

# Economic and political analysis of Azerbaijan-Turkey energy relations

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## Abstract

Thus Azerbaijan became one of the countries, which balances economic and political relationships in the region. This characteristic comes from the geopolitical position of Azerbaijan. Located in the region of the Southern Caucasus, Azerbaijan has huge natural resources, which triggered the development of economy. The integration of Azerbaijan economy with the world economy and transition to free market economy were the choice of Azerbaijan. Cooperation between Turkey and Azerbaijan in the energy has a multi-faceted structure. It is now widely recognized that Turkey-Azerbaijan relations have always been strong and described with the phrase "one nation with two states". Energy has a special place in the relationship between the two countries. Azerbaijan's economy, energy sectors of Azerbaijan and Turkey has been assessed. Moreover, this paper gives a comparative analysis on economic relationship between Turkey and Azerbaijan. This study finally discusses the main trends and contributions of energy projects on Turkey-Azerbaijan relations. This research evaluates the investments of rich oil and natural gas source owner and the most blooming country of the world- Azerbaijan's investments in Turkey energy sector and its impacts on both these economies. After giving brief information about economy of Azerbaijan, the research analyzes SOCAR's investment on petrochemical institution in Turkey Petkim which was purchased under Turkish privatization master plan. Star Refinery which began to be built on Petkim peninsula, electric power-plants and port investments were examined under several titles. Additionally, the research gives entire information about the investments on Trans Anatolia Natural Gas Pipeline (TANAP) which was signed at the end of 2011 and evaluates its impacts on Azerbaijan - Turkey Economic Calibrations.



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**Key words:** Azerbaijan economy, Turkish economy, energy sector, SOCAR, TANAP, PETKIM

## Introduction

Azerbaijan declared independence on 18th of October 1991. Thus Azerbaijan became one of the countries, which balances economic and political relationships in the region. This characteristic comes from the geopolitical position of Azerbaijan. Located in the region of the Southern Caucasus, Azerbaijan has huge natural resources, which triggered the development of economy. The integration of Azerbaijan economy with the world economy and transition to free market economy were the choice of Azerbaijan. On the other hand, Azerbaijan attained progress in accordance with financing its existence and development. All natural resources, investments and economic potentials belong to Azerbaijan. The political stability should be provided in order to attain macro-economic stability in any country. The political stability was attained after Heydar Aliyev came to power and continued during the presidency of Ilham Aliyev. Public policies and economic reforms, as well as the operation of Baku-Tbilisi-Ceyhan pipeline resulted with the growth in economy. Azerbaijan held its currency at a firmly stable rate in the hope of a return to favorable oil prices. Azerbaijan has huge natural resources, which triggered the development of economy. Oil and gas resources are the most important wealth of Azerbaijan. In 2016, 85% of the export belongs to the energy carriers. This figure also shows the importance of the energy sector in Azerbaijan economy. For this reason, energy resources should be used relevantly. The relevant geographical position of Azerbaijan plays more important role between Asia and Europe. One of the most important aspects due to realize the economic development is the natural resources (Aras, Suleymanov, 2016). Public policies and economic reforms, as well as the operation of Baku-Tbilisi-Ceyhan pipeline resulted with the growth in economy. Azerbaijan economy attained more achievements in comparison with the other former Soviet Republics during the transition period. The existence of rich natural resources caught the attention of foreign investors. Foreign investments were one of the most important factors which stipulate economic growth.

### 1. Macro-economic analysis of Azerbaijan economy

Azerbaijan economy attained more achievements in comparison with the other former Soviet republics during the transition period. The existence of rich natural resources caught the attention of foreign investors. Foreign investments were one of the most important factors which stipulate economic growth. The economic development continued in the stable environment in terms of the macro-economy. According to the information of International Monetary Fund, the growth rate of the world economy was equal to 1.4% in 2016. The economic development continued in the stable environment in terms of the macro-economy. According to the information of International Monetary Fund, the growth rate of the world economy was equal to 3.4% in 2017. Despite the accumulation of significant revenues from crude oil exports and remarkable economic growth over the past 25 years, Azerbaijan's economy has been hit hard by the recent drop in global oil prices and has experienced a period of painful economic adjustments. The government has attempted to change the traditional distributive approach that is based largely on oil revenue distribution in favor of a new earning-oriented model that is expected to benefit from a robust non-oil sector. It is clear that the oil price slump caught the government off guard and poorly prepared to cope with the new low price environment. Clearly, it will be difficult to build a new model of development quickly and thoroughly in a short period of time. Main Countries in Export (2016) Azerbaijan has business relationship with more than 170 countries. Italy, Israel, Russia, Georgia, Turkey, Iran,

Turkmenistan, Indonesia, Croatia and France provide 87% of the export (Aras, Suleymanov, Mammadov, 2016).

Furthermore, the denomination process has been realized since 1<sup>st</sup> of January, 2006. The nominal value of the manat was diminished 5000 times and New Azerbaijan manat was created. The New Azerbaijan manat was released to circulation and this process continued until 1<sup>st</sup> of January, 2007. New Azerbaijan manat was similar to Euro in in terms of the physical characteristics and value. Therefore, this process blew the dollar hegemony in the country. Because the most important part of the cash transactions was realized by dollar and this limited the circulation market of the manat. However, this situation was changed in line with the severe dropping in the oil prices in 2015. In February, the equivalent of \$1 dollar increased from 0.79 AZN to 1.05 AZN. In December new devaluation was realized and the equivalent of \$1 dollar increased from 1.05 AZN to 1.55 AZN. The second one planned the fluctuating exchange rate. According to that, the rate of the manat will be formed according to the real aspects of exchange market.

**Table-1:** The Macroeconomic Forecast for 2016-2019 of the Republic of Azerbaijan

Indicators	Measurment Unit	Report		Predictions					
		2013	2014	2015	2016	2017	2018	2019	
<b>The Real Sector</b>									
GDP (market price)	mln AZN	58182,0	58977,8	57151,7	57735,1	60190,4	63143,2	67511,7	
Real Growth Rate	%	5,8	2,8	3,3	1,8	2,6	3,6	5,0	
Deflator	%	0,4	-1,4	-6,2	-0,8	1,6	1,2	1,8	
Oil sector, GDP (market prices)	mln AZN	24968,4	23009,2	17829,0	16285,3	15940,5	16103,2	17348,5	
Real Growth Rate	%	1,0	-2,9	-0,6	-1,7	-2,4	0,3	4,9	
Deflator	%	-3,0	-5,1	-22,0	-7,1	0,3	0,7	2,7	
Share (in GDP)	%	42,9	39,0	31,2	28,2	26,5	25,5	25,7	
Non-Oil sector, GDP (market prices)	mln AZN	33213,6	35968,6	39322,7	41449,8	44249,9	47040,0	50163,2	
Real Growth Rate	%	10,0	7,0	5,9	3,4	4,6	4,8	5,0	
Deflator	%	3,2	1,2	3,3	2,0	2,1	1,4	1,5	
Share (in GDP)	%	57,1	61,0	68,8	71,8	73,5	74,5	74,3	

**Source:** [http://www.economy.gov.az/images/pdf/konsepsiya\\_2016.doc](http://www.economy.gov.az/images/pdf/konsepsiya_2016.doc)

The reduction was observed in the national income in the first years of the independence because of the lack of modern tax system, the limitations in foreign trade, and the war. Approximately 60% reduction was observed in the economy of Azerbaijan from 1991 to 1995. In those years, significant lagging was observed in GDP rate. Azerbaijan started cooperation with International Monetary Fund and World Bank in 1995. The cooperation included the reformation of the economy and privatization programs. Since 1996, the stagnation in the economy has been replaced by progression. Azerbaijani economy was one of the fastest growing economies in the

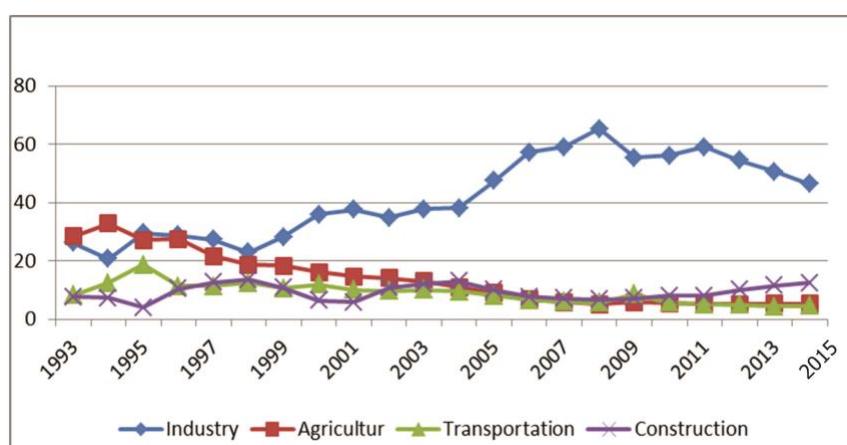
former USSR republics in the transition period (Mammadov, 1998). The most important growth was observed in the hydrocarbon sector because of the huge amount of foreign investments.

**Table-2:** Gross Domestic Product

Years	Million Manat	Million U.S. Dollar	Per Capita	
			Manat	\$
1995	2133.8	2415.2	282.1	319.3
1996	2732.6	3180.8	357.5	416.1
1997	3158.3	3960.7	409.2	513.2
1998	3440.6	4446.4	441.5	570.6
1999	3775.1	4583.7	480.1	582.9
2000	4718.1	5272.8	595.1	665.1
2001	5315.6	5707.7	665.2	714.3
2002	6062.5	6235.9	752.9	774.4
2003	7146.5	7276	880.8	896.8
2004	8530.2	8680.4	1042	1060.3
2005	12522.5	13238.7	1513.9	1600.4
2006	18746.2	20983	2241.1	2508.5
2007	28360.5	33050.3	3351.8	3906.1
2008	38005.7	46258.2	4439.9	5403.9
2009	34060.8	42575.7	3917.3	4874.1
2010	42465.0	52909.3	4753.0	5922.0
2011	52082.0	65951.6	5752.9	7285.0
2012	54743.7	69683.9	5966.1	7594.3
2013	58182.0	74164.4	6258.3	7977.4
2014	58977.8	75188.4	6264.1	7985.9
2015	54352.1	51471.7	5661.2	5361.2
2016	59987,3	35141,6	6314.2	2129,7

**Source:** The Publications of the State Statistical Committee of the Republic of Azerbaijan, 2016

**Figure-1:** Sectorial Distribution of GDP (%)



**Source:** <http://www.stat.gov.az>

There were significant changes in the sectorial distribution of the GDP and the volume of private sector in economy as a result of the implementation of the reforms.

The oil plays important role in line with the growth in the budget revenues. Statistics display that oil revenues increased within the budget revenues.

**Table-3:** State Budget Revenues and Expenditures (million manat)

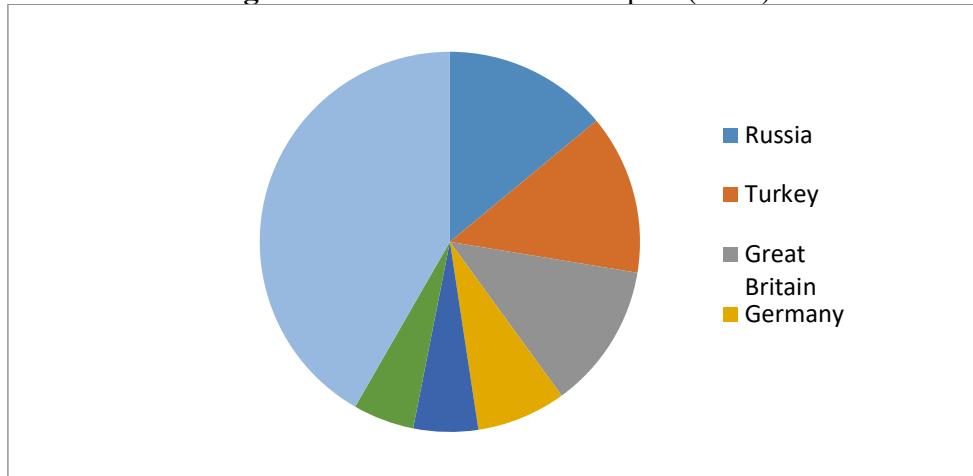
	2010	2011	2012	2013	2014	2015	2016
Total Revenues	11403,0	15700,7	17281,5	19496,3	18400,6	19438	14 566
Including:							
Income tax of physical person	590,2	715,7	813,0	859,7	980,3	982,0	957
Income tax of legal entity	1429,9	2134,0	2252,0	2374,8	2302,7	2211	1806
Land tax	35,3	35,3	30,6	33,1	35,4	48	50
Property tax	101,8	103,9	105,1	125,1	141,3	148	174,2
Value-added tax	2082,5	2222,7	2366,9	2710,0	3119,6	3 456	3336
Excise tax	514,9	480,2	531,5	593,3	797,3	684,0	637
The Mining tax	130,1	129,8	125,8	121,5	116,2	116	107
Taxes in line with the foreign relations	291,8	433,1	592,5	675,2	684,7	684,7	1120
Other taxes	90,3	140,6	157,6	161,5	192,7	180	458
Other receipts	6136,2	9305,4	10306,5	11842,1	10030,4	9559	6 000
Total costs	11765,9	15397,5	17416,5	19143,5	18709,0	21100	16 264
Including:							
Economy	4889,9	6803,2	6960,7	8207,5	7598,7	7598,7	3554,2
Socio-cultural ceremonies	2901,4	3447,2	4072,9	4081,8	4484,4	4484,4	4564
From them:							
Education	1180,8	1268,5	1453,2	1437,7	1553,9	1711	1713
Health	429,2	493,4	609,4	618,9	665,3	777	744,8
Social security and social defense	1123,0	1495,4	1769,5	1750,3	1971,2	2040	1896,5
The activities in culture, art, information and physical education	168,4	189,9	240,8	274,9	294,0	348,3	652,7
Science	92,8	106,1	116,7	117,0	124,2	124,0	131,7
Judiciary, law enforcement and prosecution	668,5	710,3	929,2	1049,3	1103,6	1240,2	1138,7
Legislation and execution, local governments	303,0	281,9	342,3	349,3	449,7	2047,6	542,3
Other expenditures	2910,3	4048,8	4994,7	5338,6	4948,4	4498,7	4328,7

**Source:** <http://www.finance.gov.az>

Azerbaijan has business relationship with more than 175 countries. Russia, the United Kingdom, Kazakhstan, Turkey, Germany, Ukraine, the Netherlands, China, the United States and Japan provide the 70% of the import. Italy, Israel, Russia, Georgia, Turkey, Iran,

Turkmenistan, Indonesia, Croatia and France provide 87% of the export. The volume of the foreign trade in recent years: *Italy* (25%), *Russia* (12%), *the United Kingdom* (6%), *Turkey* (6%), *Turkmenistan* (3.6%), *Israel* (4.65), *Kazakhstan* (3.5%), *Germany* (3.3%), *Iran* (3%), *Georgia* (3%), *France* (2.6%), *China* (2.5%), and the *Netherlands* (2.3%). Italy is in the first place in terms of export because of the oil transportation via Trieste port. As a result of the financial crisis in Russian Federation in 1998, and the devaluation, the Russian goods attained price advancement in Azerbaijan market. Russia attained one of the first places in terms of the foreign trade of Azerbaijan.

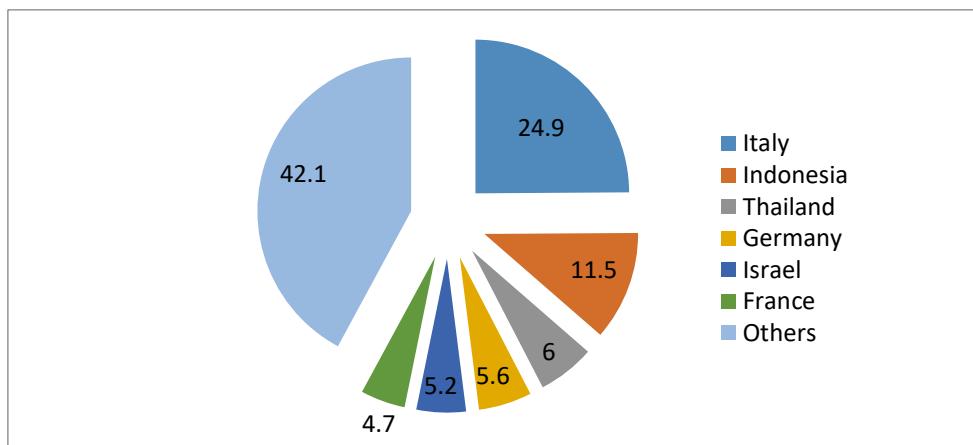
**Figure-3: Main Countries in Import (2016)**



Source: <http://www.stat.gov.az>

There are also some changes in the country's foreign trade priority. It is possible to note that, Azerbaijan makes trade relationships with highly developed and developing countries.

**Figure-4: Main Countries in Export (2016)**



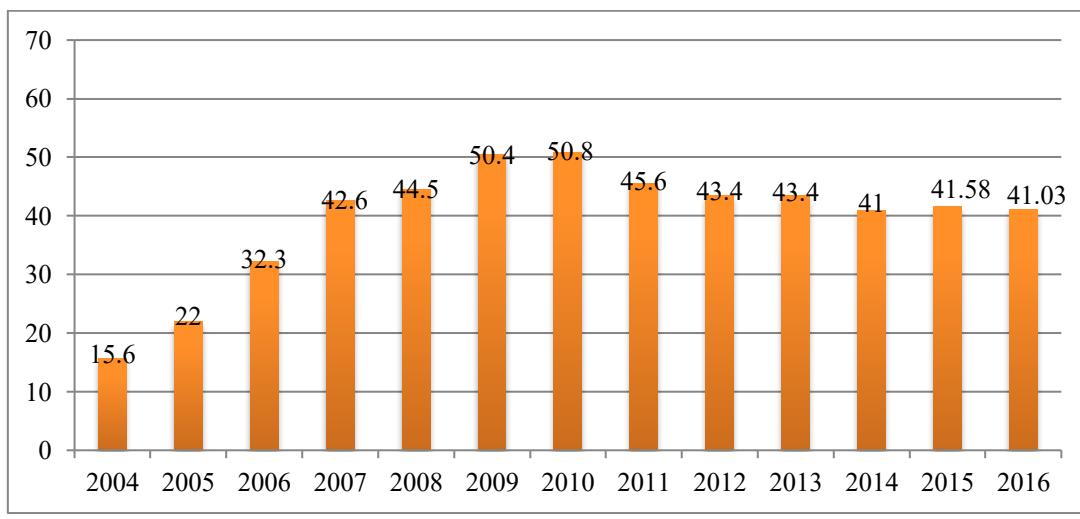
Source: <http://www.stat.gov.az>

## 2. Oil and natural gas production of Azerbaijan

Azerbaijan is one of the most oil-dependent countries in the world. In 2016, the oil sector generated 30% of the country's GDP, and oil revenues accounted for 60% of the state budget. It is calculated that in Azerbaijan- the most experienced country in the Caspian Sea - 1.4 billion tons of oil and 445 billion m<sup>3</sup> natural gas have been extracted in the past 100 years. Since the

start of the production until 2005, the highest oil production in Azerbaijan was recorded in 1941 with 23.4 million tons (Aras, 2008). Although oil production declined in Azerbaijan with the start of the transition period, the signed contracts became the turning point in the production and it began to rise again after the activities. In November, 1997 with the beginning of the oil extraction from the first well in Chirag field, the declining oil production till 1997 started to grow from 1998. However natural gas extraction showed a decline except for 1999. The Caspian Sea portion of the total oil production was 82.3%, but this ratio inclined to 89% in 1999 and between 2000-2004. Thus, the Caspian Sea portion of the oil production is rising over years. Since 2005, this ratio is higher than 90%. By comparing the oil production level in 2002 with 1990, we can observe that it was 2.5 million tons more. This production scale is equal to the level of oil extracted in 1979 in Azerbaijan. Consequently, the ongoing instability in oil production since the late 1960s ended and rose again. Oil production was resulted in 15.3% in 2003 and became 15.5 million tons with 1.3% increase in 2004. In 2010, 50 million 838 thousand tons of oil was produced. There was a decrease in the oil production level in 2014 in comparison with 2010. Because it declined to 42 million tons.

**Figure-5:** Volume of oil production in Azerbaijan in 2004-2016 (million tons)

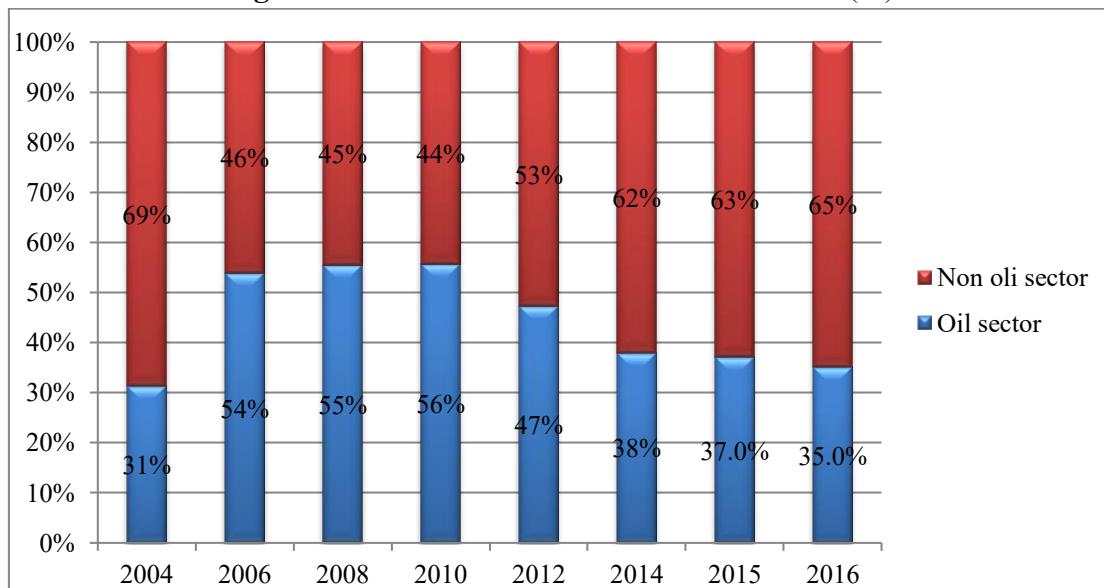


Source: [www.socar.az](http://www.socar.az)

As mentioned earlier, oil production started to decline in 2011 and descended to the level of about 2007. This decline has also manifested itself in the following years.

As can be seen from the chart above, the highest oil production was recorded in 2009 and 2010 with 50.4 and 50.8 million tons, respectively. Natural gas production in Azerbaijan commenced in 1902. Since the start date of the production the highest natural gas production in the country was carried out in 1981 with 17 billion m<sup>3</sup>. In 1980s natural gas output reached 14 billion m<sup>3</sup> on an annual basis. However, as a result of a significant decline in the production since 1990, it fell to the volume of the output in 1960s.

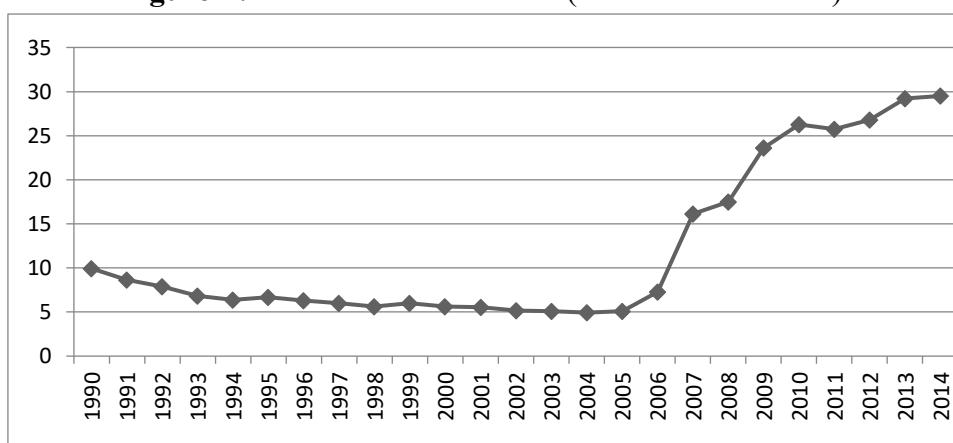
**Figure-6: Oil and Non-oil Sector Share in GDP (%)**



Source: <http://www.maliyye.gov.az/sites/default/files/2017-1.pdf>

There are 2 big pipelines in Azerbaijan. They are Baku and Novo-Baku lines. The daily volume of Baku line is 230 thousand barrels and Novo-Baku is 200 thousand barrels. There is a need for nearly 700 million dollars to restore and repair both lines which have very low production and old technology. US Trade and Development Agency has provided financial support of 500 thousand and 400 thousand dollars alternately for feasibility studies of modernizing Baku line and Sumgait petrochemical plants. 96% of natural gas output is achieved from the Caspian Sea. The produced natural gas met only 40% of the domestic demand of the country. It meant natural gas output failed to address the domestic demand. For that reason, natural gas import became a necessity. Since 2006, natural gas production in Azerbaijan reached the level of 20 billion m<sup>3</sup> increasing year after year which enabled Azerbaijan not only to pay the demand of its own domestic market, but also to export natural gas to Turkey, Georgia and Russia.

**Figure-7: Natural Gas Production (billion cubic meters)**



Source: SSCAR Publications

As can be seen from the chart above, in recent years natural gas production has grown significantly. That is, if only 5 billion m<sup>3</sup> of natural gas was produced in 2005, it reached 29.4 billion m<sup>3</sup> in 2016. The primary reason of the rise in natural gas output can be explained by the renewal of technical equipment as well as the start of production in new gas wells.

Azerbaijan exported 506.14 million cubic meters of gas to Turkey in February 2017 compared to 558.49 million cubic meters in the same month of 2016, says a report posted on the website of Turkey's Energy Market Regulatory Authority (EPDK).

In 2016, Azerbaijan supplied 6.48 billion cubic meters of natural gas to Turkey, as compared to 6.17 billion cubic meters in 2015. In January 2017, Azerbaijan exported 590.35 million cubic meters of gas to Turkey. Turkey imported 5.25 billion cubic meters of gas in February 2017, some 3.75 billion cubic meters of which were imported via pipelines, and 1.5 billion cubic meters accounted for the LNG import.

Azerbaijan's share in total volume of gas imported by Turkey stood at 9.64 percent in February 2017. Azerbaijan's sales gas output stood at 4.8 billion cubic meters in the first quarter of 2017, stable compared to the same period of 2016. Azerbaijan's gross gas production was 29.4 billion cubic meters in 2016, including 18.71 billion cubic meters of sales gas, of which 6.754 billion cubic meters was exported. The total volume of gas export in 2016 stood at 7.78bcm, recording a decrease of 625million cubic meters as compared to figures of 2015. It is projected that the annual volume of natural gas production between 2010-2020 in Azerbaijan will be 60 billion m<sup>3</sup>, 15-20 billion m<sup>3</sup> of it will meet the domestic demand. For the export of the rest of the gas, a number of alternative projects including Nabucco are available. In parallel with the price increase in the international market, the escalation of the price of Azerbaijan's oil influences the country's export in a positive way.

Azerbaijan's budget revenues are not only about customs and taxes. The rise in the income of Azerbaijan's oil, which is sold in the world markets, also affects the growth of the budget revenues. Although Azerbaijan made more than about 120 billion dollars of profit after the process, 70-75 billion dollars of it were spent in the form of transfer to the oil fund and budget. In the background of a serious oil price fall in the world markets, Azerbaijan's economy faced a loss of 20-25 billion dollars which was a quite rigorous circumstance. In the past 2 years, the Central Bank's reserves fell twice to 7 billion dollars and even 30% devaluation of manat at the beginning of 2015 could not inhibit this process. Considering this condition, for the first time in the last 5 years the government of Azerbaijan reduced the transfer from the Oil Fund from 10 billion to 6 billion dollars.

*Managing oil revenues:* The use of the wealth achieved from oil is essential. In this regard, the main problem in Azerbaijan's experience is the emergence of "Crony Capitalism" as well as the existence of high-level bribery and corruption. The flow of oil-money to the country overburdens the realization of proper reforms. The ease of getting oil revenues leads to the weakening of state expenditure policy, the immediate change in oil prices can cause the increase of long-term foreign debt and interest payments affecting the state budget.

Thus, it is an inevitable necessity for the government, which directs the country's economy, to pay attention to the division with a mechanism of resources division that will be able to continue oil revenues in a way to form a growth (in between oil & non-oil trade sectors and the sectors that are not included in foreign trade). Diverting the revenues and benefits coming from oil to productive areas is one of the major problems in an economy where financial institutions and markets are not formed fully. The solution to this problem reveals the need for the planning role of the state in the economy.

The foreign exchange that Azerbaijan will gain from oil export should be directed to other areas, especially to the development of export fields and the ones that substitute import. If currently Azerbaijan is obliged to export only energy and raw materials to the world market, it should not confine itself to these in the future. Beyond this, conclusions should be drawn from "bitter" experiences of oil exporting countries by learning them deeply. With the incomes from oil, more investments should be made. Investment-oriented policy is more important. However, the government should carry out social tasks as well.

The long-term strategy of managing Azerbaijan's oil and natural gas revenues was identified in 2008. For the development of energy sector and infrastructure, this strategy reflects government plans, which emerged in a time when high amount of oil and gas revenues were obtained, on providing the transformation of the economy without loss. The strategic program approved by the country's president involves the management of oil and natural gas revenues to be obtained in 2005-2020. 25% of the attained revenues will not be spent but rather protected.

It is calculated that Azerbaijan will gain 240-265 billion dollars' revenue from oil and natural gas over 30 years. The revenues coming from Azeri, Chirag and Gunesli fields will reach its peak in 2008-2015. Over this period, yearly around 5-6 billion dollars and as a result 35-42 billion dollars will enter the country. After the use of Shahdeniz field, revenues that might be obtained will become more than 7 billion dollars.

According to the calculations made by the State Oil Fund, oil and natural gas revenues reached the highest level in 2009-2014. Over the course of the next 20 years, the country's revenues from oil and natural gas will vary between 15-35 billion dollars.

According to the researches conducted by the State Oil Company of Azerbaijan, in case a barrel of oil price becomes 35 dollars, the country's oil revenues will be 104 billion dollars till 2024.

### **3. Cooperation between two countries in the energy sector**

Cooperation between Turkey and Azerbaijan in the energy has a multi-faceted structure. It is now widely recognized that Turkey-Azerbaijan relations have always been strong and described with the phrase "one nation with two states". Energy has a special place in the relationship between the two countries. Azerbaijan's economy, energy sectors of Azerbaijan and Turkey has been assessed. Moreover, this paper gives a comparative analysis on economic relationship between Turkey and Azerbaijan. This study finally discusses the main trends and contributions of energy projects on Turkey-Azerbaijan relations. One of these areas is transport. Thus, these states are also cooperate in transportation of energy sources to the world markets (Aras, Suleymanov, Mammadov, 2016). Azerbaijan declared its independence on 30 August 1991. Azerbaijani Assembly approved this decision on 18 October 1991. Turkey became the first country recognizing its independence. Turkey was represented as a model for newly independent Caucasian and Central Asian Republics. At the First Turkish-Speaking Head of States Summit in Ankara on the dates of 30-31 October 1992, President Turgut Ozal emphasized that the 21. Century would be the age of Turks. President Turgut Ozal suggested the establishment of Turkish Common Market and Turkish Development and Investment Bank during the summit. These suggestions were only welcomed by the Azerbaijani Head of State Abulfeyz Elchibey.

For example, oil from the *Azeri, Chirag and Gunesli* fields has exported through Georgian and Turkish territories. The oil is pumped from *Sangachal Terminal* via *Baku-Tbilisi-Ceyhan pipeline*, a total volume of which is 50 million tons, to the world markets. For the first time

talking on this project started in 1992. Later it took a concrete shape and, on March 9, 1993 in Ankara, Turkey and Azerbaijan signed a framework document on the construction of the *Baku-Tbilisi-Ceyhan pipeline*. On October 29, 1998, presidents of Azerbaijan, Turkey, Georgia, Kazakhstan and Uzbekistan signed Ankara declaration, affirming the importance of this pipeline. The U.S. energy secretary Bill Richardson was also participated during signing ceremony. At last, the final decision on its construction was made, on November 18, 1999 during the OSCE Summit in Istanbul, when presidents of U.S., Azerbaijan, Turkey, Georgia and Kazakhstan have signed a document confirming the support of these states for the construction of the *Baku-Tbilisi-Ceyhan pipeline*. The share of TPAO in this pipeline, whose construction began in 2002 and ended in 2005, is 6.87%.

Further cooperation between Azerbaijan and Turkey in the energy sector also creates the conditions for obtaining benefits for both countries. The development of major international pipeline projects will allow Turkey to become an energy hub, receive political and economic dividends at the regional level. At the same time, Azerbaijan, diversifying gas supplies, has access to the European gas market. National company *SOCAR* will have the opportunity to invest in the region's economy. This will allow it to strengthen its position as major international oil and gas company and for consumers, consistently import gas from an alternative source, generate additional revenue and create new jobs.

The shift in the investment practices in both Azerbaijan and Turkey reflects the new economic position of these countries. After failing to economically establish in the post-Soviet space, Turkey has progressively limited its energy investments in this region, favoring cooperation with the hydrocarbons-producing states. In the meantime, recovering from economic and political meltdown, Azerbaijan has begun to invest in the energy sector beyond its borders, including in Turkey. From a Turkish investments recipient, Azerbaijan has been transformed into an investment-maker in Turkey. Such a trend falls into the framework of the rising regional economic leadership held by Baku in the Black Sea region. It also lays the basis for a new relationship based on energy partnering.

After the discovery of Shah Deniz field, a few new pipeline projects came up. Among them, Nabucco Project was supported by many countries but could not be realized. There are three new projects that Shah Deniz Consortium is working on: enlargement of Baku-Tbilisi-Erzurum (BTE) (South Caucasia Natural Gas Pipeline), Trans-Anatolia Pipeline (TANAP) and Trans Adriatic Pipeline (TAP). In the scope of the enlargement of BTE, it is planned to build a new pipeline parallel to the existing pipeline between Azerbaijan-Georgia and to merge this pipeline with TANAP and TAP. The transition of natural gas in Shah Deniz to Europe through Turkey is planned with TANAP Project. TAP Project will connect TANAP to Italy through Greece and Albania (IEA, 2013b).

This research evaluates the investments of rich oil and natural gas source owner and the most blooming country of the world- Azerbaijan's investments in Turkey energy sector and its impacts on both these economies. After giving brief information about economy of Azerbaijan, the research analyzes SOCAR's investment on petrochemical institution in Turkey Petkim which was purchased under Turkish privatization master plan. Star Refinery which began to be built on Petkim peninsula, electric power-plants and port investments were examined under

several titles. Additionally, the research gives entire information about the investments on Trans Anatolia Natural Gas Pipeline (TANAP) which was signed at the end of 2011 and evaluates its impacts on Azerbaijan - Turkey Economic Calibrations.

Energy agreements that accelerated with the signature of Baku-Tbilisi-Ceyhan Oil Pipeline and Baku-Tbilisi-Erzurum Natural Gas Pipeline Projects between Turkey and Azerbaijan became more comprehensive when SOCAR bought PETKİM in 2008. The memorandum of understanding of Trans Anatolia Pipeline (TANAP), was signed on 26 December 2011 and intergovernmental agreement was on 26 June 2012. This pipeline would transport natural gas from Azerbaijan to Europe through Turkey. The starting point is Turkish border Turkgoz and exit points to Europe will be Greek and Bulgarian borders, and Turkish exit points will be Eskisehir and Thrace region. The first phase of the anticipated 8 phases of TANAP Project is planned to be realized on 2018 with the first gas transport. It is aimed to reach from annual capacity of 16 billion cubic meters in 2020 to 23 billion cubic meters in 2023, and 31 billion cubic meters in 2026. TANAP Project is very important for the energy supply security of Turkey and Europe. Project will also contribute significantly to transport Azeri natural gas to new markets (TANAP Project Official Website, 2014a).

### **3.1. Baku-Tbilisi-Ceyhan oil pipeline**

In case of an increase in the oil production, operating Baku-Novorossiysk and Baku-Supsa would not suffice, so many alternatives emerged on the subject of the main pipeline to export to Western markets. Baku-Tbilisi-Ceyhan was chosen among these alternatives.

1768 km-long Baku-Tbilisi-Ceyhan pipeline passes from the Sangachal port near Baku via overland pass to the Georgian capital, Tbilisi and enters Anatolia after going between 42 degrees 49 minutes north of Turkish borders and 43 degrees 18 minutes east coordinates. 443 km of the line passes through Azerbaijan, 249 km from Georgia, 1076 km from Turkey. The line joins the terminal constructed in Ceyhan after going alongside the borders of Ardahan, Kars, Erzurum, Erzincan, Sivas, Kayseri, Kahraman Maras, Osmaniye and Adana cities.

Along with Azerbaijan, the transportation of Kazakhstan oil and Turkmenistan natural gas through the same line is thought over for a long while. That's why the Transcaucasus line which is thought to be laid under the Caspian Sea will be used to transfer Kazakh oil and Turkmen natural gas to Baku, then from here to Turkey through Baku-Tbilisi-Ceyhan pipeline.

On September 18, 2002 with the participation of the presidents of Azerbaijan, Turkey and Georgia, the foundation ceremony of Baku-Tbilisi-Ceyhan pipeline was held.

An export and import bank of the USA, "Exim Bank" decided to allocate 160 million dollars of long-term credit for the export of American equipment and services in order to construct Baku-Tbilisi-Ceyhan oil pipeline. After the information on the project was presented to the Congress, this decision was made. Eventually, on February 3, 2004 an important step was taken in the realization of Baku-Tbilisi - Ceyhan pipeline. On that very date, the financial package of the project was completed together with the world's famous and essential financial institutions. With the decree of March 10, 2004 - "To perpetuate the memory of the national leader, Heydar Aliyev Alirza" signed by Ilham Aliyev, Baku-Tbilisi-Ceyhan main export pipeline was decided to be named after Heydar Aliyev. Together with the costs of filling the pipeline with oil, 3.6 billion dollars were spent on BTC oil pipeline. The benefit of BTC oil pipeline on Azerbaijan's economy in a positive way has started to show itself since its inception in 2006. In the first year when the BTC pipeline started operating 25 million tons of oil were transported, since 2007,

45-50 million tons of oil per year are transported to Ceyhan port. Ceyhan crude oil export terminal has the volume of 120 million tons/year and by considering approximately 71 million tons' volume of Iraq-Turkey crude oil pipeline, 49 million tons/year volume is sufficient to meet BTC's capacity to be transported. As a result of the implementation of BTC pipeline and the transportation of Kazakhstan's oil through this line to the world markets together with the oil that will be produced in Azerbaijan, the effect of the oil on economic development and independence will be observed more clearly. The discussions on the transportation of Kazakhstan's oil through this pipeline is on the agenda regularly. All the documents have been prepared for the transportation of oil with Kazakhstan side. "Chevron Texaco" company is thinking of transporting 12 million tons of Kazakhstan's oil through Baku-Tbilisi-Ceyhan. "Total" (France), "ENI" (Italy), "Inpex" (Japan) and "ConocoPHILIPS" (USA) companies want to export the oil from "Kashagan" field in the Kazakh section of the Caspian Sea to the world market through BTC.

### **3.2. Baku-Tbilisi-Erzurum natural gas pipeline**

After the discovery of rich gas fields in Shahdeniz located in the Azerbaijani sector of the Caspian Sea 100km away from the coast, the discussions on how to export the natural gas began. In the phone talks between Aliyev and Turkmenbashi, in return for the agreement on Azerbaijan's 5 billion m<sup>3</sup> of natural gas export through Transcaspian line, the extension of the contract term by the company to take part in Transcaspian project put the realization of the line in danger. Beyond that, the yearly sale of 50 billion m<sup>3</sup> of natural gas by Turkmenistan to Russia was another reason making Turkmenistan lose interest in Transcaspian pipeline. All of these caused Azerbaijan to look for new ways to sell its natural gas.

During Aliyev's visit to Turkey in March of 2001, a contract was signed between Turkey and Azerbaijan in Ankara on the export of natural gas. According to it, it was planned to export 23.2 billion m<sup>3</sup> of natural gas over a 5-year period including 2 billion m<sup>3</sup> in 2004, 3 billion m<sup>3</sup> in 2005, 5 billion m<sup>3</sup> in 2006, 6.6 billion m<sup>3</sup> in 2007-2008, however due to some price dispute and technical problems in later years brought about certain delays. Although under the contract it was decided to start the export in 2004, in course of the events, the construction of Baku-Tbilisi-Erzurum natural gas pipeline with the aim of transporting Shahdeniz natural gas to Turkey later on commenced in 2004. The very pipeline was thought to be parallel to BTC oil pipeline. The 12 meters' calculation of the distance between 2 pipelines will allow to save time and reduce financial costs in the realization of the project.

In 2004, BP launched the construction of South Caucasus natural gas pipeline in connection with the gas export of "Shahdeniz" field. The construction was completed in the 4<sup>th</sup> quarter of 2005 and the produced natural gas export began in the winter of 2006.

With a signed agreement, for the first year 1 billion of natural gas will be exported to Greece and Europe. The export level will be raised to 14.3 billion m<sup>3</sup>. Within this framework, the construction of the pipeline between Greece and Turkey has started. The joining of Greece to the project by purchasing natural gas will contribute to the deepening of the relations between Greece and its strategic ally in "Shahdeniz" project, Turkey. The participation of Greece in the project will create a balance in its policy towards Azerbaijan and Armenia.

In case of activating Transcaspian natural gas pipeline, the effect of energy resources on the economic development will be seen more clearly.

Unlike Iran and Iraq, oil and natural gas fields in Azerbaijan are limited. However, these resources will serve the integration of Azerbaijan to Europe and implementation of the European Union's neighborhood strategy. Certainly, the realization of oil and natural gas projects will give an impetus to the economic development of other countries in the region.

### 3.3. TANAP project and its perspective

Following the successful implementation of the oil strategy, Azerbaijan began to define strategic objectives in relation to gas export policy. Currently, Azerbaijan is the only country in the region exporting gas to the international markets (Turkey, Russia, Georgia). For this reason, it is seen as “the provider and participant” of Southern Gas Corridor by EU. In this direction, Azerbaijan aims to be the country of an important and strategic natural gas exporter. From Shahdeniz field to the end European user, it targets to take part in the every ring of the value chain (Suleymanov, Huseyinov, 2013).

Gas is a strategical product and if it is used effectively, Azerbaijan can reach a substantial geostrategic and financial position with SOCAR. Managing possible future relations assumes great importance day after day. With the growth of South Caucasus Pipeline Project, Azerbaijan will be able to maintain its interests by controlling the gas volume from its source to the end user. However, this arrangement will not provide a country aiming to popularize gas export. Such a step taken by SOCAR can be explained by 2 reasons. The first one is the transportation of Shahdeniz gas after 2017, the second one is to increase Azerbaijan’s oil production to 50 billion cubic meters per year together with the gas that will be produced by new discoveries after 2025 (Arasi Suleymanov Hasanov, 2013). In case of the implementation of these projects, in order for SOCAR to maintain its interest in the lower rows of the value chain in Turkish territory, the development of the above mentioned strategy has become a necessity. Trans Anatolian Pipeline (TANAP) “suddenly came up” for the first time in October, 2011 during Turkey Azerbaijan transit discussions and was guaranteed by “an additional item” of Intergovernmental Agreement (IGA) on October 25, 2011. Later on, Memorandum of Understanding (MOU) on December 24, 2011 and a special IGA on June 26, 2012 were signed for TANAP. As accepted by both parties, adding the condition of 6 billion cubic meters of gas export to the Turkish market via TANAP to the text was significant for SOCAR. Without 6 billion cubic meters of gas, it is not possible to conduct TANAP, because the pipeline in the capacity of 56 inches and 31 billion cubic meters can be economically effective with only the start volume of 10 billion cubic meters. That’s why, IGA’s part of “transit” title approved by the Turkish Parliament on October 25, 2011 and Gas Transit Agreement (GTA) signed between SOCAR and BOTAS on the same date has the authority of “application” for TANAP project in an informal sense. TANAP is being supported by the governments of Azerbaijan and Turkey. TANAP is also seconded by England, the USA, the EU and even Nabucco with Trans Adriatic Pipeline (TAP). BP backs up both TANAP and BOTAS for different approaches. There are 4 stages in the period of decision-making on TANAP and the start of its construction. These 4 stages will be discussed separately below (Suleymanov, Aras, Hasanov, 2016).

The Agreement, which was signed in Izmir between Turkey and Azerbaijan on October 25, 2011, envisages both the transit transportation of natural gas to be obtained from Azerbaijani sector of the Caspian Sea-Shahdeniz field over Turkey to the world markets and its purchase by Turkey.

About the transit transportation of natural gas to Europe, 2 different alternatives were taken into consideration in the contract signed after the meeting held with the participation of Turkey’s Prime Minister Erdogan and Azerbaijan’s President Aliyev in Izmir-Aliaga. The first one of the mentioned alternatives was about Turkey’s transmission system of national natural gas, the second alternative was the construction of an exceptional pipeline. The contract between the governments laid the foundations of the way to TANAP.

Trans-Anatolian Natural Gas Pipeline was first announced as a project by SOCAR (State Oil Company of Azerbaijan Republic) in the Third Black Sea Energy and Economic Forum organised in Istanbul, on November 17, 2011. In the statement made by the president of

SOCAR, he expressed that the operation on Trans-Anatolian Pipeline Project extending from the eastern borders of Turkey to the western borders had started in order to transport Azerbaijan's natural gas potential to the long-term promising markets of Turkey and Europe.

Nearly 2 months after the pre-agreement, the memorandum of agreement on the "Trans-Anatolian Natural Gas Pipeline" was signed between the Ministry of Energy and Natural Resources of the Republic of Turkey and Azerbaijan's Ministry of Industry and Energy in Ankara, on December 26, 2011.

The consensus on the urgent start of the work towards the exceptional pipeline named Trans-Anatolian and the establishment of a joint consortium of the companies appointed by the 2 countries was reached.

In the consortium that will be organised for the construction of the pipeline,

SOCAR, BOTAS and TPIC were decided to take part as the first partners. It was also considered that other international oil and natural gas companies might join the consortium within the period of the agreement.

Thus, with the memorandum of agreement, the contract signed on October 26, 2011 was made more definite.

In order to construct the new exceptional pipeline under the name of Trans-Anatolian for transporting Azerbaijan's Shahdeniz-2 gas to Turkey and Europe, the historical cooperation between Azerbaijan and Turkey started with the 3 agreements made in Istanbul on June 27, 2012. They consist of the inter-governmental deal on the project, the agreement of the host country and pipeline.

The recent TANAP Intergovernmental Agreement was signed on June 27, 2012 in Istanbul and it envisages to convey the natural gas to be obtained from Shahdeniz-2 field, which is one of the world's most important gas fields in terms of the reserve amount, to Europe via Turkey.

TANAP pipeline that passes through Georgia aims to sell and transport Azerbaijan's natural gas via Turkey. The entry point of the line is Turkgozu of Turkish border, the exit points will be Eskishehir and Trakya areas. The borders of Greece and Bulgaria will become the entry point to Europe from Turkey. This part of the new line has not been decided fully, also the one side of it is thought to reach Greece, while the other to Bulgaria.

The investment made on the Trans Anatolian Natural Gas Pipeline Project is presumed to be 7 billion dollars. The first stage of the project, annual capacity of which is planned to reach 31 billion cubic meters, is meant to be completed in 6 years.

In the consortium created for TANAP, SOCAR from Azerbaijan, BOTAS and TPIC from Turkey take part as the first partners. In the consortium BOTAS of Turkey owns 20% share, while SOCAR of Azerbaijan has 80% share. In 2015, Azerbaijan sold 12% of its share to BP making the environment more multinational and adding the world's energy giant to this project. Currently the shares of Azerbaijan, TPIC and BP in the project are 68%, 20%, 12% respectively. 4 different alternative projects on the transportation of Shahdeniz-2 oil to European markets were set on the agenda. They were "Great Nabucco", "Trans-Adriatic", ITGI (Turkey-Greece-Italy) and SEEP (South East Europe) projects. The project supported by the European Union and USA was Great Nabucco. However the financial problems related to the project, some uncertainties, the objection of several countries due to the strategic effects it might have, as well as the situation of some countries failing to express opinions on whether they supported the project or not, prevented the realization of it. Even the leading source supplier country - Azerbaijan's position was indefinite because of economic and strategic reasons. After the latest agreement between Turkey and Azerbaijan on TANAP, the Nabucco consortium was forced to

revise Great Nabucco as the Nabucco West Project. As a result of the conversion of Great Nabucco's Turkish section, that was meant as 3440 kilometers, to TANAP, the Nabucco West Project became shortened. The intended length of the Nabucco West Natural Gas Pipeline is 1300 kilometers. The positive approach of the Nabucco consortium to TANAP and proposed Nabucco West Project as an addition to TANAP in order to export Shahdeniz-2 natural gas to the European markets, were accepted by Azerbaijan.

In terms of Azerbaijan, this project brings huge economic gains in the export of the available natural gas resources to new markets. According to the latest circumstance in TANAP, 68% of which belongs to Azerbaijan, it will be like Azerbaijan will be transporting its own gas via Turkey's territory. Because Azerbaijan wanted to get the revenue of the export of the natural gas to the European markets itself. Thus, one more economic obstacle in the way of Azerbaijan's long-term negative approach to Great Nabucco was eliminated. That is, Azerbaijan will get revenue both from the sale and transportation of Shahdeniz -2 gas to the European markets.

The work on the implementation of this project assumes great importance in terms of new employment opportunities in Turkey. With cooperation, Azerbaijan and Turkey laid the foundation of a big refinery project in Petkim. Given the 2 major projects, the amount of the investment made by Azerbaijan's SOCAR in Turkey will reach 17 billion dollars. It means the biggest country investing in Turkey's industry will be Azerbaijan and the biggest company will be SOCAR. After Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines, with the agreements on TANAP and refinery project in Petkim, Azerbaijan will be an important strategic and economic partner in the direction of Turkey's being both an energy corridor and main energy supplier.

In case this project of various economic importance is carried out, a part of the natural gas (6-10 billion cubic meters) of this line will be sold in Turkish market, while a significant portion (10-25 billion cubic meters) to European countries. Considering the exit points in Turkey, the Trans Anatolian line will feed Turkey's National Transmission line and this line is seen as an important one in strengthening energy supply in western region.

Besides the economic reasons of splitting Great Nabucco project into TANAP and Nabucco West, its some strategic results are point in question. TANAP is assumes great strategic importance for both the region countries including Turkey and Azerbaijan as well as European countries.

Azerbaijan's natural gas potential in the Shahdeniz field is 1.2 trillion cubic meters and in other sources it is more than roughly 2.6 trillion cubic meters. Given the potential in the other natural gas fields beyond Shahdeniz, Azerbaijan's gas production is projected to reach 50 billion cubic meters in between 2020-2025. These assumptions bring Azerbaijan to the position of a remarkable natural gas supplier for the export of large amount of gas to the European markets through Nabucco West.

The implementation of the project with financial and technical capabilities of Azerbaijan and Turkey has made it a project to be realized between Turkey-Azerbaijan. TANAP means Turkey and Azerbaijan will emerge together in the European market for energy transportation.

Along with Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum, TANAP has reinforced Turkey's position as a necessary energy corridor in delivering the energy resources of the Caspian Sea to the Western markets.

### **3.4. Azerbaijani investments energy sector in Turkey**

There are more than 100 companies registered officially and investing the Turkish economy from Azerbaijan. Most of these companies are operating in the service sector. The percentage of Azerbaijani share of these companies with the total amount of investments of 7 billion of dollars is about 86 %. The purchase of the half of the biggest petrochemical complex PETKIM by the SOCAR in 2009 is a second essential step after the Baku-Jeyhan pipeline towards the investments into Turkey. Turkey to build the oil terminal and the refinery complexes in the future.

If to rank the Azerbaijani businesspersons operating in Turkey according to the number of companies and the volume of investments, they are the investors with the biggest part of investments among the Caucasus and Central Asian countries. In the framework of the CIS, the volume of investments of Azerbaijan is on the second place after Russia.

Starting from 2015 Azerbaijani Ministry of Agriculture is planning to put the limitations to the import of food products from abroad. The biggest part of the products exported from Turkey to Azerbaijan are food products. It shows that the volume of foreign trade between two countries will decrease after the certain period. Therefore, it's very important to pay attention to the development of cooperation in industry sector, as well as the construction, tourism, textile and processing industries in order not to decrease the volume of trade between two countries.

However, despite the fact that the problems of the transition period, the bureaucracy and corruption have a slightly negative impact on the investment climate, the President Ilham Aliyev's political will and commitment to improve the investment climate formulates every day a little more favorable investment climate for the Turkish businessmen and other foreign countries.

In general, it's forecasted that the rule of Turkish businessmen in Azerbaijan's economy in future periods will increase in forms of small, medium and big-sized investments.

At the same time, with the start of operation of the "Baku-Tbilisi-Ceyhan" oil and "Baku-Tbilisi-Erzurum" natural gas pipelines, as well as the development of Azerbaijan's economy, the economic relations between Azerbaijan and Turkey will be intensified.

It was planned that The Baku-Ceyhan oil pipeline should be commissioned in June 2006, and the Baku-Erzurum gas pipeline - in mid-2007. At the same time, it's forecasted that Turkey's stability in political life together with the observed development phase in the economy, will make a positive impact on trade relations between Azerbaijan and Turkey and the flow of Turkish capital to Azerbaijan. Indeed, Erdogan's government gives its support on the regular basis to the development and increase of any kind of cooperation both on political and economic level.

The first step in this direction has been taken in the end of 2002 within the framework of the summit of ECO when national leader Heydar Aliyev had met with Turkish businessmen and Turkish businessmen came to Azerbaijan afterwards. The second and more important step had been taken in the beginning of 2003, when Recep Tayyip Erdogan together with large group of businesspersons visited Azerbaijan. Taking into consideration that during both of the visits businessmen from Turkey were acquainted with the very important projects, the increase in the flow of capital in the future is certain. At the same time, it's very important to emphasize the important steps by the young Azerbaijani leader Ilham Aliyev in this direction in particular. The business forum in Istanbul held in April 2006, is a clear proof of this.

Europe-Caucasus-Asia transport corridor will play a significant role in the development of economic relations between the two countries. It is planned that in the coming years, the

Azerbaijani railway will be connected with Turkish. The construction of the Kars-Akhalkalaki railway will help to achieve this goal. Both countries are interested in the realization of this project. The estimation of this project started in 2005 and expected to be completed in the coming years.

Turkish businessmen have very important responsibilities particularly in the agricultural sector, tourism, industry, financial sector, transport, communications, construction and the development of various sectors in Azerbaijan. If to take into account that Azerbaijan also plays a role of the bridge for other Central Asian countries, Azerbaijan becomes more important from Turkish perspectives.

Developing political and economic cooperation between Azerbaijan and Turkey, "Shahdaniz-2", TAP and TANAP projects carried out successful cooperation between the two countries. At present, about 2,500 Turkish companies operate in agriculture, services, industry, trade, construction, transport and others sectors. 36% of foreign companies in Azerbaijan are Turkish companies. In Turkey, nearly 1,100 Azerbaijan companies successfully operates. In 2013, a new project - 'STAR' an oil refinery factory construction has been started in Turkey. The project has been laid the foundation by the President of Azerbaijan Republic Ilham Aliyev and The Prime Minister of the Republic of Turkey Recep Tayyip Erdogan in October 25, 2011. "STAR" oil refinery will be directed to supply the demand of the interior market in Izmir and Istanbul territories by constructing in Aliaga port zone near Izmir city, in the west of Turkey which is considered powerful enough economically. The construction of the factory near the huge petrochemical complex Petkim will cause high-efficiency by creating vertical integration. The total capacity of the oil refinery will be 10 million tons and The State Oil Company of the Azerbaijan Republic will perform as the main supplier of raw materials of the factory. The factory will produce approximately 1.6 million tons of naphtha will reduce its dependence on raw materials from foreign countries in the petrochemical industry in Turkey, will help to decrease the current account deficit of diesel and aviation fuel and play the role of raw materials for petrochemical industry products. The total cost of the project is 5.6 billion USD, in 2014 to finance the construction project of "STAR" oil refinery complex has been taken into account to allocate in the amount of 224 million manat by Fund. Until the date 30.09.2014 generally 596.1 million manat, including 223.5 million manat allowance for 9 months of the year 2014 has been directed to finance this project by Oil Fund.

In accordance with the project of "STAR" oil refinery complex has been allocated 596.1 million manat allowance in general by Oil Fund and financing of the project has finished. According to The President of the Republic of Azerbaijan's Decree No.1974 of February 21, 2007 The State Oil Fund of Azerbaijan Republic fulfill the financing of the project "Baku-Tbilisi-Kars new railway". With this Decree, "International Bank of Azerbaijan" Open Joint Stock Company has been assigned the agent bank for the implementation of credit and banking services on behalf of the Government of the Azerbaijan Republic. According to the President of the Republic of Azerbaijan's Order No.2222 of June 13, 2007, the Ministry of Transport of Azerbaijan Republic has been determined the competent authority in the bilateral agreement by the Government of the Azerbaijan Republic. Since the beginning of financing of projects, until the date 01.10.2015 generally 559.3 million USD, including 22.5 million USD allowance for the first nine months of the year 2015 has been allocated to the Ministry of Transport with treasury by the State Oil Fund. This allowance, in accordance with the bilateral agreement signed between the governments of Azerbaijan and Georgia with the International Bank of Azerbaijan, has been transferred to the account of the Limited Liability Company "Marabda-Kartsakhi Railway" which has been created for projecting, constructing, rehabilitation-reconstruction and exploitation of the railway area and appropriate infrastructure institution up to the border of the Republic of Turkey.

At the auction held on 30th of May, 2008 the 51% of "Petkim Petrokimya Holding" company's shares have been acquired by the SOCAR and Turcas Energy Inc. for the price of 2 billion and 40

million dollars. At present, there are some factories on low-density polyethylene, high-density polyethylene, polypropylene, polyvinyl chloride, acrylonitrile, ethylene glycol, purified acid, aromatic hydrocarbons, ethylene-propylene, chlorine, vinyl chloride monomer, plastic works and phthalic anhydride operating under the "Petkim". The petrochemical products produced by the "Petkim" that supplies the Turkish industry with the raw materials are widely used in the in the construction, agriculture, electricity, electronics, textile industries, as well as in the production of pharmaceutical, paint, cleaning products, cosmetics and other areas. In 2010, "Petkim Petrochemical Holding" Inc. set a record in production, export and production capacity percentages for the 46-year history. "Petkim" took the 12th place in the "Top 500 largest industrial entities" of "Istanbul Chamber of Industry", the 20th place among the "1000 Most exporting companies" of "Turkish Exporters Assembly" and 3rd place in the ranking released by the "Aegean Region Chamber of Industry" among the "100 largest industrial structures of the Aegean" and "The most exporting companies".

## Conclusion

Bilateral economic co-operation between Azerbaijan and Turkey, as well as their great contribution to the investment are the main factors for the development of our countries. The turnover for the trade between Azerbaijan and Turkey is more than 5 billion dollars. The volume of the investments allocated to the economy of Turkey will have reached 20 billion dollars by 2020, whereas 15 billion of this will go to the State Oil Company. The significant projects, such as Baku-Tbilisi Ceyhan pipeline, Baku-Tbilisi-Erzurum pipeline, Baku-Tbilisi-Kars railway have the great importance in the future co-operation between two countries.

After the projects mentioned above, Trans-Anatolian Natural Gas Pipeline Project (TANAP), which was signed on, 26 June 2012 by the President Ilham Aliyev and Prime Minister Recep Tayyip Erdogan, has increased the influence of our countries in a global world and region. Thus, TANAP project will be implemented within 5 years. Azerbaijan will be not only a vital gas supplier for Turkey, but also Azerbaijani gas will be transported to Europe via Turkey at the same time.

Today, Azerbaijan plays a critical role in a global energy market, as well as ensuring energy security of region and Europe. The share of Azerbaijan just increased to nearly 40 percent in some of the gas market of European countries. Furthermore, an agreement reached as a result of the activities of political leaders of both countries for the construction of Trans-Anatolian Gas Pipeline in 2012. The role of Azerbaijan will be widened in European gas market after the implementation of TANAP in 2017. This project will be a strong instrument for ensuring our long-term development, as well as economic and other interests in a decade. Current gas reserves of Azerbaijan will let meet the republic and other countries need for gas in 100 years. Moreover, choosing the TAP Project-Trans-Adriatic pipeline as an export route in 2013 has been a historic page.

On 17 March, 2015 a solemn ceremony was held in Selim, the Turkish province of Kars, on the occasion of the groundbreaking of the Trans-Anatolian Natural Gas Pipeline with the participation of the President of the Republic of Azerbaijan Ilham Aliyev, President of the Republic of Turkey Recep Tayyip Erdogan and President of Georgia Giorgi Margvelashvili.

It was noted in this historic event that the project will link the expanded South Caucasus Pipeline, which starts in Azerbaijan, with several pipelines in the European Union. The project that intended to implement within 5 years will be carried out in several stages, with the first ending in 2018.

The planned capacity of the pipeline will be 16 billion cubic meters of natural gas per year by 2020, and will be increased to around 23 billion cubic meters by 2023 and 31 billion cubic

meters by 2026. Ten billion cubic meters of the initial 16 billion cubic meter volume will be transported to Europe, while 6 billion cubic meters to Turkey. The intended gas for the Europe will go from Turkey-Bulgaria and Turkey-Greece border. This historic event could be evaluated as the new and dynamic development stage of the strategic cooperation of Azerbaijan-Turkey.

Turkey pays attention to the following points in the Caucasus and Central Asia policy, including Azerbaijan:

1. To give a priority to the strategy of the common cooperation and development of the countries in the region,
2. To the establishment of the insurance union of the region,
3. To the establishment of the international arbitration system to operate in the region,
4. To the acceptance of the properties of investors in the region as the mortgages while giving the Eximbank credits,
5. To the completion of Kars-Tbilisi railway in the nearest future,
6. To the volume of trade between Azerbaijan and Turkey as well as to increase of the information and technology flow,
7. To support the development of commercial law, tax law, execution-bankruptcy law, competition law and the infrastructure of the capital market legislation,
8. To accelerate the cooperation for the establishment of the economic system that can be able to compete in the regional market,
9. To mediate the cooperation between this region and Europe at the stage of acceptance of Turkey into the EU,
10. To work towards the softening of the freight traffic and customs checkpoints conditions and establishment of the comfortable movement between Azerbaijan and Central Asian states as between the European countries,
11. To mediate in the work towards the establishment of Turkish Economic Union between the Turkic states as the alternative of the European Union. As the CIS doesn't give the expected effect, to formulate a strong region in the fast developing world market with more effective and strong economic systems.

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