

## Analysis

November 16, 2011

**Summary:** Turkey and Azerbaijan have finally sealed agreements on the transit of Azerbaijani gas to the European markets through Turkish territory. This news might come as a natural development, as Azerbaijan and Turkey have the warmest relations in the region. Yet, for the past three years, the two sides were bogged down in difficult negotiations and at times have seemed so far from a compromise that Azerbaijan started looking for alternative options to transport its gas to Europe. The obvious victim of a row between these countries would be the European Union, with its ever-growing thirst for natural gas and the increasing desire in Brussels to lower the dependence on the Russian gas. Development of new gas fields and pipelines turn Azerbaijan and Turkey into strategic and, most importantly, equal partners in a new era of economic development in the Caspian region.

## Azerbaijan-Turkey Energy Cooperation: Back to a Strategic Agenda

by *Fariz Ismailzade*

What happened during Azerbaijani President Ilham Aliyev's most recent visit to Turkey on October 25 can surely be called "a new page" in regional geopolitics. The two brotherly nations have finally sealed agreements on the transit of Azerbaijani gas to the European markets through Turkish territory. The agreements also include details on the price of the gas that is being sold to Turkey through 2017, the volume and price of gas to be sold after 2017, transit fees for the Azerbaijani gas, and ways to deliver gas to the European markets.

For an outside observer, this news might come as a natural development, as Azerbaijan and Turkey have the warmest relations in the region. Turkey was the first country to recognize Azerbaijan's independence, and the ethnic, cultural, and linguistic ties have led political leaders in both countries to call it "one nation, two states." In early years of Azerbaijan's independence, Turkey provided humanitarian and economic assistance, trained army officers, and supplied much needed foreign direct investment. During the 1990s, the two neighbors enjoyed the "honeymoon effect," as the public and politicians in both countries pursued so called "Turkic solidarity."

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In addition, loyal to its new foreign policy doctrine of "zero problems with neighbors," Turkey's ruling AKP party launched an apparent rapprochement with Armenia, Azerbaijan's archrival, in 2009, which was deeply unpopular in Azerbaijan. At the time, Turkey and Armenia were poised to establish diplomatic relations, despite Azerbaijan's vocal opposition to the decoupling of the Nagorno-Karabakh conflict from Turkey's relationship with Armenia. In 1993, Turkey closed its border with Armenia, cutting all diplomatic and formal ties with its neighbor, a clear show of solidarity with Azerbaijan during the violence in Nagorno-Karabakh. The understanding was that the border would remain closed until Armenia and Azerbaijan were able to reach a peaceful resolution to the protracted Nagorno-Karabakh conflict. Officially, Baku insists that there should be a comprehensive peace in the region, linking the normalization of Turkey-Armenia relations to the resolution of Nagorno-Karabakh conflict. Seem-



ingly despite Baku's position, Turkey's President Abdullah Gul visited Yerevan as part of his "football diplomacy" in 2009 and the foreign ministers of the two nations signed the historic protocols in Zurich, which would have laid the groundwork for establishing diplomatic ties and reopening their shared border. Baku responded with anger and frustration, and for the first time damaged the bilateral relationship between Turkey and Azerbaijan, built upon a deep sense of solidarity and cooperation.

The obvious victim of a row between these countries would be the European Union, with its ever-growing thirst for natural gas and the increasing desire in Brussels to lower the dependence on the Russian gas, which is unreliable due to issues between Russia and Ukraine. Most of the East European countries depend on Russian gas entirely, but political disagreements between Russia and Ukraine in 2006 and 2009 and Russia and Belarus in 2008 caused sporadic delays in the supply of gas to the European markets. This came in the middle of cold winters, causing millions of EU residents considerable discomfort. Policymakers in Brussels responded by developing an energy strategy geared towards the diversification of the energy supply.

The Caspian region seems to be the first and the most convenient choice for the supply of alternative gas. Azerbaijan's current gas reserves stand at almost 3 trillion cubic meters (tcm) following a large discovery in the Shah Deniz field a decade ago (some 1.3 tcm) and recent discoveries in the Absheron and Umid fields, each containing close to 400 bcm. The "Southern Corridor" concept of the EU envisions the transportation of this Caspian gas to Southern Europe via Turkey through various proposed pipelines. One of the proposed pipelines — Nabucco — would have the capacity of 31 billion cubic meters (bcm) and would run from Turkey all the way to Austria. Other proposed pipelines, such as the Inter-Connector Turkey-Greece-Italy (ITGI) and the Trans-Adriatic pipeline (TAP), are smaller, and are planned to transport Caspian gas primarily to the Italian and Greek markets.

Azerbaijan and Turkey's preoccupation with the details and tactics of the gas agreement frustrated geopolitics experts, who wanted the deal as soon as possible in order to further link the Caspian region with the strategic interests of the transatlantic space. The United States, for example, is one of the strongest supporters of the "Southern Corridor." Yet, the

two allies seemed unwilling to make compromises. Some pundits even showed nostalgia for the mid 1990s, when Azerbaijan and Turkey, despite objections from Russia and Iran, put their resources together and made a strategic choice to build a new major pipeline (Baku-Tbilisi-Ceyhan-BTC) for the export of Azeri and later Kazakh oil to the world markets. That decision was truly a visionary one, linking both Azerbaijan and the transit country Georgia to the NATO member Turkey and thus forever sealing Western energy interests in the Caspian region. This BTC pipeline is now operational, with a capacity of 1 million barrels per day. Even Israel is purchasing 25 percent of its oil supply from this pipeline. This was the first pipeline to break the monopoly of the Russian pipelines for the supply of oil from the post-Soviet republics to the EU. In fact, it was such a tectonic project that U.S. President Bill Clinton personally lobbied for it. President Heydar Aliyev of Azerbaijan and President Suleyman Demirel of Turkey worked closely together to realize this project.

The new gas agreement seems to have had a "BTC-2" effect. It is clear that the agreements between Azerbaijan and Turkey once again moved bilateral relations to a strategic level, brought a visionary approach to regional energy projects, and put aside tactical differences for the sake of bigger gains on the political and economic map of the region. Turkey and Azerbaijan showed an understanding of the importance of this project and a willingness to cut a deal

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despite previous disagreements and a chill in bilateral relations. Some pundits claim that the two nations had no other choice but to seal the deal. It would have been too much of a waste of an opportunity not to do it. Others believe that after the 2009 coolness in bilateral relations and Azerbaijan's resistance to the Turkish-Armenian rapprochement, Ankara came to respect Baku even more. After all, Azerbaijan, with the fastest growing economy in the region is no longer a little brother but an equal partner. It is not a coincidence that the gas agreements were signed on the same day that President Aliyev and Prime Minister Recep Tayyip Erdoğan inaugurated the US\$5 billion Petkim project, one of the largest chemical plants in Turkey, owned now by the Azerbaijan state oil company, SOCAR, and laid the foundation for the construction of new oil refinery, also owned by SOCAR, in the Turkish city of Izmir. Azerbaijan has also invested more than \$500 million in the construction of a railway, which will connect Baku to Kars, Turkey, and thus create a shorter railway connection between Beijing and Europe. All of these recent developments turn Azerbaijan and Turkey into strategic and, most importantly, equal partners in a new era of economic development in the Caspian region. Symbolically, Azerbaijani President Aliyev also personally brought a large amount of humanitarian assistance to the victims of the October 2011 earthquake in the Turkish city of Van, showing both the growing capacity of his country and the appreciation for Turkey's past humanitarian assistance to Azerbaijani IDPs and refugees.

International analysts are now focusing their attention to the pipeline competition in the region, asking a million dollar question: "Which pipeline will Azerbaijan choose to export its gas?" Bidders from four competing projects submitted their proposals on October 1 to the gas producers' consortium in Azerbaijan. Azerbaijan and its consortium partners will shortly make a decision. The EU has meanwhile given legal permission and instruction to the European Commission to launch trilateral talks with Azerbaijan and Turkmenistan for the construction of a TransCaspian pipeline and the resulting export of Turkmen gas, along with Azerbaijani gas, to the European markets. If this happens, the fate of Nabucco will no longer be in doubt and the European customers will receive Caspian gas in their homes. Turkmenistan, as the fifth largest holder of gas reserves in the world, will open its export to the Western routes, along with its current supply of gas to China, Iran, and Russia. Azerbaijan meanwhile will become both a

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supplier of gas and a transit country. Some call it an alternative to the Russian gas, but in reality, it will be a complementary supply, as the EU will continue to need Russian gas in the future as well.

The great game is still ahead of us, but Turkish-Azerbaijani gas agreements have only accelerated it.