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AN INDEPENDENT ACTOR

Turkish Foreign and Energy Policy Toward Russia, Iran, and Iraq

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Cover photo: Umit Bektas/Reuters. A general view of oil tanks at Turkey's Mediterranean port of Ceyhan, which is run by state-owned Petroleum Pipeline Corporation (BOTAS), February 19, 2014.

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Introduction

Turkey has sought to position itself as a vital country in the transshipment of oil and gas from its energy rich neighbors to Europe. This policy grew in importance following the 1980 military coup and the subsequent start of domestic reforms to liberalize the Turkish economy. Successive Turkish governments have engaged with energy-exporting countries in Turkey's near abroad, both to diversify its energy suppliers and to increase Turkey's relevance for transborder trade with Europe. These efforts have, at times, run afoul of US efforts to punish Russia for its invasion of Ukraine, isolate Iran, or send a signal to Iraqi Kurdish leaders about the necessity of Iraq remaining territorially contiguous. Turkey shares many interests with the United States in its near abroad, but it also has clear economic and geopolitical interests of its own, particularly in deepening energy cooperation with most states in the region. Ankara's decision making in the 1980s is similar to actions taken in the 2000s, and this pattern could help shed light on future Turkish policy towards Russia, Iran, and Iraq.

The Turkish government made sweeping changes to its domestic energy laws shortly after the 1980 military coup that shifted the state's economic model from a statist one to an export-oriented, market-centered model. Turgut Ozal, a former International Monetary Fund (IMF) employee, helped spearhead the military's initial attempts to implement reforms before running for and then winning election as prime minister in 1983. The election marked a turning point in Turkish politics and catalyzed ongoing efforts to transform the Turkish economy. Ozal's government faced infrastructure and geopolitical challenges, particularly with early efforts to strengthen Turkey's energy relationship with the Soviet Union, a Cold War adversary, and with Iran and Iraq, two warring parties.

Turkey remains dependent on the import of fossil fuels for the generation of electricity. Its most important

suppliers, Russia and Iran, are two countries that are of considerable importance for President Trump's agenda in Europe and the Middle East. The Trump administration has signaled its willingness to improve relations with Russia, while simultaneously increasing pressure on Iran. The United States will also remain deeply involved in Iraq, where the war against the Islamic State of Iraq and al-Sham (ISIS) has resulted in de facto Kurdish control over Kirkuk, a disputed city and an energy-rich area; a situation that could prompt clashes with the central government. The Kurdistan Regional Government is a critical actor in the American-led war against ISIS, a group that President Trump has pledged to destroy. The intersection of Turkish foreign policy with American interests in these three countries is certain to impact bilateral relations.

This report is divided into three case studies from which the lessons learned from past Turkish decision making might help chart likely courses of actions vis-à-vis Ankara's future energy relationship with Russia, Iran, and Iraq¹ and, relatedly, the potential impact this will have on American interests in these three countries, along with bilateral US-Turkish relations. Turkey has considerable interests in all three states and therefore will be impacted by US decision making and changes on the ground that impact its energy interests in its near abroad. The same is true for the United States and Europe. Should the Trump administration seek to tighten sanctions on Iran, or if Germany continues to push for sanctions on Russia, Turkey's support for deeper energy ties will impact those processes.

¹ The report focuses on northern Iraq, where Turkey is most active and has considerable economic and political interests.

The Russian Bear

Turkey Keeps its Options Open

Turkish-Russian relations are complicated. Russia is Turkey's historic geopolitical foe, but also Turkey's most important energy provider.² Russian visitors help underpin the tourism sector, while Turkish construction businesses play a considerable role in the former Soviet Republics and in Russia itself.³ The two countries have been at odds in Syria, particularly over Russian support for Syria's Bashar al-Assad. In late November 2015, the Turkish Air Force downed a Russian SU-24 bomber after it strayed into Turkish airspace while bombing Turkish-backed insurgent groups. The incident touched off a sustained period of political tension and retaliatory Russian measures on the Turkish tourism industry, as well as coercive and indirect measures that prevented Turkey from sending troops or aircraft into Syria. It also froze work on Turkstream, a proposed pipeline from the Russian city of Anapa to Turkey's Kiyikoy via the Black Sea.

The Turkish government de-escalated tensions with Russia in June 2016, when Turkish President Recep Tayyip Erdogan apologized to Russian President Vladimir Putin. The rapprochement eased Russian restrictions on travel to Turkey, helped facilitate Turkey's cross-border military operation in Syria—Euphrates Shield—and hastened energy discussions. The latter issue has considerable geopolitical importance for Europe and Ukraine, two areas where American interests clash with Russian interests. Turkish-Russian energy ties were first established in 1984,⁴ and then formalized through the signing

of a purchasing agreement in 1986.⁵ Turkey has since deepened its energy relationship with Russia, reaching agreements for further natural gas deals in 1997, 1998, and then in 2014 for Turkstream.⁶

The initial three agreements were aimed at providing gas for the Turkish market. Turkstream, however, has had repercussions related to Turkish-European relations and the Western-Russian impasse over the latter's invasion of Ukraine and annexation of Crimea, both of which may resound across intra-European Union (EU) member state debates about future Ukraine-related sanctions policy. Turkey has sought to remain neutral in the dispute, driven by the goal of becoming an energy hub for Europe and by its own reliance on Russian energy supplies. The Russian government has long identified Ukraine as the weak point in its transit network to the EU and even the Turkish market.⁷ In 2005, Moscow prioritized the effort to diversify its pipeline network to Europe and focused on lessening its dependence on Ukraine. The decision came after nearly two decades of disputes about theft, as well as a serious disagreement over price that culminated in Gazprom cutting off supplies to Ukraine on January 1, 2006.⁸

That dispute was eventually resolved and Gazprom took steps to ameliorate supply shortages to Europe. The incident also helped galvanize European support for Nord Stream 1, a pipeline stretching from Vyborg, Russia to Greifswald, Germany via the Baltic Sea.⁹ The

2 As of 2015, Russia accounted for 55.3 percent of total natural gas imports. See: "Turkey's Energy Profile and Strategy," Republic of Turkey, Ministry of Foreign Affairs, accessed on February 8, 2017, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

3 According to Bloomberg, "Tourism accounts for 6.2 percent of Turkey's economic output, according to the Association of Turkish Travel Agencies, and 8 percent of employment -- not counting its impact on other industries." As of May 2017, "The number of arrivals dropped for a ninth consecutive month, the longest streak of year-on-year declines in statistics that span a decade. The number of visitors fell by a record 28 percent to 1.75 million in April, according to data compiled by Bloomberg... The fall in tourist arrivals was led by a 79 percent decline in number of Russian visitors." See: Selcan Hacaoglu, Onur Ant, and Constantine Courcoulas, "Foreign Tourists Stay Away from Turkey in Record Numbers," Bloomberg, May 27, 2017, <https://www.bloomberg.com/news/articles/2016-05-27/turkey-tourism-capsized-by-tensions-as-arrivals-show-record-drop>.

4 "Turkey, USSR Inaugurate Pipeline," Associated Press, June 24, 1987.

5 Gulmira Rzayeva, "Natural Gas in the Turkish Domestic Energy Market: Policies and Challenges," The Oxford Institute for Energy Studies, 2014, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf>.

6 Maria Riza Mazzanti and Alberto Biancardi, "Institutional Endowment and Regulatory Reform in Turkey's Natural Gas Sector," in *Turkey: Economic Reform and Accession to the European Union*, ed. Bernard Hoekman and Sübidey Togan (Washington, DC: World Bank, 2005), 210-211.

7 In 1994, "a Ukrainian official openly admitted what has long been known - that Russia's neighbor has been siphoning gas from pipelines crossing its territory on the way to paying customers in the West and Turkey." See: Michael S. Lelyveld, "Neighbors Siphoning Pipeline Gas from Russia," *Journal of Commerce*, December 8, 1994.

8 Jonathan Stern, "The Russian-Ukrainian Gas Crisis of January 2006," The Oxford Institute for Energy Studies, January 16, 2006, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/01/Jan2006-RussiaUkraineGasCrisis-JonathanStern.pdf>.

9 Nord Stream AG, accessed February 7, 2017, <http://www.nord-stream.com/>.

“Ankara’s goal, as it pertains to Russia, is to increase Turkey’s importance as a transit country. . .”

project bypasses Ukraine and feeds gas directly to the European market. Russia and Europe have since begun negotiations for Nord Stream 2, but Poland’s anti-monopoly regulator delayed the project, forcing Gazprom to shoulder a great financial burden in finalizing construction.¹⁰

The debate about Nord Stream 2, a proposed expansion of the existing pipeline networks, has continued in the European parliament along with a discussion on the security implications of increasing reliance on Russian natural gas. The Turkish

government is now wading into this key policy fight. And Greece, still reeling from the fallout of the 2008 economic crisis, has sought to use expected transit revenues from future Turkstream gas deliveries to win more favorable conditions from its international creditors.¹¹ This debate, while not specifically related to Turkstream, underscores the divergence in priorities of different EU states. The Greek position is therefore instructive for understanding potential future disputes about EU sanctions that empower a non-EU member, Turkey, to the disadvantage of other European states eager to resume economic and energy relations with Moscow. For Russia, pursuing both Nord Stream 2 and Turkstream are not only economically important, they are key to its strategic goal of further undermining the so-called southern gas corridor, which envisions connecting Europe to the Caspian and Middle Eastern states via three pipelines that do not originate in Russia.¹²

10 Andrew Rettman, “Russia to Build Nord Stream 2 Despite Polish Objection,” *EU Observer*, August 22, 2016, <https://euobserver.com/economic/134694>.

11 Stratos Pourzitakis, “The Energy Security Dilemma of Turkish Stream,” *Carnegie Europe*, July 28, 2015, <http://carnegieeurope.eu/strategieurope/?fa=60861>.

12 Najia Badykova, “EU’s Southern Gas Corridor Still Lacks Strategic Approach,” *Central Asia Caucasus Analyst*, March 30,

Map 1. Planned Turkstream pipeline route



Source: Gazprom.

Turkey is poised to benefit from both Nord Stream 2 and Turkstream, despite the pipelines being de facto competitors to supply the European market. Ankara's goal, as it pertains to Russia, is to increase Turkey's importance as a transit country, a policy that also lends itself to continued cooperation with the countries involved with the southern gas corridor. However, this comes at the expense of supplier diversification and will result in increased Turkish reliance on Russian natural gas. This, too, is dependent on the future of Turkstream. The Turkstream proposal calls for the building of four pipelines, the first of which will carry 15.75 billion cubic meters (bcm) of gas to the Istanbul market. The first pipeline will replace Russian gas now shipped via Ukraine, Romania, and Bulgaria to the Thrace region. The second pipeline is also expected to be built, but slow economic growth totals in Turkey may mean that the third and fourth pipelines are never built. The outcome is that Russia could deepen its hold over the European market through the export of gas via Turkey to Italy or through Nord Stream 2.

Turkish actions suggest that its primary interest is to establish Turkey as a transit country, rather than focusing on lessening dependence on Russian exports and thereby punishing Moscow for its military actions in Ukraine. Turkey's decision making is based on its own self-defined interests, but nevertheless

has repercussions on EU-Russian relations—and therefore tangentially impacts western policy toward Ukraine and ongoing efforts to diversify energy imports. Turkey's position on Turkstream aligns more closely with approaches by Greece and Italy, both of which have sought to ease Russian sanctions, over the objections of other EU states, because they stand to benefit from a future expansion of the pipeline into the EU. In December 2016, the European Union voted to extend Russian sanctions until mid-2017, a compromise that gives European leaders flexibility and time to better understand what the Trump administration will do about sanctions.¹³

Ankara's actions vis-à-vis Moscow energy show a clear pattern of engagement with Russia on energy-related matters. They have repercussions for European debates about sanctions, and therefore impact US policy in places like Ukraine, but these debates do not appear to have a determinative impact on Turkish decision making. Instead, Ankara's actions underscore the importance the country attaches to Russian energy, and the potential economic benefits deepening this relationship could entail, even when those decisions result in the deepening of Turkish reliance on Russian energy.

2016, <https://www.cacianalyst.org/publications/analytical-articles/item/13347-eus-southern-gas-corridor-still-lacks-strategic-approach.html>.

13 Gabriela Baczyńska, "EU Agrees to Extend Russia Sanctions until Mid-2017 in a Signal to Trump," Reuters, December 15, 2016, <http://www.reuters.com/article/us-ukraine-crisis-eu-sanctions-idUSKBN144289>.

Iran

Compartmentalized Relations

The Turkish government and Iran have long-standing energy ties, although disputes often arise about the implementation of signed agreements. For Turkey, Iran remains a lucrative trade market and an important energy supplier. Iran previously viewed Turkey as being of secondary geopolitical importance, divorced from Iranian actions in its traditional areas of interest: the Persian Gulf and the Levant.¹⁴ Turkish-Iranian tensions, therefore, stem from real and perceived challenges in areas each government defines as their own sphere of influence. The Turkish government has, in recent years, sought to deepen its influence in northern Syria and Iraq, where its policies are at odds with those of Iran.

These tensions have not prevented the two countries from pursuing closer energy ties. Their recent pattern of compartmentalizing relations during times of tension is not new; in fact, it is representative of Turkish decision making about Iran since 1979. For example, Turkey resisted US pressure to enforce sanctions passed in 1980 to punish Iran for its taking of American hostages. The Turkish government, then headed by Suleyman Demirel, argued that US actions jeopardized an oil agreement previously signed by the two countries.¹⁵ The Turkish government followed a similar policy during the Iran-Iraq war; it adopted an official policy of neutrality, but sought to profit from the war. In a sign of things to come, the two countries began to discuss an oil pipeline to transship Iranian crude to the Mediterranean.¹⁶

The proposed pipeline arrangement collapsed due to lack of funds, but nevertheless signaled Turkish and Iranian intent to deepen energy ties. In 1996, the Turkish government—then led by Necmettin Erbakan, the now deceased leader of the Refah party—finalized a \$20 billion natural gas deal in Tehran. The agreement ran afoul of the spirit of the Iran-Libya Sanctions Act, which relied on extraterritorial sanctions to try to prevent foreign and domestic companies from investing more than \$20 million in Iran's oil and gas sector.¹⁷ Turkey, from the outset,

argued that the arrangement did not violate US sanctions because it was a purchase agreement for Iranian gas, not a proper investment in Iran's energy sector.¹⁸ The terms of the agreement remained a point of contention, but Turkey did resist US extraterritorial sanctions and, importantly, the Clinton administration used an executive waiver, built into the legislation, to ensure that no Turkish company was penalized for its cooperation.

The Tabriz-Ankara pipeline was completed in 2001 and formally began operating in 2002. However, the agreement has remained contentious. The price Turkey pays for Iranian natural gas is higher than what it pays any of its other suppliers. Ankara also agreed to a take-or-pay contract in 1996, which obligated payment for up to 87 percent of the total contract quantity, even if the amount exported to Turkey was less than the total amount. From the outset of this arrangement, Turkey blamed Iran for failing to meet its obligations, arguing that, during the winter months, Iranian authorities would divert gas exports earmarked for Turkey to the domestic market. Yet, because of the take-or-pay provision, Turkey was still paying for the remainder of the 87 percent of the gas it had contracted to purchase.¹⁹ Turkey renegotiated this arrangement and decreased the provision to 70 percent, but disputes continued.

Up until 2013, Turkey lacked the necessary infrastructure to store natural gas and had an inadequate number of “compressor stations to move gas from east to west.”²⁰ Iran used this, as well as Kurdistan Workers' Party (PKK) attacks on pipelines, to blame the Turkish side for the lower than agreed

104th Congress, August 5, 1996, H. Rep. 3107, <https://www.congress.gov/104/plaws/pub1172/PLAW-104pub1172.pdf>.

14 Eliot Hentov, “Asymmetry of Interest: Turkish-Iranian Relations since 1979,” (PhD Diss., Princeton University, 2011), 4.

15 “Turkey Rejects Sanctions Against Iran, Citing Oil Need,” *New York Times*, April 22, 1980.

16 Pierre Razoux, *The Iran-Iraq War* (Cambridge, MA: The Belknap Press of Harvard University, 2015).

17 US Congress, Senate, *Iran and Libya Sanctions Act of 1996*,

18 According to the *New York Times*, “Turkish officials argued that the agreement did not break American law, because it is a trade agreement to purchase gas, not an investment. ‘The sanctions ban investments in Iran,’ a Turkish cabinet minister, Abdullah Gul, said Monday in Tehran. ‘We’re not going to invest in Iran. This is only a trade agreement. The two countries will build their own sides of the gas pipeline.’” See: Steve Erlanger, “Turkey Risks Sanctions by Buying Gas from Iran: NATO Ally Denies Deal Breaks New US Law,” *New York Times*, August 13, 1996.

19 “Turkey Puts Pressure on Iran Over Gas Prices,” *Natural Gas World*, January 23, 2012, <http://www.naturalgasworld.com/turkey-iran-over-gas-prices->.

20 Rzayeva, “Natural Gas in the Turkish Domestic Energy Market: Policies and Challenges,” 28.

export volumes.²¹ Turkey's state-owned crude and natural gas trading company, BOTAS, took this issue to the International Court of Arbitration (ICA). In 2009, the body ruled in Turkey's favor, awarding BOTAS \$800 million in compensation. Turkey applied this to the price of natural gas, but even still, the price paid for Iranian gas was higher than any other. Moreover, in 2012, Turkey filed two additional cases with the ICA: first, the quality of Iranian gas was low; second, the price was still in excess of the international norm. The ICA ruled in favor of Turkey on the price issue, awarding a further 10-15 percent discount from imports backdated to 2011. The ICA ruled in favor of Iran on the quality issue.²²

Despite these tensions, Turkey resisted American pressure to enforce extraterritorial sanctions, which were designed, in part, to increase pressure on Iran to negotiate over its nuclear program. The Turkish government took advantage of a loophole to pay for Iranian energy imports with gold, purchased from an external supplier, and then sent to the United Arab Emirates as intermediary.²³ Iran received payment

for natural gas in Turkish lira, which it would then use to buy the gold Turkey first exported.²⁴ The United States closed this loophole in 2013 and, in a series of meetings with US government officials, Turkey decreased the amount of Iranian crude it imported.²⁵ The US Department of the Treasury responded to this move, granting a waiver for continued payments to Iranian energy suppliers. Following the signing of the Joint Comprehensive Plan of Action (JCPOA or the Iran Nuclear Deal) crude imports from Iran are presumed to have returned to pre-2012 levels, according to the Congressional Research Service.²⁶

The history of this relationship shows a clear pattern: The Turkish government will resist US pressure to curtail energy dealings with Iran. The energy relationship is still the backbone of the two countries' economic relationship; however, bilateral disagreements about take-or-pay and the terms of energy contracts remain controversial.

21 Orhan Coskun, "Attack halts flow in natural gas pipeline from Iran to Turkey," Reuters, July 28, 2015, <http://www.reuters.com/article/us-turkey-gas-iran-idUSKCN0Q20G820150728>.

22 "Turkey to receive \$1.9B in compensation from Iran over natural gas price dispute," Anadolu Agency, January 24, 2017, <https://www.dailysabah.com/energy/2017/01/24/turkey-to-receive-19b-in-compensation-from-iran-over-natural-gas-price-dispute>.

23 This scheme ensnared the ruling party, the AKP, in a massive graft scandal. The AKP managed to end the investigation, but a series of leaked audio recordings implicating the current president, his family, and a cadre of former AKP officials prompted a series of retaliatory measures against police and prosecutors aligned with the US-based cleric, Fetullah Gulen, who the Turkish government blames for the leaks. Gulen was also accused of being behind the failed coup attempt in July 2016. See: Humeyra Pamuk, Steve Stecklow, Babak Dehghanpisheh and Can Sezer, "Special Report - Golden Loophole: How an Alleged Turkish Crime Ring Helped Iran," Reuters, April 29, 2014, <http://www.reuters.com/article/us-iran-turkey-special-report-idUSBREA3S07120140429>; Patricio Hurtado, Benjamin Harvey, Isobel Finkel, "Gold Trader at Heart of Turkey Graft Scandal Charged in US," Bloomberg, March 21, 2016, <https://www.bloomberg.com/news/articles/2016-03-22/gold-trader-charged-in-u-s-with-violating-iran-sanctions>; Jonathan Schanzer, "How Iran Benefits from an Illicit Gold

Trade with Turkey," *The Atlantic*, May 17, 2013, <https://www.theatlantic.com/international/archive/2013/05/how-iran-benefits-from-an-illicit-gold-trade-with-turkey/275948/>.

24 Gary Clark, Rachel Ziemba and Mark Dubowitz, "Iran's Golden Loophole," Foundation for Defense of Democracy and Roubini Economics, May 13, 2013, http://www.defenddemocracy.org/content/uploads/documents/FDD_RGE_Iran_Gol_Report_May_2013_FINAL_2.pdf.

25 According to Reuters, "In November 2013, the US State Department extended six-month Iran sanctions waivers to Turkey, among other countries, in exchange for their reduced purchases of Iranian crude oil earlier this year. Under the Geneva accord signed that month, the US and five other countries agreed to suspend efforts to further reduce Iran's crude oil sales, allowing consuming countries to continue buying their 'current average amounts of crude oil'. In 9M13, Iraq became Tupras's principal crude oil source by supplying nearly 28% of its crude oil, while Iran supplied 25% of Tupras's total crude, down from 45% in 2011. Tupras's favorable location and coastal refineries give it access to a variety of crude sources." See: "RPT-Fitch affirms Tupras at 'BBB-'; Outlook Stable," Reuters, January 15, 2014, <http://www.reuters.com/article/fitch-affirms-tupras-at-bbb-outlook-stab-idUSFit68359320140115>.

26 Kenneth Katzman, *Iran Sanctions*, US Library of Congress, Congressional Research Service, January 31, 2017, <https://fas.org/sgp/crs/mideast/RS20871.pdf>.

Erbil over Baghdad

Turkey Explores its Options with the Iraqi Kurds

The Turkish government's relationship with the Kurdistan Regional Government (KRG) has evolved considerably in recent years. For Ankara, the Kurdistan Democratic Party (KDP) has emerged as a close ally, both within Iraq and against the Kurdistan Workers' Party (PKK). The PKK, first formed in 1978, has waged an on again and off again insurgency against the Turkish government, first for outright Kurdish independence and, later, for political autonomy.²⁷ The KDP, led by Masoud Barzani, is the dominant force in Kurdish politics, alongside the Patriotic Union of Kurdistan (PUK) and a PUK splinter party, Goran. Together, these three parties are represented in parliament in the KRG, albeit in absentia since parliament was suspended in October 2015, following a disagreement about President Masoud Barzani's refusal to step down after his term limit expired.²⁸

“The Turkish government is now an actor, alongside federal and Kurdish-controlled Iraq, in domestic Iraqi energy politics.”

Turkey's close ties with President Barzani are strategic and have changed significantly in the past decade. This relationship is the result of Turkish and KDP-led efforts to circumvent the Iraqi central government and disputed portions of the 2005 Iraqi constitution. Moreover, Ankara has sought to prop up Barzani's KDP as a counterweight to the PKK and its imprisoned leader, Abdullah Ocalan. The two men, Ocalan and Barzani, have disparate and competing visions of Kurdish nationalism. Barzani is more amenable to cooperation with Turkey, whereas Ocalan's vision for extreme decentralization remains anathema to the leadership in Ankara.

A strong KDP is now a core component of Turkey's foreign policy. This has prompted Ankara to support

the Kurdish interpretation of the contentious Iraqi oil law, enshrined in the 2005 constitution. In particular, the central government in Baghdad and Kurdish-controlled Erbil differ over Articles 111 and 112, which together are intended to define control and distribution of oil revenue and natural resources.²⁹ As the IMF explains:

According to Baghdad, the federal government has the exclusive right to develop and export oil and sign contracts covering the Iraqi territory and the KRG is not allowed to adopt unilateral and permanent measures over the management of oil and gas fields. Erbil's interpretation, however, is that it also is entitled to enter into contracts and export oil independently of Baghdad.³⁰

This internal Iraqi dispute has had considerable impact on the formulation of Turkey's Iraq policy, and its dealings with the KDP and the Iraqi central government. The Turkish government is now an actor, alongside federal and Kurdish-controlled Iraq, in domestic Iraqi energy politics. This issue is linked to the issue of Kurdish independence, and the resolution of so-called disputed territories in Kirkuk, Nineveh, Salahuddin, and Diyala provinces.³¹

Turkey's policies on Kirkuk and the KRG's "legal right" to sign independent oil agreements have shifted considerably in recent years. At the outset of the 2003 US invasion of Iraq, the Turkish parliament, then headed by the Justice and Development Party (AKP) Speaker Bulent Arinc,³² failed to secure enough votes to allow basing rights for the invasion of northern Iraq from southeastern Turkey.³³ The decision stunned the

29 Koba Gvenetadze and Amgad Hegazy, *Iraq Country Report No. 15/236*, International Monetary Fund, August 2015, <https://www.imf.org/external/pubs/ft/scr/2015/cr15236.pdf>.

30 Ibid.

31 See: "Iraq and the Kurds: Trouble Along the Trigger Line," Middle East Report No. 88, International Crisis Group, July 8, 2009, <https://d2071andvip0wj.cloudfront.net/88-iraq-and-the-kurds-trouble-along-the-trigger-line.pdf>.

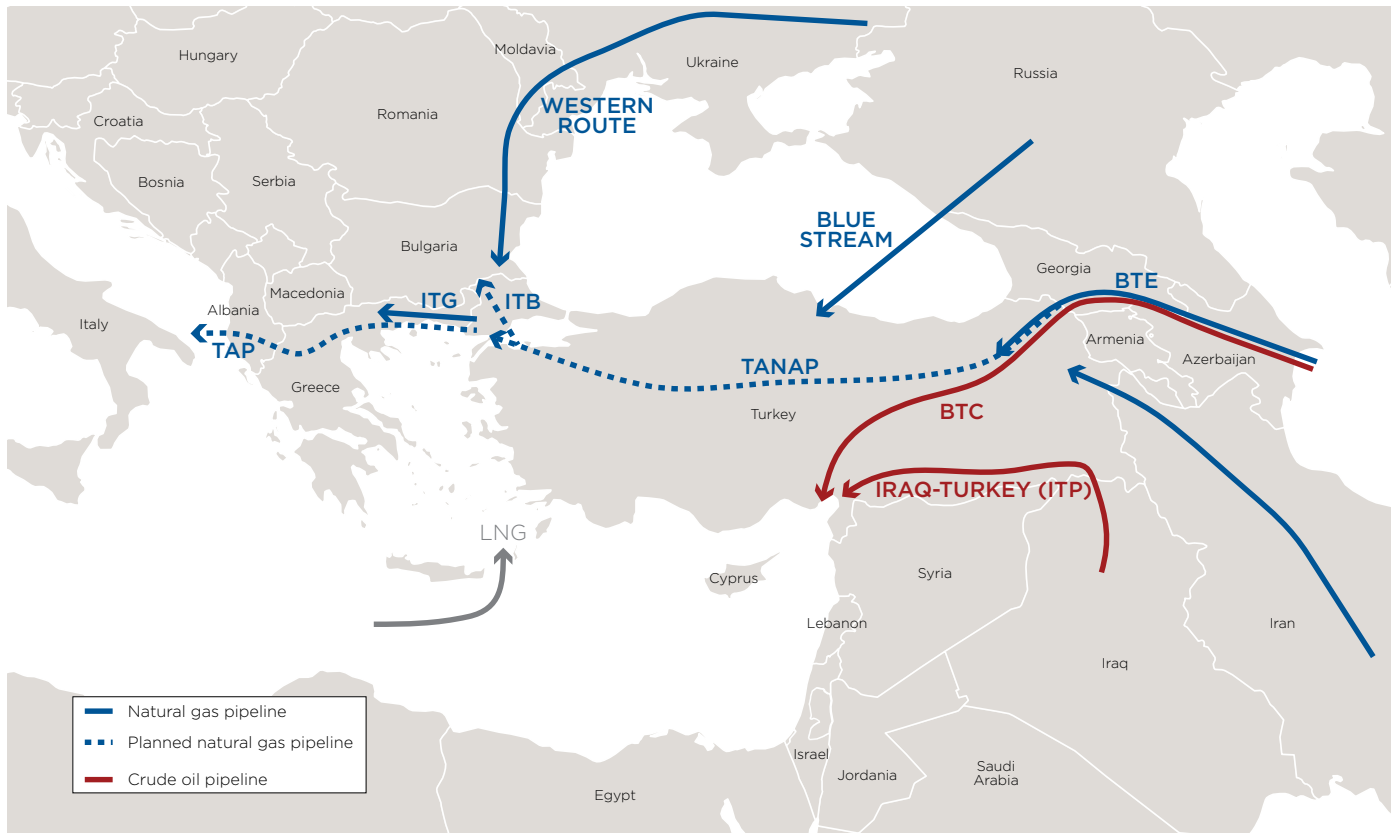
32 Jean-Christophe Peuch, "Turkey: Parliamentary 'No' Vote On US Troops Puts Government, Ruling Party in Straits," *Radio Free Europe*, March 3, 2003, <http://www.rferl.org/a/1102391.html>.

33 Dexter Filkins, "Threats and Responses: Ankara; Turkish Deputies Refuse to Accept American Troops," *New York Times*, March 2, 2003, <http://www.nytimes.com/2003/03/02/world/threats-and-responses-ankara-turkish-deputies-refuse-to-accept-american-troops.html>.

27 See: Aliza Marcus, *Blood and Belief: The PKK and the Kurdish Fight for Independence* (New York: New York University Press, 2007).

28 Isabel Coles, "Political crisis escalates in Iraq's Kurdistan region," Reuters, October 12, 2015, <http://www.reuters.com/article/us-iraq-kurds-idUSKCN0S60HX20151012>.

Map 2. Oil and natural gas pipelines and planned projects



Source: Turkish Ministry of Foreign Affairs.

United States and the AKP's two leaders, Erdogan and Abdullah Gul, both of whom had voiced support for the resolution, ostensibly because it would give Turkey the opportunity to shape political outcomes in Iraqi Kurdistan—and to prevent the territory from seceding from Iraq. The AKP moved quickly to allow American military overflights, but the early stages of the intervention forced a small number of Army Special Forces³⁴ teams to embed with the Kurdish

Peshmerga, backed by US air power to take territory up to the so-called “green line,” which is the line used to demarcate Kurdish and central government-controlled Iraq.³⁵

After the fall of Baghdad, Erbil immediately set about consolidating political and economic control over Kurdish territory. The KDP, in particular, assumed outsized political importance in Mosul and in Nineveh,³⁶ while the PUK is the dominant power in Kirkuk.³⁷ For Turkey, the status of Kirkuk was deemed to be a national security threat because Kurdish control over the oil revenue could underpin a Kurdish economy, independent of Baghdad, and therefore provide a basis for the KRG to declare independence.³⁸

34 According to Richard Andres, “On 23 March 2003, with virtually no time to plan or equip for combat, the 10th Special Forces Group (10th SFG) deployed into Iraq. The story of the group’s infiltration is harrowing. Despite aggressive diplomatic attempts to induce Turkey to allow the group to infiltrate through its territory, Turkey refused and the 10th was forced to enter through a circuitous route that involved flying at low altitude over hundreds of miles of Iraq territory and taking heavy fire from Iraqi air defenses. Immediately after landing, the group linked up with Kurdish forces and began maneuvering to attack enemy units. As is often the case in situations involving special operations and indigenous forces, the friendly order of battle defies easy explanation. From the Coalition’s side, the portion of the 10th SFG and 3rd SFG that deployed into northern Iraq consisted of 48 Operational Detachment-Alphas (ODAs), each consisting of 12 men. Because of the rush in deploying them, however, they entered without much of their equipment. The Coalition forces in the North were designated Joint Special Operations Task Force-North (JSOTF-N).” See Richard Andres, “The Afghan Model in Northern Iraq,” *The Journal of Strategic Studies*, vol. 29, no. 3, (June 2006), 404-405.

35 Ibid.

36 See: “Iraq’s New Battlefield: The Struggle Over Ninewa,” Middle East Report No. 90, International Crisis Group, September 28, 2009, <https://d2071andvip0wj.cloudfront.net/90-iraq-s-new-battlefront-the-struggle-over-ninewa.pdf>.

37 “Iraq: Allaying Turkey’s Fears over Kurdish Ambitions,” Middle East Report No. 35, International Crisis Group, January 26, 2005, <https://d2071andvip0wj.cloudfront.net/35-iraq-allaying-turkey-s-fears-over-kurdish-ambitions.pdf>.

38 For a more thorough discussion about the relationship between oil, gas, and Kurdish independence in Iraq, see: Robin M. Mills, “Northern Iraq’s Oil Chessboard: Energy, Politics and Power,” *Insight Turkey*, vol. 15, no. 1 (Winter 2013), 52-57.

In response, Turkey eased off its previous rejection of a federal Iraq, but maintained that Kirkuk was a “red-line” for its longer term interests.³⁹

The KRG, in as early as 2004, sought to take advantage of international interest in undeveloped oil fields. A small Norwegian firm, DNO, drilled an exploratory well in Zakho, a few miles east of the border with Turkey.⁴⁰ Following the passage of the Iraqi constitution in 2005, more international firms expressed interest in KRG-controlled fields, including two small Turkish-affiliated oil companies: Genel Energy and Petoil. Both Genel (Taq Taq field) and DNO (Tawke field) benefitted from a 2009 agreement between Erbil and Baghdad to allow independent exports from the Taq Taq and Tawke fields.⁴¹ To allow for exports, the North Oil Company built a 550 meter pipeline to connect Tawke with the Kirkuk-Ceyhan pipeline.⁴² This arrangement, however, was contingent on the oil being federally marketed, and then deposited not in an independent offshore escrow account, but rather in the federally managed Development Fund from which revenue would then be dispersed according to the agreed-upon shares of the federal budget.⁴³ This arrangement envisions Baghdad’s Ministry of Finance paying the KRG 17 percent of planned expenditures, while keeping 83 percent for the federal Iraqi budget commensurate with the still-in-dispute terms of the Iraqi constitution. Until June 2015, the KRG was dependent on the allocation of this fund to pay government salaries. However, after receiving partial payments from Baghdad for the previous six months, the Kurdish parties decided to rely solely on independent exports.⁴⁴ The Iraqi government blamed the partial payments on the KRG misunderstanding the terms of the arrangement, which obligated the central government to pay KRG-based oil companies that had separately reached agreements with the Kurdish leadership for oil exploration and pumping.

Against this complicated backdrop, the American multinational company, Exxon, changed the course of Turkish policy toward the KRG. The energy giant purchased six blocks in an oil field within Kurdish territory, which has since been deemed as an endorsement of the KRG’s interpretation of the oil law, in that the company negotiated terms directly with Erbil.⁴⁵ The Turkish government subsequently set up the Turkish Energy Company (TEC), a state backed entity, to invest 20 percent equity in Exxon’s exploratory blocs.⁴⁶ TEC’s participation in the deal gave the Turkish government a direct commercial interest in the recognition of the validity of the KRG’s interpretation of the oil dispute, exacerbating tensions with Baghdad.

According to the Iraq Oil Report, “Under the prospective arrangement, revenue from all Iraqi oil exports through Turkey – from both the Kurdistan Regional Government (KRG) and federal entities – would flow into a Turkish-controlled escrow account that would ultimately be divided proportionally between Erbil and Baghdad.”⁴⁷ This arrangement gave the KRG direct access, without having to go through the central government. This meant that Turkey was the de facto guarantor of KRG oil contracts, a considerable change to Ankara’s previous approach to Iraq.⁴⁸

The Iraqi central government reacted negatively to this arrangement, as did the United States, which argued against any independent Kurdish oil exports, out of concern that it would lead to the breakup of the Iraqi state. In 2013 and 2014, Baghdad threatened to withhold the 17 percent transfer of payments from national oil revenues should the KRG fail to contribute oil to the central government for

39 “Iraq: Allaying Turkey’s Fears over Kurdish Ambitions,” 7-8.

40 According to the *Times of London*, “The Norwegian firm signed a deal in June 2004 with the Kurdistan regional government, a production-sharing agreement covering an area 250 miles north of Baghdad close to the Turkish border. DNO’s deal with Kurdistan was struck ahead of the new Iraqi constitution, which has created only further confusion among oil exploration companies as it remains ambiguous about the ultimate ownership of natural resources.” See: Carl Mortished, “Oil to Flow from Iraqi Kurdistan,” *Times of London*, April 11, 2006.

41 “Iraq and the Kurds: Trouble Along the Trigger Line,” 17.

42 Ibid.

43 Ibid.

44 “Kurdistan Region Council for Oil and Gas Affairs meets with political parties,” Kurdistan Regional Government, June 18, 2015, <http://cabinet.gov.krd/a/d.aspx?s=040000&l=12&a=53475>.

45 Dmitry Zhdannikov, Isabel Coles, and Ned Parker, “Special Report: How Exxon helped make Iraqi Kurdistan,” Reuters, December 3, 2014, <http://www.reuters.com/article/us-mideast-crisis-kurdistan-specialrepor-idUSKCN0JH18720141204>.

46 Humeyra Pamuk and Orhan Coskun, “Turkey, Iraqi Kurdistan sign landmark energy contracts,” Reuters, November 29, 2013, <http://www.reuters.com/article/us-turkey-iraq-oil-idUSBRE9AS06620131129>.

47 Ben Van Heuvelen, “Turkey planning to control Iraqi oil revenue,” Iraq Oil Report, April 2, 2013.

48 The KRG, in fact, surreptitiously shipped oil from Ceyhan, Turkey to Israel via Malta, and then sometimes shipped on to European countries. Israel then made deposits in KRG-controlled accounts in Turkey. See: Dov Friedman and Gabriel Mitchell, “Israel Is Challenging America to Support Kurdish Independence,” *New Republic*, July 3, 2014, <https://newrepublic.com/article/118549/israel-and-kurdistan-alleged-oil-deal-putting-us-notice>; Dmitry Zhdannikov, “Exclusive: How Kurdistan Bypassed Baghdad and Sold Oil on Global Markets,” Reuters, November 17, 2015, <http://www.reuters.com/article/us-iraq-kurdistan-oil-idUSKCN0T61HH20151117>.



News conference following talks with President of Turkey Recep Tayyip Erdogan. *Photo credit:* Kremlin.ru.

export.⁴⁹ In early 2014, Iraqi Prime Minister Nouri al-Maliki suspended payments to the KRG, following statements from the latter about future independent oil exports. This prompted the KRG to increase its independent oil exports to Turkey. The suspension of payment, combined with the recent decrease in the price per barrel of crude, deprived the KRG of needed financing to pay government salaries. Thus, despite exporting 300,000 barrels per day (bpd) of crude through Turkey, the KRG was running a \$290 million deficit per month.⁵⁰ This financial crisis delayed salary payments, including to the Peshmerga forces allied with both the KDP and PUK, and who together provide security for the KRG. To address the serious shortfall in funds, the KRG began to leverage potential future oil revenues to raise money from international lenders, who were keen to avoid entangling themselves in the Baghdad-Erbil disagreement. The result was unfavorable lending

terms for the KRG. Amid this broader disagreement about oil revenue sharing and the KRG's serious financial crisis, ISIS, in June 2014, stormed Mosul and took control of Iraq's second largest city. The Turkish consulate, just minutes from the Mosul airport, was overrun and forty-nine diplomatic staff were taken hostage.⁵¹

ISIS then began its slow move north, eventually threatening Erbil. The United States intervened on August 7, 2014, with two F-18s dropping bombs on ISIS artillery that was shelling Peshmerga positions on the road to Erbil.⁵² The war against ISIS in Iraq has upended critical elements of Turkish foreign policy. The Peshmerga, for example, took control over Kirkuk in June 2014, after the Iraqi army fled ISIS.⁵³ In a

49 Michael Knights, "Making the Iraqi Revenue-Generating Deal Work," Washington Institute for Near East Policy, December 3, 2014, <http://www.washingtoninstitute.org/policy-analysis/view/making-the-baghdad-krq-revenue-generating-deal-work>.

50 Ibid.

51 Ceylan Yeginsu, "Militants Storm Turkish Consulate in Iraqi City, Taking 49 People as Hostages," *New York Times*, June 11, 2014, <https://www.nytimes.com/2014/06/12/world/middleeast/militants-seize-turkish-consulate-staff-in-mosul.html>.

52 Richard Sisk, "US Military Begins 'Targeted' Airstrikes in Iraq," *Military Times*, August 7, 2014, <http://www.military.com/daily-news/2014/08/07/obama-mulling-limited-military-action-in-iraq.html>.

53 "Iraqi Kurds 'fully control Kirkuk' as army flees," *BBC News*,

departure from traditional Turkish policy, oil pumped from west Kirkuk (controlled by KDP-allied groups)⁵⁴ was shipped to Turkey. The PUK-controlled areas continued to transact with the state oil company tied to the central government's Ministry of Oil.

Turkey's energy relationship with the KRG is now a central component of Ankara's foreign policy, with TEC taking more assertive steps in recent months to deepen its footprint in Erbil. The Turkish government has continued to resist US pressure to curtail its dealings with the KRG, and has continued to push ahead with its energy efforts in Iraq's north. This policy has also upended Ankara's previous approach to Kirkuk, formerly considered a "red line," due to its importance for a potential independent Kurdistan. At the very least, the Turkish government is now contributing to the further decentralization of the Iraqi state, by prioritizing its relationship with the Iraqi Kurds over that of the central government, albeit with continued efforts to try to manage Baghdad and retain some semblance of Turkish influence with the central government. This policy stems from Turkish discomfort with the main Shia-dominant party in control of Iraq—the Islamic Dawa Party—and with former Prime Minister al-Maliki. However, the policy

“At the very least, the Turkish government is now contributing to the further decentralization of the Iraqi state, by prioritizing its relationship with the Iraqi Kurds over that of the central government. . .”

also gives Turkey considerable leverage in the KRG, and essentially guarantees Turkish influence over the KRG's economy. Thus, even though Ankara is helping to facilitate the further decentralization of the Iraqi state (a policy anathema to Turkish leaders in 2003), Turkish influence has never been greater with the KDP and Barzani-allied Arab parties in Nineveh. This relationship has come at the detriment, however, of Ankara's relationship with the Baghdad government, most of the Sunni-majority opposition, and the serious contenders to be the next prime minister. Ankara, therefore, will have considerable sway over the future direction of the KRG, albeit at the expense of strong relations with key actors in central and southern Iraq.

June 12, 2014, <http://www.bbc.com/news/world-middle-east-27809051>.

54 Before the Iraqi army fled, the Kurds controlled one of the three domes, with Baghdad in control of the other two.

Findings

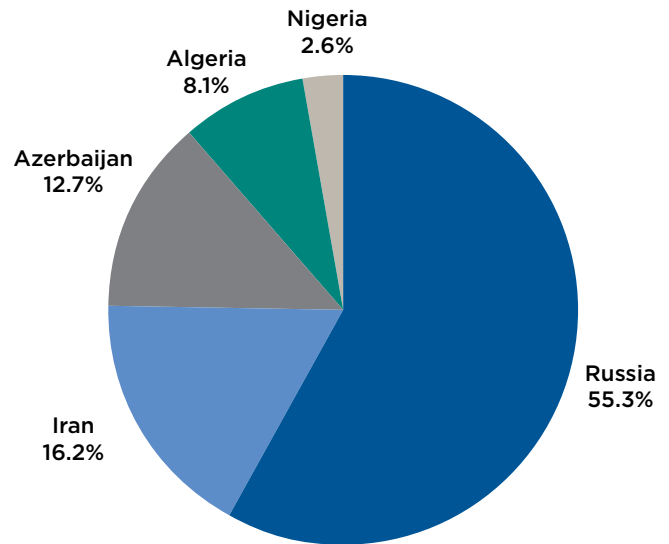
An Independent Actor, Willing to Resist US Pressure

The findings of this paper are straightforward: Turkey has a history of acting independently and resisting pressure from the United States to curtail its energy relationships with supplier countries in its near abroad. The implications of this finding, however, are significant for US interests in the Middle East, Europe, and in Russia's near periphery. In all three cases, Ankara should be expected to explore ways to deepen its energy relationships. For Russia, the implications in the short term will center on Turkstream and the subsequent effects of this pipeline on Ukraine and on Nord Stream 2. In the longer term, however, a more robust Turkish-Russian energy relationship could further complicate the efforts of the larger EU states—France and Germany—to reach agreement on potential economic sanctions against Russia. The weaker, southern tier states, should be expected to use Turkey as leverage (as Greece currently does) to argue against sanctions on economic grounds.

Turkey has also benefited tremendously from the easing of sanctions on Iran following the nuclear agreement. In particular, Iran's reintegration into the SWIFT banking system, which allowed for the resumption of cross-border transactions with foreign banks, allowed for Ankara to resume payment for oil purchases, without having to rely on the complicated gold swap arrangement. It also lessened US pressure on Turkey to curtail its import of Iranian crude, which previously risked the imposition of sanctions by the US Department of the Treasury. The Trump Administration has indicated that it will continue to abide by the nuclear deal with Iran, but should the administration seek to ramp up economic pressure on Iran, Turkey would likely resist efforts to curtail its energy relationship with Tehran. This reality undercuts the Turkish government's claim that Washington can count on Ankara to act as a bulwark against Iranian influence in the Middle East.

This takeaway has implications for US policy toward Iraq as well. As in the cases of Russia and Iran, Turkey

Figure 1. Turkey's natural gas imports by source (2015)



Source: Turkish Ministry of Foreign Affairs, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

has charted its own oil policy and resisted US pressure to work with the Iraqi central government rather than with the KRG. In this case, Turkey has sought to use its relationship with the KRG as a counterweight to Iran and its influence with Baghdad. However, in doing so, Ankara is still working at cross-purposes with the US "one-Iraq" policy and its efforts to funnel energy deals through the Iraqi central government. This issue is certain to become even more complicated in the coming years: Kirkuk remains disputed territory, despite the Kurdish consolidation of control over the city. The Turkish role in exporting oil pumped from the area is very important for future deliberation between the central government and Erbil, both of which will continue to vie for the city's natural resources and territory after ISIS is territorially defeated in northern Iraq.

Conclusion

The United States is now involved in a conflict against ISIS in Iraq and has increased its military support for NATO's Baltic States bordering Russia and Kaliningrad.⁵⁵ The Trump Administration has also pledged to increase military and political pressure against Iran. Turkey, on the other hand, has energy interests in Russia, Iran, and Iraq and should be expected to pursue self-interested policies, intended to realize Turkey's goal of becoming a regional energy hub. Turkey's policies do not neatly align with those of the United States. Ankara, therefore, should not be expected to act as an economic counterweight to Iran, or to elevate concerns that Russia is using Turkey to lessen its reliance on Ukraine—and, by extension,

depriving the country of transit fees from Russian gas. The same applies to Iraq, where Turkey remains wedded to a "northern tier" strategy of economic interdependence with the KRG and the KDP, even at the expense of federal Iraq and the Abadi-led government. As this report has shown, the Turkish government has a history of resisting US pressure when it comes to energy policy toward Russia, Iran, and Iraq. The Trump Administration, like its predecessors, will face challenges when working with allies to implement policies that impinge on their own interests. Turkish history clearly shows how Ankara's interests challenges those of the United States, and the difficulties of aligning policy goals with a regional state that has self-defined interests in deepening energy relations with all of its neighbors.

⁵⁵ US Department of Defense, Office of the Undersecretary of Defense, European Reassurance Initiative, "Budget Fiscal Year 2017," http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2017/FY2017_ERI_J-Book.pdf.

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