



SEMINAR ON THE ROLE OF AZERBAIJAN IN THE NEW GEOPOLITICAL ENERGY LANDSCAPE

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With

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The purpose of this document prepared by IRIS and TEAS is reflective of the discussions. The views expressed by participants in this document do not necessarily reflect the views of the organisations to which they belong.

The energy landscape has undergone profound shifts on a worldwide scale in recent years. Some of the main factors are increased hydrocarbon consumption in emerging countries, rise of the non-conventional sector in North America and debates on energy transition, and the calling into question of the gas hub in Ukraine. In view of these changes, Azerbaijan's role is becoming increasingly important in ensuring the future of European energy security, due to its extensive oil and gas reserves. There still remains a question mark over the nature of the relationship between Azerbaijan and its complex regional environment, as the country's stability represents an essential springboard for the development of energy projects. Important questions relate to how Baku may contribute to achieving development of the Trans-Anatolian Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP) and the impact of the latter in terms of development and economic co-operation? Jointly organised by The European Azerbaijan Society (TEAS) and Institute for International and Strategic Relations (IRIS), the objective of this seminar was to answer these questions:

Jean-Marie Bockel

The Haut-Rhin Senator focused on how important Azerbaijan is for Europeans and France, in particular. Energy security is critical to Europe, mainly due to dependence on Russian gas and the debate surrounding diversification of energy resources, in particular when viewed through the prism of the transition towards renewable energy sources. An added France-specific issue is the question of the future for nuclear generation and the desire to reduce its share of the overall energy mix.

In this context, and even more so in view of the diplomatic fallout of recent events in Ukraine, Azerbaijan has appeared as a new contributor with an interest in the French and European markets, buoyed by its hydrocarbon reserves. Furthermore, this joint project in

the energy sector may pave the way for further economic and trade partnerships in other fields.

Mr Bockel also broached the political angle of the relationship between the European Union and Azerbaijan. He asserted that even though Europeans need to remain vigilant concerning the democratisation of the regime and human rights, and is right to highlight these issues, it is important to avoid becoming mired in a rigid and static view of Azerbaijan. It is also necessary to understand the country's history to put into perspective the progress made since it reached independence in 1991, following the fall of the Soviet Union.

Inessa Baban

Mrs Baban surveyed the geopolitical stakes for Azerbaijan, and underlined the importance of the links between Europe and Azerbaijan. The reason is that many European Union (EU) countries have expressed an interest in hydrocarbons from Azerbaijan, with a view to diversifying their energy supplies, whilst Baku wishes to strengthen its ties with the EU by contributing to the Southern Energy Corridor¹. However these relationships may induce resentment in regional stakeholders, in particular Russia.

According to Mrs Baban, the energy policy and the foreign policy of Azerbaijan are intrinsically linked to supporting the balance of power in the region, as well as national development and stabilisation. After spending most of the 20th century under Soviet and Russian influence, Azerbaijan has gradually rebalanced the situation since it gained independence, by becoming closer to Western countries, whilst simultaneously being careful not to jeopardise its relations with Moscow, whose regional impact remains undeniable. Meanwhile, Turkey and Iran are considerably increasing their pull in the region. For Azerbaijan they are partners, as well as potential competitors, to a certain degree.

Bearing this context in mind, Azerbaijan joined the GUAM² group to edge closer to the Atlantic sphere, and since 1994 has gradually turned into a market for Western companies investing in the country, particularly in the oil sector. In addition, one of the key projects is the construction of the TANAP–TAP gas pipelines, which will play an integral role in the Southern Corridor and supply the European market with gas from Azerbaijan without traversing Russian territory. This enables Baku to implement a non-alignment policy in order to promote regional balance.

¹ The Southern Corridor – which formerly included the Nabucco Project – is an energy supply route that goes through Southern Europe to bring gas from the Caspian Sea and the Middle East to European domestic markets in order to supplement Russian energy supplies coming from the East.

² Organisation for Democracy and Economic Development (Georgia, Ukraine, Azerbaijan and Moldova).

Turab Gurbanov

Mr Gurbanov added some interesting remarks to the points made by Mrs Baban when he explained the political and diplomatic ramifications of the Azerbaijani energy strategy. According to him, Ilham Aliyev, President of the Republic of Azerbaijan, summed it up well when he said: "Oil is not an objective, but a tool to reach our main objective." That strategy was formulated in the early 1990s at a difficult time for the country, due to the Armenian–Azerbaijani conflict over Nagorno-Karabakh. At this time, there was also a somewhat sketchy grasp of hydrocarbon reserves and the country was emerging from a period of isolation, in terms of geopolitics and geo-economics.

Azerbaijan therefore aimed for a rapprochement with Europe and the United States for four reasons:

- Strategic angle: using energy resources to increase co-operation between countries of the Caspian region, as well as implementing integration with European institutions;
- Political angle: strengthening democracy in Azerbaijan by coming closer to Western countries, perceived as symbols of justice and human rights;
- Economic angle: applying Western technical knowledge and financial backing to kick-start exploitation of energy reserves of the Caspian Sea;
- Social angle: maintaining a secular society (Azerbaijan was the first Muslim country to establish a democratic and secular republic in 1918 and to grant women the vote in the same year).

That being said, Azerbaijan is still working closely with Russia, and has not positioned itself officially as an alternative to imports from Russia, as it is not in the country's interests to portray itself as a destabilising factor in the region. Presenting Azerbaijan as an alternative to Russia is a purely Western concept. The country should more appropriately be considered as a complementary regional player.

This policy of western economic backing has so far brought about the signing of 27 agreements, with over 43 oil companies from 21 countries. Additionally, relations with Western countries have developed in other areas, such as transport (in particular the Kars–Tbilisi–Baku railway line) and security (the country joined international coalitions for the wars in Afghanistan and Iraq during the first decade of the 21st century, in addition to Kosovo).

Catherine Mantel

Mrs Mantel, Russia/CIS Project Director, GDF Suez, devoted her address to the role of Azerbaijan and the part it plays in the Southern Corridor, which is a new frontier in terms of energy security for the European Union, including France. Over the next few years, the strategy adopted by both to guarantee their energy supply requires diversifying their sources. In France, energy security was bolstered by the incorporation of nuclear energy in the 1970s. Azerbaijan appears as a complementary source, enabling countries to reduce reliance on Russian gas.

Regarding gas operations in Azerbaijan, three projects are currently underway: Shah Deniz I, Shah Deniz II and Absheron. GDF Suez's main involvement is with the Absheron project (to a level of 20 per cent). Development is expected to start in 2016, and GDF Suez is hoping to start operations in 2021, extending for a period of 30 years. The gas would travel via the TANAP and TAP pipelines as part as the Southern Corridor.

According to Mrs Mantel, the choice of Azerbaijan for the Southern Corridor will contribute to strengthening the ties between Azerbaijan and Turkey, which happens to be the only growing major gas market in the OECD zone. SOCAR³ has already invested \$5bn in Turkey to build TANAP, and new investments will come in – notably from SOFAZ⁴ – for the construction of new processing and refining infrastructure, including a new refinery in Izmir, a container port in Petkim, and several thermal power plants, as well as purchasing shares in Turkish company OMV Petrol Ofisi. This will create an energy corridor between the Balkans on one side and Turkey and Azerbaijan on the other (and potentially Iran, if political developments allow).

Marc-Antoine Eyl-Mazzega

Mr Eyl-Mazzega highlighted two points broached by all participants – firstly that Azerbaijan is a key country in the strategy of diversifying energy supplies to the EU. He then underscored the development and success of gas and oil operations in Azerbaijan. To illustrate the point, he mentioned the importance of the Baku–Tbilisi–Ceyhan pipeline, which enables the exporting of Azerbaijani hydrocarbons, avoiding the Bosphorus, as well as the Azerbaijani position as a transit route for oil extracted from Kazakhstan and Turkmenistan.

³ State Oil Company of the Azerbaijani Republic (SOCAR) (Compagnie Nationale Pétrolière de la République d'Azerbaïdjan).

⁴ Azerbaijan Sovereign Funds. See press release: <http://www.invest.gov.tr/fr-FR/infocenter/news/Pages/120614-socar-investments-in-turkey-reach-usd-5-billion.aspx>

Finally, Mr Eyl-Mazzega mentioned a few unresolved questions:

- Are there sufficient drilling platforms in the Caspian Sea to optimise potential development of Azerbaijani gas resources and to facilitate a new wave of gas exports following exploitation of Shah Deniz 2?
- Is the Trans-Caspian gas pipeline project likely to be completed?
- Should Azerbaijan export as much of its output as possible, or try to diversify its activities by developing the petrochemical sector, among others (which requires more gas)?
- How is Azerbaijan approaching potential competition from Iran, Iraq, Eastern Mediterranean Sea and Turkmenistan?

Summary of the discussions

The theme of the potential rivalry between the Southern Corridor and the now-shelved Russian South Stream project was broached. Mrs Mantel believes that the South Stream project should not constitute an issue for the Southern Corridor as the former tends to be directed towards Central Europe, whereas the second is directed towards Southern Europe. Mr Eyl-Mazzega also explained that the two projects were not competing, but instead complemented each other. Furthermore, the complete realisation of the South Stream system in Europe was facing some difficulties, due to the European law governing third party access to the network, which conflicted with Gazprom's desire to withdraw from European partnerships⁵.

The need for Azerbaijan to diversify economically was also discussed, notably because gas and oil production peaked in 2010, and these two resources account for 90 per cent of its exports, whereas European gas consumption has decreased during the past few years. In answer to this question, Mr Gurbanov explained that profits from hydrocarbons were already being invested in numerous sectors to support development in the country. As an example, he pointed out that equipment in Azerbaijani hospitals is on a par with that found in the best European hospitals. Other fields are undergoing sharp growth, such as the petrochemicals sector, pharmaceuticals industry and telecommunications. However, the main issue for Azerbaijan remains human capital. To address this, the government encourages young people to seek training abroad. Mrs Mantel added that several partnerships between French farmers and their Azerbaijani counterparts had been implemented to support growth of the primary sector in the country.

Amongst other themes covered was the role that non-European and non-American companies (especially Malaysian company Petronas) could play in the gas and oil industries of Azerbaijan, in addition to how these may impact the development of increased ties with the West. Mr Gurbanov believes that the presence of these companies will not result in radical change on a diplomatic level. Mrs Baban explained that Petronas has been active in the area over a long period. Besides, it strengthens regional co-operation, as the Malaysian company, already involved in Turkmenistan, can help smooth over disagreements between Azerbaijanis and Turkmens. These have arisen over the demarcation of Caspian Sea resources, thereby increasing the flow of hydrocarbons in the region.

⁵ Last December 1st, less than a week after this seminar, Russia announced its intention to drop the South Stream Project altogether due to a veto by the European Commission and sanctions resulting from the crisis between Russia and Ukraine.

Finally, as previously mentioned, the status of reduced current European demand for gas raised numerous questions, especially concerning profitability of the TANAP and TAP projects, which require funding. Does this situation pose a threat to completion of the project? Mr Eyl-Mazzega believes that a range of factors justify construction of the pipeline. First of all, the market is not static, and therefore the demand for imported gas may subsequently increase in future. This is attributable to the decrease in European production; European legislation on industrial emissions; and climate change policies that will progressively reduce the use of coal for the production of electricity, thereby contributing to the increase in gas demand. Besides, the North African region is insufficiently reliable to offer a solid alternative, due to political and economic instability. Similarly, one may consider the question of the potential of energy markets in the Balkans, where gas pipelines remain underdeveloped. Lastly, the increase of power consumption in Turkey, its economic growth and the volatility of hydropower production, raises the question of growing dependence on thermal gas-fired power plants, which may induce higher demand. In this respect, Mrs Baban also added that Azerbaijan could be a true alternative for Central and Eastern European countries looking to reduce their dependency on Russian gas.