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25 November 2015

Would geopolitical confrontation or international/regional collaboration prevail in future cross-border energy and infrastructure projects?

Bosphorus Energy Club Young Leaders in Energy Essay Awards Competition

We live in a peculiar time of oversupply of both oil and geopolitical risks: markets are flooded by a crude glut, excessive inventories, and a surplus in commodities. Meanwhile, the world is witnessing complex and protracted geopolitical confrontations from the Mediterranean to the South China Sea - not seen since the end of the Cold War. But when on 24 November, Turkish F-16s shot down a Russian jet on the border with Syria, oil markets hardly moved. A few weeks prior to that, ISIS-affiliated terrorists caused mayhem in Paris, carried out suicide attacks in Beirut and shot down an Russian private jet over Egypt. At the same time regional and international powers are directly and militarily engaged in the maelstrom of the seemingly endless Syrian conflict. Yet again geopolitical confrontations minimally affected oil markets.

This was not always the case. During the Arab uprisings for example, fears over production shut-ins led to a price surge. In 2012, threats of a closure of the Strait of Hormuz resulted in a sudden increase due to the geopolitical fear premium. Why then has the geopolitical risk factor less of an impact on the energy markets today? Probably because none of the events mentioned above have disrupted production in any substantial ways except for Libya which was absorbed easily by US shale. More importantly, global oversupply and overproduction seem to have pushed geopolitical fears somehow into the backseat. It is in this context of a world of abundance of crude and risks, that this essay analyses the question of whether geopolitical confrontations or international collaborations will prevail in future cross-border energy and infrastructure projects.

If geopolitical confrontations have become less of an issue for energy markets, does this mean that these risks have also less of a role on cross-border energy projects? Would energy infrastructure thus have a greater chance to succeed or conflicts still prevail?

The simple answer is it depends on the context of the location, timing and scale of cross-border energy projects. Indeed, given the long-term and expensive nature of infrastructure projects in often difficult terrain, geopolitics risks can undoubtedly affect energy infrastructure projects. The more complex answer to this question however is that neither geopolitical confrontations nor international collaborations alone determine the success of cross-border energy projects and infrastructure.

Geopolitical factors such as the nature of governments, the geography and geology are usually driving above-ground risks in energy projects. Add to this the economic context and the operational and strategic capacity of international and national oil companies (IOCs and NOCs) as well as pressures by other stakeholders (from activist investors and environmental groups to trans-national or sub-state actors). It is the interaction of these actors and factors that define the viability of energy projects.

However, a key point is that geopolitical risks may in some cases prevail but in other situations only delay much-needed cross-border energy projects. For example, the Russian-Turkish plan to build the Turk Stream gas pipeline will face delays because of the jet-incident mentioned above. But it already emerged in a complex geopolitical environment Russia's objective is to build the pipe via the Black Sea to Turkey to help Moscow bypass its politically unreliable transit route via Ukraine and avoid EU sanctions and regulations (Third Party Access). Turkey's objective is to diversify gas supplies to satisfy the needs of its growing economy. So geopolitics may temporarily prevail but they don't last forever. It is unlikely therefore that current geopolitical confrontations between Ankara and Moscow over events in Syria will lead to an outright cancellation of the gas pipeline project. Rather, geopolitical risks have in this case only added a layer of tension to an already delayed project (due to commercial price disagreements).

Moreover, geopolitical risks oscillate between peaks of tensions and a return to international collaboration. Arguably, energy projects sometimes serve as driving forces to reduce geopolitical risks. Countries return to the negotiation table particularly when a high-degree of economic and energy inter-dependence already exists. Existing or proposed energy projects can often bring both sides together to pacify geopolitical conflicts between political actors. And cross-border energy and infrastructure projects are sometimes advancing in parallel of geopolitical confrontations. The Russian-German Nord Stream 2 gas pipeline project is a good example. It shows how energy projects are evolving despite Western sanctions against Russia over Moscow's Ukraine policy.

At times, however, geopolitical tensions are shifting from one region to the other because of proposed cross-border energy projects. Turkey's relations with Iraqi-Kurdistan evolved from open enmity in the mid-2000s to a close regional commercial and political partnership thanks to cross-border oil and gas energy projects - driven by oil companies to monetise hydrocarbons and government interests to secure future supply sources. Besides, energy projects are not only driven by the geology, timing, investments and expertise but by the confluence of above-ground political and economic interests, and especially by the ability to withstand the accompanying geopolitical risk environment. Thus, in many cases geopolitical confrontations and energy projects go hand in hand whether this is the case in Nigeria Iraq or Iran, unless conflicts and wars destroy the power centres as has been the case in Libya (still exporting some crude) and Yemen (not able to export any oil and gas).

Moreover, the Iran case deserves special attention as it is one of the most prolific geopolitical developments in the world of energy. Iran only a few years back threatened to close the Strait of Hormuz. This came in response to a then-debated military attack against Iran over its nuclear programme. While never materialised, markets feared the disruption of the entire maritime crude oil and LNG trade from one of the most hydrocarbons-rich regions in the world. However, following the nuclear deal and a potential lifting of the sanctions, Iran is now keen to return to the oil markets in 2016 and thus potentially affecting fundamentals. Interestingly, despite ongoing geopolitical tensions between the US and Iran and Iran's involvement in Syria and Iraq, IOCs and NOCs are less worried about the geopolitics within the region.

Rather, companies are keen to invest in underdeveloped energy projects in Iran. Investors are clearly aware of the geopolitics but the potential for opportunities to develop large-scale conventional hydrocarbons has overtaken geopolitical fears. IOCs and NOCs are more interested in the new and improved terms of the Iranian petroleum contract. Granted, IOCs from the US will be less likely to invest in Iran's energy sector given the ongoing US-specific sanctions and an unlikely easing of geopolitical tensions between Washington and Tehran in a post-Obama context. However, Iran is also interesting as geopolitical risks have inhibited Iran and Pakistan to develop a cross-border gas pipeline for many years. With the easing of sanctions, perhaps this delayed gas pipeline project may gain some traction (and funding) again.

On a global level, the US shale revolution has led to the notion of energy-independence. It allayed Washington's four-decades-old fear of over reliance on oil from the Middle East. However it was never a question of oil imports that defined the energy supply security fears in the US. Rather, the US role has been and remains central in protecting the communication lines and waterways to ensure global commerce and energy trade. In this regard, the US is countering the impression that its perceived reclusion and independence from the region would mean giving up its traditional role as protector of the security of the Gulf States. However, a new geopolitical question for the US is whether its future LNG exports to Europe and potentially Asia will be able to a) compete in terms of prices with other players in the market such as Qatar and new players Australia in Asia in particular and b) whether it will be able to win a war over market share with piped Russian gas to Moscow's key markets in Europe and China.

Returning to Turkey, in addition to its tensions with Russia, Ankara is also facing confrontations with old and new sub-state actors, trans-national movements, and external powers which all vie for political influence and control over territory and energy in Turkey's neighbourhood. These geopolitical risks may delay Turkey's overall long-term strategic goal to become a transit route and perhaps even a transit hub one day. Conflicts in Iraq and Syria have weakened the nation-state system in one of the most hydrocarbons-rich parts of the world. In addition to regional political unrest, Turkey's hydrocarbons-infrastructure with Azerbaijan, Iran and Iraq is at the same time facing sabotage and disruptions because of deepening internal conflicts. In the short term, Turkey may face supply disruptions of its existing cross-border energy infrastructure in its eastern border regions. These risks may delay the realization of new gas pipelines from Iraqi-Kurdistan to Turkey. But these risks will not succeed in stopping the country's overall energy infrastructure plans. Turkey for example is going ahead with its plans to import further gas supplies from Azerbaijan via the TANAP pipe despite the possibility of hiccups. These risks will remain unless current domestic political challenges affecting Turkey's energy projects are resolved - of which the current flaring up of the Kurdish issue remains central - and return to normality. Other than internal challenges, Turkey's hope to build a new gas pipeline with Iraqi-Kurdistan depends on the commercial decisions of IOCs and NOCs operating there - a region in which companies face political obstacles to monetise valuable oil and gas assets. The Baghdad-Erbil political saga and the internal political revenue allocation over Kurdish crude exports remains a case in point.

In conclusion, geopolitical confrontations are in oversupply in today's world driving national interests and sub-national groups in their pursuit over the access and control

of hydrocarbon reserves, supply routes and infrastructure projects. Yet, it is the political demand to ensure energy supply security that often proves to be the driving force behind the implementation of large-scale cross-border energy infrastructure projects despite or in parallel of geopolitical risks. International collaboration and cross-border energy projects are still at times delayed due to geopolitical risks. But these risks are shaping energy policies of governments and investment strategies of companies. However, neither geopolitical confrontation nor international collaboration would prevail over the other forever. This notion would imply continuity. Something that is unthinkable in a world of constant changes. Rather, geopolitical confrontations may just prolong cross-border energy projects. Energy projects are often built in a volatile political context with the support of an overlord - some powerful state or investor that can ensure the viability of political risky, financially uncertain and long-term energy projects. Lastly, as discussed, energy projects can reduce geopolitical tensions between erstwhile opponents. Pipelines in particular are a great symbol of how they can create valuable interdependency and help relations to flourish between nations. This is key particular for countries that need to secure energy supplies to satisfy their growing energy demand to help sustain the growth of its economy - especially **countries** like Turkey.