

tepav

The Economic Policy Research Foundation of Turkey

Some thoughts on potential for private sector engagement

Afghanistan reconnect: Linking energy suppliers to consumers in Asia

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Islamabad, 3 September 2013

Agenda

- Overview of TEPAV
- Afghanistan and Turkey as critical energy corridors
- The Turkish energy landscape
 - 2023 economic and energy visions
 - The role of private sector in the policy dialogue
- Conclusion: Building upon Turkish experience

Overview of TEPAV

- TEPAV – The Economic Policy Research Foundation of Turkey
 - Established 2004, largest economic policy think tank in Turkey
 - Supported by the Union of Chambers (TOBB), funding sources increasingly diversified
 - Competitiveness, regional economic development, international economic integration
- Self sustaining business model: a policy advisory and consultancy services arm
 - Multilaterals, government agencies and regional entities

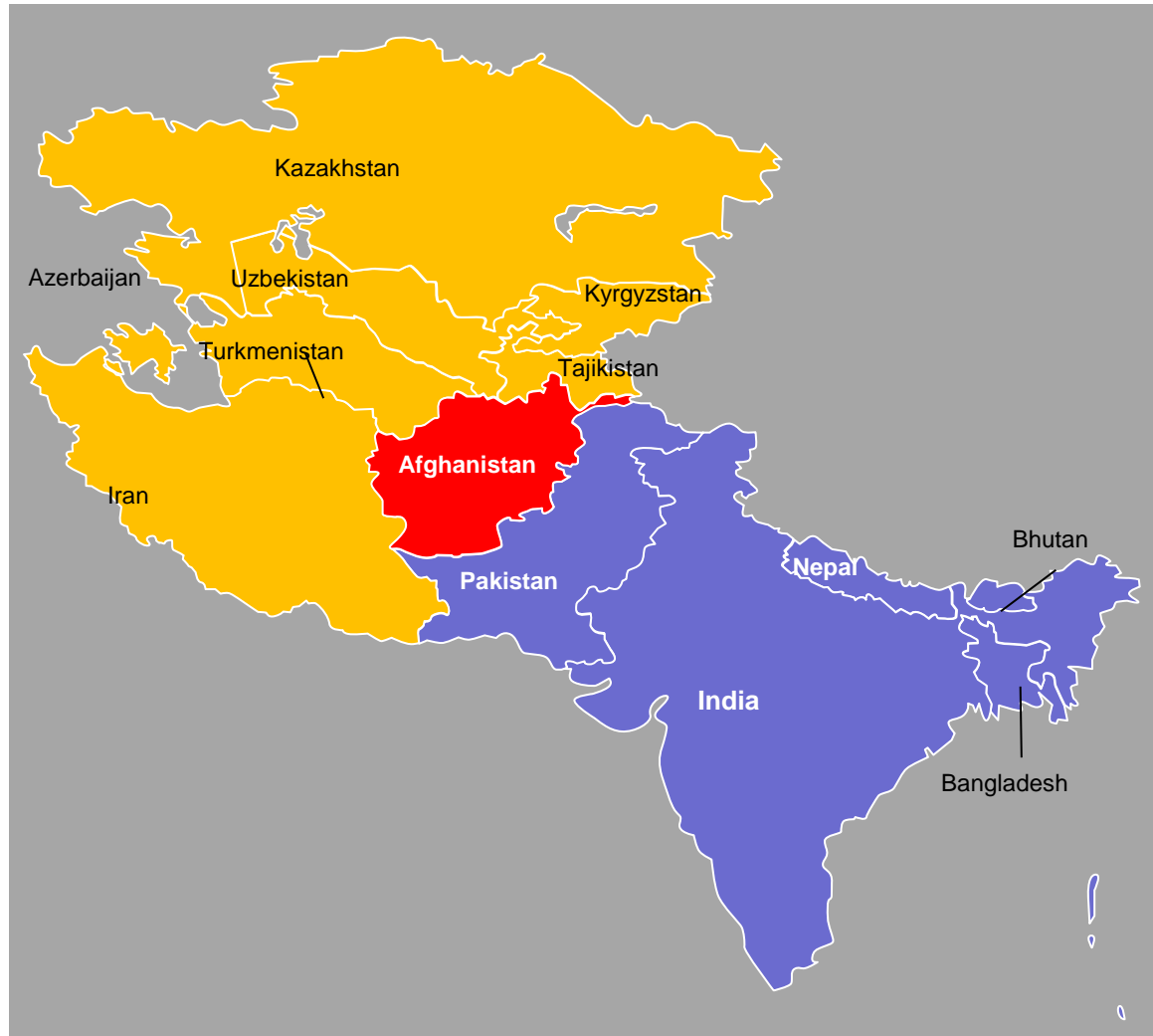
Some of our past projects:

- Investment Climate Assessment (*with the World Bank and Treasury, 2006*)
- Competition Environment Assessment (*with the World Bank and FIAS, 2006*)
- Higher Education Sector Project (*with the World Bank, 2007*)
- Regulatory Impact Assessment Projects (*EU-funded*)
- Industrial Policy Document (*with State Planning Organization, 2006*)
- Secretariat of the Competitiveness Council of Turkey (2007)
- Industrial Policy Design Project (*for M of Industry & Trade, 2008*)
- Beceri 2010: Vocational training project for Ministry of Labor and TOBB

Our regional activities

- In Turkey's regions:
 - Restructuring of Sanliurfa's industry (2009)
 - Manisa 2023 Vision (2009-2011)
 - Increasing Female Labor Force Participation in Amasya (2010-2011)
 - Mardin-Batman-Şırnak External Economic Environment Analysis (2010-2011)
 - Erzurum Turkcell Call Center Economic Impact Analysis (2011)
- In Turkey's surrounding region:
 - Jenin Industrial Zone Project (2010 – present)
 - Islamabad-Istanbul Railway Project (2011 – present)
 - Armenia-Turkey Cross Border Cooperation Project (2010 – present)
 - Caucasus Corridor Management Project
 - Northern Cyprus Functional Review of the Government (2011)
 - Advisory support to the Islamic Development Bank for Special Economic Zones in Yemen, Mauritania and Benin (2011)
 - Training and Research Institute for Public Policy (TRIPP) to deliver courses targeting officials from the greater region

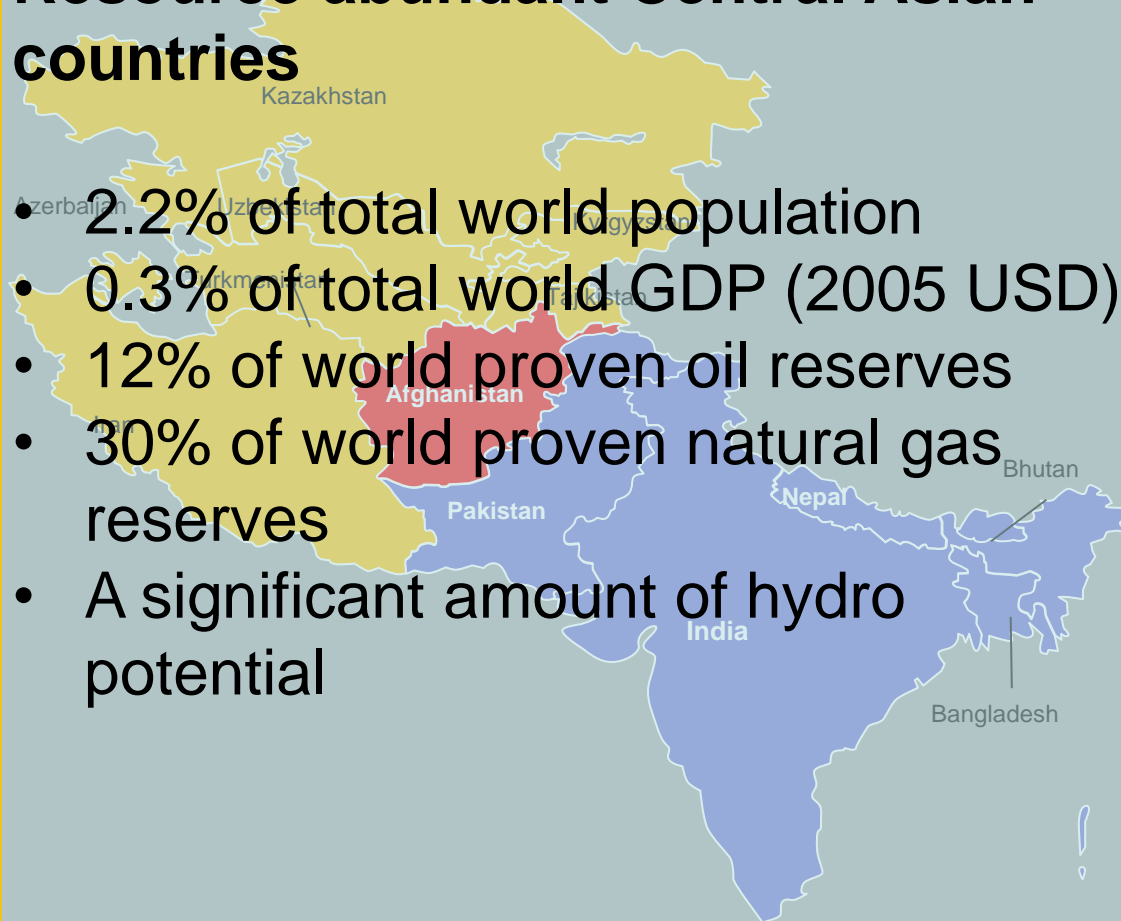
Afghanistan: An important connector between Central Asia and South Asia



Afghanistan: An important connector between Central Asia and South Asia

Resource abundant Central Asian countries

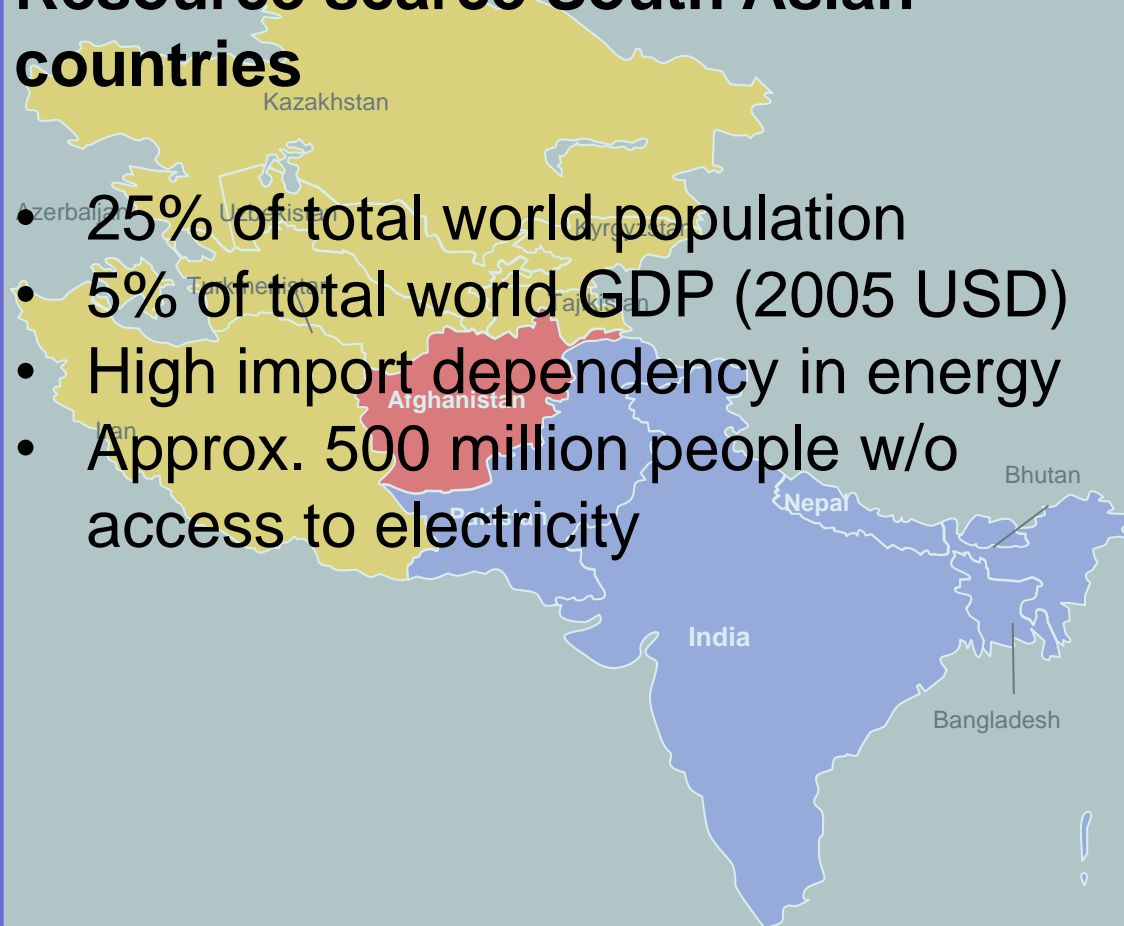
- 2.2% of total world population
- 0.3% of total world GDP (2005 USD)
- 12% of world proven oil reserves
- 30% of world proven natural gas reserves
- A significant amount of hydro potential



Afghanistan: An important connector between Central Asia and South Asia

Resource scarce South Asian countries

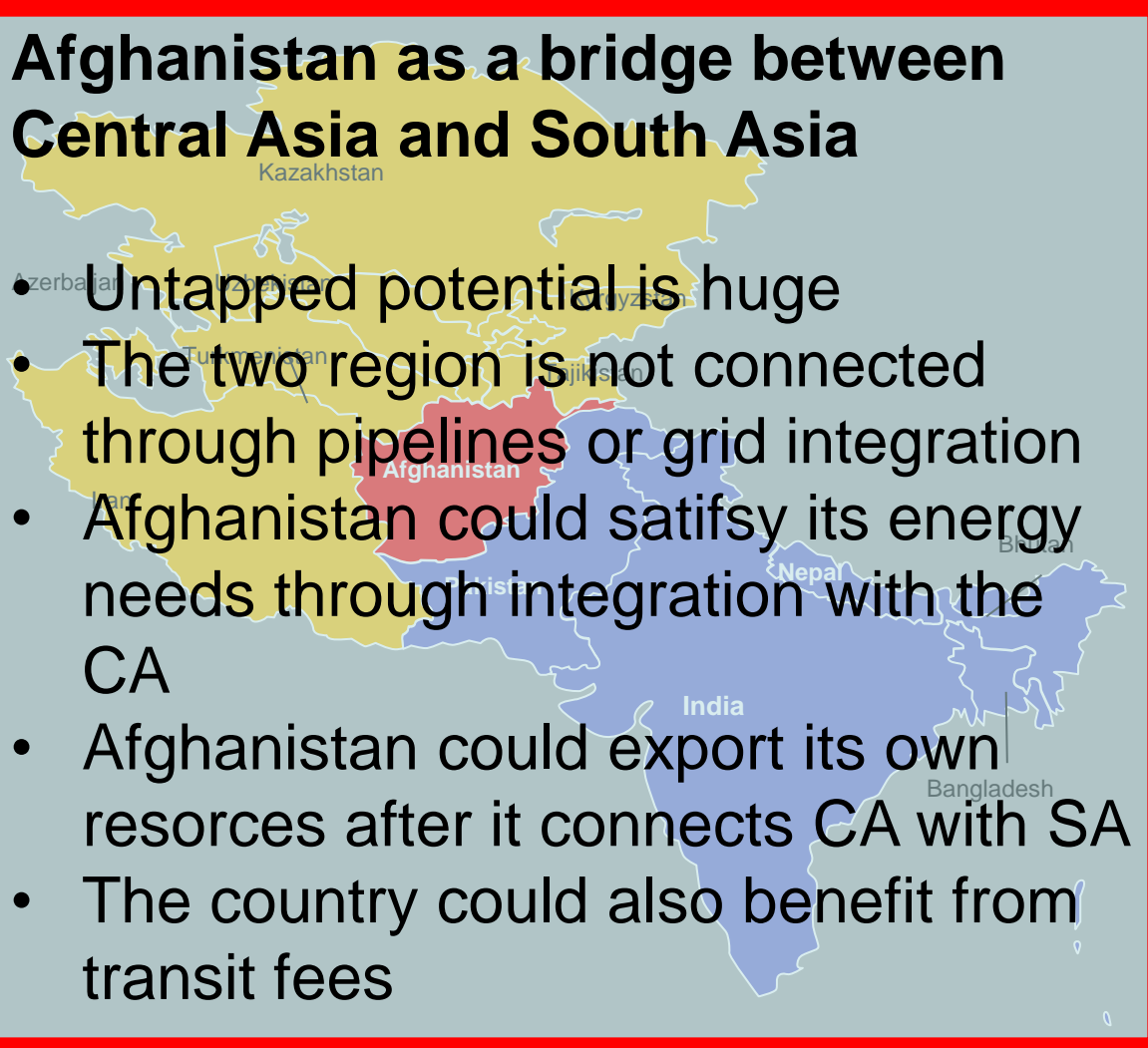
- 25% of total world population
- 5% of total world GDP (2005 USD)
- High import dependency in energy
- Approx. 500 million people w/o access to electricity



Afghanistan: An important connector between Central Asia and South Asia

Afghanistan as a bridge between Central Asia and South Asia

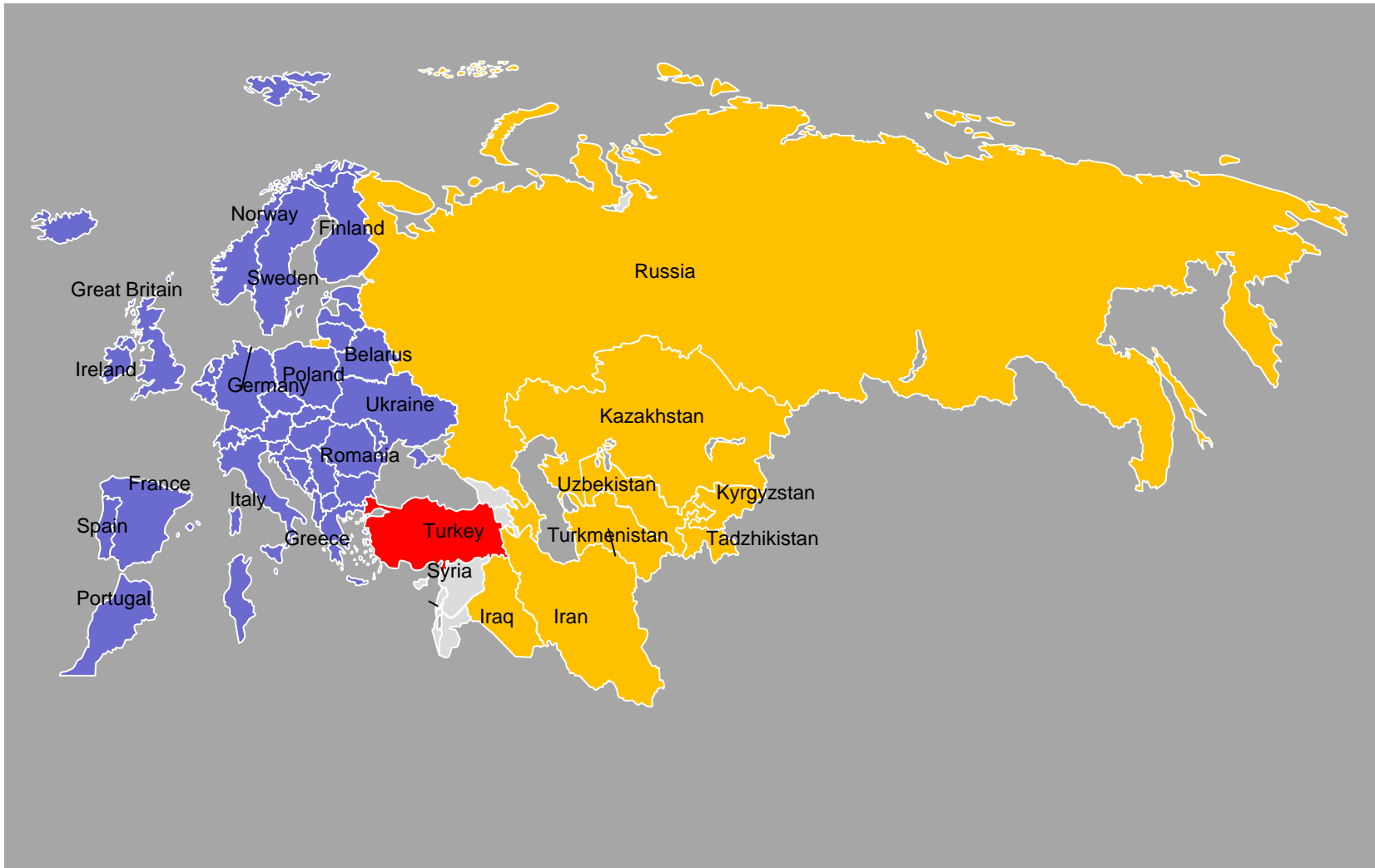
- Untapped potential is huge
- The two region is not connected through pipelines or grid integration
- Afghanistan could satisfy its energy needs through integration with the CA
- Afghanistan could export its own resources after it connects CA with SA
- The country could also benefit from transit fees



Projects within CBM that target to increase regional energy trade

- Construction of energy infrastructure
 - TAPI Gas Pipeline
 - Afghanistan-Tajikistan Gas Pipeline (ATGP)
- Construction of electric power infrastructure
 - 500 kV line from Turkmenistan to Afghanistan
 - "Central Asia-South Asia" (CASA-1000)
 - Supplying Cross-Border Energy to the Rushan area of Afghanistan
- All these projects are economically feasible but policy uncertainty, political instability, and security issues are the binding constraints on realization of some of them
- Private sector organizations of the countries involved should be part of the policy dialogue process to speed up the materialization of these projects

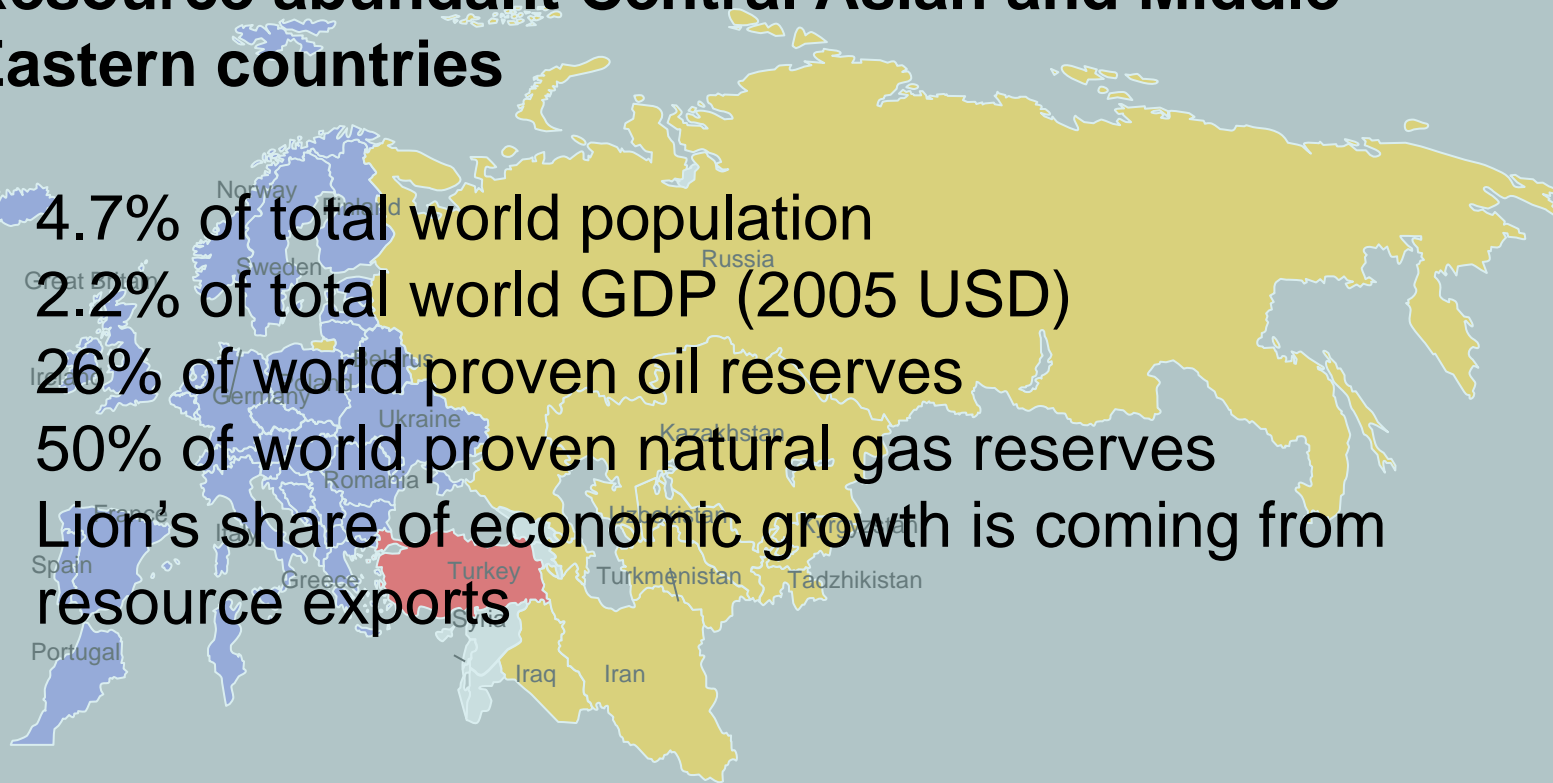
Turkey is a bridge between Europe and resource rich Asian countries



Turkey is a bridge between Europe and resource rich countries

Resource abundant Central Asian and Middle Eastern countries

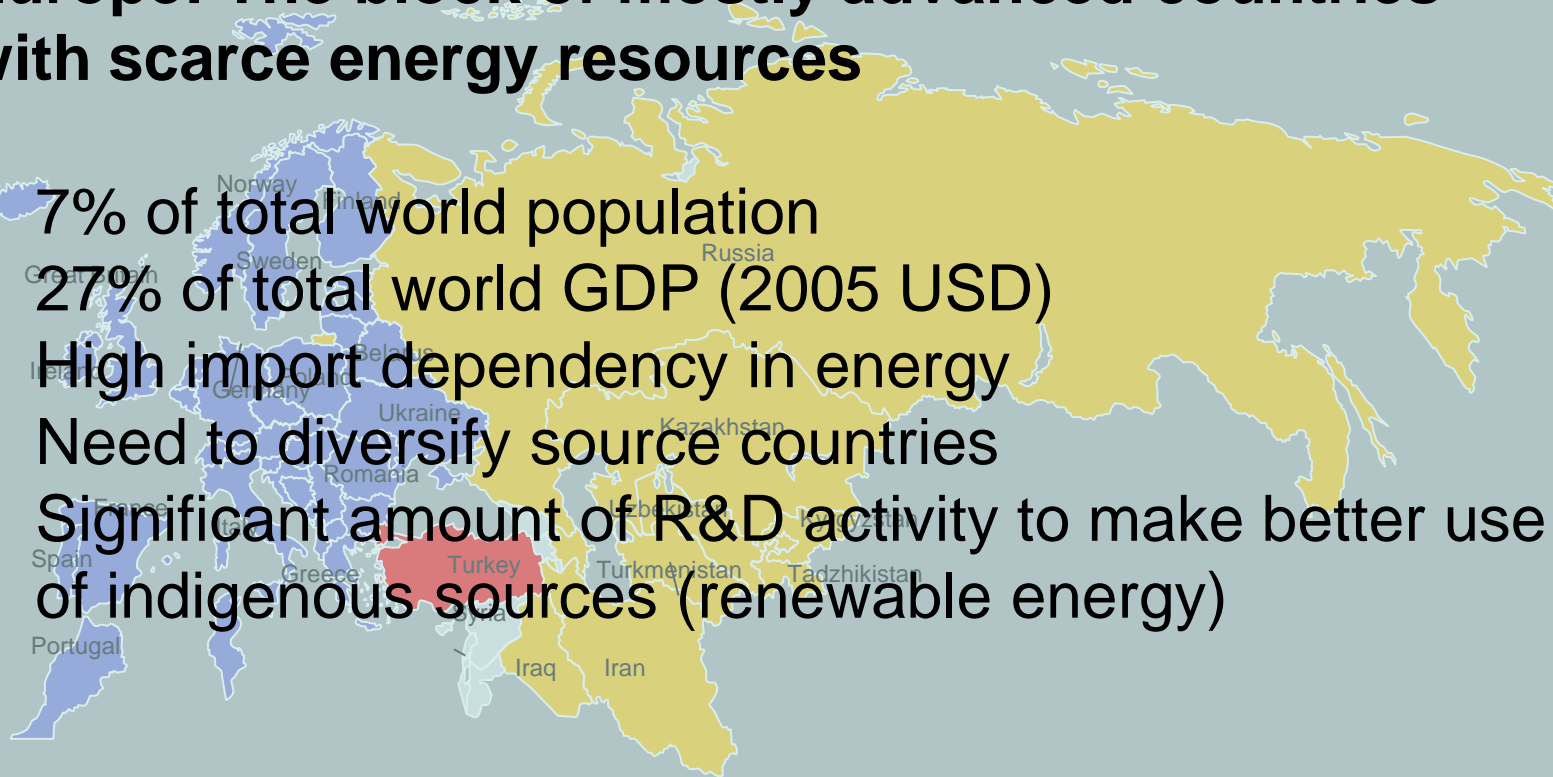
- 4.7% of total world population
- 2.2% of total world GDP (2005 USD)
- 26% of world proven oil reserves
- 50% of world proven natural gas reserves
- Lion's share of economic growth is coming from resource exports



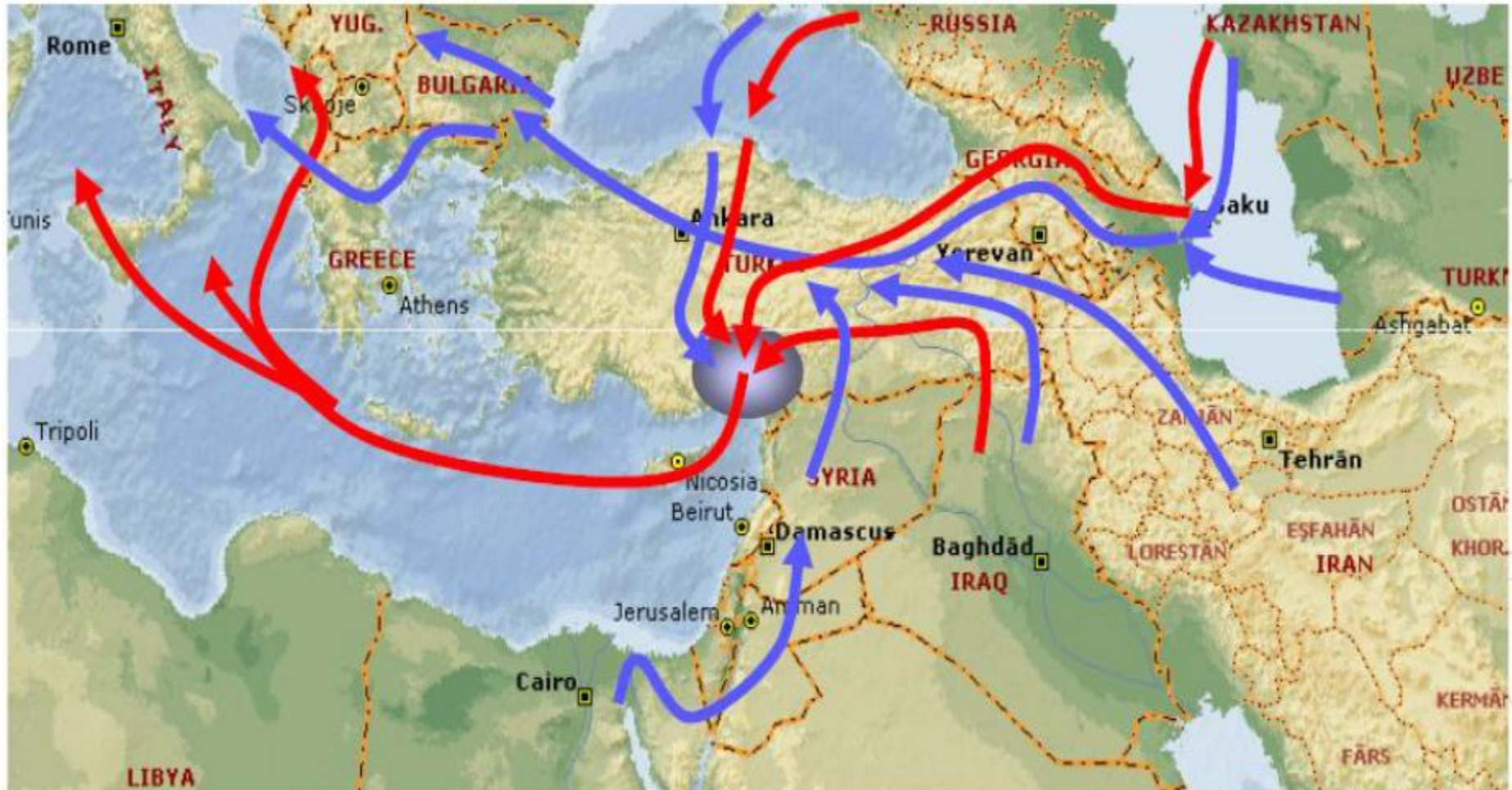
Turkey is a bridge between Europe and resource rich countries

Europe: The block of mostly advanced countries with scarce energy resources

- 7% of total world population
- 27% of total world GDP (2005 USD)
- High import dependency in energy
- Need to diversify source countries
- Significant amount of R&D activity to make better use of indigenous sources (renewable energy)



Regional energy trade as a way to harness Turkey's geostrategic location



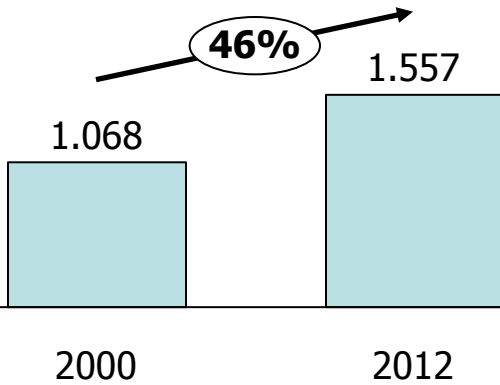
Oil



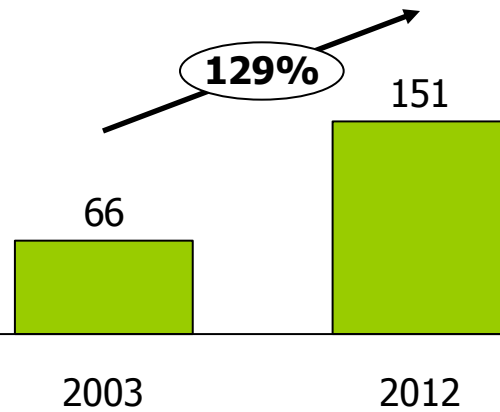
Gas

No way out w/o more and more energy

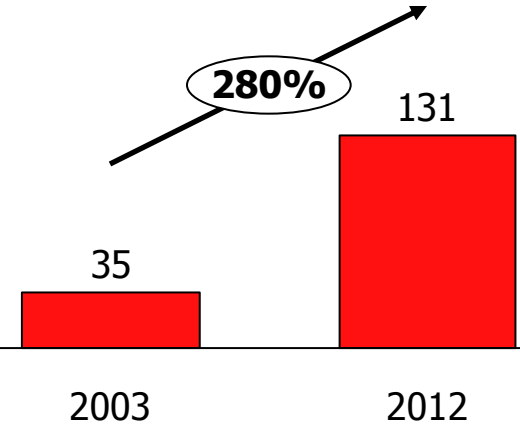
GDP per capita (TL, 1998 prices)



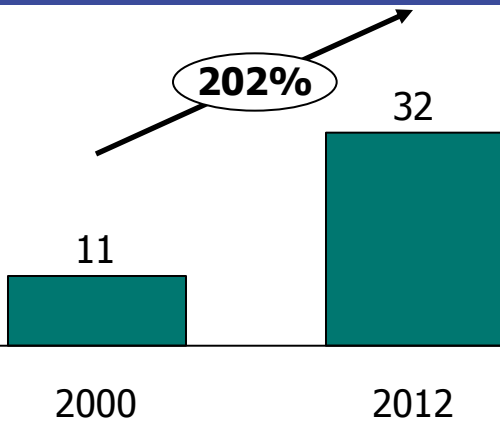
Passenger cars (per 1000 pop.)



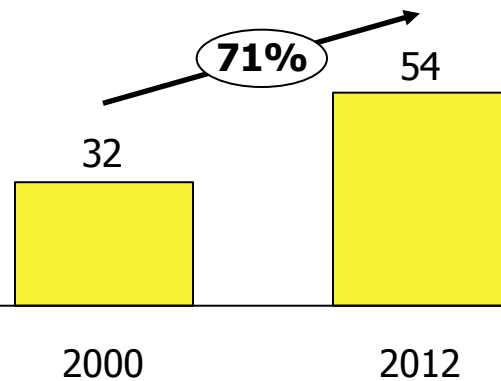
Air passengers (million)



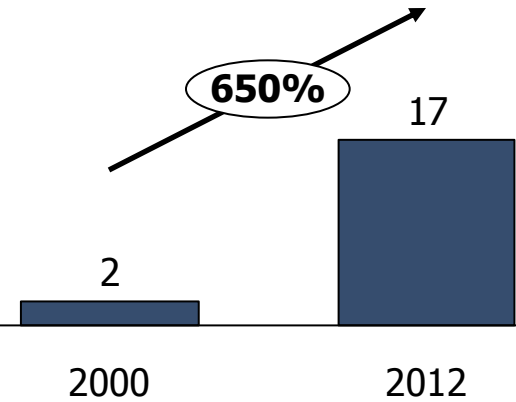
of foreign visitors (million)



Cement prod. (million tonnes)

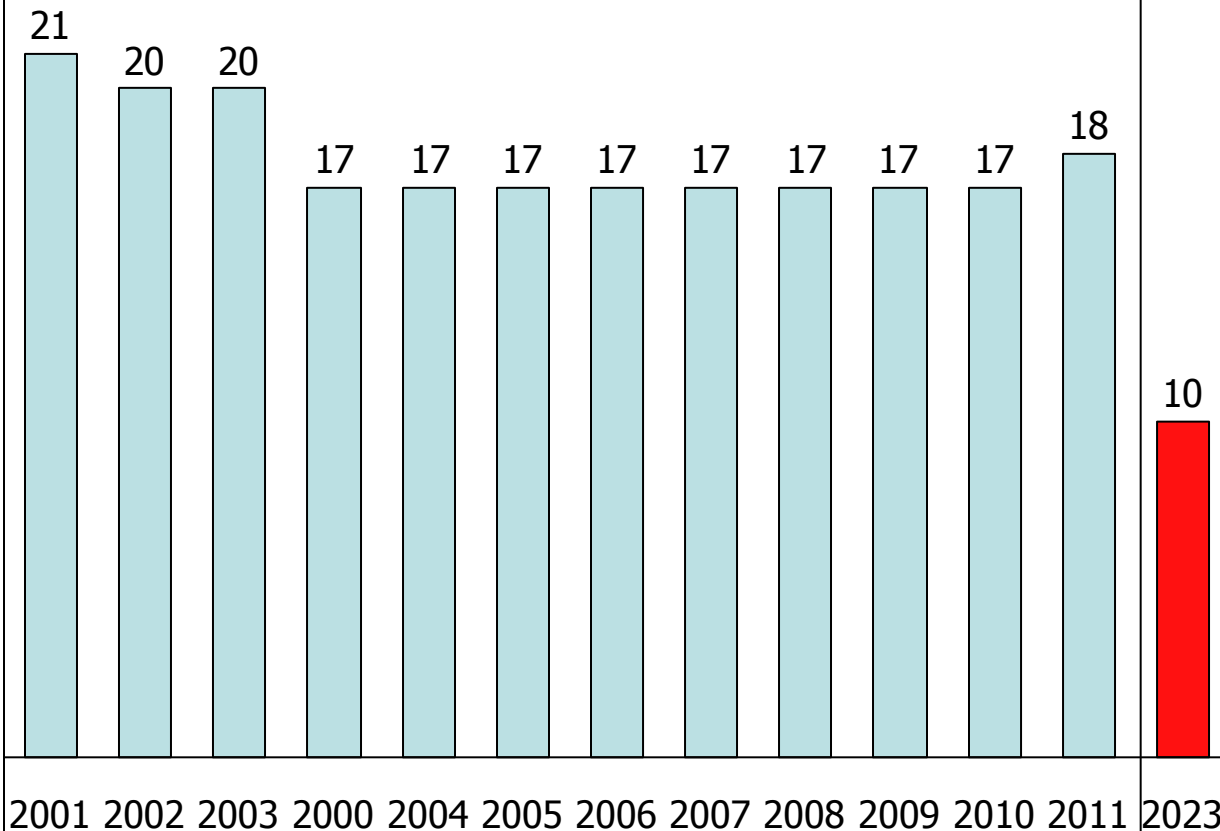


Iron and steel exports (bln \$)



Turkey aspires to become the tenth largest economy in 2023

Turkey's rank in economic size (current USD)



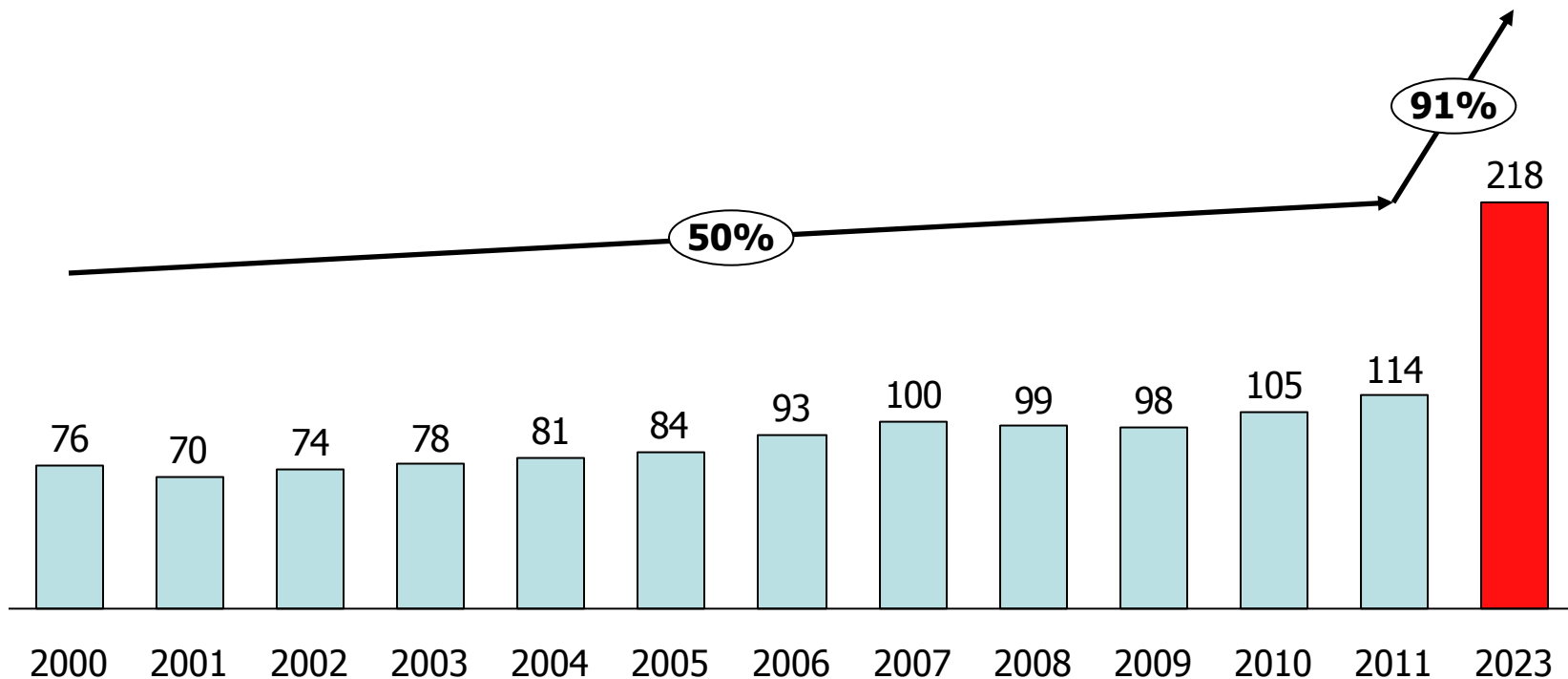
25,000 USD per capita income
(117% increase relative to 2012)

500 billion USD exports
(229% increase relative to 2012)

Several multibillion dollars worth infrastructure projects

How to fuel 2023 targets? The next 10 years will be way more challenging

Turkey's energy use (million tonnes of oil equivalent)



*Additional private sector investment is expected to be around
120-130 billion USD*

Turkey's energy related challenges

- Investment requirement amounting to 120-130 billion USD in the energy sector until 2023
- Diversifying the source countries that Turkey imports oil and gas, increasing the amount of overseas exploration and production
- Making better and more use of indigenous sources, decreasing import dependency
 - Renewables share at least 30% by 2023
- Increasing the efficient use of energy
 - Decreasing the energy intensity by 20%
- **Turkish private sector has an active role in overcoming Turkey's energy challenges**

A conducive business env. is necessary for energy investments to take place

- The Coordination Council for the Improvement of Investment Environment (YÖİKK) process since 2001
- YÖİKK meetings are chaired by the Prime Minister and public and private sector reps are the members of the Council
 - President of TOBB, TÜSİAD, TİM and YASED
 - Representatives from IFIs
 - CEOs of MNCs that have business interests in Turkey
- A policy dialogue mechanism to identify and fix the bottlenecks that limit investments and productivity growth of companies operating in Turkey

Energy trade can serve as a medium to resolve frozen conflicts

- Throughout 1990s and 2000s the relations btw Turkey and Northern Iraq were bleak
 - Iraqi Turkmens and PKK issue
 - Turkey's red line: Northern Iraq's independence
- However, after 2009, Turkey and KRG started to speak the language of mutual interests
 - Relative stability in Iraq opened up a space for economic agenda
 - Democratic opening process in Turkey
- This year, Turkish energy companies (with the support of the Turkish gov't) and KRG signed energy agreements for exploration and production in Northern Iraqi fields
 - Turkey needs cheaper and reliable natural gas inflows
 - KRG needs Turkey to export its resources to overseas markets

Indigeneous sources could decrease Turkey's import dependency

- Turkey has a liberal market structure in energy production and distribution
- More than 1000 hydropower projects owned by the private sector are either in under construction or in operation
 - Financing from domestic banks and external sources
- Wind, solar and thermal energy investments are on the rise in the country
 - TOBB Energy Sector Assembly is part of the policy dialogue with the Ministry in legislation related issues
- Renewables is also seen as an opportunity for upgrading Turkey's productive structure
 - Local content requirements

Turkish private sector's involvement in public sector's energy efficiency efforts

- Energy Efficiency Coordination Council
 - Led by Ministry of Energy and Natural Resources
 - Related min municipalities ministries and union of municipalities are among the members
 - TOBB and Association of Contractors are among the major private sector representatives
- Standards of materials to be used in new buildings, rules and regulations for the machinery used in manufacturing establishments etc... are identified in the Council

How has the private sector become that involved in policy dialogue processes in Turkey?

- Companies' individual lobbying efforts vs. business organizations' involvement in policy dialogue processes
 - Collective vs. individual interests
- Turkey has a long history of trade and industry chambers, which are unified under TOBB umbrella
 - Sectoral assemblies, committees, negotiation bodies
- TOBB as the Turkish private sector's umbrella organization represents its member's interests in abroad as well
 - Eurochambers, B-20, Islamic Chamber etc..

Conclusion: Building upon the Turkish experience...

- Binding constraints on regional energy trade projects (especially the pipelines) in CA-SA region are the following
 - Lack of political stability and security (bad for financing)
 - Policy uncertainty (bad for MNCs)
 - Lack of policy dialogue mechanisms
- Chamber networks in the countries involved should come together to engage in a systematic policy dialogue with
 - Their respective governments,
 - Countries that are part of Istanbul Process,
 - International Financial Institutions
- An effective policy dialogue would speed up the realization of these projects