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

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Forum İstanbul 2018, 3 May, 2018
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 Responds Directly to Oil Prices

Imports in Billions $  
Brent Price in $
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'être 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 marker 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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