

GLOBAL TURKEY  IN EUROPE

Turkish-Azerbaijani Energy Relations

Bülent Aras

April 2014

POLICY BRIEF 15



Stiftung
Mercator



IPC

ISTANBUL POLICY CENTER
SABANCI UNIVERSITY
STIFTUNG MERCATOR INITIATIVE

Turkish-Azerbaijani Energy Relations

Bülent Aras*

Abstract

Turkish-Azerbaijani relations are currently taking shape based upon energy relations. This development is based on the two countries' priorities in foreign policy and regional politics, underpinned by the mutual political will to maintain relations at this level. This paper analyzes the evolution of energy cooperation, Turkey's attempt to become an energy hub in the region and Azerbaijan's placement of energy politics as a central component in its foreign policy orientation. It concludes that Azerbaijan increased its leverage in regional energy politics and Turkey took a significant stride forward in terms of shifting from a transit country into an energy hub.

If we view the evolution of Turkish-Azerbaijani relations in terms of chronology, we can call the current era 'the energy relations period'. This period was preceded by Azerbaijan's post-independence political history, when it strived to strengthen its internal stability and balance its relations with Russia, Turkey and the West. Following İlham Aliyev's election as President for the third time at the end of 2013, it is clear that energy is the main driver of Azerbaijan's foreign policy. Turkey, in turn, is pursuing a dynamic policy aimed at becoming an energy hub, as part of an active and multidimensional foreign policy.

Some commentators noted the fluctuations in Turkish-Azerbaijani relations caused by the Turkish-Armenian normalization process in 2008, speculating that this blip would permanently damage the basis of the bilateral relationship. However, Ankara and Baku have weathered the negative impact of the normalization process and gained new perspectives in repairing the damage. It would not be inaccurate to say that this new perspective was a strategic decision taken by the political elite in both countries. After all, the political will to build close strategic relations has been clearly demonstrated by both governments. It was precisely at that point that energy emerged as a factor in laying and indeed embodying the foundation for relations.

The swift developments in the last few years signal that the future of the relationship will be based on energy cooperation. This paper will discuss energy cooperation in two subsections. First will be the general trends in Turkey and Azerbaijan's respective foreign policies, which provided a new era in bilateral relations. Second will be the evolution of energy cooperation, with a focus on Turkey's attempt to become an energy hub in the region and Azerbaijan's placement of energy politics as a central element in its foreign policy. The analysis will end with a general evaluation and a discussion of the future prospects in energy cooperation between Turkey and Azerbaijan.

Foreign Policy Trends

In its foreign policy, Azerbaijan has succeeded in moving away from a unilateral approach and from the psychology of fear that was fed by regional conflicts. New perspectives have facilitated the country's transition to a multilateral, active and dynamic foreign policy. Heydar Aliyev negotiated Azerbaijan's foreign policy on a balanced axis through the problematic triangle of occupation, regional tension and international isolation that he inherited from former President Abulfaz Elchibey. Succeeding his father, current President İlham Aliyev took over a foreign policy that maintained equal distance to regional powers and positioned the territorial integrity of Azerbaijan and the Karabakh case at the centre. Based on this structure, Aliyev has constructed a multidimensional foreign policy.¹

Firstly, Azerbaijan's priority is to position the country as an important actor both regionally and internationally. The Aliyev government has recoded its relations in the region and adopted a policy of balance in its relations with regional powers that is aimed at pursuing good relations with its neighbours. Secondly, the country has improved its relations with Western institutions such as the Council of Europe and promoted its credibility in the eyes of these international institutions. Thirdly, Azerbaijan has diversified its foreign policy and trade relations, starting with Asian countries. Finally, the Aliyev government has pursued a policy to utilize the leverage of oil and natural gas projects and pipeline policies in order to evolve to an influential player in regional politics and in energy security in the East-West corridor.²

Throughout these processes, Azerbaijan adopted a new style of diplomacy. The government embraced a multidimensional diplomacy that centred on the occupied territories and the efficient use of natural resources in its policy making. Azerbaijan's ability to develop short and medium-term strategic partnerships and to manoeuvre quickly has enabled the country to act as the game-setter in implementing preventive diplomacy and the development of energy policies.

Turkey's policy for the Caucasus should be analysed within the context of the regional policy that emerged in the 2000s.³ In line with this new foreign policy, the Caucasus is a potential region of influence and

* *Bülent Aras is Professor of International Relations at Sabanci University and Global Fellow at the Wilson Center.*

¹ Bülent Aras, "Azerbaijan Presidential Elections 2013", in *Caspian Report*, Vol. 2, No. 5 (Fall 2013), p. 30-49 at p. 39, <http://hazar.org/Content.aspx?item=471>.

² *Ibid.*, p. 40.

³ This part is an updated summary of some sections taken from: Pınar Akpınar and Bülent Aras, "The Relations between Turkey and the Caucasus", in *Perceptions*, Vol. 16, No. 3 (Autumn 2011), p. 53-68, <http://sam.gov.tr/?p=2069>.

opportunity. Turkey's policy towards the Caucasus aims to develop political and economic relations with the countries in the region and to help them develop mechanisms of internal stability and prosperity as well as build regional peace and security.⁴ The Turkish International Cooperation and Development Agency (TİKA) plays an active role in this.⁵ A large portion – 47.9 percent – of TİKA's developmental aid is allocated to the Caucasus and the Middle East.⁶ This aid has been offered in the areas of economic and industrial infrastructural development, health and education, academic collaboration, internship programs for regional students in Turkey, and Turkish language programs as well as in efforts to increase business relations. In addition to TİKA, the Turkish Confederation of Businessmen and Industrialists (TUSKON) and the Foreign Economic Relations Board (DEİK) are also active in the region.⁷

Turkey's increasing international commerce with Eurasian countries is a result of its emerging business interests in that region. The volume of commerce between Turkey and Azerbaijan was 326 million dollars in 2000; by 2013 this had increased to 3.3 billion dollars.⁸ Additionally, Turkey is the first country in Georgia's imports and fifth in exports.⁹ For Azerbaijan, it is the first in imports and the eleventh in exports.¹⁰ The fact that the borders are closed between Armenia and Turkey prevents direct trade between the two countries. Accordingly, Turkish products make their way to Armenia mostly through Iran and Georgia.

Turkey's relations with Azerbaijan are determined by historical, cultural, ethnic and religious connections as well as by mutual goodwill. Energy cooperation has been a key factor in bilateral relations. Turkey's relations with Azerbaijan play an important role in determining relations with other countries in the region. For instance, its relations with Azerbaijan have a significant impact on its relations with Armenia. Without a doubt, the major issue is the unresolved Karabakh conflict. In the years following Azerbaijan's independence, the war between Armenia and Azerbaijan resulted in great losses. This included the assault on Azerbaijan's territorial integrity with the loss of the mountainous Karabakh region to Armenia. In addition, Armenia also occupies one-fifth of Azerbaijani land and six different regions. Around one million Azeris were forced to leave the Karabakh region and the six adjacent regions, and are currently classified as internally displaced peoples within Azerbaijan. This situation remains the same today.¹¹ While Armenia considers its presence in Karabakh to be legitimate, Azerbaijan deems the situation an "occupation". The official stance taken by Turkey and the UN supports the Azerbaijani view. Turkey insists that the two countries resolve the Karabakh issue through diplomatic means, using international channels. The Caucasus Stability and Cooperation Platform established by Turkey after the Georgia-Russia crisis in 2008 was designed to realize this goal. However, the Minsk process initiated and carried out by the US, Russia and France, one of the most significant attempts at diplomacy so far, has largely failed to make significant progress. Even though the parties have come together on various occasions, no progress has been made in resolving the dispute.¹² As Turkish Prime Minister Recep Tayyip Erdoğan stated,



"We, as Turkey, desire the issue to be resolved in a peaceful way. We support all efforts in this regard; however, it is concerning that the Minsk group has not been able to resolve the issue in the past 16 years. The recent conflicts in the region illustrate just how fragile the situation in the Southern Caucasus is."¹³

Turkey's involvement in the Karabakh issue and its siding with Azerbaijan reflects an obvious policy choice. In this sense, the close links between Azerbaijan and Turkey and their cooperation in the field of energy have made Azerbaijan the most important regional country for Turkey. In the past years, Turkish and Azeri collaborations have been developed between NGOs, universities and research institutes.¹⁴ It was decided during Prime Minister Erdoğan's trip to Azerbaijan on May 17th, 2010 that the High Level Strategic Cooperation Council would be founded. During these trips, Turkey's involvement and partnership in the Shah Deniz II was mutually agreed upon by both sides. The former stage of Shah Deniz I provides natural gas to Turkey and Georgia. Prime Minister Erdoğan and President Aliyev co-chaired the first HLSCC meeting in Izmir on October 24th, 2011, and subsequent meetings were held regularly in the following years. The two sides had an extensive agenda for cooperation in economy and politics, and accordingly signed agreements ranging from investment promotion to police education.¹⁵

Relations with Azerbaijan and the Energy Factor

Three projects have shaped the energy dimension of Turkish-Azerbaijani relations. Two of those projects were implemented and are now operational, namely the Baku-Tbilisi-Ceyhan (BTC) Oil Pipeline and the Baku-Tbilisi-Erzurum (BTE) Natural Gas Pipeline (see Figure 1 in the Annex), also known as the South Caucasus Pipeline (SCP). The BTC Oil Pipeline (active since 2006) and the BTE Natural Gas Pipeline constitute the two main pillars of energy relations.¹⁶ These pipelines are critical in transporting Azerbaijani oil and natural gas to Europe. The BTC pipeline is approximately 1800 km long, and the agreement was signed after a series of negotiations among the governments of Azerbaijan, Russia, Turkey, Georgia and various private companies. The total daily capacity of the BTC is one million barrels, and its annual capacity is 50 million tonnes. Natural gas from Azerbaijan has been transported alongside the BTE pipeline to Turkey since 2007. The decision to do so was made while oil was being extracted for the BTC pipeline. Based on the terms of this agreement, which has been in force for 15 years, Turkey will receive 6.6 billion cubic meters of natural

4 Ahmet Davutoğlu, "Turkey's Foreign Policy Vision: An Assessment of 2007", in *Insight Turkey*, Vol. 10, No. 1 (2008), p. 77-96, <http://arsiv.setav.org/ups/dosya/9595.pdf>.

5 Hakan Fidan and Rahman Nurdun, "Turkey's Role in the Global Development Assistance Community: The Case of TİKA (Turkish International Cooperation and Development Agency)", in *Journal of Southern Europe and the Balkans*, Vol. 10, No. 1 (April 2008), p. 93-111.

6 In 2012 the Middle East received 46.6 percent of the development aid, while only 1.3 percent of the aid went to the Caucasus. See TİKA, *Turkey's Development Assistance Report 2012*, January 2014, <http://www.tika.gov.tr/en/publications/turkey-development-assistance-report/25>.

7 See TUSKON website: <http://www.tuskon.org>.

8 For figures on foreign trade see the following websites: Turkish Statistical Institute (TUIK): <http://www.tuik.gov.tr>.

9 National Statistics Office of Georgia (GeoStat): <http://www.geostat.ge/index.php?action=0&lang=eng>.

10 State Statistical Committee of the Republic of Azerbaijan: <http://www.stat.gov.az/source/azfigures/indexen.php>.

11 Bülent Aras, "Bakü", in *Sabah*, 18 August 2010, <http://www.sabah.com.tr/Gundem/2010/08/18/baku>.

12 Ibidem.

13 "Kafkasya İşbirliğine Aliyev Desteği", in *Radikal*, 20 August 2008, http://www.radikal.com.tr/dunya/kafkasya_isbirligine_aliyev_destegi-894659. See also Azerbaijan Presidency, *Statements for media representatives by President İlham Aliyev and Prime Minister of Turkey Recep Tayyip Erdoğan*, 20 August 2008, http://archive.president.az/articles.php?item_id=20080903105812573&sec_id=70.

14 Bülent Aras, "Bakü", cit.

15 "Azerbycan'la Dev İmza", in *Sabah*, 25 October 2011, <http://www.sabah.com.tr/Ekonomi/2011/10/25/azerbaycanla-dev-imza>.

16 Emre İşeri, "Geopolitics of Oil and Pipelines in the (Eurasian) Heartland", in Bülent Gökay (ed.), *The Politics of Oil. A Survey*, London, Routledge, 2006, p. 35-45.

gas from the Shah Deniz I field in Azerbaijan.

The third important project is the Trans Anatolia Natural Gas Pipeline (TANAP), part of the Southern Gas Corridor. In late October 2011, Prime Minister Erdoğan and President Aliyev signed two agreements during the HLSC meeting. Under the first agreement, Azerbaijan will sell Shah Deniz II gas to Turkey in 2017, and under the second, Azerbaijan will transport gas from Shah Deniz II to Turkey between 2017 and 2042.¹⁷ These two agreements finalised the terms of Turkey's purchase of natural gas and opened up new prospects for transportation of gas to the European markets. Turkey is likely to obtain re-export rights in the transport deal. These projects also helped to strengthen Turkey's projection of itself as a regional hub, as well as justify the feasibility of the projected pipelines.¹⁸

TANAP, an 1841 km-long pipeline, will carry 16 bcm of Azerbaijani gas to Europe via Georgia and Turkey, entering Turkey from the Georgian border and exiting from Thrace. Once it has crossed the Turkish border to Europe, the Trans Adriatic Pipeline (TAP), an 870 km-long pipeline, will carry the Azerbaijani gas to Italy (see Figure 2 in the Annex). Turkey will buy 6 bcm and the rest will be carried to Europe through TAP. There are studies on the possibility of increasing the capacity to 31 bcm.¹⁹ Azerbaijan resolved the longstanding East-West pipeline negotiations in its favour so that it delivers gas to Europe through TANAP, a pipeline it will have in partnership with Turkey and BP, and through the TAP link. These parties will take on the reconstruction and operation of TANAP together, but may also consider including other partners.

This project of carrying Shah Deniz II gas to Europe put an end to the former mega pipeline project of Nabucco, which was a mainly European project designed for the same purpose. However, market conditions and the lack of vision for energy security in Europe made this project obsolete. Azerbaijan's strategic calculation was the building of a direct pipeline to have direct access to European markets. Turkey's cooperation made this project feasible and possible and energized again the idea of the Southern Gas Corridor.

Through the Turkish Petroleum Corporation (TPAO), Turkey partners in the Shah Deniz II field that will provide the Southern Gas Corridor with gas. It is a major advantage for Turkey to be both the provider of and the transit country for gas. Turkey's plan to become an energy hub is one of the main goals of its new foreign policy. As a country surrounded by rich energy resources to its east and high-consuming countries to its west, it seems feasible for Turkey to be a transit country for energy. It is an approach that bolsters Turkey's geopolitical vision of itself as a central country. The benefits that Turkey will gain from the energy transit lines, along with a strong political position, will reinforce its position as a central country.

The BTC and BTE pipelines and the Blue Stream pipeline that is coming from Russia are important developments in Turkey's policy towards becoming a transit country and energy hub. In addition to that, there are smaller-scale pipelines. However, the latter are projects for Turkey's consumption.

Through TANAP, a new phase has been opened. Turkey has also become a strategic partner of the Southern Gas Corridor. This pipeline, which will cross Georgia and a group of Balkan countries in the West, is also a stability project. The total cost of TANAP is anticipated to be around 12 billion dollars. It will provide Turkey with a contribution of

around 5 billion dollars in investment and construction, while at the same time creating employment opportunities and economic value along its route. Turkey will have control of 30 percent of the shares in TANAP, while Azerbaijan will have 58 percent and BP 12 percent. Turkey's transition into being an energy provider through Shah Deniz II is the most critical development in its path to becoming an energy hub. Turkey will have an influential position in the upstream and midstream of the Southern Gas Corridor in this process (see figure 3 in the Annex).

This energy-oriented momentum in bilateral relations is positively reflected in trade and investment relations. Azerbaijan is a priority destination for Turkey's foreign direct investment. Azerbaijan bought the majority stake of Turkey's giant petrochemicals company as a sign of Azerbaijan's desire to reciprocate with the oil and gas riches it acquired in the recent era. The volume of foreign trade between Turkey and Azerbaijan reached 3.3 billion dollars in 2013. During the HLSC meetings, the State Oil Company of the Azerbaijan Republic (SOCAR) committed to building a refinery in Izmir, which entails a 5 billion dollars investment, scheduled for 2015. SOCAR bought 51 percent share of PETKIM, giant petrochemical complex of Turkey, during privatization tender in 2008 and developing PETKIM port as the biggest integrated port of Turkey.²⁰ Besides these projects, SOCAR also aims to make other investments in Turkey that will reach 21 billion dollars by 2023.

Conclusion

Turkish-Azerbaijani relations are currently taking shape based upon energy relations. This development is based on the two countries' priorities in foreign policy and regional politics, underpinned by the mutual political will to maintain relations at this level. İlham Aliyev's objective for Azerbaijan in his third presidential term is to reinforce the active, game-setting policy. Economic growth is based on the country's major role in regional energy projects and energy-based investments outside the country. Azerbaijan builds its policies based on transporting its underground resources to the market through good management, strengthening its regional role and realizing the country's structural transformation. It is believed that the steps taken towards these objectives will increase the country's power and help it reclaim the land occupied by Armenia. Azerbaijan uses the energy projects as both a carrot and stick against Armenia. These projects, which benefit regional actors to varying degrees, isolate Armenia. On the other hand, SOCAR has emphasized many times that Armenia could also participate in these projects if peace can be reached.

It is of great importance for Turkey that Azerbaijan prefers to collaborate with Turkey. In becoming a part of the Southern Gas Corridor, Turkey took a significant stride forward in terms of shifting from a transit country into an energy hub. It is possible to say that it will try to gain more leverage by gaining more authority over the transit resources. The efforts to establish an energy stock market in Turkey are a result of its dedication to this aim. The ultimate aim is to become an energy hub that might go as far as pricing, which means going beyond upstream and midstream and becoming influential in the downstream. Turkey's relations with Azerbaijan show that it will not take unilateral steps toward normalization with Armenia in the near future. Positive developments in its relations with Armenia will only be possible through reconciliation between Azerbaijan and Armenia.

Both Turkey and Azerbaijan advocate for integration with the West. We see in Aliyev's third term signals that Azerbaijan's foreign policy will move closer to the West. In this regard, the BTC, BTE and SCG are instruments to integrate Azerbaijan into the Western energy security structure. However, it is a given that both countries will avoid disrupting relations with Russia, which could give rise to negative consequences. The Nabucco project was perceived as a rival pipeline in Russia mainly

17 For a well-articulated analysis and information, see Emin Emrah Daniş, "Şah Deniz, Türkiye'ye ve Bölgeye Kazandırmaya Devam Ediyor = Shah Deniz Keeps Contributing to the Development of Turkey and the Region", in *Hazar World*, No. 16 (March 2014), p. 38-48, http://www.hazar.org/UserFiles/yayinlar/HazarWorld/hazar_baski_son_016_low.pdf.

18 Şaban Kardaş, "Turkey Clears the Way For Azerbaijani Gas Transfers", in *Eurasia Daily Monitor*, Vol. 8, No. 201 (1 November 2011), [http://www.jamestown.org/programs/edm/single/?tx_ttnews\[tt_news\]=38604](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=38604).

19 See Efgan Nifti and Fatih Macit, "Energy Future of Europe and the Role of the Southern Corridor", in *Caspian Report*, Vol. 2, No. 5 (Fall 2013), p. 7-15, <http://hazar.org/Content.aspx?item=471>.

20 For detailed information on the projects, see the website of SOCAR Turkey at <http://www.socar.com.tr>.

due to heavy European involvement. Although TANAP+TAP projection means diversification of gas supply, a 10 billion bcm supply to Europe is not a challenge to Russia considering European gas demand and Russian supply capacity.²¹ Russian rival project South Stream does not seem feasible and is a far possibility at this time. Azerbaijan provides 1 billion bcm natural gas to Russia with a symbolic agreement. Thus Azerbaijan will stick with its balance policy and refrain from challenging Russia unnecessarily. As far as Turkey is concerned, Russia is an important trade partner and a country with which it wants to avoid political tensions. A controlled policy toward Russia that ensures

the preservation of the critical balance is the common goal of Turkey and Azerbaijan.

This is a new period in which Turkish-Azerbaijani relations are energy-oriented and have a stronger foundation than in previous periods. The future of this relationship depends mainly on maintaining the current level of political will. Yet it is possible to say that relations will be guaranteed as long as the momentum of the Southern Gas Corridor and bilateral trade, especially Azerbaijan's investments in Turkey, is sustained.

21 Efgan Nifti and Fatih Macit, "Energy Future of Europe and the Role of the Southern Corridor", cit., p. 7.

References

- Pinar Akpınar and Bülent Aras, "The Relations between Turkey and the Caucasus", in *Perceptions*, Vol. 16, No. 3 (Autumn 2011), p. 53-68, <http://sam.gov.tr/?p=2069>
- Bülent Aras, "Azerbaijan Presidential Elections 2013", in *Caspian Report*, Vol. 2, No. 5 (Fall 2013), p. 30-49, <http://hazar.org/Content.aspx?item=471>
- Emin Emrah Daniş, "Şah Deniz, Türkiye'ye ve Bölgeye Kazandırmaya Devam Ediyor = Shah Deniz Keeps Contributing to the Development of Turkey and the Region", in *Hazar World*, No. 16 (March 2014), p. 38-48, http://www.hazar.org/UserFiles/yayinlar/HazarWorld/hazar_baski_son_016_low.pdf
- Ahmet Davutoğlu, "Turkey's Foreign Policy Vision: An Assessment of 2007", in *Insight Turkey*, Vol. 10, No. 1 (2008), p. 77-96, <http://arsiv.setav.org/ups/dosya/9595.pdf>
- Hakan Fidan and Rahman Nurdun, "Turkey's Role in the Global Development Assistance Community: The Case of TİKA (Turkish International Cooperation and Development Agency)", in *Journal of Southern Europe and the Balkans*, Vol. 10, No. 1 (April 2008), p. 93-111
- Emre İşeri, "Geopolitics of Oil and Pipelines in the (Eurasian) Heartland", in Bülent Gökay (ed.), *The Politics of Oil. A Survey*, London, Routledge, 2006, p. 35-45
- Şaban Kardaş, "Turkey Clears the Way For Azerbaijani Gas Transfers", in *Eurasia Daily Monitor*, Vol. 8, No. 201 (1 November 2011), [http://www.jamestown.org/programs/edm/single/?tx_ttnews\[tt_news\]=38604](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=38604)
- Efgan Nifti and Fatih Macit, "Energy Future of Europe and the Role of the Southern Corridor", in *Caspian Report*, Vol. 2, No. 5 (Fall 2013), p. 7-15, <http://hazar.org/Content.aspx?item=471>
- TİKA, *Turkey's Development Assistance Report 2012*, January 2014, <http://www.tika.gov.tr/en/publications/turkey-development-assistance-report/25>

Annex

Figure 1. The BTC and SCP Pipelines



Source: Embassy of Azerbaijan in Turkey, *South Caucasus Pipeline*, <http://www.azembassy.org.tr/index.php?options=content&id=81>.

Figure 2. TANAP and TAP



Source: "Pre-qualification tender for TANAP announced", in *Hürriyet Daily News*, 7 August 2013, <http://www.hurriyetdailynews.com/Default.aspx?pageID=238&nID=52126>.

Figure 3. Shah Deniz and the Southern Gas Corridor



Source: Efgan Nifti and Fatih Macit, "Energy Future of Europe and the Role of the Southern Corridor", cit., p. 11. Courtesy of Hazar Strategy Institute.