

# THE GLOBAL ENERGY CHALLENGES AND TURKEY: PRIVATE SECTOR PERSPECTIVE

*In meeting the energy challenge, the global society has to change its current mentality of confrontation and forgo seeing international politics as zero-sum game. A logic based on collaboration and innovation and emphasis on "positive-sum game" is needed. Global society can only meet its great energy challenge through collaboration and innovation, and with the participation of market forces. Interdependence, rather than dependence should be the key concept in designing the new global energy architecture.*

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With a rapidly growing economy Turkey has become one of the fastest growing energy markets in the world. Turkey has the second highest energy consumption growth after China. According to available official figures, the primary energy consumption of Turkey will rise to 222 million tons of oil equivalent (toe) in 2020, from around 92 million toe in 2006. On the other hand, Turkey is highly dependent on external energy resources. In parallel to the increase in energy demand, Turkey's energy dependence rate rose from 51 percent in 1990 to 72 percent in 2008. High energy import cost which was approximately 50 billion dollars in 2008 worsened the current account balance of Turkey. Besides the current account deficit issue, the escalation of energy import has increased Turkey's energy insecurity and geopolitical risks.

In the highly competitive global market place, energy cost is an important competitiveness factor. The high price attached to energy is one of the major obstacles also in Turkey's competitive power. Therefore, we need to redefine energy policies and reshape our energy vision based on global realities and the needs of the Turkish economy, with an aim of becoming more competitive in the global market place.

As a representative of the Turkish business community, I would like to share my views on the dynamics of global energy, the position of Turkey in the context of energy challenges that the global economy is facing, and Turkey's EU membership process.

As the business community, our energy vision is to ensure a secure supply of energy at a reasonable price level while achieving substantial reduction of green house gas emissions and becoming a major player in global energy diplomacy. Our energy vision for a more competitive Turkey is based on three pillars: first, minimizing energy dependence; second, preparing for a low carbon age; and third, enhancing the position of Turkey in global energy diplomacy.

### ***Minimizing Energy Dependence***

It is widely assumed that global competition for energy resources will redefine the interplay between economics and politics in coming decades. Therefore, energy security is one of the top priorities for every country around the world. Each country is looking for ways and means of ensuring secure, clean and affordable energy.

Since Turkish import of oil and gas is concentrated on a few countries, diversification of the source and routes of energy import should be our top priority to minimize energy dependence. For this priority, the geographic position of Turkey and its proximity to the energy sources is its biggest asset. In addition to

diversification, Turkey needs to focus on local sources in power generation while increasing its share of renewable sources and exploit unconventional sources. On the other hand, Turkey has been very late to integrate nuclear energy into its energy mix. Integration of nuclear energy into Turkey's electricity production with an open and transparent tender process from diversified sources, while taking into account environmental concerns will serve to minimize the energy dependence of the country.

Turkey needs 120 billion dollars of energy investment until 2020. The government has the responsibility to stimulate energy investment and attract global capital to the Turkish energy market through the liberalization of the market, and to create a conducive business and investment environment.

### ***Preparing for a Low Carbon Age***

Climate challenge and green house gas emissions are the biggest challenges that humankind faces today. These can only be mitigated through global cooperation and innovation. After the global economic crisis, low carbon green recovery is placed on the agenda of G-20 summits. Without any delay, the global society has to agree on creative sustainable business strategies to mitigate climate change. As a member of G-20, OECD, an accession country to the EU, and a responsible actor in global politics, Turkey has to prepare itself for the coming low carbon age.

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For this strategic goal, Turkey recently signed the Kyoto Protocols and is in a process of preparation for the post-Kyoto period. In this regard, increasing energy efficiency should be the key policy priority. The energy intensity of Turkish industry is higher than any modern standard. For instance, energy intensity of Turkish industry is two times higher than the OECD average and four times higher than Japan's average. Turkish industry has to increase energy efficiency in production and increase the share of renewable energy in its energy mix in line with the EU regulations and standards.

There is not doubt that preparation to the coming low carbon age is bringing extra costs for the private sector. However, it is also bringing new business and investment opportunities for the business community. Therefore, our working principle should be seizing the opportunities while managing the risk.

The huge potential of Turkey in renewable energy has not yet been utilized. This sector poses vast investment potential for local and global investors. Investors should note that the Turkish government has the strategic target of increasing the share of renewable resources in the country's energy mix to 30 percent by 2023. The government should improve the investment climate to attract more investment from global sources through improving regulatory conditions, liberalizing the market, opening the sector to competition, as well as making amendments in the Turkish commercial code in line with the global demands and corporate governance principles.

### ***Enhancing the Position of Turkey in Global Energy Diplomacy***

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Turkey has a very special status in its region and in the global economy. Located at the crossroads of Europe, Middle East, North Africa, and Central Asia, Turkey embraces both Eastern and Western elements. Within three-hours of flight time from Turkey, you can reach 51 countries. This means, a population of around one billion, and a total GDP of around 12 trillion U.S. dollars which is equal to one third of the world's GDP. In addition to this, Turkey

is located in a region that holds 72 percent of the world's proven gas reserves and 78 percent of proven oil reserves. Countries to the west of Turkey consume 50 percent of world's oil and natural gas while countries to the east produce 70 percent of world's oil and natural gas. Turkey is located at the crossroads of energy in the middle of five seas. This position makes Turkey an indispensable energy corridor between the two regions of energy production and consumption.

Turkey assumes the role of the region's energy bridge and energy hub. Today, 200 million tons of oil per year is transported through the Bosphorous Straits and the Baku-Ceyhan pipeline. Once the ongoing international energy projects are completed, around seven percent of global oil supply will transit through Turkey. Turkey has the potential to supply 80 billion bcmcubic meters (bcm) of natural gas

to Europe annually which makes it the fourth main artery in the energy supply of European Union.

While transnational energy projects are competing with each other, it is hard to decrease the energy dependence of EU and diversify its energy transit routes and sources without the contribution of Turkey. Turkey, with the involvement of the private sector, needs to design an ambitious and well coordinated energy diplomacy to strengthen its position in global energy negotiations.

The perspective of the business community in energy diplomacy is that dealing with energy policies with a commercial mentality is in the best interest of producers, consumers, and political authorities. In other words, market forces, feasibility and profitability of the projects should lead the decisions in the energy market.

In meeting the energy challenge, the global society has to change its current perspective of a zero sum game. A logic based on collaboration and innovation and emphasis on “positive-sum game” is needed. Global society can only meet its great energy challenge through collaboration and innovation, and with the participation of market forces. Interdependence, rather than dependence should be the key concept in designing the new global energy architecture.

To conclude, I would like to express that Turkey, with its dynamic private sector, is a source of stability in the regions on which the global economy is dependent for the energy sources. Turkey is a great asset for its allies, especially for the EU, in securing energy supply and minimizing energy dependence. In addition to this, with its strong growth potential, young population, rapid urbanization and industrialization, Turkey is a profitable investment destination in the energy sector for global capital. The position of Turkey in the global energy market and its investment potential are two points that our allies and global investors should note in crafting their policies and strategies toward Turkey.