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SABANCI UNIVERSITY
ISTANBUL INTERNATIONAL
CENTER FOR ENERGY AND CLIMATE

Turkey's Position in a World with Shifting Balances: Energy

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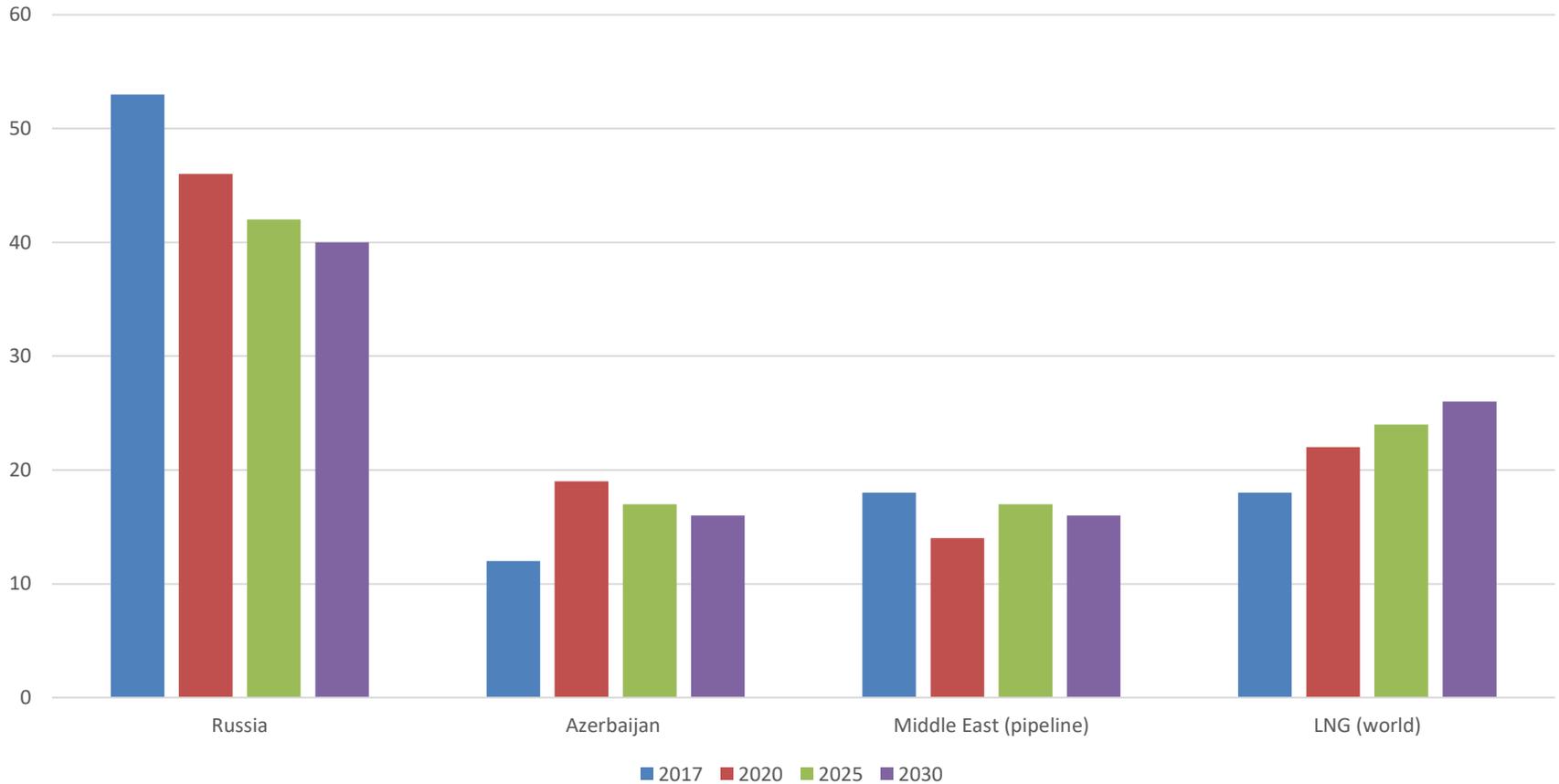
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Turkey's Key Strategies for Energy Security in a World of Shifting Balances

- **Diversify sources of natural gas imports.**
- **Increase reliance on domestic renewables, domestic coal & nuclear power.**
- **Increase competition & the role of the private sector.**
- **Become a natural gas trading center.**

Turkey's Gas Suppliers Will Become More Diversified

% Shares of Turkey's Natural Gas Imports

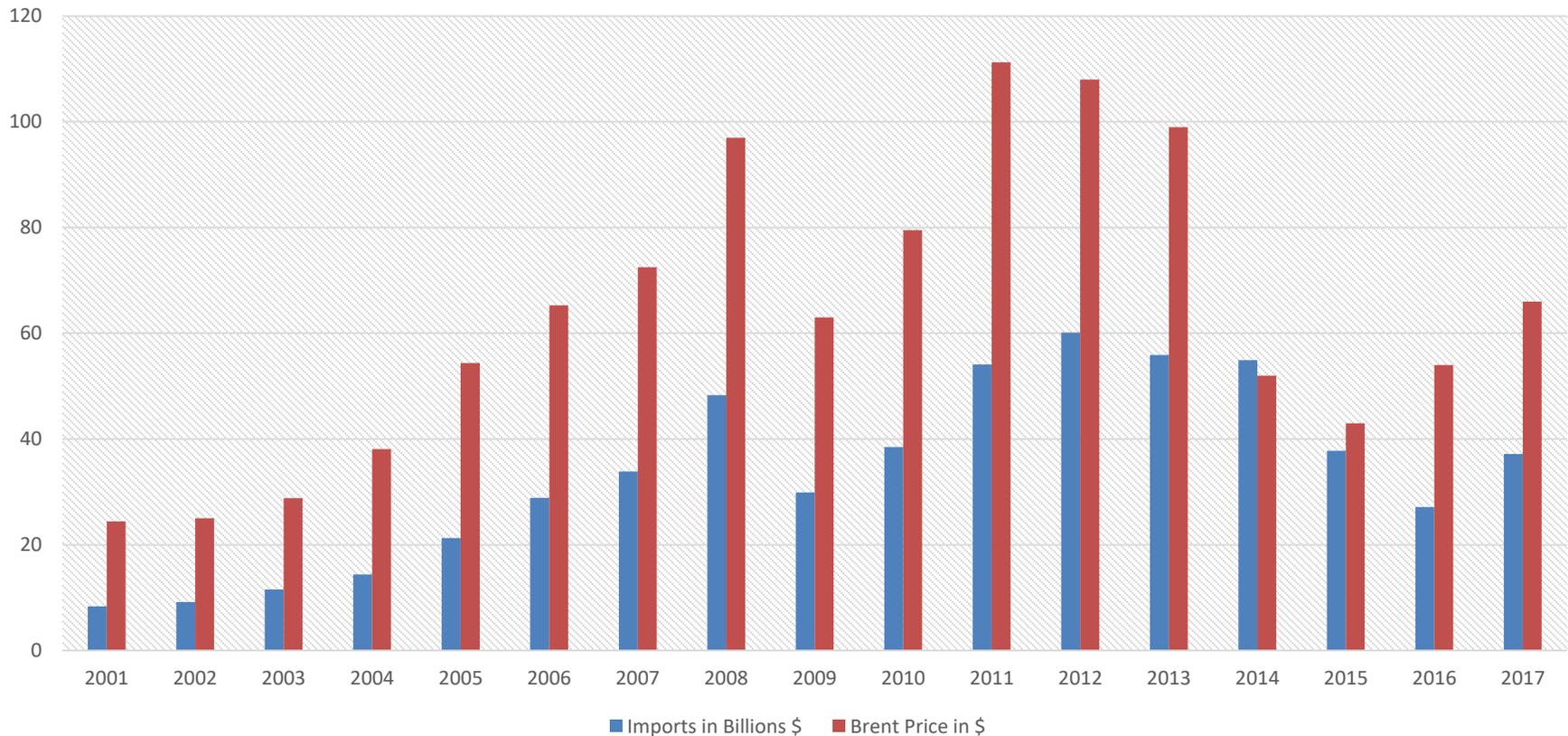


Higher Oil Prices Increase Turkey's Costs for Petroleum Products & Natural Gas

- High oil prices directly increase the cost of Turkey's petroleum products.
- Since natural gas contracts are typically indexed to the price of oil, higher oil prices *also* increase the cost of natural gas.
- While there is some movement away from oil-linked LNG contracts, they are still typical for pipeline contracts.
- The absence of natural gas commodity markets in most regions explains why oil-linked contracts are so prevalent.

Turkey's Energy Import Bill

Turkey's Energy Import Bill Responds Directly to Oil Prices



The Economic Impact of Oil Volatility is Not Just a Function of the Import Bill

- Even major oil producers, that also have diversified economies, such as the USA, are economically vulnerable to oil supply outages.
- The economic impact of oil price volatility comes from the disruption of consumers' disposable income and increased unemployment whether or not the oil is imported or domestically produced.
- The disruption to economies lasts longer than the oil price spike.

Defending Economies Against Oil Price Spikes

- The only remedy to oil price spikes resulting from a supply outage is to *prevent* the spike with a large release in emergency oil reserves.
- Collective world-wide oil security can only be secured by *sufficient* emergency stocks that can be *immediately* released in the event of a severe outage. Hence the IEA emergency stocks program.
- Turkey, as an International Energy Agency Member, participates in this important program, the original *raison d'etre* for the IEA.

Energy Security is also Achieved by Competitive International Energy Markets

- **The international market for oil and refined petroleum products has become competitive & transparent with well-defined market prices, ample spot supplies & liquid commodity markets.**
- **The same cannot be said for the international gas market, although it is moving in the right direction with an increasing share of spot sales and a better balance of power between suppliers and consumers.**

A Turkish Natural Gas Hub would Contribute to a More Competitive Regional Gas Market

- **Several factors are moving in the right direction, including diversification of gas supplies & alternative sources of energy.**
- **Nonetheless, a hub will need:**
 - **more tradable supplies (i.e., w/o destination clauses);**
 - **more storage, &**
 - **more LNG regasification capacity to accommodate variable demand and to add spot supplies.**

Thank you!

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