

Section 3. World economy

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TANAP AND TAP: PIECE OF THE GREATER COMPETITION IN ENERGY POLITICS

Abstract: This article on Trans Anatolian Natural Gas Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP) projects intends to shed light on the importance of the projects in terms of regional energy politics. It starts with a brief background information on the energy resources of Azerbaijan and places it to the backdrop of the Europe's energy security. Then, most importantly, it looks at the key national interests of Azerbaijan vested in the projects and, it touches upon the legal setting for the pipeline politics in the EU's neighborhood.

Keywords: TANAP, TAP, Nord Stream II, Turkish Stream, pipeline politics, energy competition, global energy market, energy projects.

Introduction

Since its independence, energy politics have remained central to Azerbaijan's foreign policy. Azerbaijan has been successful in implementation of regional infrastructure and energy projects, despite the given complex regional power constellations. Support of the big players such as US and the EU have played a crucial role. However, the Azerbaijan's own determination and the cooperation of the Azerbaijan-Georgia-Turkey triangle have paved the way for success in proceeding with the planned projects. Competition with the other gas pipeline projects such as Nord Stream 2 and Turkish Stream have marked the great power politics behind the regional energy politics. Taking into consideration the already completed and planned energy projects, it is certain that Azerbaijan has secured its main national interests. That is to say, Azerbaijan has accomplished energy independence by diversification of the trans-

port routes for its exports to the promising energy markets. TANAP project is another successful example in this respect.

Azerbaijan's energy resources and importance for the EU in terms of energy security

Azerbaijan is one of the key energy producers in post-Soviet space. In 2016, its total proved oil reserves were estimated at 7 billion barrels. This is equal to nearly 0.4 percent of the world proven oil reserves. Total natural gas reserves are estimated at 1.2 trillion cubic meters which accounts for 0.6 percent of the world proved natural gas reserves [3, p. 6]. To the backdrop of global energy market, these reserves might seem to be miniscule. Yet, in terms of ensuring energy security of certain countries which are depended from foreign energy sources, importance of Azerbaijan's energy resources is much greater. It is important to look at what are the target markets for the Azerbaijani natural gas. The European Union is

the most promising market in this respect. Firstly, as Azerbaijan is a non-OPEC country, its energy resources are more valuable for the EU in terms of the latter's energy security. Secure energy supplies remain a key concern for the EU energy policy due to its continued dependence from the foreign energy sources, in particular Russian Federation.

Since the 1990s, the EU has given priority to alternate import sources and routes [9]. Diversification of the energy supply sources is a buzzword for the EU. For this reason, the energy resources of the Caspian Basin are very important for the EU. In 2007, around 45 percent of all oil imports in the EU were from the Middle East, and 40 percent of natural gas imports, namely around 140 bcm., (In 2006–2007, total EU natural gas demand was around 500 bcm., and total imports was nearly 300 bcm. In 2016 total EU gas demand reduced to ca. 420 bcm. And Russia accounted for 34% of that. See Zsuzsanna Szeles) (27 March 2017 came from Russian Federation [15; 5, p. 3]. This dependence decreased, and by 2015, stood at around 30 percent, a still significant figure. Some EU member countries such as Bulgaria, Estonia and Latvia are 100 percent dependent on natural gas imports from Russia's Gazprom [21]. Azerbaijan's importance, in terms of resources, was mainly in oil, while the importance of natural gas was shown with the TANAP and TAP projects. Moreover, Azerbaijan's importance is not limited to its energy resources. It has also geopolitical importance for the Europe. In other words, Azerbaijan can play an important role in transferring more energy resources from Central Asian countries to Europe; a contested issue, which is not totally ruled out keeping mind the dynamic power constellations in the energy politics.

With the operation of the Shah Deniz gas and condensate field in 2007, Azerbaijan became an exporter of natural gas. Azerbaijan already uses the South Caucasus Pipeline (SCP) to transport its gas from the Shah Deniz I field via Georgia to Turkey.

Legal setting for energy pipeline politics in the EU's eastern neighborhood

All political developments in the energy politics are within a legal framework of the EU's energy charter. In this regard, the EU has been attempting to harmonize the legal setting for energy cooperation in the wider Black Sea region, which includes the South Caucasus and Central Asia. That is to say, by the Partnership and Cooperation Agreement, and the European Neighbourhood Policy, signed in 2004, countries such as Azerbaijan intended to get acquainted with the EU *Acquis Communautaire* in the energy sector and adjust their own legislation accordingly. To that end, so-called Baku Initiative, launched in November 2004, was a crucial step that aimed at the development and integration of the regional energy markets in the EU's eastern neighborhood with the EU [19, p. 8]. Indeed, already in the early 1990s the legally binding Energy Charter Treaty was launched as an international agreement for cross-border energy cooperation. One of the key objectives of the Energy Charter was to integrate the energy sectors of Eastern Europe and the former Soviet countries into broader European markets [10, p. 7–8]. Projects such as TAP and TANAP are regulated with model agreements with reference to the Energy Charter which reads as: “cross border pipeline projects are subject to numerous specific legal requirements arising from international law and relevant supra-national and national legal systems... whether or not these Models will be used in full or in part and the extent to which the model texts can be adapted depends entirely upon the agreement of the parties” [20, p. 186].

Thus, the parties to energy projects on the EU's eastern neighbourhood are left with substantial discretion to decide the terms of agreements which defines the legal setting of pipeline politics.

TANAP and TAP as an important part of the Southern Gas Corridor

The regulation of the European Commission dated 18 November 2015, listed the SGC, which costs over 40 billion USD, as well as its segments of TANAP and

TAP as a priority projects under Project of Common Interest of the EU. The proposed projects for the SGC encompassed the energy projects starting from the Caspian Basin and the Middle East; namely, Nabucco (later on reduced to the Western Nabucco) gas pipeline, TANAP, TAP, Interconnector Turkey-Greece-Italy, and Azerbaijan-Georgia-Romania Interconnector. Shah Deniz II field in Azerbaijan is projected to feed natural gas into the 1850 km long TANAP pipeline and via the TAP into Europe. These projects are important components of the Southern Gas Corridor, which is the EU initiative to supply natural gas from the Caspian Basin and the Middle East to Europe [1].

Amidst the negotiations on Production Support Agreements on the Nabucco project, Azerbaijan and Turkey announced their plans to launch the TANAP project to transfer gas from the Caspian Sea through Turkey to Greece. The State Oil Company of Azerbaijan Republic, from the beginning, fully endorsed TANAP as it costed far less compared to the Nabucco. Upon announcement of the Nabucco's dismissal, Azerbaijan and Turkey have become fully committed for implementation of the TANAP project [1]. Construction began in early 2015, and the project is planned to be completed by 2020. On June 12, 2018, presidents of Azerbaijan, Georgia and Turkey inaugurate the TANAP project in Eskishehir, Turkey [12]. Initially, 16 bcm (6 bcm is planned to be pumped into Turkish gas network) natural gas is going to be transported, and in the later stages the project's throughput capacity is expected to be enhanced to 24 bcm and finally to 31 bcm. TANAP will be the main and longest part of the Southern Gas Corridor running from Turkish-Georgian border to the Turkish-Greek border. The TAP with a length of 878-km, which was favored over the "Nabucco-West" project in 2013 as a European part of the SGC, had an advantage over Nabucco-West as it was 500-km shorter; and the TAP was favored also by the Shah-Deniz II consortium in Azerbaijan [1].

Among other reasons, what made TAP advantageous is also its future capacity which can be en-

hanced from 10 bcm to 20 bcm and it can be also connected to the other existing and planned pipelines in Greece, Albania and Italy to transport gas to the South-Eastern, Central as well as Western Europe. Already back in 2013 the TAP project was chosen to complete the European leg of the Southern Gas Corridor.

Azerbaijan's national interest in TANAP and TAP

As a core principle of its foreign policy, Azerbaijan has not openly allied with any regional or global power or become a member of military alliance. This policy stance is known as a multi-vector foreign policy, stipulating good relations with all the powers, those directly or indirectly involve in the region, namely Russia, Iran, Turkey, the EU and the U.S. without announced alliance with any of them. Such a foreign policy stance might seem to be an easy one. Yet, it is highly complex as the interest and powers of all the players should be taken into account in regional energy projects. For instance, once a fierce competition, even though always publicly denied, between the Nabucco and already defunct South Stream projects also was a delicate political issue for Azerbaijan. However, TANAP and TAP are not the projects that are in the same line with the Nabucco, so as to challenge the natural gas market that was mainly targeted by the South Stream project which was shortly dismissed following Nabucco's dismissal.

The question is whether Azerbaijan has secured its national interest by TANAP and TAP.

First of all, TANAP and TAP are sufficient to transport Azerbaijan's own gas to South-East Europe; that is the minimal national interest of Azerbaijan in terms of its energy policy. Yet, Azerbaijan can transport more than its own gas given the fact that capacity of both projects is planned to be expanded gradually. Moreover, energy projects like TANAP and TAP will strengthen the cooperation triangle between Azerbaijan, Georgia and Turkey which has successful completed projects such as Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Kars railway.

In addition, these are important projects that leave Armenia, a neighboring country keeping nearly 20% of Azerbaijan's territories under its occupation, out of regional cooperation.

Furthermore, Azerbaijan solidified its diversification of energy transportation. Azerbaijan has gained ownership in the TANAP project. Put it differently, Azerbaijan is not a simple participant of the TANAP project, rather a leading partner. If Nabucco and TANAP projects compared, Azerbaijan preferred to take a leading role in a relatively smaller project, rather than being a small partner in a big one. With the TANAP and TAP projects, Azerbaijan has secured an access to the promising European market with its own natural gas resources and also avoided a possible irritation with Russia. Above all, the country has so far captured a leading role in the Southern Gas Corridor [1].

Competing pipeline projects: big powers in play

As early as 2012, Azerbaijan had already announced its own pipeline project, namely TANAP to solve the transportation issue by the production date of Shah Deniz II. Thus, at the beginning TANAP was shown as a competing pipeline to the Russian South Stream, even though the latter had almost four times more capacity, namely 63bcm aiming at transferring natural gas from the Central Asia to Southern Europe [17]. However, in 2014 Russia declared the dismissal of the South Stream project and named it as a big loss for the EU and accusing it for not being able to protect its interests. Additionally, President Putin stated that Russia would put more emphasis on expanding a gas pipeline to Turkey [11]. At the moment, two pipeline projects are presented as rivals for the TANAP/TAP; one is Nord Stream II and the other is Turkish Stream (A pipeline branches through the Black Sea each at the capacity of 15.75 bcm. 15.75 bcm is planned to be consumed by Turkey and the rest to be exported to Europe through a connector at Turkish-Greek border. See Quluzade, O. (13 October 2016)).

To begin with the Nord Stream II (Nord Stream II is the extension of the Nord Stream I project – offshore gas pipeline from Russia to Germany – which became operational in 2011 with the annual capacity of 55 bcm. See Nord Stream 2. (14 August 2018)), it is viewed as a rivalry, i.e. an “economic war”, between Washington and the Kremlin. This rivalry is summarized as follows: “President Trump is pushing ahead with Washington's longstanding policy of thwarting Russia's energy supplies to Europe. Besides the effort to flood Europe with US liquefied natural gas (LNG)” [2]. That is to argue that, above all the Trump Administration is seeking to block further energy supplies from Russia to Europe as a longstanding follow-up to ensure Europe's diversified energy security. And at the same time, it serves US economic interest in selling its LNG to Europe. In June 2015, an agreement to launch Nord Stream II was signed between Gazprom, Royal Dutch Shell, E.ON, OMV, and Engie. In 2017 financial agreement for the project was also signed. However, it is a controversial project as many countries within the EU portray it as contradictory to the EU's energy security [13; 18].

Indeed, in 2016, the US senators John McCain and Marco Rubio sent a letter to the President of the European Commission Jean-Claude Juncker naming the Nord Stream 2 as a “step back for Europe's diversification policy and Energy Union plans” [8]. In line with the take of US senators, some experts describe the TAP as being a project undermining the Russia's gas market in Europe. For instance, **De Carbonnel and Vukmanovic (14 February 2017)** state that “TAP gives EU officials the first non-Russian gas pipeline to supply Europe since Algeria's Medgaz link nearly a decade ago, paving the way for diluting Gazprom's large one-third share of Europe's gas market”. The EU is divided about Nord Stream 2 as some countries such as Germany favors the project which, in fact, is in their national interest of becoming an important energy transit country. Yet, it threatens the EU's overall policy of diversification of the energy routes and reducing the dependence from Russia.

Furthermore, it is important to note that the TAP was in a direct bid with the Nabucco-West and prevailed over it. TAP prevailed over Nabucco-West in terms of being less costly; and, TAP mainly targets Italian market which is exempt from tense market competition in comparison to the market which was targeted by Nabucco-West, namely Austria where energy infrastructure and networks are better developed which could have drawn the prices down. Thus, it begs a question whether TAP fulfills the EU's best interest in terms of energy security as it is not targeting the countries, which are mostly depended on Gazprom's gas, as Nabucco-West would have done [14].

In regard to Turkish Stream there were even claims that, this pipeline could be integrated with TANAP [6]. Hence, that would make these projects complementary rather than rivals. From the point of view of Turkish government, these pipelines serve the interests of Turkey, making it an energy hub, regardless of the fact whether Turkish Stream and TANAP were integrated. In this regard, in 2016, during the World Energy Congress in Istanbul, President Erdogan noted that "we have already realized the Blue Stream project. Now we are building TANAP, which in couple with TAP, is supposed to become a new corridor for gas to Europe. This is very important to us. We also give high priority to the Caspian Sea and are considering ways to pump Turkmen gas" [6]. The EU was, indeed, against such an integration. However, has had no any legal arguments against this because natural gas from different operators were supposed to be pumped into the pipeline, not owned by Gazprom which is a producer company. This was totally in line with the EU's energy legislation. Yet, the biggest blow would have been on Ukraine as it would lose the gas transited from its territory to the Turkish Stream [7]. In 2016, Azerbaijani side has expressed its readiness to use the Turkish Stream's capacity for TANAP [6].

Eventually, the integration of these pipelines did not happen, and TANAP consortium has gone ahead with the construction of a separate pipeline of its

own. Commenting on the rivalry between TANAP and the Turkish Stream, Mr. Duzyol, the head of the TANAP consortium, noted that: "TANAP has two contracts for gas transportation for a period of 15 years, which guarantees its stable income... Turkish Stream is unable to provide such benefits as TANAP, which opens up a new route for gas supply to Turkey and Europe and contributes to diversification of sources" [16]. Even though some officials from Azerbaijan stated their agreement for the integration of TANAP and Turkish Stream, it is in the best interest of Azerbaijan to have its own separate pipeline free from manipulation of other powers. Furthermore, as already have been touched upon, TANAP connected to TAP will be feeding natural gas into different set of European countries whereas Turkish Stream targets the countries that were supposed to import gas through Nabucco-West.

Conclusion

Azerbaijan has been successful in implementation of regional infrastructure and energy projects. These have been uneasy endeavor given the complex power constellations in the region. Support of the big players such as US and the EU have played a crucial role. Yet, Azerbaijan's own determination and the co-operation of the Azerbaijan-Georgia-Turkey triangle have paved the way for success in proceeding with the planned projects. Competition with the other gas pipeline projects such as Nord Stream 2 and Turkish Stream have marked the great power politics behind the regional energy politics. To the backdrop of its own national interests, e.g. diversification of transportation routes, Azerbaijan has accomplished an important step with the inauguration of the TANAP project. Moreover, such projects will enable Azerbaijan to become a transit country between European market and Central Asian countries, if the latter ones show strong determination and secure the unconditional support of the EU and the US. Recently obtained agreement on demarcation of the Caspian Sea among the littoral countries, can be a positive sign in this respect.

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