

October 5, 2020

Erdoğan's Leadership and the Turkey-Greece Dispute: Part II

In Part I of this report last week, we took a deep look at Turkish President Recep Tayyip Erdoğan's perspectives, goals, power, initiatives, and constraints. We examined how his primary aims are to regain Islam's place in global society, seek redress for the way Islam and Turkey have been treated by the West, and make Turkey an independent, respected, and dominant power in the Middle East. We also showed that Erdoğan has a solid domestic political base to carry out his plans. In Part II, we will discuss how the latest reflection of Erdoğan's program is his effort to make Turkey a player in developing the newly discovered, rich natural gas fields of the eastern Mediterranean Sea. Since that initiative could lead to a confrontation with other countries, we also explore the potential implications for investors.

Turkey's Western and Eastern Problems

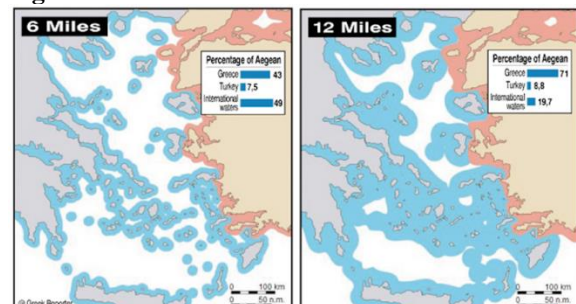
Against the backdrop of Erdoğan's desire to reassert Turkey's interests internationally, his maneuvering in the Mediterranean stems from two key, interrelated territorial issues:

National Waters. As discussed in Part I last week, the Western allies that emerged victorious from World War I wanted to make sure Germany and its Ottoman Empire ally couldn't pose a new threat in the future. They therefore broke up the Ottoman Empire and took pains to limit its territory. One aspect of that effort was the Treaty of Lausanne in 1923, which recognized Greek sovereignty over nearly all the islands in the

Aegean Sea, including many just a few miles off Turkey's western coast.

- Under traditional maritime law, which grants a country sovereignty over the waters three to six nautical miles from its shores, the plethora of Greek islands gives Athens control over almost half the Aegean Sea. To put it another way, Athens has sovereignty over these "territorial waters" and the airspace above them, although foreign civilian and military ships are allowed "innocent" passage through them.
- Under the United Nations Convention on the Law of the Sea, established in 1982, countries can extend their territorial waters up to 12 nautical miles from their shores. A limit that large would give Athens control over nearly three-fourths of the Aegean (see Figure 1). As Greece prepared to sign the convention in 1995, the Turkish government [issued a formal statement that if it tried to implement the 12-mile limit, Turkey would treat the action as a cause of war](#). Greece has therefore maintained its previous six-mile limit, but it reserves the right to declare a 12-mile limit in the future and threatened to do so as recently as 2018.

Figure 1.



(Source: GreekReporter.com)

- The Convention on the Law of the Sea also allows a country to declare an “exclusive economic zone” (EEZ) extending 200 nautical miles from the country’s shores, or to the midpoint between its shores and a neighbor’s (or to some other, mutually negotiated point). In simplistic terms, an EEZ gives a country the right to control economic activities below the surface of the water, such as fishing or mining the bottom of the ocean. These rules would give Greece an EEZ closely hugging the Turkish coastline, which helps explain why Turkey doesn’t recognize the law or Greece’s EEZ claim (see Figure 2).

Figure 2.



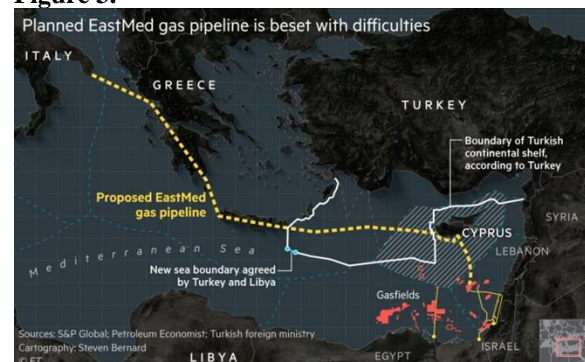
(Source: *Financial Times*)

Eastern Mediterranean Gas Fields. In the years after the Global Financial Crisis of 2008-2009, an important but little-noted development was the [discovery of large, new natural gas deposits in the eastern Mediterranean](#). The massive Tamar and Leviathan fields were discovered in Israeli waters in 2009 and 2010, respectively, while the large Aphrodite field was found in Cypriot waters in 2011. The Zohr field, discovered in Egyptian waters in 2015, was the biggest ever found in the region. After rapid development, it has already erased Egypt’s previous energy deficit. All told, the consulting firm Wood Mackenzie estimates that the eastern Mediterranean’s gas reserves total approximately 125 trillion cubic feet—[enough to cover current U.S.](#)

[consumption for four years](#) and [enough to cover French consumption for 80 years](#).

- The newly discovered gas fields are already transforming the economies of Egypt and Israel, which are traditional rivals to Turkey. But because those fields all lay far from Turkish shores in the southeastern Mediterranean, Erdoğan has to take risks in order to participate in exploiting them.
- A particularly galling problem for Erdoğan is Cyprus, where the internationally recognized government on the southern part of the island has started to aggressively auction off gas drilling rights and is actively trying to develop the fields in its waters. Erdoğan [has railed against the move because it excludes the ethnic Turkish Cypriots in the north](#), who broke from the south in a 1974 conflict and have a government recognized only by Turkey (and backed by tens of thousands of Turkish troops).
- A final major concern for Erdoğan is that Israel, Cyprus, Greece, and other countries involved in developing the gas fields [plan to send their product to European markets via a pipeline running from Cyprus to Crete, Greece, and finally to Italy](#). That would leave Turkey even more marginalized from this important new energy development, while strengthening some of Turkey’s key rivals (see Figure 3).

Figure 3.



(Source: *Financial Times*)

Erdoğan's Strategy

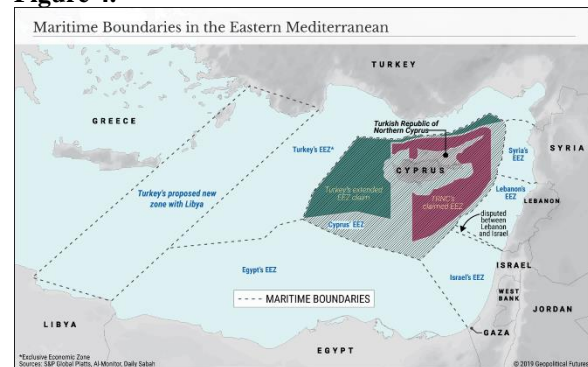
To make sure Turkey is a player in the new gas field developments, and to undermine Turkey's rivals in the area, Erdoğan has adopted two strategies based on an expansive reading of Turkish territorial rights and an effort to expand Turkey's maritime economic activity (sometimes called the "Blue Homeland" strategy). Erdoğan argues that Turkey's EEZ should be defined by its continental shelf, i.e., the relatively shallow water that extends out from the Turkish mainland. Under that definition, much of Cyprus's EEZ to the west of the island would be displaced by Turkey, as would much of Greece's EEZ to the east of Crete. Erdoğan has also argued that the Turkish-backed government in Northern Cyprus has the right to an EEZ extending even to the south of the island. Based on these claims, Erdoğan is trying to "change the facts on the ground" via the following maneuvers.

Exploration Drilling. Erdoğan [has tried to block other countries from exploring in the area and ordered Turkish drill ships, backed by the Turkish navy, into disputed areas](#). In 2018, the Turkish navy chased away an Italian exploration ship that had been contracted by Cyprus's internationally recognized government. In December 2019, it similarly chased away an Israeli drill ship participating in a joint Cypriot-Israeli exploration project in Cypriot waters. In July 2020, Turkish and Greek naval forces nearly came into conflict after the Turkish government said its exploration ships would start drilling close to the Greek island of Rhodes. The Turkish government ultimately backed down from that plan due to European pressure, but it has conducted drilling in other disputed areas, including in the waters southeast of Cyprus.

Blocking the EastMed Pipeline. In order to block the proposed EastMed gas pipeline

from Cyprus to Crete, Greece, and Italy, Erdoğan last November struck a deal with his only real ally in the region, the internationally recognized government of Libya. Since the Turkish continental shelf juts out into the Mediterranean to the southwest of Turkey, while the Libyan shelf juts into the same area to the northeast of Libya, the Turkish and Libyan governments [agreed to recognize a shared EEZ straddling the Mediterranean](#) (see Figure 4). On the basis of that EEZ, Erdoğan has vowed to block any pipeline that he doesn't approve of. Instead, Turkish officials are advocating for a pipeline that would run from Israel through Turkey and then on to Europe.

Figure 4.



(Source: *Geopolitical Futures*)

Risk of War

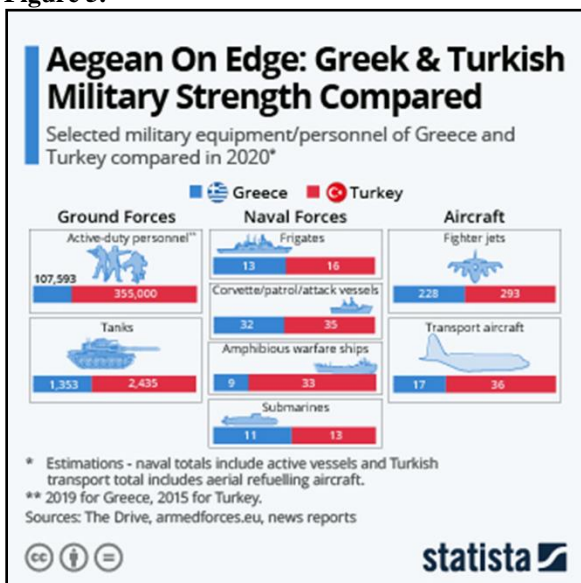
Turkey's immediate concern in the natural gas dispute is Cyprus, but since Cyprus is militarily weak, the island would almost certainly look to its ethnic allies in Greece for support. Along with the territorial disputes discussed above, that means Turkey's real issue is with Greece. Indeed, Greece and Turkey have been at each other's throats for decades. Greek and Turkish jet fighters frequently challenge each other and engage in mock dogfights over the Aegean, and the two countries have often come close to armed fighting.

All the same, we doubt that either side prefers war at present. Erdoğan's goal is to make sure Turkey has a place at the table in

any development of the new gas fields and isn't simply marginalized. The biggest risk is probably that one side or the other may miscalculate or accidentally open fire, causing an uncontrollable conflict. In mid-August, there was already a [dangerous collision between Greek and Turkish naval ships](#).

How would a conflict play out, if it were to happen? Even though Greek ground forces are concentrated in Western Thrace and could theoretically threaten Istanbul from there, neither side would have much to gain from fighting in that theater. We suspect the bulk of any fighting would take place in the waters of the eastern Mediterranean near Cyprus. That would supposedly give Turkey a major advantage, given that it has tens of thousands of troops stationed in Northern Cyprus and many naval and air installations close by. As Figure 5 shows, Turkey would also seem to have a major advantage over Greece in terms of total military personnel and equipment. Because of Greece's painful debt and fiscal crisis over the last decade, the military resources Greece has available may also be poorly maintained and less modern than Turkey's.

Figure 5.



(Source: Statista.com)

However, it's important to remember that Greece and Cyprus could likely rely on several other allies to thwart any Turkish military move. In mid-August, French President Macron [dispatched a frigate, an amphibious assault ship, and jet fighters to warn off Turkish drill ships](#), and both Egypt and Israel would likely provide at least non-lethal assistance in case Turkey became too aggressive. For example, they might provide intelligence or logistics support. It's also important to remember that much of Turkey's military is tied down along the country's borders with Syria and Iraq, and in the Black Sea. Finally, Erdoğan's purge of the Turkish military since the attempted coup in 2016 resulted in many competent officers being replaced by newcomers who might be more nationalistic and aggressive but also less experienced and capable. Any deliberate or accidental military confrontation in the eastern Mediterranean could therefore be more equally balanced than anticipated. In a word, it could become a significant slugfest.

Ramifications

To reiterate, we do not necessarily expect a military confrontation to break out between Turkey and its rivals in the Mediterranean. However, such a development, or even the threat of such a development, would be a risk for global financial markets. Naturally, a potential confrontation involving NATO countries would entail the political and military risk of a broader conflict. In an extreme conflict, even the U.S. and Russia might be brought into the fray. The most immediate and direct impact of a confrontation would probably be on Greek and Turkish equities, which would likely fall sharply. Any broadening in the conflict would probably drive down other markets in Europe and beyond as well.

Just as important, because of the continued key role that the Middle East plays in the

world's energy supply, any conflict in the region would probably raise fears of supply disruptions. That, in turn, would probably drive oil and natural gas prices higher. And, of course, since gold and other precious metals are traditionally treated as safe havens in times of geopolitical tension, any

conflict in the eastern Mediterranean would probably drive them higher as well.

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