demonstrate the extent of the threat we are facing. Taking into the consideration the possible spillover effect of the radical terrorist activities in the region, as well as the increased foreign fighter mobility, this issue has turned out to be a global problem that requires solid international cooperation.

Fighting such a growing threat requires a collective and holistic approach with resolute action by the international community. As extremism now feeds on sectarianism, clear messages and solid approaches embracing every member of the society in the region regardless of sectarian and ethnic backgrounds are also of utmost importance.

The activities of the said group hampers the energy security in the region too. As a result of terrorist attacks, the transport of oil from the fields around Kirkuk through the Kirkuk – Ceyhan pipeline has been interrupted since the beginning of March 2014. Our expectation is for this pipeline to operate at near full capacity.

Interview with Minister of Energy and Natural Resources, Taner Yıldız

(19/07/2014)

1. Can you please describe to me what you see as Turkey's efforts to address the current account deficit?

Of course, the current account deficit becomes harmless as if it can be controlled, however; especially in the countries where the export is depending on the import, it requires to be ultimately careful when it comes to the transportation component and energy component of the economy which is the important amount of current account deficit. Turkey has 60 billions of dollars import of transportation and energy and 8 billions of dollars of export so there is 52 billions of dollars import for Turkey annually. Most of those are used in transportation sector where Turkish people feels the prosperity level. So when we complain about the current account deficit, we should also know that it reflects that our welfare increases. Of course, energy sector in Turkey is trying to reduce the current account deficit for its own part and to carry on the efforts to have national resources. We are trying to give more efforts and time for research of national resources of petroleum and natural gas.

2. How do you see Turkey dealing with its problems related to energy importation?

Now we have important tasks that needs to be done for 2023 targets. Every minister desires to find resources in their country but if they are not able find them in their countries, they do not sit and cry in front of this problem. We are claiming that in our 700.000 km² land and 300.000km² territorial waters we may not find amount of petroleum reserves that we desire. On condition that your political borders remains same, you can enlarge your economic borders. Turkey made such kind of decision when its shares in Shah Deniz 2 oil drilling field has increased and Turkey bought 10% share of Total Co. and becomes 2nd biggest stakeholder after BP in Caspian Sea projects. For another point, Turkey is following the same policy for the projects in Iraq. In today's world, transportation sector has come to a point that you are able to transport one barrel of oil from edge of the world to another for just nearly 2 dollars. That's why it does not matter where you find the petroleum but it matters to own it. The strategy of Turkey is to take the ownership of petroleum from different countries more than the petroleum

found from national reserves. So thanks to God, we are heading that way very well. On one hand, we increased our budget for researching petroleum reserves 13 times bigger than we did in 2002. So now we are saying that if there are reserves, we are going to find it. If there is none, of course we cannot find the petroleum which does not exist.

3. What do you see as the major accomplishment of Turkish foreign policy in Northern Iraq?

Of course, sometimes energy is a burden over the shoulders of politics and sometimes politics is a burden over another. We want to take the energy burden over politics and on the contrary we want to use energy as a reason for peace, contributor and facilitator for the arguments of politics to make the policy decision making easier. What we have been doing in Iraq is to establish a system through which the problems between Bagdad and Erbil can be solved. So, I believe that carrying this system on as a right policy will be quiet accurate for both 2 countries and for the region as well. That's why, all our actions and policies have been in that line. Thus, the petroleum transfer from Northern Iraq has started recently and will continue. I hope that we are going to have very good potential. The owners of petroleum is both Bagdad and Erbil. Turkey's responsibility is to systematize the income of the petroleum which they benefit and Turkey does successfully carry on the do its part.

4. How important do you think Turkey's energy needs are to these negotiations?

So, of course, each one of all agreements which we signed with Bagdad and all contracts which we have with Erbil opens new grounds and creates new opportunities for Turkey in terms of the ownership of the petroleum. That is what we aim and desire because Turkey has 800.000 barrels daily consumption. That's very significant number. So we are going to continue what we have been doing.

5. In Northern Iraq, how did Turkey go from bombing, to a having an agreeable relationship to Kurds there?

Of course, as I told earlier, one of most important factors on this points is energy which has role of catalyst. It does not mean that energy, social life or politics mean everything but as long as those can support each other, then It becomes possible to have stability in the region. Our agreements with Northern Iraq may give us the opportunity of ownership of petroleum in the region. And this brings the normalization of Iraq to have much more compatible life standards in Iraq because Iraq is a huge potential.

Every state designates its policies by its own but when we sat in Bagdad 3 years ago to decide the energy policies regarding the region, we tried to build a structure through which whole region wins. The main core of the system that we suggest is to share what we have or to share the wealth. You are not able to share what you do not have and if you try to do that, every party loses. In Iraq, parties tried to share what they do not have or to share the absence and of course, that results as bitter memories for every part of the society. So, now we are trying to make them share what they have or the assets for the people.

6. How do you see the reaction of U.S. on the agreement between Turkey and Northern Iraq?

Now, every changes bring some sort of pain. That's a change. But we need to ask if what we did is right or wrong. You become stronger as long as it is right and you get weakened as long as it is wrong. So we know that 5% of whole petroleum income to Iraq is kept aside for the tribune of war crime at Kuwait. UN decisions bounds Turkey. So, when this significant income is accumulated in one of public banks: Halk Bank or another, the most important thing for us is to send 5% to the account in care of United Nations for the tribune of war crimes at Kuwait. And we are saying that for the rest of the income, after some transit fees are discounted, Erbil gets its part and Bagdad gets other significant part. So whole system is depending on this distribution mechanism and we believe that the structure is strong and right.

U.S is urging that the territorial integrity and unity of political boundaries of Iraq should be provided and secured. Of course we have been asserting that territorial and political integrity of Iraq must be provided since the beginning. However, sometimes it is not risky to do something but not to do something. We believe that we need to do something. We have always aimed the normalization of the regions and both countries.

7. How has Turkey's desire to pursue nuclear energy effected its relationship to other countries?

So, Turkey needs sustainable energy resources to empower and strengthen its highly growing economy. We are not considering this only as nuclear energy resources but also as an historical step for industrialization in our country. If it were for just

electricity resources, we could have found different resource of electricity. We need to know that our nuclear projects means to go up to higher league of industrialization. At international arena, there will be ones who will like that and another who will not but we believe that this is the right way for Turkey. As an intellectual fact, every right thing that we did in behalf of Turkey is strengthening us and every mistakes is weakening us. This is all same for people, families, societies or states and of course for this project as well. So we are trying to persuade them that we have that target and we are following as I told.

8. What do you see as the major accomplishment of Turkey's foreign policy on Iran, and Turkey's constructive role in the negotiations? What importance is the current account deficit being given in international negotiations?

During nuclear negotiations, Turkey had constructive attitude which can be shown as an example to the world. This is the sustainable, not to be offended and not to keep insisting on. I believe that the energy sector, importing natural gas from Iran and being one of the biggest petroleum importer to Turkey are all helpful for the relations with neighbor, friend and brother country Iran. We are trying to transform the threat of importing oil and natural gas from Iran, Azerbaijan and Russia into benefits. It is not possible to transform into money. Social and political benefits may not be transformed into money. So what we do is to conduct right and continue our neighbor relations in that way.

9. How can Russia's current foreign policy change Turkey's position as a possible energy conduit?

Now and first I believe that Russia is going to have positive effect to Turkey to be energy conduit in the region. At the first glance that may not be what it seems. So how is that possible? Because we are not rivals but parties of the same project in that means. We are sitting together not in front of each other and we trying to manage whole situation in this line. We have a target of creating mutual dependency for our conducts with the countries from which we import our primary energy resources, petroleum and natural gas because unless you act, importing primary energy needs creates otherwise. That's why our nuclear projects affects the relations with Russia positively in that process and we need to tell and announce that it will create mutual dependency. I

believe that our good relations with Russia will be much better in future days.

10. Does Turkey's current role in the Iranian negotiations make Turkey's own nuclear program easier?

Of course, those are inseparable pieces. In international politics, neither international capital nor international relations and energy relations are disconnected processes. On the contrary, they are processes which support each other. Thus, I believe that our constructive attitude toward Iran and the world during the nuclear negotiation is an example for our today's relations. From that perspective, we are at really good point today.

11. Finally, What would be your assessment on ISIS group emerged in Syria and invaded some part of Iraq? How does it affect Turkish foreign policy and security of energy import?

Now, everything about ISIS is evoking some discussion about the stability of Iraq. Components and subject of energy do hate instability. Long running energy project can be implemented if the stability and sustainability are provided. There is no such thing that I do this energy project this year but I will not next year. For energy sector, an operation binds you for 10 years, 20 years or as a result for even 30 years at the end. Because we do not consider those issues inseparable, I am telling that the instability caused by ISIS is affecting the energy projects negatively and even changing the situation of ownership of petroleum which is highly significant. We need to provide sustainable situation there in Iraq.

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