

## Insights into Turkish Domestic and International Politics during March 1-15<sup>th</sup> 2013

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### Key Points:

- *Talks continue between Ocalan and the government, with a ceasefire being mentioned ahead of the March 21 Nevruz holiday.*
- *The autonomy of Kurdish fighters in Syria and Iraq leave Ankara anxious of the PKK exploiting increasingly fluid borders should peace talks fail.*
- *Turkey continues to avoid direct military intervention in Syria's civil war, although fear of the conflict spreading has the country on edge.*
- *Ratings agencies think Turkey's ability to cut its current-account deficit will fade over 2013. The central bank's use of foreign cash in its monetary policies leaves the economy open to global shocks.*
- *Reliance on energy imports is fueling the growing account deficit, and Turkey's lack of storage infrastructure prevents the country from sitting on supplies for later use.*
- *Turkey's eastern provinces may hold shale gas deposits, while NABUCCO and TANAP's intelligence sharing agreement will help diversify the country's import markets*

### **Turkey's Kurds**

*A peace deal between Turkey and the PKK seems like a distinct possibility as talks continue between the government and Abdullah Ocalan, jailed leader of the Kurdish militant organization. Proof of progress was evident on March 13, when a group of eight Turkish soldiers and civil servants held captive by the PKK were freed.*

A PKK spokesman present at the handover stated that the captives release was “proof that we don’t want war.” (The New York Times, 13 March 2013). The release of captives isn’t wholly unprecedented during the decades-long conflict between the Turkish state and the PKK. But its timing amidst ongoing negotiations is a sign that talks are producing results.

The following day, Deputy Prime Minister Bulent Arinc expressed hopes that a ceasefire agreement could be reached prior to the Nevruz holiday on March 21. The holiday - the Kurdish New Year- has been an occasion for large pro-PKK demonstrations, which are deemed illegal by the government.

There are fears of a breakdown in talks, mirroring the most recent ebb, then rise in violence after the AKP’s 2009 “Kurdish Awakening”. Nationalist elements in Turkey and dissident PKK factions both have a history of killing when peace is not in their interest. In this context, the January assassination of three PKK activists in Paris – one of whom was a founder of the group – remains unsolved. However, as many domestic observers have noted, the fact that the public knows about the negotiations is a promising sign.

With Turkey’s economy chugging steadily along, a peace deal could help boost investment and domestic production, especially in the eastern provinces. Cities such as Diyarbakir, which have house large Kurdish population segments, have long suffered from a lack of investment and infrastructure as a result of the conflict. Many in cities like Diyarbakir and Van, see the conflict’s resolution in domestic and economic benefits.

Despite expected disapproval from the nationalist MHP party and hold overs from the now-defunct “Deep State”, major opposition parties like the CHP and BDP are behind Prime Minister Erdogan’s government in its negotiations. The PKK has also “lowered the bar”, no longer demanding an independent Kurdish state, but rather, local governance and autonomy within the Turkish Republic. Though not a definite, the coalescing of such factors and actors offers the best chance at ending the conflict.

### **Kurds in Syria and Iraq**

*Talks between U.S. Secretary of State, John Kerry, and Turkish counterpart Ahmet Davutoglu were overshadowed as the prime minister’s bellicosity towards Israel pushed the focus onto himself. Erdogan’s late February remark calling Zionism “a crime against humanity” effectively nullified any short term hopes for a Turkish-Israeli détente, while Kerry and Davutoglu spent much of their press conference answering questions about his remarks. When finally addressing Syria, they gave little in the way of new ideas on how to end the ongoing crisis in the country. After renewed complaints from Syrian opposition groups based in Turkey, the U.S. announced that it would increase aid to the fighters battling the al-Assad regime.*

Unfortunately for Syria’s secular opposition groups championed by Turkey and the West, such aid flows have not yet been significant to tip the tide of the conflict in the opposition’s favour. Meanwhile, Islamist fighters in the country continue to make inroads with steady support from Gulf benefactors. Those secular groups complain they are being marginalized by their better armed Islamist counterparts. Turkey managed to stave off a humanitarian crisis throughout the mild winter while hosting an estimated 200,000 Syrian refugees. But the Syrian civil war’s intensity combined with fears of further fracturing amongst opposition fighters has many reluctant to return to liberated areas.

In Iraq, a new flare up between the Kurdish Regional Government and Baghdad has erupted over the deployment of Iraqi Army troops along the country’s border with Syria. The government’s announcement

of army units being stationed in the northwestern Sinjar District brought Kurdish protesters into the streets there.

On the Syrian side of the border, Kurdish fighters of the Popular Protection Units (YPG) recently seized the strategic city of Rumeilan which abuts Syria's oil fields. The YPG reportedly also has the nearby city of Qamishli – another strategic oil town – surrounded. With the al-Assad forces losing ground in the country's main cities and across the north, Kurdish fighters appear to be carving out their own autonomous areas much to the ire of ethnic Arab opposition fighters.

Ankara continues to watch the growing clout of Kurdish militias in Syria with concern since many groups like the YPG are allies of the Democratic Union Party (PYD). The PYD is itself an ally of the PKK. Turkish leaders fear that a breakdown of the PKK peace talks could result in the organization using the newly free northern provinces of Syria as launching points for attacks like they have in Iraq.

### Economy

*Another point of Kerry and Davutoglu's conversation centered on the U.S.-EU free trade agreement. Although not officially a part of a Transatlantic Trade and Investment Agreement, Turkey would benefit from such an agreement as the EU's sixth largest trade partner. Its bilateral trade with the U.S. was worth more than \$20 billion in 2011, a number projected to grow if the Turkish export economy continues to hum along.*

That prospect, which seemed so assured just a few months ago when Fitch gave the country an investment grade rating, is now being questioned in some circles. Last year's narrowing of the current-account deficit to 6.1 percent compared to 10 percent in 2011 was heralded by investors. The deficit is largely a result of imported energy supplies, which can total over \$50 billion. However, it appears that the cut so heralded by investors and ratings agencies came as a result of lowered customer spending fueled by personal debt.

It appears that trend is over, however, and the central bank's financing moves using foreign financial

reserves may leave the economy vulnerable to a sudden global downturn. (*The Wall Street Journal*, 13 March 2013). With domestic spending increased by personal credit and the ever continuing needs for energy imports, Turkey's current-account deficit is expected to rise along with four percent GDP growth.

Turkey needs additional judicial reform to become one of the globe's top 10 economies was the message conveyed by Deputy Prime Minister, Ali Babacan, at a recent meeting in Ankara. "We are not at an ideal point regarding fundamental rights and freedoms," said Babacan. "We need more judicial reforms...Without political reforms, economic success cannot be maintained."

Currently the world's 16<sup>th</sup> largest economy, Turkey has enjoyed almost a decade of mostly-steady economic output. Under the stewardship of the AKP, the cycle of boom and bust that long plagued the country's economic prospects has ebbed. However, foreign investors and domestic entrepreneurs remain stymied in many areas. The country has a reputation of vested interests using political means to stifle commercial competition. While Turkey tends to be less renowned than Black Sea neighbors Ukraine and Russia when it comes to political interference into business, further judicial reform could improve its standing with respect to attracting further foreign direct investment.

### Energy

*Another potential catalyst for a PKK-Turkey peace deal is the recent announcement by Royal Dutch Shell that it had begun exploratory drilling in the eastern province of Diyarbakir for shale gas. In addition to Shell, Canada's TransAtlantic and Valeura Energy are both drilling bore wells throughout the Dadas Shale formation that lies beneath the province. (Reuters, 20 February 2013). This is on top of domestically-owned Merty Energy's recent discovery of around 2 billion cubic meters of extractable gas in the province of Thrace.*

Turkey's shale gas reserves potential is still largely unknown and the recent discoveries do not point to a major find. That said, while it is not thought to have the expansive reserves of fellow Black Sea neighbors,

any sizeable production value would benefit the country's effort to become less reliant on imported energy from Iran and Russia.

But even if a shale gas boom erupts from the Dadas formation, Turkey's ability to accumulate reserves will likely be problematic. The country has no equivalent to the United States Strategic Petroleum Reserve for lean months when domestic demand rises – which is often driven by the country's electric grid (40 percent of which is powered by gas). A lack of forward planning in this regard will hamper the Turkish economy and the government's efforts to diversify away from a reliance on take or pay contracts with suppliers like Russia and Iran.

NATO appears to be doing its part to help in this energy diversification, agreeing to open its 3,000 km crude pipeline to civilian use. Publicly the pipeline's opening is said to cut down on the revenue lost to oil smugglers. But it can't be a coincidence that with war raging to its south, instability in its dealings with Iran and a resurgent Moscow under Vladimir Putin, Turkey's need for cheaper energy access is of vital importance to Western interests in the region.

Pipeline consortiums TANAP and NABUCCO signed a cooperation memorandum on March 4, which will see both share technical and strategic information on their projects. The memorandum is important in diversifying European energy, with NABUCCO West and TANAP transporting Shah Deniz gas westward.

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EGF Turkey File

Published by European Geopolitical Forum SPRL

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