

THE NEW GEOPOLITICAL GAME IN THE CASPIAN REGION: AZERBAIJAN-TURKEY ENERGY RELATIONS

The Caspian Basin has been one of the most important geopolitical scenes since the dissolution of the Soviet Union. The historical development of the basin in the last decade and a half provides us with some important clues about the dynamics of the new energy geopolitics. This article aims to examine geopolitical events that have occurred in connection with the hydrocarbon riches of the basin from a historical perspective. The focus of the article is mainly on the energy upstream and midstream projects developed between Turkey and the Caspian states, especially Azerbaijan. These significant events are investigated as part of nine “game” concepts. After examining these games thoroughly, the winners are listed according to their degrees with a discussion of results and possible conclusions.

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Immediately after the emergence of five littoral states as a result of the breakup of the Soviet Union in 1991, the Caspian Sea became a very high priority for some states and the petroleum industry because it contained one of the largest yet untapped oil and gas reserves in the world. There have always been two major challenges to overcome in order to fully exploit these reserves: (1) accurate assessment of the basin's resources, and (2) the geopolitical struggle between major regional and international powers.¹

Game-1 (1993): Nagorno-Karabakh War

The break-up of the Soviet Union, which created four new littoral states in the Caspian basin, namely the Russian Federation, Azerbaijan, Kazakhstan, and Turkmenistan, marked the beginning of a new period of regional and global geopolitical struggle, especially in the energy sphere. These new states changed the balance of power in the region, which was previously dominated by the Soviet Union and Iran. On the other hand, this new geopolitical setting in the basin created new opportunities for the Western states and international oil companies, which were in search of alternative hydrocarbon resources and transportation routes. However, the production and export of Caspian hydrocarbons remained vulnerable to the volatility in the region during the first years of the post-Soviet period.

Azerbaijan declared its independence from the Soviet Union on 30 August 1991, followed by the declaration of independence by Turkmenistan on 27 October and Kazakhstan on 16 December. Even though Azerbaijan gained independence one month before the dissolution of the Soviet Union, its communist leadership remained in place until presidential elections were held on 7 June 1992. In May 1990, Ayaz Mutallibov was appointed as the first president by the Supreme Council of the Azerbaijan Soviet Socialist Republic (ASSR) to ensure the continuation of Soviet influence over Azerbaijan. Muttalibov was a high-ranking official and also served as the minister, deputy prime minister, and finally prime minister of ASSR. He was the only candidate in the presidential elections held on 8 September 1991, and he won with 98.5 percent of the vote. In March 1992, however, he was forced to resign by the Azerbaijani Popular Front (*Azərbaycan Xalq Cəbhəsi Partiyası*), founded by Abulfaz Elchibey, after the Khojaly Massacre took place in February, killing more than 1,000 Azeris.

On 7 June 1992, the second Azerbaijani presidential elections took place and Elchibey was elected as the first non-communist president of the country with 54 percent of the vote, symbolizing a break from the communist past. As a former Soviet dissident

¹ Gawdat Bahgat, "Pipeline Diplomacy: The Geopolitics of the Caspian Region," *International Studies Perspectives*, Vol. 3 (2002), p. 310-327.

and Turkish nationalist, Elchibey shared the post-Soviet euphoric discourse of Turkish President Turgut Özal, who envisaged a Turkish sphere of influence “from the Adriatic to the Great Wall of China.” During the Elchibey period, Azerbaijan placed little importance on hard power calculations and its fraternal relationship with Turkey led Elchibey to consider Turkey as a natural ally, thus estranging Russia and Iran.

Similar to his rise to power, Elchibey’s fall from power was also closely connected to the heavy losses of Azerbaijan in the Nagorno-Karabakh conflict. Although it started in 1988, the conflict turned into a full-scale war in the early 1990s. In the spring of 1993, Armenian forces captured areas outside their territories.² On 4 June 1993, Elchibey attempted to suppress the revolt started by Surat Huseynov, who was a commander fired from his post earlier that year for plotting against Elchibey. As the military commanders were unwilling to continue their attack against Huseynov, Elchibey had to flee from Baku on June 18th, and Heydar Aliyev took over as the acting president. 1993 was also very complicated in Turkey. Fatih Altaylı, a prominent journalist, describes this year as “one of the darkest years in the Turkish Republic” with many assassinations and unidentified murders, including well-known journalists, intellectuals, and high ranking government and military officials.³

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In the first years of independence, Azerbaijan was unable to formulate a coherent energy policy towards the West primarily due to its lack of strategic and operational experience.⁴ There were nevertheless attempts to accelerate the development of its oil and gas fields during the Elchibey period. On 13 September 1992, the companies controlling onshore and offshore operations were combined under the umbrella of the newly-established State Oil Company of Azerbaijan (SOCAR). SOCAR signed the first exploration agreements with the British Petroleum (BP)-Statoil alliance for the Shah Deniz gas field and with Penzoil for the Guneshli oil field in October 1992. In addition to these agreements, the first document for the Baku-Yumurtalık crude oil pipeline was signed with the Turkish Government in Ankara on 9 March 1993.

² Although a ceasefire was signed in 1994, it is still regarded as a frozen conflict and the parties have not yet reached a solution over the status of Nagorno-Karabakh. Nagorno-Karabakh is only recognized today as an independent entity by Abkhazia, South Ossetia and Transnistria, all non-UN states, while the rest of the international community recognize the region as part of Azerbaijan.

³ Fatih Altaylı, “1993 Komisyonu ve 33’ün Sırrı,” *Habertürk*, 5 December 2012, <http://www.haberturk.com/yazarlar/fatih-altayli/800361-1993-komisyonu-ve-33un-sirri>

⁴ Mehdiyeva (2011), p. 206-207.

Elchibey's ousting in a coup d'état in June 1993 can be considered the end of the full rapprochement of Anatolian and Azeri Turks on energy issues. The developments in 1993 also stopped a major oil contract, which was scheduled to be signed with a Western consortium in London on June 30th.⁵ Since the end of this first period, the energy game in the region has essentially been played by Russia and the West, primarily the US, based on rules similar to those of the Cold War-era.

Game-2 (1994): Mega Project

Starting in 1994, Azerbaijan became the center of the booming Caspian oil industry due to the pragmatic leadership of Aliyev. As the former chairman of Azerbaijani KGB (*Komitet Gosudarstvennoy Bezopasnosti*- Committee for State Security) and the First Secretary of the Central Committee of the Azerbaijan Communist Party, he was more experienced than his predecessor and brought Azerbaijan to the attention of the international community and oil companies during his term. On 20 September 1994, a consortium of international oil companies signed a production sharing agreement (PSA) with SOCAR in the Gulistan Palace of Baku to develop the Azeri, Chirag, and Guneshli oil fields (Mega Project) in the Azerbaijani sector of the Caspian. The so-called "Contract of the Century" was signed for a 30-year period with the consortium, which was composed of 11 different companies from seven countries. More than 60 percent of the shares belonged to companies from the UK (34.14 percent) and the US (26.6 percent).

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Only 15 days after the contract was signed, Russia sent a letter to the United Nations Secretary General on the position of Russia regarding the legal regime of the Caspian Sea. Emphasizing the fact that the legal regime of the Caspian Sea was still determined by the Soviet-Iranian agreements of 1921 and 1940, and that a new agreement should be concluded, Sergey Lavrov, Russia's Permanent

Representative to the United Nations, said, "some Caspian Sea states are contemplating unilateral action and . . . are seeking to obtain unilateral advantages" and that these actions are "unlawful and will not be recognized by the Russian Federation."⁶ Azerbaijan reacted by adopting Article 11 of the new constitution, which states that the Azerbaijani sector of the Caspian is an integral part of the territory of the country.

⁵ Süha Bölükbaşı, *Azerbaijan: A Political History* (London, New York: I.B. Tauris, 2014), p. 202-205.

⁶ Sergey Lavrov, "Letter dated 5 October 1994 from the Permanent Representative of the Russian Federation to the United Nations addressed to the Secretary-General," *United Nations General Assembly*, 5 October 1994, http://repositorio.un.org/bitstream/handle/11176/173912/A_49_475-EN.pdf

Despite Russian opposition, the PSA was ratified and the Azerbaijan International Operating Company (AIOC) was established in February 1995.

The most important factor behind this success was the policies of the US and partly the EU, which perceived the economic independence of Azerbaijan, and that of the other new states in Central Asia and Caucasus, to be of the utmost importance to the strategic interests of the West. Russia's longstanding influence over these states would only be removed by maintaining their economic development independent from Russia.⁷

“Especially after 1994, Turkey became a strategic rather than a natural partner for Azerbaijan, and the latter opted not to completely alienate Russia.”

However, it should be noted that two other external factors also affected the politics of oil and accordingly the rise of especially Azerbaijan and Turkmenistan in the 1990s. First, two key oil states in the Persian Gulf sub-region, Iran and Iraq, had found themselves in conflict with the US, the world's biggest importer and consumer of oil at the time. This strategic change in the region encouraged the US to search for non-OPEC alternatives to Persian Gulf oil. The second factor was that low oil prices in the 1990s not only caused a serious fiscal crisis in the rentier economies of the Gulf region, but also had a negative effect on their ability to invest in the modernization and development of their oil industries. Low oil prices also affected the initial enthusiasm for the development of the Caspian's untapped reserves.⁸

In summary, this period was characterized by the success of Western powers in the sense that it marked the end of total domination by the Soviet Union and later Russia over the hydrocarbon resources of the Caspian region. Azerbaijan emerged as the most important actor to gain from the process, as it was the primary country attracting international companies in the search for a solution to the diversification of resources in the Western market.

Game-3 (1995): Early Export Oil Pipeline

As pointed out earlier, Aliyev's pragmatic leadership helped him direct the country's foreign policy towards establishing a balanced set of alignments with major internal and external powers. Especially after 1994, Turkey became a strategic rather than a natural partner for Azerbaijan, and the latter opted not to completely alienate Russia.

⁷ Svante E. Cornell, S. Frederick Starr and Mamuka Tsetereli, “A Western Strategy for the South Caucasus,” *Silk Road Paper*, February 2015, p. 15, <http://www.silkroadstudies.org/resources/pdf/publications/1502Strategy.pdf>

⁸ Anoushiravan Ehteshami, “Geopolitics of Hydrocarbons in Central and Western Asia,” in Shirin Akiner (ed.), *The Caspian: Politics, Energy and Security* (London and New York: Routledge Curzon, 2004), p. 64-65.

While the foreign policy of Turkey and Azerbaijan converged on the development of a western oil export route, the Aliyev government was more cautious about Turkey's involvement in the resolution of the Nagorno-Karabakh War.

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The Turkish route was not considered to be the sole option since the contract for the Mega Project was flexible about the route of Azerbaijani oil. The AIOC then decided to test the “main export route” (BTC-Baku-Tbilisi-Ceyhan) with one or two “early export routes” connecting to the Black Sea ports. This decision paved the way for rigorous discussions in both Azerbaijan and Turkey. Russia was naturally supporting the “northern route” via Novorossiysk, Russia. Even though Azerbaijan favored the “western

route” via Supsa, Georgia, the “northern route” was also viewed as the facilitator for the stabilization of political relations between Azerbaijan and Russia. The common opinion that emerged from the internal discussions in the AIOC was also in favor of the “northern route.” The main idea behind the opposition of some companies, such as the operator BP, to the “western route” was that upgrading the already existing pipeline infrastructure between Russia and Azerbaijan and reversing it to deliver oil to the international market would be more feasible than establishing a completely new pipeline.⁹ In Turkey, on the other hand, general public opinion was that if the early pipeline became successful, the AIOC might decide to continue with it and cancel the BTC. According to the Turkish government, which was very disappointed by BP's approach, Baku-Supsa would be built if an early pipeline was really needed.

On 9 October 1995, the AIOC decided to develop two export pipelines simultaneously. The contract for the Baku-Novorossiysk Pipeline was signed on 18 February 1996 between the AIOC, SOCAR, and Transneft, and the first oil started to flow through the pipeline on 25 October 1997. Less than a month after this contract, a trilateral contract was signed between the AIOC, SOCAR and the Georgian government for the Baku-Supsa Pipeline, and its inauguration ceremony was held on 17 April 1999.

This period, which was marked by the pragmatic leadership of Aliyev, had fruitful outcomes for both the states and international oil companies that were involved. After the “double early oil pipeline” decision of the AIOC, Azerbaijan and the AIOC

⁹ Mehdiyeva (2011), p. 178.

had a chance to test the export of main oil from Baku, Russia had the opportunity to pursue its energy interests in the region, and Turkey was satisfied with the commencement of the Baku-Tbilisi segment of its project, the BTC. Turkey also started to become a more powerful actor in regional energy geopolitics due to its strategic position.

Game-4 (1996): Shah Deniz & Caspian Status

Russia, which was successful in commencing its pipeline a year and a half before the Baku-Supsa Pipeline, raised the issue of the status of the Caspian Sea to prevent a possible connection of Turkmen gas with Azeri gas, since the gas matter was much more important for Russia than the issue of oil.

During the Cold War-era, the legal status of the Caspian was not a controversial issue, considering there were only two littoral states in the region, namely the Soviet Union and Iran. After 1991, Russia and Iran insisted on the idea that the Caspian regime had to continue being regulated according to the agreements signed by the Soviet Union and Iran: the 1922 Treaty of Friendship and the 1940 Trade and Navigation Agreement. On 21 December 1991, Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine agreed on the Alma Ata Protocol on creation of the equal in rights basis for the Commonwealth of Independent States (CIS). Through this protocol, these post-Soviet states agreed “to undertake their international commitments according to the treaties and agreements signed by the “USSR.”¹⁰ The Caspian was defined as an inland lake in both the Treaty of Friendship of 1922 and the Soviet-Iranian Trade and Navigation Agreement of 1940.

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The importance of determining the legal status of the Caspian lies in the fact that if it is defined as an inland sea, its waters and resources are open to all of the littoral states and are regulated by the United Nations Convention on the Seas (UNCLOS), which means that it would be governed by international law, making the Caspian open to all international companies. If it is defined as a lake, as was the case in the

¹⁰ Hanna Zimnitskaya and James von Geldern, “Is the Caspian Sea a Sea; and Why Does It Matter?,” *Journal of Eurasian Studies*, Vol. 2 (2011), p. 7.

Soviet-Iranian agreements of 1922 and 1940, the waters and resources are divided equally by the littoral states and are not bound by the international law of sea.¹¹ Especially considering the increasing importance of Caspian hydrocarbons after the collapse of the Soviet Union, Russia and Iran attempted to preserve the lake regime they had established during the Cold War.

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On 4 June 1996, the PSA to develop the Shah Deniz gas field located in the Azerbaijani sector of the Caspian was signed between SOCAR, BP, Statoil, and Turkish Petroleum (TPAO), and later was ratified by the Azerbaijani parliament in October.¹² After the Shah Deniz consortium agreement and the other agreements signed by Kazakhstan with international oil and gas companies, Russia faced the “bitter reality” and started to slightly alter its stance on the status of the Caspian Sea.¹³ For instance,

at the Ashgabat meeting, which was attended by the littoral states on 11-12 November 1996, Russian Foreign Minister Yevgeni Primakov expressed Russia’s willingness to agree on the 45 nautical miles of jurisdictional area in the Caspian Sea and recognize the right of the littoral states regarding production of hydrocarbon resources.¹⁴ This indicated Russia had slightly changed its original position and was ready to adopt an “attitude of limited division.”¹⁵ At the end of the meeting, there was no consensus on the legal status of the Caspian. However, the foreign ministers of Russia, Turkmenistan, and Iran signed a memorandum and expressed their interest in cooperating on the production of the mineral resources of the Caspian.

The Ashgabat Meeting did not stop reciprocal accusations.¹⁶ In 1997, Turkmen President Saparmurat Niyazov accused Azerbaijan of illegally exploiting the oil reserves of the Azeri and Chirag fields, and claimed that the Azeri field belonged to Turkmenistan in an interview with *The Financial Times*. The following

¹¹ Zimnitskaya and von Geldern (2011), p. 2.

¹² The initial percentages were as follows: BP (25.5%); Statoil (25.5%); SOCAR (10%); Elf (10%); Lukoil (10%); OIEC (10%); TPAO (10%). There have been changes in shares between the years of 2004-2014: BP (28.8%), TPAO (19%), SOCAR (16.7%), Petronas (15.5%), Lukoil (10%) and NIOC (10%).

¹³ Fariz İsmailzade, *Russia’s Energy Interests in Azerbaijan: A comparative study of the 1990s and the 2000s* (London: GMB Publishing, 2006), p. 6.

¹⁴ Nasib Nassibli, “Azerbaijan: Oil and Politics in the Country’s Future,” in Michael P. Croissant and Bülent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region* (Connecticut: Praeger, 1999), p. 113.

¹⁵ Yand Shu, “The Legal Status of the Caspian Sea,” *Executive Intelligence Review*, Vol. 25, No. 19 (1998), p. 51.

¹⁶ Andrew Harris, “The Azerbaijan-Turkmenistan Dispute in the Caspian Sea,” *IBRU Boundary and Security Bulletin*, (Winter, 1997-1998), p. 56-60.

day, Azerbaijan's Foreign Minister Hasanov responded by claiming that according to the midline method used by the Soviet Union after 1970, these fields belonged to Azerbaijan. On February 16th, Russia stated that it did not support the claims of Turkmenistan and that it favored the adoption of a convention on the Caspian's legal status. On July 4th, Aliyev announced that Lukoil of Russia and SOCAR of Azerbaijan had signed an agreement for the exploration of the Kyapaz field, which was strongly criticized by Turkmenistan. Turkmenistan went so far as to notify Azerbaijan that it might take it to international arbitration for its Azeri and Chirag deals. After the Turkmen reaction, Russia backed down and Rosneft and Lukoil announced their withdrawal from the Kyapaz field on July 31st and August 2nd respectively.

The issue of defining the legal status of the Caspian Sea was partially settled in 1998. On July 6th, Russian President Boris Yeltsin and Kazakh President Nazarbayev signed an accord to divide the natural resources in the northern sector of the Caspian. This accord ended the long-lasting dispute between Kazakhstan and Russia on their offshore drilling rights in spite of Iran's opposition. This has been a landmark accord in the sense that as pointed out earlier, Russia had defined the Caspian as an inland lake with all five littoral states having equal exploration rights.¹⁷

“The idea of building a natural gas pipeline stretching from the Caspian region to Europe has always resulted in very intense geopolitical struggles between Russia and the West.”

Game-5 (1996): Iran-Turkey Gas Agreement

While the controversies over the legal status of the Caspian continued, there was yet another important development that involved Turkey. On 8 August 1996, Turkey and Iran agreed on a 23 billion dollar natural gas sales and purchase contract for the export of Iranian gas to Turkey for the next 25 years through a pipeline. The agreement was concluded by Prime Minister Necmettin Erbakan of the Islamist Welfare Party. Unlike previous Turkish presidents, Erbakan did not criticize the Islamic regime in Tehran and as a result was well regarded by Iranian officials.

This Turkish-Iranian rapprochement, however, was harshly criticized by the US on the grounds that President Bill Clinton had signed the Iran and Libya Sanctions Act (ILSA), through which the US imposed sanctions on non-US companies with

¹⁷ Ron Synovitz, “Russia/Kazakhstan: Yeltsin, Nazarbayev Ink Accord On Caspian Oil Rights,” *Radio Free Europe/Radio Liberty*, 9 July 1998, <http://www.rferl.org/content/article/1089033.html>

an annual investment of more than 20 million US dollars in Iran, to prevent Iran's support for terrorist organizations and its nuclear program. Senator Alfonse M. D'Amato warned the Clinton administration on the natural gas deal signed between Turkey and Iran. He characterized the deal as a provocative act and a direct challenge to the efforts of the US to economically isolate Iran, urging Clinton "to seek a dialogue with Turkey on alternative sources for Turkey's energy needs and prevent this deal from going forward, or place sanctions on Turkey."¹⁸ The Trans-Caspian Pipeline was indeed proposed by the US as a subsea pipeline to transport Turkmen gas to the other coast of the Caspian, which could potentially be an alternative to Iranian gas for Turkey and later for Europe once the East-West pipeline infrastructure is established.

"The Nabucco project was perceived as the most important step on the path to making the Southern Gas Corridor a reality."

Claiming that the Iran-Turkey gas agreement is not a breach of ILSA, Minister Abdullah Gül said the agreement is only a trade agreement to purchase gas and not to make an investment in Iran, and that each country would be responsible for building their own infrastructure necessary for the import of gas. Nevertheless, Iranian President Hashemi Rafsanjani perceived the agreement as a major triumph over American sanctions, and Erbakan said in an interview, "Turkey will not permit any third country to interfere in the growing trend of cooperation between Turkey and Iran."¹⁹

On the other hand, relations between the US and Russia continued to improve. The statements made by Clinton and Yeltsin at a news conference on 21 March 1997 after their meeting in Helsinki, Finland showed the mutual understanding between the US and Russia. Yeltsin stated that they "want to overcome that which divided us for decades," while Clinton said that they "have proved once again that we can work together to resolve our differences."²⁰ In the meantime, Lukoil signed a PSA with SOCAR for the exploration and development of the D-222 prospect of Azerbaijan in the presence of Yeltsin and Aliyev on 3 June 1997.

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¹⁸ Hossein Alikhani, *Sanctioning Iran: Anatomy of a Failed Policy* (London: I.B. Tauris, 2000), p. 326.

¹⁹ Steven Erlanger, "Turkey-Iran Gas Deal: A Test of U.S. Law on Terror?," *The New York Times*, 13 August 1996, <http://www.nytimes.com/1996/08/13/world/turkey-iran-gas-deal-a-test-of-us-law-on-terror.html>

²⁰ "Clinton and Yeltsin, and How They Faced 'Three Fundamental Challenges'," *The New York Times*, 22 March 1997, <http://www.nytimes.com/1997/03/22/world/clinton-and-yeltsin-and-how-they-faced-three-fundamental-challenges.html?pagewanted=all>

In July, the Turkish-Iranian rapprochement was surprisingly approved by the US and the Clinton administration backpedaled on its previous stance on the gas deal. After Turkey gave assurances that the deal was for the transport of Turkmen gas, Assistant Secretary of State Alan Larson stated that the pipeline in question would not constitute a breach of ILSA since it involved the transfer of Turkmen (and not Iranian) natural gas to Turkey.²¹ On 28 December 1997, a memorandum of understanding (MOU) was signed between Iran, Turkey, and Turkmenistan to include Turkmen gas in the pipeline. The controversial pipeline from Iran to Turkey was finally commissioned on 26 July 2001.

Although the problems that originate from the Iran-Turkey natural gas pipeline will never be resolved in the following years, the construction of the pipeline was an important success for Iran in the face of the sanctions imposed by the US on the country. For Turkey, even though it caused short-term tension in its relations with the US, the pipeline was crucial for meeting the growing demand for natural gas as well as for diversifying its sources. More importantly, the pipeline did not affect the hydrocarbon development of the Caspian Basin at all.

“Considering the lack of a link connecting Greece and Italy in the European pipeline network, TAP is planned to function as a bridge between Eastern and Southern Europe.”

Game-6 (1997): Oil and Gas Pipelines

The East-West Energy Corridor, generally referred to as the energy version of the Silk Road in the 21st Century, was first introduced to the Turkish Ministry of Foreign Affairs by US officials in December 1997 after the settlement of the Iran-Turkey pipeline problem. Efforts to open such a corridor were mainly aimed at linking the hydrocarbon riches of the Caucasus and Central Asia to Europe, which is essentially diversifying the EU’s energy sources. The corridor was intended to export the oil and gas of Azerbaijan, Turkmenistan, and Kazakhstan to Turkey and then to the European markets. Turkey made the project a top priority and started to develop and implement coordinated efforts following the decision of the Turkish National Security Council (*MGK-Milli Güvenlik Kurulu*) on 22 January 1998. The first step was to appoint Özer Altan as the energy advisor to the Prime Minister in July 1997,

²¹ “US backpedals on Turkmen-Iran-Turkish gas deal,” *Hürriyet Daily News*, 18 October 1997, <http://www.hurriyet-dailynews.com/us-backpedals-on-turkmen-iran-turkish-gas-deal.aspx?pageID=438&n=us-backpedals-on-turkmen-iran-turkish-gas-deal-1997-10-18>

and Volkan Ş. Ediger as the first energy advisor to the President of Turkey in March 1998.

On 1-2 March 1998, the Foreign Ministers of Turkey, Georgia, Azerbaijan, Kazakhstan, and Turkmenistan gathered to discuss the production and transportation issues of the hydrocarbon resources of the Caspian basin. In their joint communique, they declared their support for the development of the East-West Energy Corridor.²² Apart from agreeing to conduct a feasibility study on the Baku-Tbilisi-Ceyhan oil pipeline project, the foreign ministers also expressed their views on the possibility for the transportation of Kazakh and Turkmen gas to international markets.

As the development of the East-West Energy Corridor continued, Gazprom and ENI signed a MOU in February 1999 to build a pipeline known as the Blue Stream to transport Russian gas to Turkey. This MOU was based on the agreement signed between Turkey and Russia in 1997 to construct a subsea pipeline between the two countries. According to Gazprom, the main aim of this pipeline was to avoid third countries for the transportation of Russian gas to Turkey as the existing gas route went through Ukraine, Moldova, Romania, and Bulgaria. In that respect, the Blue Stream would avoid transit costs as well as any illegal siphoning of gas by the abovementioned transit states. On 16 November 1999, Gazprom and ENI founded the Blue Stream Pipeline Co. B.V., which started the construction of the pipeline in 2001 and put it into operation in 2003.

The Blue Stream project was a partial rival to the East-West Energy Corridor, which also included the Trans-Caspian Pipeline to bring Turkmen gas to international markets in addition to the BTC. There are some who believe the Blue Stream also caused Turkey to alienate Turkmenistan and leave it without any choice but to agree with Russia.²³ As a matter of fact, Turkmen gas has never crossed the Caspian Sea as a result of Russia's successful strategies. The loser in this period was the West since it sacrificed the natural gas component of the East-West Energy Corridor for the sake of the BTC. Turkey, on the other hand, benefited from both an oil and a gas pipeline.

Game-7 (1998): Main Export Oil Pipeline

The Baku-Tbilisi-Ceyhan oil pipeline, an essential element of the East-West Energy Corridor, was proposed by the Turkish Prime Minister Süleyman Demirel, and the first document between Azerbaijan and Turkey was signed on 9 March 1993.

²² "Joint Communique on the oil and Gas Resources of the Caspian Sea Basin," *Republic of Turkey Ministry of Foreign Affairs*, 2 March 1998, http://www.mfa.gov.tr/joint-communique-on-the-oil-and-gas-resources-of-the-caspian-sea-basin_br_march-2_1998.en.mfa

²³ Volkan Özdemir, "The Blue Stream Natural Gas Pipeline: Implications on Energy Security and Foreign Policy," *OAKA*, Vol. 2, No. 3 (2007), p. 142.

However, the project gained impetus especially after the adoption of the Ankara Declaration on 29 October 1998.

Through the Ankara Declaration, the presidents of Turkey, Georgia, Azerbaijan, Kazakhstan, and Uzbekistan declared their support for routing the main export oil pipeline to bring Caspian oil from Baku to the Turkish port of Ceyhan. This historic event was also witnessed by Bill Richardson, the US Secretary of Energy since the US was the leading supporter of the project. Following the Ankara Declaration, an intergovernmental agreement was signed between Azerbaijan, Georgia, and Turkey on 18 November 1999 during a meeting of the Organization for Security and Cooperation in Europe (OSCE) in Istanbul. The agreement was ratified by the Parliament of Azerbaijan on May 26th, the Georgian Parliament on May 29th, and the Turkish Parliament on 22 June 2000. The construction of the pipeline started in April 2003 and it was opened in May 2005.

Despite the economic advantages of the pipeline for the countries involved, the project has been heavily political from the very beginning, and experts have often argued whether it is a political or an economical pipeline. It was political since the US, which was the main supporter of the project, designed it as a way to break the stronghold of both Russia and Iran in the Caspian region.²⁴ Secondly, even though the most natural way to build the pipeline would require transiting through Armenia, this option was discarded because of Azeri reservations, causing the pipeline to be longer and accordingly more expensive.²⁵

On the other hand, it was economical since it not only connected the landlocked Caspian to international markets, but also worked as a catalyst for the economic development of the newly formed countries such as Azerbaijan and Georgia.²⁶ It also helped the development of other oil and gas projects, the first of which was the South Caucasus gas pipeline connecting Baku to Erzurum. For Georgia, the pipeline decreased the dependence of the country on Russia and for Azerbaijan, in addition to allowing the country to export its oil to international markets, it also brought the country politically closer to the Western world.²⁷ For Turkey, the pipeline allowed the country

²⁴ Richard Morningstar, "From Pipe Dream to Pipeline: The Realization of the Baku-Tbilisi-Ceyhan Pipeline," 8 May 2003, http://belfercenter.ksg.harvard.edu/publication/12795/from_pipe_dream_to_pipeline.html

²⁵ Svante E. Cornell and Fariz Ismailzade, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Azerbaijan," in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Uppsala: Central Asia-Caucasus Institute and Silk Road Studies Program, 2005), p. 80-81.

²⁶ Jonathan Elkind, "Economic Implications of the Baku-Tbilisi-Ceyhan Pipeline," in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Uppsala: Central Asia-Caucasus Institute and Silk Road Studies Program, 2005), p. 39.

²⁷ Elkhan Nuriyev, "The EU Policy in the South Caucasus: The Case of Post-Soviet Azerbaijan," German Institute for International and Security Affairs Working Paper (May 2007), p. 15, http://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/SWP_RP_Nuriyev_ks.pdf

to assume a significant role in the transportation of hydrocarbons from the Caspian region to European markets. The country has also been able to purchase oil at a lower price, which is crucial considering its dependence on oil exports.²⁸ Furthermore, the construction of the BTC pipeline has helped Turkey's efforts to diminish the risks associated with the passage of oil tankers through the congested Turkish Straits.²⁹

Game-8 (2002): Main Export Gas Pipeline-I

The idea of building a natural gas pipeline stretching from the Caspian region to Europe has always resulted in very intense geopolitical struggles between Russia and the West. The competition between the Nabucco and South Stream pipelines constitutes a very good example of such struggles.

The Nabucco pipeline, which was started by Austrian OMV Edsgas, Hungarian MOL, Bulgarian Bulgargaz, Romanian Transgaz, and Turkish BOTAS in 2002, aimed to create the fourth artery of gas sources to Europe and to Norway, Russia, and Algeria to increase diversity and to decrease dependence on Russia by bringing gas to Europe from land-locked Caspian states. In June 2004, Nabucco International Company (NIC) was established, and on 13 July 2009 in Turkey, Bulgaria, Romania, Hungary, and Austria signed an intergovernmental agreement to construct the pipeline. The pipeline was designed to carry 31 billion cubic meters (bcm) of Azeri gas to Europe.

The Nabucco pipeline was viewed as crucial for EU natural gas supply security, especially after the gas crises between Russia and Ukraine, which started in 2006. Establishing a connection between the Caspian and European markets was only possible with the establishment of the so-called Southern Gas Corridor (SGC). The opening of this corridor was proposed by the European Commission in its communication entitled "Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan,"³⁰ and the corridor was regarded as one of the EU's highest energy security priorities.³¹ According to the Communication, the Member States would work with partners such as Azerbaijan, Turkmenistan, Iraq, and Mashreq countries as well as seeking supplies in the long term, from countries such as Uzbekistan and Iran, and, concluding agreements with potential transit countries, particularly Turkey, on the terms of transit for the gas pipelines.³² The Nabucco project was perceived as the most important step on the path to making the SGC a reality.

²⁸ Zeyno Baran, "The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey," in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Uppsala: Central Asia-Caucasus Institute and Silk Road Studies Program, 2005), p. 109.

²⁹ Baran (2005), p. 106.

³⁰ European Commission, "Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan," 13 November 2008, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008DC0781&from=EN>

³¹ European Commission (2008), p. 4.

³² European Commission (2008), p. 4-5.

In the meantime, Russia continued its efforts to strengthen its position regarding the transport of natural gas in the Eurasian region. In February 2006, the Blue Stream II — the first project to compete with the Nabucco project — was proposed by Gazprom to extend the existing Blue Stream pipeline to Hungary, via Bulgaria and Romania or Serbia. In May 2007, Putin signed a MOU with Nazarbayev of Kazakhstan and Berdimuhamedov of Turkmenistan to renovate and expand the western branch of the Central Asia-Center gas pipeline network. However, a more important move by Russia was taken on 23 June 2007, when ENI and Gazprom signed a MOU in Rome for the construction of the so-called South Stream pipeline. This pipeline aimed to transport Russian gas to Bulgaria via the Black Sea, and then connect to an on-shore pipeline, with a capacity of 60 bcm. The plan was to bring Russian gas to the European market, bypassing the current transit states. On 7 August 2009, an inter-governmental agreement was signed between Turkey, Russia, and Italy in Ankara.

The signing of the South Stream agreement less than a month after the signing of the Nabucco agreement caused a strong reaction around the whole world. The South Stream agreement was apparently not properly planned in advance and was rushed due to Russian pressure on Turkey. In response to the claims that Turkey was shifting axis, Ahmet Davutoğlu, the former Minister of Foreign Affairs, said that the South Stream and Nabucco were not rivals and that Turkey signed the agreement not for ideological reasons, but as a result of rational calculations.³³

Although the construction of the South Stream pipeline started in December 2012, it was not realized due to the obstacles it faced, the major one being the EU's Third Energy Package regulations because of the rules of network ownership unbundling and third party access (TPA). In December 2013, the European Commission ruled that the intergovernmental agreements signed between Russia and the member states were a breach of EU law and said they must be renegotiated. Due to the rules imposed by the Third Energy Package, Gazprom could not be the owner at both the production and transmission levels and non-discriminatory access of third parties to South Stream had to be ensured, ruling out the possibility of Gazprom being the only shipper.³⁴ The discussions over South Stream were further intensified after the disputes between Ukraine and Russia in 2014 and the project was eventually cancelled by Vladimir Putin in December 2014.

The fate of the Nabucco pipeline project was similar. It was later modified and renamed Nabucco-West due to high costs and lack of sufficient supply. While the

³³ "Güney Akım imzası zarar mı, yarar mı," *Hürriyet*, 10 August 2009, <http://www.hurriyet.com.tr/guney-akim-imzasi-zarar-mi-yarar-mi-12244967>

³⁴ "South Stream bilateral deals breach EU law, Commission says," *Euractiv*, 4 December 2013, <http://www.euractiv.com/energy/commission-south-stream-agreemen-news-532120>

original pipeline was to run from Erzurum in Turkey to Austria, Nabucco-West would start at the Turkish-Bulgarian border and transport natural gas to Austria. Pipeline volume was also reduced to 16 bcm per year. In September 2011, BP proposed the South East Europe Pipeline (SEEP) to transport Shah Deniz-II gas by extending the existing South Caucasus Pipeline to Austria. This project was proposed as an alternative to Nabucco because its capacity of 10 bcm was more realistic than the initial capacity of the Nabucco pipeline. The Nabucco project was officially cancelled in June 2013 after the Shah Deniz Consortium decided to build the Trans Adriatic Pipeline (TAP) as the European connection of the newly proposed Trans-Anatolian Pipeline (TANAP).

The discussions over the Nabucco versus. South Stream pipeline projects have shown that in the face of efforts by the EU to establish the SGC to diversify its natural gas sources, Russia is reluctant to give up its dominance over gas transportation routes as well as its position as the major natural gas supplier to Europe. The main concern of Russia, on the other hand, has been to diversify away from the Western CIS transit states especially due to the gas transit disputes of 2006 and 2009.³⁵ Even though neither of the projects were realized, Turkey remained an important actor in the transport of natural gas in the Eurasian region and continued to pursue its efforts to become an energy hub by playing both sides.³⁶

Game-9 (2011): Main Export Gas Pipeline-II

Competition on the main natural gas export pipeline has continued with TANAP and Turkish Stream pipeline projects. TANAP first competed with relics of Nabucco and then with the South and Turkish Stream.

TANAP was announced during the Black Sea Energy and Economic Forum in Istanbul on 17 November 2011. On 26 December 2011, Azerbaijan and Turkey signed a MOU for the establishment of a consortium consisting of TPAO and SOCAR to construct TANAP, followed by the signing of the intergovernmental agreement on 26 June 2012. In the same month, the Shah Deniz Consortium announced that either the Nabucco-West or TAP would be chosen to transport the natural gas from the Shah Deniz-II field to European markets. Having evaluated the offers made by Nabucco-West and TAP, the Shah Deniz Consortium decided TAP was more economically and technically feasible and chose to supply 10 bcm of Azerbaijani gas available for European markets to TAP in June. As a result, the

³⁵ Simon Pirani and Katya Yafimava, "Russian Gas Transit Across Ukraine Post-2019: Pipeline Scenarios, Gas Flow Consequences, and Regulatory Constraints," *Oxford Institute for Energy Studies*, February 2016, p. 11-12, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/02/Russian-Gas-Transit-Across-Ukraine-Post-2019-NG-105.pdf>

³⁶ Camilla Wuensch, "Turkish Stream: Ankara Trying to Balance East and West," *Center for Strategic & International Studies*, 10 July 2015, <https://www.csis.org/analysis/turkish-stream-ankara-trying-balance-east-and-west>

Nabucco-West project, which had been supported by the EU and US, was officially cancelled, while TAP and TANAP became the main export gas pipeline projects to finally realize the SGC. The Nabucco dream was finally killed by TANAP.

TAP is a gas project as old as Nabucco. It was first announced in 2003 by Swiss EGL Group and its feasibility study was concluded in March 2006. The pipeline would connect with TANAP at the Turkish-Greek border and transport gas from Shah Deniz-II to Southern Italy by crossing Northern Greece, Albania, and the Adriatic Sea. Considering the lack of a link connecting Greece and Italy in the European pipeline network, TAP is planned to function as a bridge between Eastern and Southern Europe.

In the meantime, as mentioned before, Russia continued having problems realizing its South Stream pipeline project because of the ownership unbundling rules of the EU. Russia finally announced its intention to replace it with another project on 1 December 2014 when President Vladimir Putin met with his Turkish counterpart Recep Tayyip Erdoğan in Ankara. In the press conference after their meeting, Putin said they were cancelling the South Stream project since the European Commission's position was "not conducive," and that they could not continue with the project unless they had the permission of Bulgaria. He also announced that Russia would be establishing a new pipeline to transport Russian natural gas directly to Turkey via the Black Sea.³⁷ On the same day, Gazprom CEO Alexei Miller announced that the company had signed a MOU with BOTAŞ to build a new pipeline with an annual capacity of 63 bcm, 14 bcm of which would be bought by Turkey.

Since the new pipeline, the so-called Turkish Stream, was meant to stop at the Greek border of Turkey (which as a non-member state, is not bound by the EU's Third Energy Package rules), Russia would not face the problems it experienced in the realization of the South Stream pipeline. However, following the crisis that ensued after Turkey downed a Russian jet in November 2015, Russia suspended talks on the Turkish Stream and in the following month, Turkey formally abandoned the project. However, after Erdoğan apologized to Putin over the shooting of the Russian jet in June 2016, Gazprom spokesman Sergey Kupriyanov stated that the company was open to talks on revitalizing the Turkish Stream.³⁸ In that respect, the normalization of Russo-Turkish relations may create opportunities for the revival of the project in the future.

This period may, therefore, be considered successful for Turkey, Azerbaijan, and Europe as the SGC is finally being established, although the pipeline constituted

³⁷ "News Conference Following State Visit to Turkey," President of Russia, 1 December 2014, <http://eng.kremlin.ru/transcripts/23322>

³⁸ "Gazprom Ready to Restart Turkish Stream Dialogue after Erdogan apology," *Russia Today*, 27 June 2016, <https://www.rt.com/business/348613-gazprom-turkish-stream-gas>

only a part of the original East-West Energy Corridor. Whether Turkey will be able to realize the objective it has pursued for so long of becoming an energy hub, however, remains dependent on the future of Turkish-Russian relations and on the future of Turkish Stream in the coming years.

Discussion and Conclusions

The results of geopolitical analyses related to Turkey-Azerbaijan energy projects are summarized in Table 1.

Table 1

Game No	Date	Context	Russia	US/EU	Turkey	Iran
Game-1	1993	Nagorno Karabaks War Cold War vs. Hot War	Win	–	–	–
Game-2	1994	Mega Project IOCs vs. NOCs	–	Win	–	–
Game-3	1995	Early Export Oil Pipeline Western Route vs. Northern Route	Win	Win	–	–
Game-4	1996	Shah Deniz and Status of Caspian Sea vs. Lake	–	Win	–	–
Game-5	1996	Iran-Turkey Gas Agreement Iran vs. Azerbaijan	–	–	Win	Win
Game-6	1997	Oil and Gas Pipelines East-West vs. North-South	Win	Win	Win	–
Game-7	1998	Main Export Oil Pipeline Economic vs. Political	–	Win	Win	–
Game-8	2002	Main Export Oil Pipeline-I Nabucco vs. South Stream	–	–	–	–
Game-9	2011	Main Export Oil Pipeline-II TANAP vs. Turkish Stream	–	Win	Win	–

Turkey appears to have been quite successful, at least as successful as Russia. As a result of the geopolitical games played in the Caspian region, Turkey has managed to benefit from three natural gas pipelines and one oil pipeline. In addition to the Western Route, which was built to transport gas via Ukraine, Romania, Bulgaria, and Turkey in 1987, Turkey has been importing natural gas from the Iran-Turkey pipeline since 2001, from the Blue Stream pipeline since 2003, and from the Baku-Tbilisi-Erzurum pipeline since 2007. Turkey imports around 85 percent of its annual demand of 50 bcm from these pipelines. The gas export pipeline from Turkey to Greece has been in operation since 2007. On the other hand, the BTC crude oil

pipeline has been successfully operated since 2005. In addition to the pipelines that are already in operation, projects such as the Turkish Stream, Blue Stream II, Iraq-Turkey, and East Mediterranean pipelines are also in the planning stages.

Turkish Petroleum, Turkey's state-owned oil company, owns 6.53 percent of the shares in BTC Co. and 19 percent in the South Caucasus natural gas pipeline between the Baku-Tbilisi-Turkish border. In the upstream projects, the shares of Turkish Petroleum, with some additions finally reached 6.75 percent (6.53 million bbls of oil) in the Azeri-Chirag-Guneshli project, and 19 percent (1.42 bcm gas and 2.7 million bbls of condensate) in the Shah Deniz project.

Turkey's relations, especially with Azerbaijan, have improved considerably due to the close socio-economic and high-level political cooperation that has been maintained since 2010. The intergovernmental agreement for the export of gas from Shah Deniz Phase-II through Turkey was signed in October 2011. TANAP is of strategic importance for both countries, allowing the first Azerbaijani gas exports to Europe, beyond Turkey. TANAP, which will strengthen Turkey's desire to become a regional energy hub, is expected to be completed in 2018.

One could argue that Turkey realized its early expectation of maintaining and strengthening its historical and cultural ties with these newly independent Turkic states in the Caspian Sea basin. As noted by Tanrısever, "Turkey has demonstrated a successful performance in establishing cooperation with the Caspian littoral states despite Ankara's limitations in its capabilities."³⁹

³⁹ Oktay F. Tanrısever, "Turkey's Policy towards the Caspian Sea Region: Widening Gap between Ankara's Expectations and Capabilities", in Carlo Frappi and Azad Garibov (eds.), *The Caspian Sea Chessboard: Geo-political, Geo-strategic and Geo-economic Analysis* (Baku and Milan: Egea, 2014), p. 237.