

Insights into Turkish Domestic and International Politics during 1-15 January 2013

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Key Points:

- *Turkey makes progress on the Kurdish issue, conducting unilateral talks with Abdullah Ocalan. Most Turks appear to support the government's actions, but the assassination of a PKK co-founder in Paris raises concerns of sabotaging any future agreement.*
- *The Kurdish Regional Government (KRG) begins oil shipments to Turkey while its relationship with Baghdad continues to deteriorate. Moves by the Iraqi government to bring Kirkuk under military control result in Turkey having to take sides in another civil war.*
- *The Turkish stock market produced positive returns for investors in 2012, well above the losses experienced by the Eurozone and U.S. But concerns rise over growing credit expansion according to Fitch's latest report.*
- *Gazprom's take or pay contracts end, resulting in over \$3 billion in savings for Turkey. Meanwhile, the country invests in large scale refinery upgrades that will double its crude refining capacity. Energy Minister Yildiz visits Algeria and Libya to renew one energy deal in the former and promote investment in the latter.*

Kurds in Turkey

A real Kurdish opening might be at hand, though the going won't be easy with certain parties on both sides making peace a difficult proposition. In early January it emerged that talks had finally begun between the government and imprisoned PKK leader Abdullah Ocalan. Reports cited a meeting between Ocalan and Hakan Fidan, the head of Turkish intelligence as well as a separate gathering between the PKK head and two BDP (Peace and Democracy Party) deputies as significant in each side's commitment to the talks.

According to a report by the Turkish media (Radikal, 8 January 2013), the two sides had reached a tentative agreement on a road map that would allow education in Kurdish, expanding local administrative powers for Kurds and see the revision of the definition of citizenship, which currently centers on being ethnically Turk. In order to secure these rights, the PKK would agree to a gradual disarmament to be monitored by international observers.

The AKP (Justice and Development Party) government appears to have changed its tact on the issue despite the worsening violence between the security forces and PKK. The government had unsuccessfully tried to circumvent the influential militant leader while he remains imprisoned on an island in the Sea of Marmara. However, Ocalan's ability to halt the November hunger strike by Kurdish prisoners overnight (EGF Turkey file, 1-15 November) looks to have convinced the government of the vital role he'll play in any peace accord. Apparently he has also floated the possibility of bringing Kurdish fighters in northern Syria to heel, or possibly into the fight against the government of Bashar al-Assad as part of a peace deal.

On the Turkish side, reports of a tentative agreement have been met with quiet hope, with the main opposition CHP (Republican People's Party) endorsing the state's efforts. The nationalist MHP (National Unionist Party) and some hardcore Kemalist

detractors have criticized negotiations with the designated terrorist organization, however. Given that the military's influence has been curbed compared to previous decades, the AKP's determination to settle the matter may face little domestic opposition.

That being said, the murder of three Kurdish activists in Paris on January 9 – one of whom was PKK co-founder Sakine Cansiz – seems to indicate that someone has a stake in the conflict's perpetuation. Prime Minister Tayip Erdogan pinned the killings on a PKK effort at thwarting the talks, while Kurds who've spent decades fighting Turkey's intelligence services believe the Deep State is not as cowed as the AKP would have people believe.

Additionally, the fighting hasn't abated in the country's southeast. On New Year's Eve, Turkish military forces struck outside Diyarbakir killing 10 suspected militants. On January 15, the air force launched strikes across the border into Iraq. The killings are likely to continue, and possibly escalate, before a final agreement is reached in the upcoming months. If and when this is concluded, two major points will then need to be addressed. The first is the continued detention of hundreds of Kurdish activists, politicians and journalists who remain in custody for their support of the PKK.

Second, what will be done with Ocalan? Erdogan has said that his imprisonment will continue with no change to a more comfortable detention in house arrest. It is expected that the government will keep to this condition. But the bigger question is whether the Kurdish leader will make his freedom a part of the current talks. If so, they may be doomed from the start.

Kurds in Iraq

While violence continues with its own Kurdish population amidst the peace talks with Ocalan, Turkey and the Kurdish Regional Government (KRG) of Iraq

initiated their oil for gas export deal in January. The first shipment, 150 tankers worth, officially began last month. Now operational, the deal will see over 15,000 barrels worth of crude oil a day transported to Turkey according to the KRG's Undersecretary of the Ministry of Oil and Natural Gas. (World Bulletin, 15 January 2013).

Once the oil supplies offload the crude in Turkey, they are then filled with natural gas that is returned for commercial use in Iraq. The deal is a boon for Turkey's growing energy needs and the KRG's need for a powerful partner given its current pricing dispute with the Iraqi government in Baghdad. According to the KRG, Baghdad's Ministry of Oil made the first of three scheduled payments to energy companies operating in Iraqi Kurdistan in September 2012. But after citing shortages in oil production compared to original estimates, Baghdad refused to make the final two payments to operators. The KRG has since stepped in and made the payments, but is now keeping the revenue, to the anger of the national government.

In addition, political tensions are building between the government of Prime Minister Nouri al-Maliki and the KRG over the oil rich city of Kirkuk. The city, whose population is mostly Kurdish, is under the nominal control of KRG military and civil administration. In an effort to challenge this, al-Maliki's government has insisted that Kurdish militias submit men and material to fall under the control of the Iraqi National Army. In the summer of 2012, the army established Tigris Operations Command which aims to establish military control over the city. ("Turkey-Iraq Relations: From Close Partners to Adversaries", German Marshall Fund 7 January 2013). The recent agreement between Iraq and the U.S. over armour and jet fighters has many Iraqi-Kurd leaders unsure of the government's intentions as Erbil and Baghdad find more reasons to disagree than agree.

Its close ties with the Erbil are no doubt a positive for its domestic energy needs and continued talks with

the PKK, but should the worse happen, Turkey may find itself taking sides in yet another neighbor's civil war.

Economy

Despite the threat of a global economic slowdown, 2012 ended as a profitable year for the Turkish stock market. According to the Turkish Statistics Institute, investors made a 37 percent profit with an adjustment made for inflation. This stands in contrast to the euro and dollar, which lost 10.30 percent and 9.95 percent of their value respectively.

According to the institute, the profits were boosted by increased foreign investment in Turkey. On top of this, Fitch ratings agency upgraded Turkey to investment grade status in November.

But Fitch's latest report, released earlier this month, warns that increasing debt as a result of credit expansion could undermine Turkey's banks. However, the Head of the Banking Regulation and Supervision Agency, Mukim Oztekin, has tamped down on such fears. The Central Bank has also reported that it will seek to limit credit expansion at 10-15 percent. While the fears of an overreliance on personal credit debt are understandable, Oztekin said that the growth in personal credit cards is a large part of the issue.

Another ratings agency, Standard & Poor's (S&P), announced that it would no longer be paid by Turkey for assessments of the country's finances and economic data. S&P and the government have been at odds since the agency downgraded the country's BB sovereign credit rating from positive to stable (Bloomberg, 14 January 2013). The dispute resulted in Erdogan threatening to not recognize the agency's ratings in the future, citing its downgrade decision as "ideological". From all appearances though, the spat has done nothing to change the country's economic outlook as it continues working with Fitch and Moody's.

Energy

The New Year began with news that Turkish Petrol Refineries Co. (TUPRAS) was investing \$2.5 billion to ramp up its refining capabilities in the country's northwest. The project, once completed, will double the current facility's capacity to 14.3 million tons of refined fuel and will require nearly 10,000 employees. While Turkey lacks the natural supply sources of its own, its geography and refining facilities are two factors that Turkish government and business leaders are hoping will help the country meet its growing energy needs. Projects like TURPAS also make energy rich, but facility poor suppliers like the KRG an excellent partner.

On January 11, state-owned energy corporation BOTAS announced that its "take or pay" contracts with Russian Gazprom had been nullified. According to BOTAS, the contract's cessation will save around \$3.6 billion on payments to the Kremlin controlled energy giant.

And in an effort to further diversify Turkish supplies away from an over reliance on Russia and Iran, Energy Minister Taner Yildiz spent early January on a tour of North African nations in order to seal future energy deals. Along with his Algerian counterpart in Algiers, Yildiz announced that the two countries had agreed on another 10 year renewal of a 1988 LNG deal to provide Turkey with 4 billion cubic meters of gas.

Yildiz also visited Libya, hoping to reopen the door to Turkish investment in the country still recovering from the civil war that unseated Moammar Gaddafi in 2011. Despite Libya's myriad of problems, its oil sector remains highly attractive to foreign investment and Turkish firms have experience in working in the country. Prior to the civil war, Libya was the largest single market for Turkish foreign investment and workers.

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