

# TURKEY & SOUTH STREAM: TURCO-RUSSIAN RAPPROCHE- MENT AND THE FUTURE OF THE SOUTHERN CORRIDOR

*Turkey and Russia have been engaged in what amounts to bargaining over the realization of a range of energy projects, which demarcate the contours of a grand energy package. Russia is keen to secure Turkey's backing for its flagship South Stream gas pipeline project and this could give Ankara leverage in its negotiations with Moscow. The Russian authorities are also interested in the possibility of constructing an oil refinery and gas liquefaction plant at Ceyhan, building gas storage units in central Anatolia, and acquiring stakes in Turkey's gas distribution network. Turkish energy officials have been seeking to secure Moscow's firm support for the Samsun-Ceyhan oil pipeline project. The Turkish State Pipeline Corporation (BOTAŞ) is hoping for the easing of take-or-pay obligations from Gazprom and wants to import Russian gas at a cheaper price. Turkish energy officials have also sought re-export rights for Russian gas delivered to the Turkish market.*

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**F**ormerly Cold War enemies and historical rivals, Turkey and Russia now enjoy close economic and political ties. The improvement of ties between the two countries can be observed on a number of levels.

Turkish Prime Minister Recep Tayyip Erdoğan and his Russian counterpart, Vladimir Putin, appear to have developed a close personal relationship. This was most recently evident in Putin's warm message of congratulations to Erdoğan after the latter secured a third term in office after the June 2011 elections.<sup>1</sup> A High Level Cooperation Council, formed in 2010, aims to lay the foundation for a strategic partnership between the two states. Over three million Russian tourists visit Turkey each year and this number will likely increase with the recent lifting of visas. In spite of the recent economic recession, trade turnover in 2010 totalled over 26 billion dollars and the intention is to raise this to 100 billion dollars in the next few years. Turkish construction firms have established a prominent position in the Russian market having undertaken projects worth almost 34 billion dollars. And finally, the Turkish Armed Forces are seriously considering procuring either the S-300 or the more advanced S-400 air defense systems from Russia.<sup>2</sup>

Although these developments point to what this article refers to as 'the Turco-Russian rapprochement', relations between the two countries may still be negatively affected by developments in the Caucasus. The ruling Justice and Development Party (AKP) has sought to pursue a policy of zero problems with its neighbors and at the same time has promoted Turkey as a key regional state. In practice, in the Caucasus, Turkish officials have underlined the need to respect the territorial integrity of states and to resolve disputes peacefully. However, there are potential challenges ahead for Turkey's improving relations with Russia. First, the conflict between Russia and Georgia in August 2008 and the later recognition by Moscow of the independence of the breakaway republics of Abkhazia and South Ossetia posed a challenge to Turkish policy-makers given Ankara's policy of supporting peace and stability and respecting the sovereignty of states in the Caucasus. Secondly, the possibility that war may again resume between Armenia and Azerbaijan over the disputed territory of Nagorno-Karabakh persists, which could cause tensions between Turkey and Russia given Russia has traditionally supported Armenia while Turkey continues to give firm diplomatic backing to its fellow Turkic state Azerbaijan. Finally, as a member of the North Atlantic Treaty Organization (NATO), Turkey is affected by the ups and downs in the relationship between the United States (U.S.) and Russia.

The relations between Turkey and Russia in the field of energy mirror on the one hand the strengthening of economic and political ties but on the other, reflect concerns that

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<sup>1</sup> *Government of the Russian Federation*, Press Release, 14 June 2011, <http://www.government.ru/eng/smi/messages/15560/>

<sup>2</sup> In 2008 Russia was awarded a contract to supply anti-tank missiles to Turkey. Moscow has also been seeking to sell attack helicopters to Ankara.

Ankara may lose its freedom of maneuver in its foreign policy because of increasing dependence on Moscow. This article seeks to address this issue by examining Turkey's position with regard to the Russian-sponsored South Stream gas pipeline. It is argued that the relationship between Turkey and Russia in the field of energy is to some extent an interdependent one in which bargaining is taking place in effect to ensure that certain projects are realized.

### ***A Grand Energy Package?***

Commentators have argued that Turkey's dependence on Russia for energy has resulted in Ankara becoming a part of Moscow's sphere of influence. Robert Cutler, for example, has referred to the formation of a "geo-economic alliance" which could threaten energy security of member states of the European Union (EU) because Turkey and Russia could place a chokehold on gas supplies to Europe.<sup>3</sup> Certainly, at the time of war between Russia and Georgia, Prime Minister Erdoğan remained largely silent even though Turkey's strategic interests were endangered bearing in mind the close relations between Ankara and Tbilisi, and given that important oil and gas pipelines transited Georgia to reach Turkey. The Prime Minister appeared to justify his stance by noting that Turkey's energy dependence on Russia could not be ignored.<sup>4</sup>

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Not a major energy producer, Turkey is dependent on Russia to a certain extent for imports of natural gas, crude oil and hard coal. According to the Energy Market Regulatory Authority of Turkey, in 2010 Turkey imported about 17.5 billion cubic meters (bcm) of gas from Russia out of a total import volume of just over 38 bcm.<sup>5</sup> Turkey had previously imported over 23 bcm of gas from Russia in 2008. It seems that Ankara has curbed its gas imports from Russia by increasing deliveries from Iran and purchasing more gas on the spot market. Russia supplied 38 percent of Turkey's crude oil imports in 2009. Turkey is traditionally Russia's third largest importer of hard coal.

<sup>3</sup> Robert M. Cutler, "Turkey and Azerbaijan move towards agreement on Shah Deniz gas," *The Central Asia-Caucasus Analyst*, Vol.12 No.4 (2010), <http://www.caciananalyst.org/?q=node/5279/>

<sup>4</sup> "Turkey cannot afford disruption in ties with Russia says Erdoğan," *Turkish Daily News*, 1 September 2008.

<sup>5</sup> *2010 Yılı Doğalgaz Piyasası Sektör Raporu* (Report on the Natural Gas Market in 2010), <http://www.epdk.org.tr/documents/10157/5240dd6f-6c54-4096-89f1-dd91337259b6>

Interviews conducted by one of the SGA consultants with various energy officials in Ankara and Istanbul in 2010 and 2011 indicate that Turkey and Russia have been engaged in what amounts to bargaining over the realization of a range of energy projects, which demarcate the contours of a 'grand energy package.' Russia is keen to secure Turkey's backing for its flagship South Stream gas pipeline project and this could give Ankara leverage in its negotiations with Moscow. The Russian authorities are also interested in the possibility of constructing an oil refinery and gas liquefaction plant at Ceyhan, building gas storage units in central Anatolia, and acquiring stakes in Turkey's gas distribution network. Turkish energy officials have been seeking to secure Moscow's firm support for the Samsun-Ceyhan oil pipeline project from which Turkey could obtain certain economic benefits and also enhance its credentials as a key energy transit state. The Turkish State Pipeline Corporation (BOTAŞ) is hoping for the easing of take-or-pay obligations from Gazprom and wants to import Russian gas at a cheaper price.<sup>6</sup> Turkish energy officials have also sought re-export rights for Russian gas delivered to the Turkish market.

Russia's interest in constructing the first nuclear power plant in Turkey is no longer part of this "Grand Energy Package". Without a competitive tender, the Turkish government agreed in May 2010 that the plant near Mersin would be built by the Russian state-owned company ROSATOM. In a deal expected to cost 20 billion dollars, Turkey's state-owned electricity corporation has guaranteed that it will purchase

*"Take-or-pay obligations come into effect if Turkey fails to annually import 75 percent of the amount of Russian gas contracted."*

a fixed amount of electricity produced at the plant in the first 15 years of its operation. It appears that in a separate round of bargaining, Turkish officials agreed to the nuclear deal in return for Moscow allowing visa-free travel for up to 30 days, which will presumably encourage further business and trade. The Russian authorities had driven a hard bargain out of concern that the lifting of visa requirements could trigger a substantial increase in the number of illegal

immigrants seeking to enter Russia. However, seeking to include nuclear power in Turkey's future energy mix, Ankara was eager to secure Moscow's commitment to build a nuclear power plant to generate more electricity to meet Turkey's rising energy needs.

<sup>6</sup> Through "take-or-pay" obligations a gas importer is committed to pay compensation to the gas exporter if it fails to import a certain percentage of the volume of gas contracted to be received in a given year.

## **South Stream**

If realized, the South Stream project, vigorously promoted by Moscow, would significantly increase the amount of Russian gas exports to Europe. South Stream is competing for access to the European gas market with several smaller EU-backed pipeline projects, and Russian officials are keen to complete construction of South Stream before one or more of these alternative projects may come on stream. Estimated to cost 19-25 billion euros, the South Stream pipeline project, upon completion, will transport Russian natural gas to Bulgaria under the Black Sea and then carry this gas to Austria and Italy along two yet to be determined routes. Gazprom and the Italian company Eni hold 50 percent stakes in the South Stream company but the Russian gas export monopoly is clearly the driving force behind the project. Gazprom is eager to boost its profits and enhance its stature as a major and respected energy company. Representatives at Eni have agreed to reduce their stake in the project if other companies come on board. Germany's Wintershall and France's EDF have signed memorandums of understanding to join the project and German's E.ON also has expressed an interest. A final investment decision is expected to be made in late 2012 with construction set to commence in 2013. The first gas is planned to be pumped in 2015 with an initial annual capacity of 15.75 bcm. The pipeline is expected to reach full capacity of 63 bcm by 2018/2019. The governments of states in south-eastern Europe through which the pipeline network would run have pledged their cooperation.

A major obstacle to South Stream has been the 2009 EU directive which would compel Gazprom to allow third party access to the pipeline network or face strict penalties. The Russian authorities have been lobbying to secure exemption from the EU's third party access rule and have pressed for South Stream to be recognized by Brussels as a "project of European interest".<sup>7</sup> This would open access to European credits to help finance the project. But, arguably, South Stream could still go ahead without such funding. Unwilling to increase energy dependence on Russia which provides one quarter of Europe's gas needs, the European Commissioner for Energy, Gunther Oettinger, has refused to make concessions for South Stream and has promoted South Stream's main rival, the Nabucco pipeline project.

The Russian authorities remain determined to realize South Stream, which they regard as both a strategic and commercial project. The pipeline's construction would enable Moscow to deliver substantial volumes of gas to the lucrative market in Europe along a route bypassing Ukraine. Disputes between Kyiv and Moscow over gas supplies in 2006 and 2009 had disrupted Russian gas deliveries to Europe

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<sup>7</sup> "South Stream's Brussels promo tour falls flat," *EurActiv.com*, 26 May 2011, <http://www.euractiv.com/en/energy/south-streams-brussels-promo-tour-falls-flat-news=505159>

and tarnished Gazprom's reputation. Gazprom will use its European partners in the project to press its case in Brussels. Given Gazprom's close links with the Russian state, it is likely that the Kremlin, if necessary, would subsidize effectively a large part of the pipeline network to beat off challenges from rival projects. In contrast to South Stream, companies involved in projects such as Nabucco, the Italy-Greece-Turkey Interconnector (ITGI) and the Trans-Adriatic Pipeline (TAP) must demonstrate that these projects are commercially viable to attract funding.

Visiting Ankara in August 2009, Prime Minister Putin obtained Turkey's support for Gazprom to conduct seismic and environmental studies in Turkey's exclusive economic zone in the Black Sea. Moscow's intention was to secure Ankara's eventual approval for the laying of a subsea pipeline which would enable South Stream to avoid the exclusive economic zone of "troublesome" Ukraine. The aim was to finish the feasibility study and audit by 10 November 2010.<sup>8</sup> This deadline was not met because of delays in preparing the necessary paperwork to allow offshore survey work to commence. According to Gazprom, permission to go ahead with offshore prospecting in May 2011 was only granted on 8 April 2011.<sup>9</sup> After the survey work is completed, the Turkish government would still need to give its final approval before construction work could commence.

These delays could force the South Stream company to reassess its construction timetable. According to Marcel Kramer, the chief executive officer of the project, the consolidated feasibility study is expected to be ready by September 2011 and then the final routes for the pipeline network would be determined.<sup>10</sup> Exasperated Russian officials have complained that they were keen to start initial exploration studies but Ankara was slow to provide the necessary documents.<sup>11</sup> It seems that Turkey has been prolonging negotiations and preparations over South Stream in an attempt to wrest concessions from Russia with regard to other key energy issues such as gas pricing and the Samsun-Ceyhan oil pipeline project.

### **Samsun-Ceyhan**

Çalık Holding and Eni have set up a joint venture, the Trans-Anatolian Pipeline Company, to construct the planned 50-70 million ton (mt) Samsun-Ceyhan crude oil pipeline linking the Black Sea with the Turkish Mediterranean. The projected cost for the 550 kilometers long pipeline could be as high as three billion dollars. The intention is to fill the pipeline with Russian and Kazakh crude. Although, the project was

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<sup>8</sup> "Russia gets Turkish support for South Stream gas pipeline," *Hürriyet Daily News*, 6 August 2009.

<sup>9</sup> "Gazprom gets Turkish approval," *Upstreamonline.com*, <http://www.upstreamonline.com/live/article251802.ece>, 8 April 2011.

<sup>10</sup> Presentation by Marcel Kramer, Chief Executive Officer of South Stream, titled "South Stream: Energizing Europe", Brussels, 25 May 2011.

<sup>11</sup> "No South Stream deal with Turkey – Russia," *Reuters*, Moscow, 16 March 2011.

officially inaugurated with much fanfare in 2007, investment in the pipeline has been stalled due to the failure to secure throughput guarantees and actual construction has yet to commence. The lack of progress in realizing Samsun-Ceyhan appears to be tied to delays in South Stream as explained below.

Russia and Kazakhstan are generally supportive of Samsun-Ceyhan. If built, the pipeline would be an important substitute for the planned 35-50 mt Burgas-Alexandropoulis oil link which would have connected the Bulgarian Black Sea coast with the Greek Mediterranean. The Burgas-Alexandropoulis project is no longer supported by the government in Sofia because of environmental concerns. Moves to go ahead with Samsun-Ceyhan would enable the Caspian Pipeline Consortium to more than double the capacity of the oil pipeline connecting the Tengiz oil field in Kazakhstan with the Russian Black Sea port of Novorossiisk. Significant volumes of Russian and Kazakh crude could then be shipped by tanker from Novorosiisk to Ceyhan, and Moscow would also benefit from the increase in transit revenues for the transportation of Kazakh oil across Russian territory.

Samsun-Ceyhan would also provide benefits for Turkey: the projected increase in the number of tankers trafficking the already congested Bosphorus carrying additional volumes of crude would be somewhat reduced, Turkey could collect transit revenues, and some of the oil might be used by Turkish consumers. Transit fees, however, appear to be one reason for the delay in realizing Samsun-Ceyhan. Nikolai Tokarev, the head of the Russian state pipeline operator Transneft, has complained that Turkish officials are demanding unfavorable transit terms and that the fees paid for shipping crude through the Bosphorus are much more attractive.<sup>12</sup> Turkey's Energy Minister Taner Yıldız has been lobbying the major energy companies to secure their backing for raising the fees for tankers carrying crude through the Bosphorus and the Dardanelles to encourage more oil to be transported along pipelines.

In October 2009 in Milan, Italian, Russian and Turkish government leaders agreed to promote Samsun-Ceyhan, and Çalık Holding and Eni signed a memorandum of understanding with Transneft and the Russian state-controlled oil company Rosneft. The two Russian companies expressed an interest in joining the Trans-Anatolian Pipeline Company.<sup>13</sup> The following September, Moscow presented a draft intergovernmental agreement for Samsun-Ceyhan in which the Russians guaranteed to supply 25 mt of crude.<sup>14</sup> This was not looked upon favorably by Ankara because of the low volumes Rosneft committed. Tokarev later revealed that another draft intergovernmental agreement was submitted to the Turkish authorities in December 2010, but details of this draft have not been made public.<sup>15</sup>

<sup>12</sup> "Transneft says Samsun-Ceyhan link talks stalled", *Reuters*, 14 September 2010.

<sup>13</sup> "Italy, Russia, Turkey sign pipeline deal", *Hürriyet Daily News*, 19 October 2009.

<sup>14</sup> "Russia presents Turkey draft Samsun-Ceyhan deal with 25 mln T supplies", *RIA Novosti*, 3 September 2010.

<sup>15</sup> "Russia presents new draft of Samsun-Ceyhan agreement to Turkey – Transneft", *RIA Novosti*, 13 January 2011.

It seems that delays and problems between Turkish and Russian energy officials over hammering out the details for Samsun-Ceyhan with regard to transit fees, throughput guarantees, financing and the stakes that Transneft and Rosneft might hold in the Trans-Anatolian Pipeline Company, have paralleled the slow movement and difficulties between Ankara and Moscow with regard to South Stream. This would suggest that the Turks are hoping to secure more concessions and better terms from the Russians for Samsun-Ceyhan before formally approving the laying of a subsea gas pipeline across Turkey's exclusive economic zone in the Black Sea for South Stream.

### ***Other Components of the Grand Energy Package***

Russian interest in building a refinery at Ceyhan is closely connected with the fate of Samsun-Ceyhan. In October 2009 the Russian Energy Minister Sergei Shmatko announced that Rosneft would participate in the construction of an eight to 12 mt capacity refinery at the Turkish Mediterranean port to help maximize the profit from the Samsun-Ceyhan pipeline.<sup>16</sup> In December 2010 Çalık Holding and Rosneft signed a cooperation agreement to set up a partnership company to trade in petrol and petrol products in the Mediterranean and supply ships with fuel.<sup>17</sup> Other companies have expressed an interest in constructing an oil refinery at Ceyhan. But the Austrian company, OMV, appears to have lost enthusiasm after the license application made by the Turkish petroleum distributor Petrol Ofisi was blocked. In December 2010 OMV had become the majority shareholder in Petrol Ofisi after purchasing shares from Turkey's Doğan group.<sup>18</sup> Moreover, the state-owned Azerbaijan energy company (SOCAR) seems to be more interested in building a refinery near Izmir with its Turkish partner Turcas. There does appear to be an opportunity, therefore, for Çalık Holding and Rosneft to construct a refinery at Ceyhan and thereby capture the market for oil products in the eastern Mediterranean. Turkish officials could exploit Russia's interest in the refinery to secure better terms for Samsun-Ceyhan and also win concessions from Moscow with regard to gas pricing and alleviating take-or-pay obligations.

The precise details of gas pricing arrangements between Turkey and Russia are confidential although it is apparent that in spite of geographic proximity, Ankara has been paying Moscow a price comparable to that on the European market. Take-or-pay obligations come into effect if Turkey fails to annually import 75 percent of the amount of Russian gas contracted. Ankara's debts to Moscow have mounted as

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<sup>16</sup> Eugene Nikitenko, "Two new Russian oil projects in Turkey", *The Voice of Russia*, 28 October 2009.

<sup>17</sup> "Çalık, Rosneft sign cooperation agreement", *Hürriyet Daily News*, 20 December 2010.

<sup>18</sup> "Turkey: Energy Report", The Economist Intelligence Unit, 4 December 2010, [http://www.eiu.com/index.asp?layout=ib3Article&article\\_id=1407770325&pubtypeid=1142462499&country\\_id=1450000145&page\\_title=&rf=0](http://www.eiu.com/index.asp?layout=ib3Article&article_id=1407770325&pubtypeid=1142462499&country_id=1450000145&page_title=&rf=0)

Turkey has sought to reduce its energy dependence on Russia. In May 2011 there were reports that Ankara owed Russia almost 800 million dollars for failing to import enough gas in 2010.<sup>19</sup> In March 2011, on the occasion of the visit to Moscow by Prime Minister Erdoğan, Russian President Dmitry Medvedev stated that Russia wanted to maintain the take-or-pay principle, but, price discounts were possible in exchange for certain Turkish concessions.<sup>20</sup> This suggests an ongoing bargain between Turkish and Russian energy officials in which Moscow could have been seeking movement from Ankara over South Stream.

Turkish energy officials have also been pressing unsuccessfully for Moscow to allow Turkey to re-export gas volumes that had been allocated to the Turkish market. This would enable Turkey to further its ambitions of becoming a future key energy hub. Currently, only Azerbaijan permits Turkey to re-export gas to other markets. But, Moscow has consistently refused to allow Turkey to re-export gas at a profit. Russia's interest in building a gas liquefaction plant at Ceyhan remains on the drawing-board, presumably because of the high costs involved. Talks between Çalık Holding and Gazprom over building gas storage units in central Anatolia have made little progress, with the World Bank offering financial support for a separate tender. Gazprom would be keen to bid for a stake in Istanbul's gas distribution network, but Ankara has delayed privatizing Turkey's largest gas distribution grid until the economic situation is deemed appropriate. At the time of writing, though, a tender was opened for the sale of gas import rights previously held by BOTAŞ for six bcm of gas delivered by Gazprom along the Blue Stream pipeline network across the Black Sea. Gazprom could partner with a local company to secure gas import rights. In one previous gas release tender the largely Gazprom-controlled Bosphorus Gas obtained import rights.

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There are a number of energy issues which are regularly discussed by Turkish and Russian officials. However, the key elements in the ongoing talks through which agreement over an energy package of sorts may eventually be realized appear to focus on South Stream, Samsun-Ceyhan, the building of a refinery at Ceyhan, and negotiations over gas pricing and take-or-pay obligations.

<sup>19</sup> Neşe Karanfil, "Bakan Yıldız da Rusya' mahcup oldu [Minister Yıldız also loses faith in Russia]", *Radikal*, 13 May 2011.

<sup>20</sup> Anatoly Medetsky, "Turkey sticks by plans for nuclear power plant", *The Moscow Times*, 17 March 2011.

### ***Implications for the Southern Gas Corridor***

Will Turkey's bargaining with regard to South Stream have an impact on other projects which are being considered for the EU's Southern Gas Corridor? Nabucco, the ITGI and TAP would make use of Turkish territory to deliver gas to markets in Europe. The larger strategic project, Nabucco, which envisions the transportation of 31 bcm each year to Europe, would require the laying of a new pipeline network across Turkey. The smaller ITGI or TAP could make use of the spare capacity of the current Turkish pipeline system. Officially, the Turkish authorities are willing to back any of the projects of the Southern Gas Corridor which would use Turkey as an energy transit state.

Contrary to the views of many commentators, Turkey's Foreign Minister, Ahmet Davutoğlu, has argued that South Stream and Nabucco are not rivals but are complementary projects.<sup>21</sup> Both South Stream and Nabucco are aiming to deliver gas to the same European market. EU member states will need to import considerably more volumes of natural gas in the future as North Sea gas production continues to decline. The disaster at Fukushima has forced the German government to cancel its nuclear energy program and other states in Europe will likely seek to increase their reliance on natural gas rather than build nuclear power plants. It is questionable, however, whether the European gas market could accommodate the additional 94 bcm that in theory could be delivered if both South Stream and Nabucco were built and became fully operational at around the same time.

It is important to remember, though, that Nabucco, unlike South Stream, is a fully commercially driven project. No final investment decision will be made on Nabucco unless supplies are committed beforehand. Attention is therefore focusing on the decision which is expected to be made in October 2011 by the Azerbaijani government and the international consortium working at the Shah Deniz gas field in the Azerbaijani part of the Caspian Sea. A decision will be made on the export outlets for the 10 bcm which will become available for delivery each year to outside markets once the Shah Deniz field enters its second phase of production starting 2017. It appears that Turkey will import annually a further six bcm from Shah Deniz after 2017, but the protracted negotiations between Ankara and Baku over transit issues and the price of Azerbaijani gas to be delivered to Turkish consumers have forced Baku and the international consortium to keep postponing a final decision on the export routes for gas to be produced at Shah Deniz from 2017. This delay has compelled the Nabucco consortium to revise its timetable. Without a commitment of Azerbaijani gas volumes from Shah Deniz to provide the initial capacity for Nabucco, it would appear highly unlikely that the Nabucco project would be realized. In practice,

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<sup>21</sup> "Turkey and Russia: Old rivals, new partners", *The Economist*, 13 August 2009.

therefore, it seems that Turkish policy-makers could be endangering the prospects for Nabucco, not by lending encouragement to South Stream, but by holding out for better terms with Azerbaijan with regard to transit issues and gas pricing.

### ***Conclusion***

Given the different set of strategic and commercial dynamics involved, Turkey's possible support for South Stream, therefore, does not appear to be jeopardizing the implementation of other possible pipeline projects in the envisioned Southern Gas Corridor. However, Ankara's declared interest in South Stream does seem to be part of an ongoing bargaining process between Turkey and Russia over a number of energy issues involving the two states. Moscow has already shown signs of frustration with Ankara over what looks like the spinning out of the process to secure Turkey's approval for the laying of a subsea pipeline in the Black Sea. A decision will need to be made by Ankara sooner rather than later and if the Turkish authorities were to withhold approval for South Stream this would most likely have negative repercussions on Samsun-Ceyhan and on the prospects for Turkey obtaining preferential terms for Russian gas supplies.

A more likely scenario, however, given the recent rapprochement between Turkey and Russia and the personal investment put into this warming relationship by Prime Ministers Erdoğan and Putin is that Ankara will give the go-ahead for the laying of the subsea gas pipeline in Turkey's exclusive economic zone in the Black Sea. Significantly, Erdoğan's son-in-law is General Manager of Çalık Holding, the Turkish company which is working to develop projects with Gazprom. In return for supporting South Stream Ankara will likely secure certain benefits from Moscow. This could entail, for example, a commitment for greater oil volumes for Samsun-Ceyhan. It is also possible that other components of what would then be a larger energy package could be realized once South Stream is formally approved by Ankara.