

TURKEY-AZERBAIJAN ENERGY COOPERATION: SOCAR'S INVESTMENTS IN TURKEY

<https://doi.org/10.5281/zenodo.3596514>

UDC 339.727.22:620.9(560:479.24)

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ABSTRACT

Energy cooperation is one of the significant issues of modern international political economy. Multidimensional nature of energy resources, exactly petroleum and natural gas, allows them to affect the states' both political and economic strategies. Unequal distribution of fossil energy resources in the world and their role for social and economic life of human push states towards energy cooperations. In this context, Turkey-Azerbaijan energy collaboration has a special importance in the relations between two countries. In the first years of independence, Turkey has been one of the countries that has invested in production and export of Azerbaijan's energy resources. While Turkey's participation in Azerbaijan's energy consortiums is continuing, State Oil Company of Azerbaijan Republic -SOCAR is the biggest investor in Turkey. Today energy cooperation between these countries serves the strategic interests of both sides, as well as contributing to Turkey's energy industry sector.

Key words: Azerbaijan, cooperation, energy, investment, Turkey, SOCAR.

Introduction

While the climate change and environment is highly attractive issues of the 21 st century, a need for energy of the economies is increasing. On one hand, countries try to encourage the use of alternative sources to meet the growing energy demands, on the other hand, fossil energy resources are still one of the vital inputs of production processes. In this context, energy cooperation is one of the strategic priorities of the states' agenda.

Today the energy cooperations between states cover more than trading transactions of petroleum or natural gas, including pipeline negotiations, supply security, demand security as well as investments, climate change, environments and smart technologies. In addition to political and economic considerations, energy strategy and planning

ISBN: 978-608-66191-3-8

IMSC-2019, September 28, 2019. Tetovo. North Macedonia.

include technology policies also. This type of cooperations creates an economy in itself such as “energy economics” and a special agenda in foreign policy such as “energy diplomacy”. Considering influence area of economics and foreign policy and energy’s importance for human survive, it can be said that energy cooperation has a multidimensional nature of collaboration.

Although the sides of energy cooperation benefit from it in different degrees, its main aims focus on mutual interests in any case. Energy cooperations allow countries to ensure their energy security in terms of supply and demand, to encourage foreign investments, to create employment, to improve social and economic conditions. Increasing production, consumption and mobility at global level gave new impetus to energy cooperations.

1. Energy Cooperation between Turkey and Azerbaijan

Turkey-Azerbaijan bilateral relations have entered in a new stage after the collapse of Soviet Union. Moreover, geopolitical and jeeconomic developments in the world have created different opportunities for these two countries to cooperate on trilateral and multilateral platforms. While Turkish-Azerbaijani relations have developed in many several fields, energy is one of the dominant cooperation areas between two states.

Turkey-Azerbaijan energy cooperation can be divided into two periods. First period has began with the signing of international consortium agreement in 1994 – “The Contract of the Century” on the joint development and production sharing of energy resources of Azerbaijan. Turkey, represented by the national petroleum company TPAO, is one of the participants of mentioned agreement that has been amended, restated and extended to 2050 in 2017. TPAO’s share in amended agreement has been revised as 5,73%, while it was 6,75% in former one. Represented by its sub company TPOC, TPAO has 19% share in Shah Deniz Natural Gas Project.

Realization of BTC project that has started to operate in 2006 and TPAO has 6,53% share in it has been a step moving not only energy cooperation, but general Turkey-Azerbaijan relations to a different dimension. BTC has added a strategic meaning to bilateral relations. With this project, Turkey-Azerbaijan cooperation has increased to regional and global level and relations between two countries has shifted from emotional rhetoric to concrete actions depending on mutual strategic interests. Due to historical ties between two, but also due to its geographical location, Turkey has become a safe partner of landlocked Azerbaijan in the delivery of energy resources to the world market.

As an extension of the South Caucasus Pipeline, where Turkey's total investment amount 817,15 Million US Dollars, construction of Trans Anatolian Natural Gas Pipeline and its connection to Europe – Trans Adriatic Pipeline has added a new value to the bilateral energy cooperation. The last two pipeline projects have revitalized the regional and global characteristics of the energy partnership between Turkey and Azerbaijan.

As a result of pipeline diplomacy conducted jointly with Turkey, Azerbaijan has obtained an opportunity to supply its energy resources to the European countries, who are largely dependent on Russian natural gas. In this context, Turkey-Azerbaijan energy cooperation based on mutual benefits and interests has aimed to grow both countries' economies in the light of local, regional and global developments. The usage of BTC by the countries, such as Kazakhstan, Russia, Turkmenistan has provided a more effective political identity for the project. On the other hand, this cooperation also serves to overcome Turkey's energy security problems, ensuring uninterrupted supply from Caspian basin.

In the first period of their energy cooperation, Turkey was more active as this country was one of the sides of international agreements investing in both production and transportation of Azerbaijanian fossil energy resources. By the way, activities stated with "The Contract of the Century" in Azerbaijan's energy sector was the first international exploration-production investment experience of TPAO. Today TPAO is the second greatest investor in Azerbaijan. Between the years 1989-2007, Turkey has made 95% of its total energy investments in the energy sector of Azerbaijan.

Thus, between 1994-2007 Turkey-Azerbaijan energy partnership has been shaped by the Turkish investments in Azerbaijan's oil and natural gas industry and BTC and SCP pipeline projects.

2. SOCAR As An Investor In Turkish Energy Market

The second period of the energy partnership between two countries begins after 2005s. In these years Azerbaijan has become a country investing capital in several regions. Its investments in Turkey have been directed to energy sector mainly. As known, Turkey is not an energy producing country. With energy projects carried out jointly with Azerbaijan it has achieved "transit country" identity and SOCAR's investments in Turkey are contributing to Turkey's becoming a major force in international energy platform.

In 2006 SOCAR and Turcas signed a protocol on the establishment of joint energy company between Azerbaijan and Turkey. This was a kickoff towards SOCAR's

activities in Turkey. Officially SOCAR has entered the Turkish energy market in 2008 with the acquisition of Petkim from Turkish Privatization Office for 2,04 billion USD. Since then it has realized giant projects such as the STAR Oil Refinery Plant, TANAP, Petkim, SOCAR Container Terminal, SOCAR Distribution, SOCAR Storage, SOCAR Gas, SOCAR Fiber and Petkim Wind Power Station, which provide jobs for 4.500 people. The key goals of SOCAR's activities in Turkey are to turn it into one of the crucial energy corridors of the region, to decrease Turkey's import dependence and budget deficit. SOCAR's investments in Turkey have reached 15,3 billion USD by 2019. Currently, it is Turkey's greatest foreign direct investor. After the completing of ongoing investments, this amount will reach 19,5 billion USD.

Continuing its investments, SOCAR is rapidly becoming Turkey's largest industrial holding company completing an integration of refinery, petrochemical, energy, logistics, distribution and storage sectors by 2020.

For the first time in Turkey, the title of "Special Industrial Zone" was given to SOCAR's area located in Aliaga region due to the company's direct and indirect contributions to the Turkish economy.

Petkim is one of the significant chains of SOCAR's investments in Turkey, constituting the center of its strategy in Turkey. This company supplies products to 6 thousand SMEs only in Turkey, has exports to 78 countries and produces value-added strategic products at international level.

Similarly, STAR Refinery Plant is the first company that holds Turkey's strategic encouragement document. The largest and most long-term project finance credit agreement of Turkish real sector has been signed for this plant. It is expecting to meet 25% of Turkey's total demand for refine petroleum products with STAR Refinery Plant. As known, jet fuel and LPG are among important items of the current account deficit of Turkey. By the production of such petroleum products in Turkey, it is planned to save about 1,5 billion USD every year. Another feature of this plant is the high "Nelson" complexity ratio used in refinery technical grading. Thanks to this feature, STAR Refinery has the flexibility to process crude oil extracted from various regions and having different chemical content.

Entering the aviation industry of Turkey in 2013, SOCAR has already succeeded to become one of the largest three companies that meet the fuel needs of mentioned sector. SOCAR will meet 700 thousand tons of the annual fuel need of the aircraft at the newly launched Istanbul Airport.

Although its main activity area are fossil energy sources, SOCAR shows high awareness in the renewable energy field. As a matter of fact, the Petkim Wind Power Plant has been established in Turkey.

SOCAR has signed a “Framework Agreement” with its greatest partner – BP in December 2018. The purpose of the agreement is to evaluate the possibilities of joint operation of a worldwide petrochemical complex that is planning to be established in Aliaga-Turkey. According to the agreement, the new plant will be planned so that the common usage of raw materials from Petkim and STAR Refinery Plant will be possible. The planned facility is expected to become the largest integrated PTA, PX and aromatic products complex in the Western Hemisphere. In case of a positive conclusion of the negotiations between BP and SOCAR on a possible joint investment, the mentioned enterprise will start operating in 2023.

In sum, SOCAR has established the chain of refinery-petrochemistry-energy-logistics-storage-distribution-fiber optic communication infrastructure integration in Turkey. Additionally, the company with its high-valued social responsibility projects contribute to education, culture, environment issues in Turkey.

Conclusion

After gaining independence, Azerbaijan has needed foreign investments in order to develop its petroleum and natural gas industry. As one of the participants of the signed international consortium in 1994, Turkey was one of the first countries that has invested in Azerbaijan’s energy sector. At the same time, it was a first experience for Turkey to invest in energy sector abroad. In this context, “The Contract of the Century” has opened a new page in bilateral relations, establishing a milestone of the energy cooperation between Turkey and Azerbaijan. An added value created by Turkey in Azerbaijan’s energy sector covers a wide range of activities, such as pipeline construction, production of pipeline materials, transportation, personnel training and etc.. Dealing with these activities, Turkey has gained important experiences for the development of its energy sector as well. Similarly, Azerbaijan- as a greatest foreign investor of Turkey, has provided significant contributions in many fields in this country, such as production, foreign trade, transportation, logistics, employment and continues to do so. In this context, SOCAR’s investments have a special importance for Turkey, who depends on foreign energy suppliers. Considering that Turkey’s import dependency ratio is nearly 70% in primary energy resources, the significance of SOCAR’s activities in Turkey is better understood. SOCAR’s energy investments serves to Turkey’s strategic interests to be one of the players of regional and global energy markets in addition of its “transit country” position. As a result, Turkey - Azerbaijan

energy cooperation is making a significant contribution to the economies of both countries.

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