

THE STRONG ENERGY BRIDGE BETWEEN TURKEY AND AZERBAIJAN

The relations between Turkey and Azerbaijan have a multidimensional nature in various aspects, and bilateral economic relations constitute an important aspect of this relationship. SOCAR not only provides a substantial contribution to the sustainability and development of the economic cooperation between the two countries but also takes steps to contribute to the security of energy supply of both Turkey and Europe. Although SOCAR is a foreign direct investor in Turkey, we don't consider ourselves as a "foreign" or "international" investor. SOCAR is the energy company of not only Azerbaijan but also our brother country Turkey. Its investments and future projects will carry the relations between the nations even further.

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The cultural unity between Azerbaijan and Turkey dates back centuries. This unity was further solidified when Turkey became the first country to recognize the Azerbaijan Republic, which declared its independence in 1991. Since then, the relations between the two countries have reached a strategic and multidimensional level. Turkey and Azerbaijan's relations are built on the basis of "one nation, two states," and have a multifaceted nature with deep roots in various aspects. Economic relations constitute one of the most important parts of this special relationship.

In recent years, mutual investments, bilateral economic relations, and trade volume has increased considerably. Businesspeople and experts often highlight the reciprocal investments made by Turkey and Azerbaijan in a multitude of industries across both countries. The agreements between the two countries regarding strategic partnerships and mutual aid have carried these bilateral relations onto a different level in the field of economy, particularly in the energy sector in Turkey.

The current trade volume between Turkey and Azerbaijan has increased to 3.7 billion dollars while the number of Azerbaijan-based companies operating across Turkey has reached 2,400.¹ The value of investments made by Azerbaijan into Turkey has reached 15.3 billion dollars while the investments made by Turkey in Azerbaijan has reached 12 billion dollars thus far. There are 3,400 Turkish companies currently operating in Azerbaijan. Many of these companies frequently participate in the tenders held by the government of Azerbaijan. The State Oil Company of the Azerbaijan Republic, SOCAR, not only provides a substantial contribution to the sustainability and development of the economic cooperation between the two countries, but also takes steps to guarantee the security of energy supply of both Turkey and Europe.

Energy is a Must for the Development of Modern Civilizations

In today's world, energy is one of the most important factors that enables civilizations to grow and develop. Much like the old times, the energy dynamic includes both geopolitical and political aspects and is becoming increasingly important in international relations and policy making today. Recognizing the close relation between energy and national security, governments competitively move towards securing energy sources for the future of their nations.

Energy security has especially become important for Turkey, which has an

¹ "Azərbaycan Ekonomisinə En Böyük Yatırımcı Türkiyə" [Turkey's Is the Greatest Investor Azerbaijan's Economy], *Time Turk*, 24 October 2018, <https://www.timeturk.com/azerbaycan-ekonomisine-en-buyuk-yatirimci-turkiye/haber-980352>; "TBMM Heyeti Azərbaycan'da" [Turkish Parliament Delegation in Azarigan], *Haberler*, 11 June 2019, <https://www.haberler.com/tbmm-heyeti-azerbaycan-da-12134296-haberi/>

ever-increasing rate of energy consumption. Turkey aims at implementing basic strategies to secure energy supply and to ensure resource diversity in the fields of oil and natural gas. In addition, Turkey continuously takes actions to mitigate import-driven risks in order to prevent problems that may arise in energy supply.

Globally, the world's natural gas reserves have increased by 100 percent in the last twenty years. Azerbaijan has many rich oil and gas fields and is among the top oil producing and exporting countries in the world. The Azerbaijan part of the Caspian Sea has one of the most prolific natural gas basins in the world, with reserves of around 2.6 trillion cubic meters.

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TANAP Will Reshape Global Energy Geopolitics

Through the acquisition of Petkim in 2008, Turkey's petrochemicals giant SOCAR has initiated several major projects to help ensure Turkey's energy security. Upon discovery of the giant Shah Deniz gas field in Azerbaijan's Caspian Sea waters in the mid-1990s, the Southern Gas Corridor (SGC) was developed, a giant project to carry Azerbaijan's natural gas to Europe via Turkey. Initially, the first phase of the Shah Deniz development took place in 2007, and gas started being exported to Georgia and Turkey. Following the proposal to develop the second phase of the Shah Deniz field in the mid-2000s, several initiatives were taken to further improve the SGC project. The Trans Anatolian Natural Gas Pipeline Project (TANAP), a strategic project of Turkey and Azerbaijan with an investment cost of seven billion US dollars, together with the South Caucasus Pipeline (SCP) and Trans-Adriatic Pipeline (TAP), constitute the most important parts of the Southern Gas Corridor. Total investment in SGC will reach 40 billion US dollars upon completion of the project in the coming years.

The Southern Gas Corridor will extend for 3,500 kilometers from offshore Baku to Italy. As part of the SGC, TANAP has a current capacity to carry 16 billion cubic meters (bcm) of gas annually. Six billion cubic meters will be transported to Turkey, and 10 bcm will transfer to Europe via a connection to the TAP pipeline. TANAP is the world's longest (1,850 km) 56-inch (large diameter) natural gas pipeline and is equipped with the capacity to meet nearly 12 percent of the natural gas demand of Turkey on its own.

TANAP started operating in June 2018 and since then has supplied a gas volume of two billion cubic meters to Turkey. Forecasts estimate that by the end of 2019, gas volume will reach to four billion cubic meters cumulatively. TANAP is also expandable - the carrying capacity of the pipeline can potentially be increased from 16 to 24 billion cubic meters and then to 31 billion cubic meters with additional investments. TANAP will not only secure the energy supply for both Turkey and Azerbaijan but will also contribute to regional peace and stability. Furthermore, the Caspian Sea resources will draw Turkey and the EU. Leveraging its potential, the SGC will provide the opportunity for other regional natural gas producing countries to utilize the Silk Road of energy.

TANAP and the SGC will definitely reshape regional energy geopolitics. These projects will provide the opportunity for Azerbaijan to introduce its natural gas to new markets, allowing its influence to further spread across the global energy market. Turkey will also benefit greatly from these projects, especially due to its share ownerships in TANAP and Shah Deniz. Turkey will become more than a transit country and will take part in the decision making process in each stage of the value chain extending from producer to end-user. In parallel with its ever-growing economy, Turkey will gain a substantial momentum to meet its energy needs sustainably in the upcoming years. As a natural transit corridor, TANAP and SGC have allowed Turkey to achieve its goal in becoming the energy corridor across the region.

Reducing Turkey's Energy-Driven Current Account Deficit

In addition to its major investments in Turkey such as Petkim, STAR Refinery, SOCAR Terminal, Petkim WPP, and TANAP, SOCAR has recently acquired EWE Turkey Holding, which manages the Turkey operations of EWE AG and its subsidiaries. Following this acquisition; 80 percent of the shares of Bursagaz and Kayserigaz, which are gas distribution companies in Bursa and Kayseri; EWE Energy, a gas trading and electricity distribution company; Enervis, a company providing energy infrastructure services; and Millenicom, a telecommunications company, are now part of the SOCAR Turkey group.

STAR Refinery, one of SOCAR Turkey's largest investments in Turkey with an investment cost of 6.3 billion dollars, will produce value-added products and provide an annual contribution of 1.5 billion dollars to reduce the current deficit in Turkey. Based on the data from the Energy Markets Regulatory Authority (EMRA); the consumption of diesel fuel in Turkey is nearly 24 million tons in Turkey, around 60 percent of which is imported. Five million tons of diesel fuel to be produced by STAR Refinery on an annual basis will reduce the import rate to below 40 percent.

The refinery will also produce 300 thousand tons of LPG annually, reducing the import rate of LPG from 80 percent to 70 percent. The range of products produced at STAR Refinery also includes 700 thousand tons of petroleum coke, of which Turkey currently imports around 3-3.5 million tons. STAR Refinery will also produce 200 thousand tons of sulfur annually, which is another product in Turkey that is dependent on importation.

The SOCAR Terminal port was built with an investment of 400 million euros and is able to host the world's largest container ships. It holds a highly important position in container-based trade. Next to STAR Refinery, the TEU container, equipped with a capacity of 1.5 million is the largest container terminal of the Aegean Region. This terminal allows Turkey's exporters to reduce costs by shipping directly from the Aegean Region rather than having to send cargoes through ports in the Sea of Marmara.

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Aiming to Meet 40 Percent of the Petrochemical Needs of Turkey

Investments by SOCAR in Turkey are centered on petrochemicals. The petrochemical industry constitutes a substantial portion of the current account deficit of Turkey. Since the acquisition of Petkim, SOCAR has been making approximately 100 million dollars worth of investments every year in the facility's modernization and technology. Petkim currently meets around 20 percent of Turkey's petrochemical needs—nearly 80 percent is imported. With a new greenfield investment and petrochemical facility, SOCAR now aims to increase Turkey's production rate up to 40 percent, which will be built in partnership with BP. The project is currently in the front-end engineering and design phase, with the final investment decision to be made in the first half of the upcoming year. Like all other projects of SOCAR in Turkey, this investment is also strategically important for the country. Once completed and commissioned, this facility will reduce the Pure Terephthalic Acid (PTA) import volume of Turkey to zero. Moreover; the facility will produce another key petrochemical Paraxylene (PX), and Turkey's imports of this product will be reduced by 800 thousand tons annually.

This facility will be equipped with a design to be integrated with neighboring STAR Refinery and Petkim, to enable raw materials to be supplied from these facilities. Located in SOCAR's Aliğa special industrial zone, the facility will share its infrastructure with other neighboring facilities, such as Petkim and STAR, and will bring a large advantage in terms of productivity and competition. For example, a product called reformate, which will be produced at STAR Refinery upon establishment of this facility will be processed here and turned into petrochemical products with high added value.

Investments in Natural Gas Distribution

With the overarching aim to provide energy security to Turkey and Azerbaijan, SOCAR Turkey aims to be an important player in the Turkish natural gas market and work in the common interest of both countries. Thanks to the acquisitions of Bursagaz and Kayserigaz, the company's internal consumption portfolio will expand and SOCAR will handle nearly eight percent of the Turkish natural gas market. Bursagaz, Kayserigaz, and Enervis will be crucial links for the integration chain that SOCAR intends to create in the field of natural gas.

SOCAR is the largest foreign direct investor in the energy industry in Turkey and will continue to take steps to develop the economies of both Turkey and Azerbaijan in the future. As an Azerbaijan-based company, we are proud to make international investments in our "brother country." It is important to note that all of these investments are also concrete evidence of our confidence in the Turkish economy. Turkey's overall strategy in the energy industry, the stability towards engagement to a free market economy, and changes in the regulatory structure that offer more practical advantages have all brought new investors to the market. At SOCAR, we believe that Turkey's recent regulatory changes eliminate many bureaucratic processes and facilitates new investment flows into the country. We believe that Turkey will achieve the target of reducing its current deficit and will enter a new period when its national economy has a current surplus. We are very glad to provide major contributions for Turkey to achieve this target.

Investing in this land is highly important for Azerbaijan and SOCAR. We are certain that all these investments will introduce significant benefits for all parties. The friendly relations and brotherhood between the two countries are the main reasons behind all of our investments. As SOCAR, we consider ourselves to be the energy company of our brother country. Turkey is our home, just like Azerbaijan.