



## A STEP AHEAD TOWARDS THE STAGE OF MATURATION IN AZERBAIJANI-TURKISH RELATIONS: THE TRANS ANATOLIAN PIPELINE

The signature of the memorandum of understanding between Azerbaijan and Turkey on 11 December 2011 to establish the consortium that will build the Trans Anatolian Pipeline (TANAP) to supply gas from Shah Deniz gas field to Europe through Turkey was a surprise development. The signature of the inter-governmental agreement is expected for 30 June 2012. The Azerbaijani-Turkish pipeline project will emancipate the bilateral relations from the realm of emotions, set clearly the interests of each side, thus transferring cooperation between the two states on a healthier ground based on win-win pragmatic dealings.

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<sup>1</sup> [http://www.tepav.org.tr/en/ekibimiz/s/1133/Burcu+Gultekin+Punsman\\_+PhD](http://www.tepav.org.tr/en/ekibimiz/s/1133/Burcu+Gultekin+Punsman_+PhD)

The deal carries to potential to upgrade Turkish-Azerbaijani energy relations to the level of Turkish-Russian relations. Interestingly a deal on the South Stream between Turkey and Russia came as an unexpected move a few days after the one on TANAP and less than two months after the decision of BOTAŞ not to review the 1986 gas deal. On 28 December Gazprom and Botaş signed the amended contracts as the South Stream permits were displayed to Prime Minister Putin.

TANAP as a post Nabucco pipeline will be a game changer. Among SOCAR's most strategic investments capitalizing on Turkey's future position in world geography, TANAP will fundamentally change the situation around bringing Caspian gas to Europe.

### **The process**

To the Shah Deniz 2 agreement signed on 25 October 2011 in Izmir for the transit through Turkey and purchase of Azerbaijani gas succeeded a period of lengthy negotiations on the transit agreement and the price setting.

The Shah Deniz gas producers' consortium in Azerbaijan could no longer postpone the investment decision in that project's Phase Two, which necessitates determining the transportation solution in early 2012. Azerbaijan expects gas production to reach some 50 bcm of gas annually by 2025 (double the present annual production). Apart from Shah Deniz, that increase is anticipated to come from the Apsheron, Umid, Babek, deep-water ACG, and possibly Shafak-Asiman projects, all involving international companies in partnerships with Azerbaijan. The inter-governmental agreement and the framework agreement on gas transit envisaged two possible options for the transit of Azerbaijani gas westward via Turkey. One option was to use Turkey's Botas-operated pipeline system, conditional on certain upgrading for this purpose. The other option was identified as a trans-Anatolian gas pipeline, to be jointly built across Turkey. Already at the signing event for these agreements, the Azerbaijani side made clear its preference for building a trans-Anatolia pipeline from scratch.

### **The agreement**

TANAP is backed up by gas and funding from Azerbaijan. The cost is estimated at 5 billion USD. The partners will finance the construction of the pipeline proportionately to their respective ownership shares. (SOCAR: 80%, BOTAŞ: 10%, TPAO: 10%). Third-party gas-producing companies, apparently meaning Shah Deniz consortium partners, may be allowed to join the consortium later, as minority shareholders. The capacity of the

transit line is projected at 16 billion cubic meters (bcm) annually in the first stage, to be increased to 24 bcm in the second stage.

Of those amounts, Turkey will be entitled to buy 6 bcm annually from Shah Deniz, Phase Two of production (from 2017 onward), in accordance with the long-term agreement between Turkey and Azerbaijan. Under the MOU just signed, Azerbaijan and Turkey will complete the feasibility study for the trans-Anatolia pipeline in early 2012, start construction work in the same year, and complete the line in 2017. This date is correlated with the Shah Deniz production coming on stream in that year and reaching 16 bcm annually post-2017.

The signature of the inter-governmental agreement has been announced for 30 June 2012. SOCAR explained the delay in reaching the deal over issues related to tax and investment regime and not over the size of the respective stakes as it has been presumed in the press.

### **Implications for Azerbaijan**

A dedicated pipeline, or one under Azerbaijan's control in Turkey, is the optimal solution from Azerbaijan's standpoint. The Nabucco consortium had never resolved the issue of accepting Azerbaijan's State Oil Company as a partner in that pipeline project. The major control of the Shah Deniz II gas exports via the TANAP pipeline will lie almost exclusively by Azerbaijan itself rather than by a European pipeline consortium.

TANAP will enable Azerbaijan, for the first time, to sell its own gas through its own pipeline, at Turkey's western border with the EU, directly to European customers. Using an Azerbaijani-owned pipeline without having to pay for the transit service would make Azerbaijan's gas price-competitive in Europe. Baku describes this project as a "direct road from Azerbaijan to Europe" and "Azerbaijan's road into the future." Azerbaijan is assuming a triple role: energy supplier country, transit country (transcaspian dimension), investor country beyond its own borders.

### **Implications for Turkey**

The trans-Anatolia project confirms Turkey's role as an energy corridor to Europe and intersection of multiple supply routes for Turkey itself. Whether the trans-Anatolia project also involves gas storage in Turkey remains an open question. Some remarks from Azerbaijan at the signing event about marketing gas in Europe together, may be read as implying some storage in Turkey.

## Implications for Georgia

Georgia enjoys a win-win position on the transit route from Azerbaijan to Turkey. The trans-Anatolia project, at 16 bcm to 24 bcm annually, presupposes at least doubling the capacity of the pipeline through Georgia, and at least trebling the gas flow from the present level.

## Connections towards European markets

Shah Deniz consortium (BP and Norway's Statoil with 25.5 percent each; SOCAR, Total, Lukoil, and Iran's NICO with 10%; and TPAO with 9%) postponed from mid-2012 to mid-2013 the selection of a pipeline route for Azerbaijani gas to Europe. It is highly likely that TANAP will become the basis for the Southern gas Corridor and take over the functions of Nabucco's Turkish section though alternative routes are said to be still considered. The main issue is now how best to connect the pipeline to European markets.

An abridged version of Nabucco rebaptised Nabucco West and downsized to one half of its design capacity (i.e., from 31 bcm to some 15 bcm annually), and starting from the Turkish-Bulgarian border (instead of starting in eastern Turkey) has recently been proposed by the project's Austrian management as one option. This could keep Nabucco alive as a continuation pipeline, from the planned Trans-Anatolia pipeline into the Nabucco countries on EU territory. Nabucco West will be competing with two other options backed each with a consortium member of the Shah Deniz consortium.

Towards Southern Europe:

- Trans-Adriatic Pipeline (TAP): led by Statoil (commercial operator in the Shah Deniz consortium) for possible transportation of Azerbaijani gas via the western Balkans to Italy. 20 bcm annually to southern Europe, instead of central Europe. TAP would use Turkey's pipelines and build a new pipeline for part of the way in Greece. TAP would reach Italy via Greece, Albania and the Adriatic seabed.

Towards Central Europe:

- British Petroleum's concept of a South-East Europe Pipeline (SEEP) October 2011. Its first rationale is to save on pipeline construction costs. SEEP would use existing, nationally owned pipelines, pipeline sections, and interconnectors along the entire route from eastern Turkey to central Europe. It would build some new sections and upgrade some others in half-a-dozen countries, instead of building a new, dedicated pipeline.