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KSENIA ATAMALI. RELATIONS BETWEEN AZERBAIJAN AND TURKEY: GEOPOLITICAL AND ECONOMIC FACTORS.
Analytical review

Keywords: Turkey; Azerbaijan; Caspian region; foreign policy; post-Soviet space; regional policy, energy policy; conflict; pipelines; oil; gas; second Karabakh war; Contract of the Century.

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Abstract. The review primarily analyzes the relationship between Azerbaijan and Turkey in the field of energy, geopolitics and economics.

Turkey's policy in the Caspian region and bilateral relations between Azerbaijan and Turkey are considered. The issue of Nagorno-Karabakh, disputes between Turkey and Turkmenistan in the Caspian Sea and the role of Azerbaijan and Turkey as a resource base and a transport and logistics hub are also discussed.

Introduction

The collapse of the USSR and the end of the Cold War presented Turkey the opportunity to implement a more active foreign policy, allowing it to shape energy policy towards the Caspian region. The first years of the Justice and Development Party rule marked Turkey's rapprochement with the EU and the countries of the Middle East. Over the next few years, Turkey intensified its activities in the Caucasus. Azerbaijan plays an important role in Turkey's policy, seeking to reach new markets in order to sale its energy resources through Turkey. Turkey, to a certain extent, is dependent on Azerbaijan in the energy sector. Azerbaijani state-owned company SOCAR is contracted to supply aviation fuel to the largest Turkish airports, and also practically controls oil refining in Turkey which creates opportunities for Azerbaijan to influence the economy of Turkey, and potentially its domestic politics. Due to a series of pipeline projects with Azerbaijan and Georgia, Turkey gained access to the resources of the Caspian Sea. Turkey is interested in expanding its presence in the energy sector on the eastern coast of the Caspian Sea, namely in Turkmenistan and Kazakhstan. The review also discusses projects on development of oil and gas fields in the Caspian Sea and the construction of trans-Caspian pipelines.

Turkey's Energy Policy in the Caspian Region

S. Zhiltsov [1], PhD in Politics, Diplomatic Academy of the Russian Ministry of Foreign Affairs of Russia, examines Turkey's

energy policy in the Caspian region after the collapse of the USSR. He notes that during that period, Turkey launched the development of various pipeline projects that focused on delivering future hydrocarbon resources to foreign markets. In the early 1990s, it was mainly about the transportation of Azerbaijani oil, and potentially of Kazakh oil. Turkey hoped to get a reliable access both to the western and eastern coasts of the Caspian Sea. Investments and pipelines became key tools for implementing Turkey's plans. The 1993 agreement on the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline was the first outcome of the talks between Turkey and Azerbaijan. Economic interests of Turkey were closely connected with geopolitical ambitions, i.e. the desire to enhance its presence in the Caspian region. In addition, Turkey planned to expand its influence on the eastern coast of the Caspian Sea, particularly in Kazakhstan. Turkey failed to fulfil its ambitions due to the lack of economic strength, among other things. Turkey also expected to develop trade and economic relations with Georgia.

The author notes that in 1993-1994, it became clear that, despite the best efforts, Turkey's energy policy failed to achieve its goals due to the lack of geopolitical weight and economic opportunities. Also, Azerbaijan was primarily focused on the US, not Turkey. In September 1994, Azerbaijan signed a contract with major oil companies to develop oil fields on the Caspian shelf (the 'Contract of the Century'). The choice of the direction of export of Azerbaijani hydrocarbon resources was greatly influenced by this agreement. In the mid-1990s, Turkey tried to assume a leading position among the Caspian Sea area countries. In addition to hydrocarbons from Azerbaijan, Turkey was interested in Tengiz oil produced in Kazakhstan. In the future, Turkey planned to channel Azerbaijani and Kazakh oil into one pipeline. However, the West became the main export route for Azerbaijani oil. Despite the US dominance in the region, Turkey did not abandon its plans.

In 1997, the Baku–Tbilisi–Ceyhan route was referred to as Main Export Pipeline (MEP). The geopolitical interests of the US and the EU dominated over the decision-making process regarding new pipeline projects. At that time, Turkey promoted cooperation with Kazakhstan, hoping to use Kazakhstan's interest in a reliable route for the export of its hydrocarbons, which was at odds with the Kazakh side. However, Turkey focused on Azerbaijani hydrocarbons due to various circumstances. Accordingly, Turkey's energy policy was intended to implement the Baku–Ceyhan project. In 2005, the Baku–Tbilisi–Ceyhan oil pipeline was constructed. Turkey's energy policy was in line with the US long-term interests, and Ankara wished to connect Kazakh oil to the Baku–Ceyhan pipeline project. In January 2007, a Memorandum of Understanding on the project of establishing an oil transportation system, designed for the tanker export of Kazakh oil through the Caspian Sea, was signed in Astana.

In 2007, the Baku–Tbilisi–Erzurum gas pipeline was built, thus allowing Turkey an opportunity to export Caspian hydrocarbons. Turkish policy was aimed at gaining access to hydrocarbon resources produced by the littoral states on the eastern coast of the Caspian Sea. Ankara's ambitions were at odds with the interests of Russia and Iran. Also, China was highly interested in the oil and gas of the Caspian states, implementing a gas pipeline project that allowed Turkmenistan to export its resources eastward. For this reason, Turkey supported a pipeline project initiated by the EU in 2011. The project was designed to boost the political influence on Azerbaijan and expand energy cooperation with Turkmenistan. The subsequent difficulties with the project and Azerbaijan's interest in additional exports of its gas to the foreign market resulted in the drafting of a new pipeline project. In 2011, Azerbaijan and the EU signed a declaration regarding the implementation of the Southern Gas Corridor project; in 2012, Azerbaijan and Turkey signed an agreement on the construction

of the Trans-Anatolian pipeline (TANAP). The TANAP gas pipeline project was backed by the EU, which planned to diversify the sources of gas production. In subsequent years, the Southern Gas Corridor project was consistently implemented by Azerbaijan and Turkey with the political support of the West. In 2016, the European Commission (EC) approved the construction of the Trans Adriatic Pipeline (TAP), which was completed at the end of 2020. In May 2018, TANAP was launched. Azerbaijan, Georgia, Turkey, Greece, Bulgaria, Albania and Italy were part of the Southern Gas Corridor project. Azerbaijan was now able to transport gas to European countries, namely Greece and Italy. Moreover, the construction of the Southern Gas Corridor benefited Turkey, granting it additional means to control gas supplies to European countries. So far, Azerbaijani gas supplies through the constructed gas pipelines are still insignificant. The increase in capacity depends not only on the level of hydrocarbon production in Azerbaijan, but also on the level of gas consumption in European countries.

The author points out that Turkey and Western countries have stepped up their efforts regarding the Trans-Caspian Gas Pipeline. In 2020–2021, the project was promoted by the US, whose policy facilitated political dialogue between Azerbaijan and Turkmenistan. Turkey welcomed the developments, since it supported the promotion of the gas pipeline project. In January 2021, Turkmenistan and Azerbaijan settled a dispute over a controversial field in the Caspian Sea. Azerbaijan has already expressed its interest in receiving Turkmen gas; Turkey's political interests are behind Azerbaijan's energy policy, which is aimed at opening the gates for Turkmen gas to Europe through Turkey.

The author concludes that, like thirty years ago, the attention of extra-regional states is again focused on the Caspian hydrocarbon resources. Turkey, the EU and the US promote the idea of creating a new energy route that will ensure the delivery of hydrocarbons to the European market from both the western

and eastern coasts of the Caspian Sea. In this matter, Turkey pursues a proactive policy, which is consistently strengthening its position as the major transit country of Caspian resources.

Factors of the Energy Sector Development of Azerbaijan and Turkey

V. Novikov [2], PhD in History, Institute of CIS, discusses energy infrastructures of Azerbaijan and Turkey, which are relevant not only for these countries, but also for the South Caucasus and the Middle East. Azerbaijan is the largest regional exporter of hydrocarbons to Europe, while Turkey is a transit corridor for the export of Azerbaijani energy resources. The article describes the major trends in the energy sector of Azerbaijan, Iran and Turkey, as well as the changes associated with the Second Karabakh War. Azerbaijan creates an image of a transit country and exporter by participating in railway projects and the Belt and Road Initiative (BRI), and by being part of the system of interstate transportation of oil and gas to Europe. Experts believe that Azerbaijan is gradually becoming a new 'hub' not merely of a regional scale, but also of a Eurasian dimension. The author emphasizes that the Azerbaijani oil and gas transit infrastructure is significant not only for Baku, e.g. the Baku-Tbilisi-Ceyhan (BTC) pipeline is also used for the transit of Kazakh oil.

However, the discovery of new large and highly profitable oil and gas fields remains in question, existing reserves are being depleted, and there is a looming problem of Azerbaijan's import dependence on liquid fuel. As a result, there would be a reduction in funding for other sectors of the economy. In addition, in the latter half of the 2010s decade there was a decline in oil and gas production, contrary to forecasts of most experts for an increase. After Azerbaijan became a gas importer, there have been predictions about possible problems with the major pipeline fill rate, i.e. the Baku-Tbilisi-Ceyhan and Baku-

Supsa Pipelines. Two major international oil corporations – Chevron and ExxonMobil – withdrew from the Contract of the Century due to unfavourable forecasts for production rates, along with a number of other factors. The Azerbaijani side began to actively look for new markets, primarily in Eastern Europe and Southeast Asia. Another activity of SOCAR was building cooperation with Belarus. Moreover, Vietnam also became a promising partner, owing to the need to support the growth of the Vietnamese economy with oil products, the lack of geological exploration and the Sino-Vietnamese dispute over the South China Sea shelf. Thus, the Vietnamese oil industry is struggling with the lack of raw materials.

The author notes that Azerbaijan had to slow down the rate of oil production in 2020 due to COVID-19 pandemic and the need to address the issue of declining oil prices under the OPEC+ deal. The second Karabakh war, which lasted from September 27 to November 9, 2020, did not appear to have an impact on the energy system of Azerbaijan. It did not result in attacks on the oil and gas transport infrastructure, and, therefore, on current contracts for energy supply to Georgia, Ukraine and Belarus. The war showed the need for significant financial investments. It is known that there are non-ferrous metals in the Karabakh subsoil, and according to forecasts, there are also deposits of hydrocarbons that could amount to 250–300 million tons. At the moment, the territories are under the control of Azerbaijan, and it is possible that the alleged presence of hydrocarbon reserves may facilitate attracting foreign investment to the former ‘security belt’ areas surrounding Nagorno-Karabakh. Nevertheless, the issue of pipeline fill rate of transport and logistics projects involving Azerbaijan (TANAP, etc.) is more relevant for the country. The key partner is Turkmenistan, although there are substantial hurdles to successful cooperation. The Azerbaijani state company SOCAR and the Dutch oil trader Vitol are competitors for the transit of Turkmen oil. In 2019, Vitol ousted SOCAR, since its Turkmen

partners refused the services of the Azerbaijani state-controlled company. Having received a monopoly on Turkmen oil, Vitol started to use Russia's Makhachkala port and the pipeline system of the state-controlled company Transneft, which was beneficial to the Russian side. However, Vitol's monopoly on the export of Turkmen oil struggled with the problem of its limited tanker fleet. In the result, the supply of Turkmen oil was reduced by half and SOCAR regained its positions in the export of Turkmen hydrocarbons in late 2020, squeezing out Russia.

The author believes the division of the Caspian Sea shelf to be major conflict potential in the relations between Azerbaijan and Turkmenistan. In addition, there was a fundamental unresolved issue concerning the Dostluk field. In January 2021, Azerbaijan and Turkmenistan signed a memorandum on joint exploration and development of hydrocarbon resources of this field. Hydrocarbon deposits are split 30 percent for Azerbaijan and 70 percent for Turkmenistan; the transportation is set to be carried out via the energy transportation system of Azerbaijan. Thus, in recent years, Azerbaijan has been steadily shifting away from the Contract of the Century towards other transport and logistics projects, primarily with the participation of Turkey.

The author points out that transport and logistics capabilities are Turkey's advantage in the energy market. It should be noted that Turkey, represented by the state-controlled Turkish Petroleum Corporation (TPAO), carries out exploration and production of oil and gas, holds interests in the production and distribution of petrochemicals. For instance, the company is involved in oil exploration on the Black Sea shelf, and in the operation of the BTC oil pipeline and the Southern Gas Corridor (SGC).

According to the experts, Turkey's demand for energy resources is steadily growing. In 2005–2015, the country's energy consumption increased by 46 percent (45 million tons). The energy balance of Turkey is diversified: oil (30 percent), gas (30 percent), coal (30 percent) and renewable energy sources

(10 percent). It should be noted that the Azerbaijani-Turkish political and economic partnership suggests Turkey's leadership. At the same time, the Azerbaijani state company SOCAR is an investor in Turkey's economy, primarily in the energy sector, thus granting Azerbaijan influence on Turkey. In addition, Turkey and Azerbaijan are equally concerned about the fill rate of the Southern Gas Corridor. Turkey counts on Azerbaijan and its possible projects in collaboration with Turkmenistan as a means to rectify the raw material deficit. The complex situation around the Mediterranean gas shelf is one of the issues for Turkey's energy sector, since the border of the sea shelf between Greece, Turkey and Cyprus has always been disputed. With the discovery of gas reserves, the situation has deteriorated. In fact, a coalition between Egypt, Greece, Cyprus, Israel and France has emerged, which opposed Turkish claims in the region.

In 2019, Turkey concluded a separate agreement with the Government of National Accord (GNA), the interim government for Libya headed by Fayeze al-Sarraj. Under the treaty on the delimitation of maritime borders, the Greek islands and Cyprus lost their economic zone. The deal fuelled a sharp growth in discontent with Turkish policies on the part of regional powers. Turkey sought to address its problems by reorienting the Israeli deposits of Tamar and Leviathan from a possible Turkish-European direction to the Egyptian one. The author notes that Chevron, the investor of the new gas pipeline project, earlier participated in the Contract of the Century in Azerbaijan.

The author concludes that Chevron's withdrawal from the Contract of the Century and the shift of the Leviathan and Tamar fields to the Egyptian market will probably undermine the Southern Gas Corridor initiative and Azerbaijan's ambition to compete with Russian gas supplies to Europe.

Azerbaijan in the Coordinate System of Turkish Foreign Policy

Z. Sarimsokov [3], Master in International Relations, RUDN University, analyzes Turkey's regional policy towards Azerbaijan. After the collapse of the USSR, Turkey has become more active in Central Asia and the Caucasus, where it is still held in high regard. Azerbaijan plays a particularly important role in Turkey's regional policy. Both states border with Russia, Georgia, Armenia and Iran in the Caspian basin, which indicates the common interests of these countries. The countries are connected not only by geographical borders, but also by linguistic, religious and cultural affinities. Turkey and Azerbaijan refer to each other as 'fraternal countries'. In 1991, Turkey was one of the first to officially recognize the independence of the Republic of Azerbaijan. After the newly elected President of Azerbaijan Abulfaz Elchibey oriented the country's foreign political course mainly towards Ankara, a new era in relations between the two countries began. In subsequent years, such a policy contributed to the trade in energy resources between two countries, making it one of the priority areas in bilateral relations. Turkey acts as a transit country between Azerbaijan and the West. Armenian occupation of the Nagorno-Karabakh Autonomous Oblast (NKAO) of Azerbaijan and internal instability have brought the country even closer to Turkey. President Heydar Aliyev promoted the principle 'one nation, two states'. In addition, relations between the two countries were boosted by the victory of the Justice and Development Party (AK Party; AKP) led by Recep Tayyip Erdoğan in the Turkish parliamentary elections at the end of 2002. Turkey also endeavoured to rebuild relations with its neighbours in the region, which contributed to a thaw in relations with Armenia. Turkey's relations with Azerbaijan were further expanded after 2007, when the AKP won the elections for the second time and became the ruling party. The two countries

signed the Agreement on Strategic Partnership and Mutual Assistance. The Strategic Cooperation Council assembled five times between 2011 and 2016. The main purpose of these meetings was to advance bilateral political relations and increase trade between the two countries to \$15 billion in 2023; during this period, 30 agreements were signed in various spheres.

In recent years, significant steps have been taken to promote diversified cooperation between Turkey and Azerbaijan. Today, the foreign trade volume between Turkey and Azerbaijan is a little over 2 billion dollars. Overall, the export of Turkish goods to Azerbaijan prevails in the total trade turnover between the two countries. It should also be noted that the two countries have been slow to realize their foreign trade potential because of high customs duties. In this sense, one can say that Russia has the upper hand in terms of Azerbaijan's imports, since it exports duty-free goods. The total investment cost of Turkish companies in Azerbaijan is \$9 billion. Over 2,600 Turkish companies operate in Azerbaijan, creating more than 25,000 jobs. It is also worth mentioning that since 2004, Turkey has extended bilateral development assistance to Azerbaijan totalling \$320 million. Speaking of economic relations, the tourism industry is of particular importance.

The visa regime between the countries used to be the major hurdle for development until it was lifted at the end of 2020. Military partnership between the two countries was restored by the agreement on cooperation in military education signed on November 3, 1992. This agreement had a great influence on the creation Armed Forces of Azerbaijan. The second significant agreement on training, technical and scientific cooperation in the military field was signed on June 10, 1996. It included training of the Azerbaijani army, military assistance, purchase of weapons and ammunition, joint production of weapons and military relations between the two countries. In addition to bilateral cooperation, Turkey supports Azerbaijan in international platforms and strongly promotes its interests. As one of the

major NATO member states, Turkey does a lot to develop relations between Azerbaijan and NATO, supporting any initiatives in this regard. Turkey uses every opportunity to demonstrate its support of Azerbaijan in relation to Azerbaijan's territorial integrity and sovereignty over Nagorno-Karabakh. Moreover, the issue of Nagorno-Karabakh is complicated by the claims of the Armenians regarding the events of 1915. The author emphasizes that Davutoğlu's Zero Problems with the Neighbours policy and Turkey's activities in the region have paid off in terms of Ankara's relations with Yerevan.

The author believes that the conflict in Nagorno-Karabakh is one of the determining factors of Turkey's foreign policy in the region. Also, the Karabakh conflict is aggravated by the fact that Turkey's stance on this issue depends on Azerbaijan's position on Cyprus. The two countries are pragmatic about the Nagorno-Karabakh-Cyprus problem and refrain from any statements that might have negative consequences. Turkey provided large-scale military assistance to Azerbaijan, enabling Azerbaijan to regain some territories in Nagorno-Karabakh. It should be noted that the return of the territories was proclaimed a victory in both Azerbaijan and Turkey.

The author points out that Turkey and Azerbaijan have close and fruitful cooperation within the framework of the Organization of the Black Sea Economic Cooperation (BSEC), the Organization of Turkic States, the United Nations (UN), the Organization of Islamic Cooperation (OIC), the Organization for Security and Co-operation in Europe (OSCE), the Council of Europe (CoE), and etc. During the reign of the AKP in Turkey, a new era in relations with Azerbaijan has begun, leading to the creation of bilateral and multilateral cooperation mechanisms focused on regional peace, stability and well-being of the people of the two countries. However, at the moment, relations between Turkey and Azerbaijan are still below expectations, mostly in the field of trade and economy.

The author concludes that the recent events in Nagorno-Karabakh have shown that Azerbaijan remains one of Turkey's major partners not only in the region, but also in the world. In turn, Turkey has proved to be a strategic partner and elder brother of Azerbaijan. The unresolved issues that both countries have with Armenia impede the development of the existing potential between the two countries. The author underlines the growing role and importance of Azerbaijan in maintaining stability in the Caucasus, serving the interests of not only Turkey and Russia, but the entire world community.

Conclusion

In conclusion, Turkey, the EU and the US are paying special attention to the production and transportation of oil and gas from the Caspian region to the external markets. Turkey is working to become the main transit country for Caspian resources. In recent years, Azerbaijan and Turkey have been expanding cooperation in the energy sector, with Turkey as a transport and logistics hub, and Azerbaijan as a supplier and transit country of hydrocarbons. The political and economic alliance between the countries is aimed at diversifying Russia's energy supplies, challenging Russian companies operating in the energy sector. It is not only about global competition in European markets, but also about regional competition, for example, in the Caspian Sea. At the same time, it is obvious that currently the major problem of the Azerbaijani-Turkish alliance is the fill rate of transport and logistics routes. The issue of shrinking resources of Azerbaijan could be solved through cooperation with a third party, namely Iran or Turkmenistan, as well as through the development of the Mediterranean shelf.

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ELENA DMITRIEVA. TURKMENISTAN: AT THE TRADE ROUTES CROSSROADS

Keywords: Turkmenistan; Central Asia; transport corridors logistics infrastructure; international cooperation.

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Abstract. The article discusses the main directions of the state policy of Turkmenistan on the implementation of large-scale transport and logistics projects, taking into account the favorable geopolitical position of the country and the development of the infrastructure accompanying them.

The Caspian region today is a powerful transport and logistics hub of the international level, which in the context of the sanctions policy of the West opens new opportunities for the development of geo-economic relations in the Eurasian space.