*Chapter 6*

# Turkish Foreign Policy in the Caucasus: The Azerbaijan Pillar

Carlo Frappi

## Introduction

Over the last twenty-five years and since the dissolution of the Soviet Union, the Southern Caucasus has come to play a relevant—and in some case pivotal—role to Turkish foreign policy. The relevance of the area to Ankara's foreign policy results primarily from the central role it gained within what Lesser (2000, p. 205) called the "double coupling" dilemma[1]. It refers to the need for Turkey in the post-Cold War era to reinvent and relaunch its relations with the Western partners, while simultaneously trying to exploit the regional "windows of opportunities" disclosed by the Soviet Union's dissolution. Theorized with reference to the first phase of the post-bipolar era, the double coupling dilemma in its essence—i.e. the need to find a balance between global and regional aims, projections and alliances—seems instead to cut across all the post-1991 Turkish foreign policy (Frappi 2008), standing as a the main reason behind the continuous relevance of the Caucasus area.

There are two structural elements, with deep historical roots, which underlie the Turkish projection towards the Southern Caucasus: these elements, intertwining with regional trends, marked the course of Ankara's regional foreign policy in the aftermath of the USSR's dissolution. The first of them consists in the ethno-linguistic affinity between Turkey and Azerbaijan—embodied by the widespread motto "one nation two states"—which, ever since the first half of the 1990s, supported and facilitated the formation of a privileged partnership between the two countries. The second and opposite element is giv-

[1] In the same vain, Kramer (2000), pp. 93-94.

en by the deep scar dividing Turkey and Armenia. It results primarily from the historical memory of the "Great Evil"—the extermination and deportation of the Armenian population settled in Central and Eastern Anatolia by the Ottoman authorities between 1915 and 1923—to which Yerevan traditionally advocates the recognition of a genocidal nature, both from Turkey and at the international level. Far from bearing a mere historical or historicist nature, the genocide quarrel has a strong political and diplomatic connotation. The recognition of the genocide nature to the events following April 1915 could in fact pave the way for compensation demands, whose uncertain nature and entity represent a significant threat to Turkish national interests. Even more so when taking into consideration, on the one hand, the revanchism inscribed in the founding documents of the Republic of Armenia[2] and, on the other hand, Ankara's traditional "besieged fortress" mentality[3]. Against this backdrop, Turkish policy toward the Southern Caucasus has been revolving around three parallel yet connected tracks, i.e. the simultaneous attempts to progressively strengthen the entente with Azerbaijan, to engage Georgia as a vital physical and political link with the latter, and—finally—to contain Armenia.

Notwithstanding the relevant role played by identity elements in shaping the relations between Turkey and the Caucasian countries, it would be nonetheless misleading to assign them a priority role. Rather, Ankara's Caucasus policy can be better assessed by taking into consideration the Turkish decision-makers' rational resolve to advance national interest and maximize state power within the international and regional systems through a cost-benefit analysis. This behavioral pattern—although it is still quite common to hear policymakers in both Ankara and Baku making use of the "one nation two states" rhetoric—seems to apply also to the relations with Azerbaijan[4], which is by far the most important regional partner and a strategic actor facilitating Turkey's resolve to project its influence in a multi-regional direction.

Besides aiming at highlighting the rationale behind the formation of the Turkish-Azerbaijani strategic axis, this chapter focuses on the

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[2] Besides the ambiguity still surrounding the Armenian recognition of the Kars and Gyumri Treaties (1921) fixing the borders between the two countries, Armenian Declaration of Independence—itself recalled by the country's Constitution—refers, at article no.11, to the Eastern Anatolia as "Western Armenia".

[3] See Jung (2003).

[4] See, for instance, Cornell (2001); Uzer (2011). For an opposite view—i.e. assigning priority to identity factor—see Murinson (2010). See also Bozdağlioğlu (2003).

bargaining power balance within the axis itself. It aims at demonstrating the progressive but steady reduction in power asymmetry between the two partners as well as the constraints to Ankara's room for regional diplomatic maneuver resulting from it. Indeed, the main contention of the chapter is that the course of Turkish foreign policy toward the Caucasus is not merely "centered" on Baku—as used to be the case in the '90s[5]—but is rather influenced by Azerbaijan as well as by the common partnership agenda.

Against this backdrop, this chapter will focus on energy cooperation between Turkey and Azerbaijan, presented as the backbone of the partnership, providing the latter with an interdependent feature and enabling both actors to pursue respective yet convergent economic and foreign policy goals. Therefore, building upon the political geography literature, the paper will portrait the Ankara-Baku axis within the wider context of the relations between a land-locked and a transit country. This will help in assessing the key drivers of the Turkish-Azerbaijani relation, the changing balance in bargaining power within the relation itself, as well as, finally, its evolution as a consequence of the Azerbaijani energy strategy.

## The dependency relation between an energy producer and a transit state

The Azerbaijan's main geopolitical asset is given by significant hydrocarbonits reserves, coupled with a strategic geographic position making the country a natural "cork in the bottle" (Brzezinski 1997, pp. 46-47) for the wider reserves of the Caspian Sea area. Indeed, although the total volume of Azerbaijani oil and gas reserves cannot compete with the ones available in other regional producer states, nevertheless the possibility for many of the latter to reach European markets without transiting through the Russian pipeline network almost necessarily involves the passage trough Azerbaijani territory. Thus, it was exactly the "double role" played by Azerbaijan in the regional energy game—as a producer and potential transit country—that established Baku's post-bipolar relevance to regional and extra-regional actors. Among the latter, Turkey took a front position ever since the acquisition of independence of the Caucasian Republic and the opening of the national hydrocarbon sector to foreign capitals and technologies. Consistently, energy cooperation

[5] The article borrows the expression from Bölükbasi (1997), pp. 80-94.

became the backbone for the formation and successive strengthening of the bilateral axis.

Yet, as far as the Azerbaijani energy sector is concerned, subsoil wealth as a source of power and positive geo-political asset has to be balanced with a limiting factor, given by the landlocked condition of the country[6]. Such a condition implies that, in order to translate the extractive potential into economic and political advantages, the producing states need to interact and cooperate with the transit one(s) in order to cover the physical distance toward international outlets or consuming countries. In turn, the need for cooperation with transit state(s) generates a politically relevant dependency relationship between the latter and the landlocked countries. That is, the lack of access to the sea necessarily results in a condition of "political land-lockness" (Anglin 1973, p. 112), since the the land-locked countries find themselves being dependent on the transit states' infrastructures, on peace and stability in their territories, on their administrative practices and, ultimately, on sound cross-border political relations[7]. Therefore, the Azerbaijani choice of Turkey as the main window to final energy markets—resulting from both economic and political calculations[8]—generated a dependency relation, which widened the already broad power asymmetry dividing the two partners in the aftermath of Soviet dissolution.

The dependency condition characterizing Azerbaijan's position *vis à vis* Turkey as key transit country was further deepened by three basic factors impinging upon the degree of land-lockedness. This feature, far from being assessed merely in absolute terms, has to be evaluated also in relative ones[9]—that is, keeping in consideration both the geographical location of the land-locked country and the peculiarities associated with energy trading compared to other types of goods.

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[6] The possibility for Azerbaijan to access the Volga River does not prevent the country to fall within the landlocked states category. Indeed, besides seasonal restrictions in accessing the River, the category under consideration includes, according to Glassner, those states, "which have access to the sea via internationalized navigable rivers … Such states exhibit some of the characteristics of coastal states, but consider themselves land-locked and are here considered land-locked because they do not exercise 'sovereign' control over their aqueous highways to the sea" (Glassner 1970, p. 2).

[7] See Faye et al. (2004), pp. 31-68.

[8] See Idan and Shaffer (2011), pp. 257-258.

[9] According to Anglin (1973) p. 112, "the measure of land-lockedness', or the extent to which a country suffers economically or otherwise from its land-locked situation depends upon a complex combination of geographical, economic, political and psychological factors".

The first of these factors results from the characteristic "rigidity" of the trade in hydrocarbons, and particularly in natural gas. Indeed, gas commercialization from a land-locked country by definition requires intubation, i.e. the laying of infrastructures that, once commissioned, bind together over the long-term producer, transit and consuming countries. Such rigidity—which naturally presupposes a minimal degree of political entente among the involved actors—applies also to the oil sector in the case of countries having no direct access to port terminals. Therefore, for the land-locked countries the rigidity of the trade in hydrocarbons ultimately results in an increase in the degree of physical isolation, since they suffer from the lack of alternative export routes both within and outside the transit country. The economic losses associated with the occasional interruption of the oil flows through the main Azerbaijani oil export pipeline—i.e. the Baku-Tbilisi-Ceyan (BTC)—perfectly epitomize the risk and the vulnerability associated with the lack of alternative export routes for hydrocarbons[10]. In turn, any increase in the degree of isolation brings about a deepening of the political dependency upon transit state(s) along the above-mentioned four vectors.

Secondly, land-lockedness varies proportionally with the number of countries to be crossed in order to reach international outlets or final markets. As per Azerbaijan, the choice of the Anatolian-Mediterranean export route for national hydrocarbons resulted in the country *de facto* assuming a "double land-locked" position, being Georgia the indispensable physical—and political—link between Azerbaijan and Turkey. The preference accorded to the Anatolian-Mediterranean route by the Azerbaijani economic and political decision makers not only multiplied Baku's "political land-lockedness" *vis à vis* transit countries, but also entailed a longer distance to be covered in order to reach international outlets and markets. While the physical distance between the land-locked country's border and the final outlets *per se* represents a factor worsening the degree of isolation, it is all the more relevant in case of trade in hydrocarbons. Indeed, the longer the distance, the higher the infrastructural investments required and, therefore, the longer the payback time for investors and the deeper the necessity for cooperation required between exporting and transit countries.

The third and last factor impinging upon the measure of land-lockedness—and consequentially on the degree of political dependence on

[10] For example, the 19 days long interruption of the oil flow occurred during the 2008 Russo-Georgian "Five-days War" resulted in a loss of about 1 billion US dollars in export revenue for Azerbaijan (Robertson and Riley 2014).

transit states—has to do with the relative importance of transit trade for the country's economy, that is land-lockedness varies with the proportion of transit trade to total trade, as well as with the ratio of external trade to gross national product. As far as Azerbaijani energy exports are concerned, ever since the commissioning of the main oil and gas pipelines originating in the country—i.e. the rehabilitation of the Baku-Supsa oil pipeline (1999) and the inauguration of the BTC (2005) and the Southern Caucasus gas Pipeline (SCP, 2006)—hydrocarbon export gained a vital role for both external annual turnover and GDP[11]. Such a vital role, in the wider context of a still-to-be-achieved diversification of the national productive apparatus, makes Azerbaijan all the more dependent on both Georgia and Turkey as energy transit states.

Moreover, more often than not the relevance of hydrocarbon trade to energy-exporting countries—and in particular to developing ones—goes well beyond the mere economic benefit to the state budget, acquiring a deeper significance in both political and institutional terms. This is especially the case for the so called "rentier state". This expression refers to those states founding their budget upon revenues from external rents rather than upon taxation of domestic productive activities and which, being independent from society, "directly or indirectly supports a large part of the latter through the process of spending domestically the rent that it receives from the rest of the world" (Luciani 2013, p. 92). While the applicability of the rentier state label to Azerbaijan and its eventual domestic consequences falls outside the aims of this chapter[12], it is nevertheless indisputable that resource wealth served not only as a tool to get out of the economic hardship following the USSR's dissolution, but also as a vehicle to build consensus 'internally' and to improve geopolitical relevance *vis à vis* consumer countries externally. Thus, the energy sector played a "double legitimizing role", which provided the country with a typical "petro-state" posture[13] and which, in the end, widened the scope of its land-locked condition.

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[11] Since 2005 and until the drop in oil price resulting from the 2008 international crisis, natural resources rents stood around 65% of annual GDP. Since then, the natural resources' share of the GDP fell progressively up to 29% in 2014 (World Bank 2016).

[12] See Franke et al. (2009); Meissner (2010); Luecke and Trofimenko (2008).

[13] See Alieva (2009), pp. 112-119. See also O'Lear, (2007); Guliyev (2013).

Assessing the degree of land-lockedness in relative terms implies considering also those factors which inversely affect the degree itself and which, therefore, may act in reducing the measure of land-lockedness and the associated political dependency. For the present case study, four factors come into play[14]: (a) the benefits the transit states derive from the transit trade; (b) the interest of third parties in the transit trade; (c) the land-locked country's retaliatory capability; (d) the degree of control the land-locked state exercises over the transport systems. While the first factor seems to work eminently outside of Baku's control, the same does not hold true for the other three factors. By effectively exploiting the factors endogenous to the bilateral relation, Azerbaijan managed over time to progressively reduce the power imbalance *vis à vis* Turkey.

*The benefits the transit states derive from the transit trade*

The benefits Turkey derives from energy trade are as relevant as multifaceted, going well beyond the mere—yet significant—oil and gas transit fees[15]. From a purely economic standpoint, the benefits resulting from Turkey's active involvement in the exploitation and transportation of Azerbaijani oil and gas resources have been three-fold. First, in the absence of significant indigenous reserves, it has ensured Turkey the possibility of meeting the increasing energy demand coming from a quick-developing economy[16]. This trend has been particularly marked in the natural gas sector. Indeed, although natural gas entered the national energy mix only towards the end of the '80s, its annual quota of total consumption grew steadily until becoming the first fuel in Turkey's energy basket, surpassing both coal and oil[17]. Besides the quantitative increase in gas consumption—making Turkey the fourth largest European market

[14] For the complete list of factors scaling down the land-locked country's dependency measure see Anglin (1973), pp. 113-116.

[15] The amount of revenues in transit fees from BTC and SCP is not disclosed by either Turkish national oil company (BOTAS) or governmental sources. However, on the eve of BTC commissioning a senior Turkish government officer expected them to reach the amount of 300 million USD per year on average during the lifetime of the project (Babali 2005, p. 46).

[16] In between 1991 and 2015 Turkey's primary energy consumption grew from 48,8 to 131,3 million tonnes of oil equivalent (Mtoe) (BP 2016).

[17] Notwithstanding an annual decrease on a year-on-year basis, in 2015 natural gas accounted for 39,2% of total primary energy consumption (*ibid*.)

behind Germany, France, and Italy—the upward trend in its domestic demand came along with an increase in its strategic significance, as the resource currently accounts for 37.8% of total electricity generation and for 28.7% of the national installed power capacity (Republic of Turkey 2016). In this context, the inauguration of a gas supply channel from Azerbaijan in 2006 was all the more relevant to Turkey, allowing the country to satisfy both current and forecasted demand. Currently, around 11% of annual gas import—i.e. 5.3 billion cubic meters per year (bcm/y)—is provided through the SCP by the output of the Azerbaijani off-shore Shah Deniz field (BP 2016, author's calculation). Moreover, on the basis of the intergovernmental agreement signed in October 2011, the second phase of the field's development will ensure Turkey 6 additional Gmc per year from 2018—potentially doubling Azerbaijan's gas market quota by the end of the decade.

Azerbaijani hydrocarbons are significant to Turkey not only in order to meet current and forthcoming domestic energy demands, but also in diversifying its supply sources. The sources' diversification—a crucial element to safeguard the importing countries' energy security and one of the pillars of Ankara's energy strategy (Republic of Turkey 2016)—stands as the second benefit ensured to Turkey by the development of the energy partnership with Azerbaijan, in both the oil and gas sector. While important to the former, such benefits stand as crucial to the gas one where, given the rigidity of the market and in the absence of a global market, the vulnerability of the importing side to interruption of flows—no matter whether caused by natural, technical, or political circumstances—varies inversely with the number of suppliers. Thus, Azerbaijani gas has been and will be determinant for Turkey in order to downgrade the risk associated with the excessive concentration of gas suppliers, i.e. with the dominant position of Russian gas in national supply system.

Under this perspective, the mentioned "double role" played by Azerbaijan on the regional energy chessboard—i.e. producer and potential transit country—offers Turkey advantages in diversification terms, which go beyond the already relevant quota of the market enjoyed by Shah Deniz gas. Indeed, ever since the initial opening of the Azerbaijani energy sector, the infrastructural projects along the Caucasian-Anatolian axis were inextricably linked with the possibility of exporting the hydrocarbons produced in Central Asian fields along the same route. That is, the Caucasian-Anatolian axis has been traditionally perceived by its stakeholders as a vital component of a wider East-West energy corridor, linking the wider Caspian producing area to European markets.

The possibility for Turkey to multiply hydrocarbon supply sources exploiting the trans-Caspian route and Azerbaijan transit potential are closely connected with the third potential economic benefit resulting from the energy partnership with Baku, i.e. the possibility to take advantage of the strategic location of the country, carved in between the main Eurasian energy producing and consuming areas, to promote a regional hub role. That is, by maximizing supply channels and import volumes Turkey may re-export its hydrocarbon surplus, thereby reducing the elevated costs associated with import dependency.

Summing up, the growing relevance of Azerbaijani gas export—as well as the potential associated with in the country's transit role—bestow Turkey with a hybrid nature *vis à vis* its land-locked partner, as it stands simultaneously as a transit and a client country. Raising the benefits and the interests in the transit trade, Turkey's hybrid nature scales down the degree of dependency and vulnerability of Azerbaijan, enhancing its bargaining power within the bilateral relationship.

*The interest of third parties in the transit trade*

The interest of Turkey, as a transit country, in Azerbaijani hydrocarbon trade has traditionally gone far beyond the mere economic benefits resulting from its hybrid nature. Rather, it took on a political dimension strictly associated with the interest of third parties in the transit trade—i.e. with the second factor impinging favorably upon Azerbaijan's degree of land-lockedness.

In the post-bipolar environment the possibility for Turkey to solve the "double coupling dilemma" has been strictly associated with the infrastructural projects proposed along the Central Asian-Caucasian-Anatolian axis. That is, in advancing the East-West energy corridor vision, Turkey was not only serving its own national economic interest, but also helping advance its Western partners' regional strategy. The Turco-centric infrastructural project served, in particular, the US key aim of supporting newly independent states' sovereignty and independence, simultaneously limiting Russian regional influence and preventing the spread of the Iranian one[18]. This "dual containment" logic had its main fulcrum in Turkey, a bi-directional bridge allowing Caspian hydrocarbons to move westward while channeling Western values, norms, and institutions eastward in the wider context of the proposition of a "Turkish

[18] As per the drivers and means of US regional policies, see Frappi (2014).

model" for institutional and economic development. Therefore not only third party interests have always been at play in the energy trade, but they also overlapped to a great extent with the Turkish ones, providing the joint Turkish-Azerbaijani infrastructural projects with a political significance to Ankara as relevant as the economic one.

While the interest of US and British stakeholders in the exploitation of Azerbaijani extractive potential arose well before the country's independence and represented one of the most important incentives for Turkey's regional projection at the same time, Baku's policies were nonetheless crucial in anchoring third party interests to its own strategy for development. This was particularly evident in the case of the so-called "Contract of the Century" through which, in September 1994, Azerbaijan ceded exploration and production rights to the Azerbaijan International Oil Company (AIOC) on the Azeri-Chirag-Guneshli oilfield—which would have fed the BTC pipeline. Consistently with the will of Azerbaijan's leadership, the consortium was formed according to an inclusive logic, explicitly designed to provide the country with a diplomatic shield, which, securing strong multinational commercial interests backed by respective governments, would have acted as an "insurance policy" for Azerbaijan's new-found independence (Pashayev 2009, p. 114.)

With the beginning of the new century and the progressive shift of the extractive industry's focus from the oil to the gas sector, the US took a back-seat position in the regional energy competition[19], leaving to the EU the "responsibility to lead" the implementation of further pipeline projects on the Caucasus-Anatolian axis, consistently with its own supply diversification needs. Indeed, ever since the publication of the European Commission's 2000 Green Paper on energy security, the exploitation and transportation of the Caspian Basin gas resources become a priority vector of the policies aimed at safeguarding EU energy security from outside its borders (European Commission 2001, pp. 23 and 37).

Resulting in the resolve to inaugurate the fourth EU external gas supply channel—the so-called Southern Corridor—Brussels' energy diversification policies ended up in revolving around Turkey's energy bridging role between consuming and production areas. This, in turn, further raised Ankara's economic and political stakes in the exploitation of Azerbaijani natural wealth and transit potential.

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[19] US partial retreat from the Caspian energy competition did not result in the disinterest in it. Quite on the contrary the White House resolutely supported EU energy diversification policies (see Frappi 2014).

First and foremost, the high degree of convergence between Brussels' and Ankara's energy security strategies—both revolving around the need to diversify supply sources in order to reduce over-dependence on Russian gas imports—allowed Turkey to directly benefit in economic terms from EU projection toward the Caspian area. That is, supporting EU regional energy policies helped Turkey advance two of its main energy policy goals, i.e. meeting a growing domestic gas demand through diversified sources and advancing the energy hub vision for the country. Simultaneously, and from a political perspective, the key role played by Turkey in the development of the Southern Corridor project enhanced the country's standing *vis à vis* both European consumers interested in diversifying import channels and producers in the wider Caspian area interested in diversifying export outlets. Against this backdrop, it is hard to underestimate the importance attached by Ankara to its rising strategic significance to European consumers' energy security policies. In particular, becoming a "key actor"[20] to EU diversification policy was all the more important since the implementation of the Southern Corridor vision overlapped in time with the granting to Turkey of candidate status for EU membership at first, and with the opening of the related negotiations successively.

In sum, the interest of third parties—both energy producers and consumers—in current and potential hydrocarbon trade along the Turkish-Azerbaijani axis stands, on the one hand, as a crucial factor in downgrading both the measure of Azerbaijan's land-lockedness and the gap in bargaining power between the two partners.

### *The land-locked country's retaliatory capability*

Turkey's strong economic and political interest in developing the EU Southern gas Corridor—testified by its inclusion among the four main goals of its national energy strategy[21]—stood as the main factor providing Azerbaijan with a retaliatory capability *vis à vis* its partner. Nowhere the latter emerged clearer than in relation to the crisis in bilateral relations resulting from the October 2009 signing of the Turkish-Armenian Zurich Protocols on opening diplomatic relations and the common border. In-

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[20] The expression is borrowed from the 2007 EU Enlargement Strategy (European Commission 2007, p. 11).

[21] Contributing to Europe's energy security represents one of the main goals of Turkish energy strategy, along with supply diversification, increase in the share of renewables and increase in energy efficiency (Republic of Turkey 2016).

deed, by virtue of the protocols, Ankara's government tried *de facto* to decouple the path toward normalization of relations with Yerevan from the resolution of the Armenian-Azerbaijani conflict over Nagorno-Karabakh—whose occupation in April 1993 by Armenian forces represented the primary cause for the closing of the border, as well as for the freezing of the normalization attempts carried out since the USSR's dissolution.

Ankara's unilateral opening to Yerevan, pursued outside prior consultation with Baku, resulted for Azerbaijan in an unprecedented "risk of abandonment" from the alliance with Turkey (Snyder 1984). Consequently, in the context of an asymmetric and heterogeneous alliance, Azerbaijan reacted to Turkey's move by leveraging upon its muted bargaining power—and, therefore, upon its enhanced retaliatory capability. Baku benefited, in particular, from the concomitance between the Zurich process and the bilateral negotiations with Turkey on the renewal of the gas supply contract and on the laying of the pipelines along the EU Southern Corridor. Thus, Baku's retaliatory capability primarily took the form of a "threat of realignment" with Turkish energy rivals in the competition for the transportation of Azerbaijani gas. In fact, in a short timeframe following the signing of the Zurich Protocols, Socar re-vitalized negotiations for gas transport along Russian, Iranian, and Black Sea routes toward Romania and Bulgaria[22], jeopardizing the basic aims of Ankara's energy strategy and related foreign policy goals.

While it would be misleading to attribute the sole responsibly for the derailment of a Turkish-Armenian rapprochement to the Azerbaijani reaction, it nevertheless definitively represented a key obstacle to its implementation. Capitalizing on the influence exerted by means of its energy potential, Baku proved therefore able to affect the outcome of the normalization process and, most importantly, to impose a revision of the bilateral relation with Ankara on more favorable terms. The latter essentially took the form of an enhanced cooperation in both the energy and security sector: besides finalizing a new gas supply contract and the intergovernmental agreement for laying down a dedicated gas pipeline, Ankara and Baku formalized military ties with the signing of a partnership and mutual assistance agreement ("Azer News" 2010).

The re-launching of the bilateral energy partnership was particularly relevant for the distribution of power within the alliance. It paved the way for the flowing of massive Azerbaijani investments in Turkey—all

[22] See, for example IHS Markit 2009a; IHS Markit 2009b; SOCAR News 2010; IHS Markit 2010.

the more relevant since Baku's retaliatory capability *vis à vis* Ankara, enjoyed by virtue of bilateral negotiations on gas and exploited during the "Protocol Crisis", naturally faded with the finalization of the mentioned intergovernmental agreements on gas sales and transportation. Indeed, due to the peculiarities of gas marketing, once comprehensive agreements are reached and once upstream and midstream investments are launched, the room for bargaining shrinks and the partners turn out to be bounded together over the long-term by legal arrangements as well as by a mutual interest in trade, i.e. by functional interdependence. Therefore, the current strategy aimed at scaling down dependency on Turkey as the key transit country is rather based upon the enhancement of the control exerted by Azerbaijan's state oil company on both the Turkish transport system and the energy market.

*The degree of control the land-locked state exercises over the transport systems*

Sustained by the increasing financial power ensured by the energy rents, the second phase of Azerbaijani energy development has been focusing on the attempt to consolidate its role as energy exporter, along a dual track strategy. That is, besides investing in the upstream sector—i.e. in the development of second and third generation national fields—Baku initiated a "going abroad" strategy hinged on the participation of SOCAR the whole energy value chain. The resulting investment strategy in the midstream and downstream sectors primarily targeted its current and forthcoming gas transit countries along the EU Southern Corridor, with a particular focus on Turkey. Since 2009, the latter indeed became the first recipient of Azerbaijani FDI outflow, targeting energy and infrastructural sectors chiefly. The flow of Azerbaijani investments to Turkey jumped from a cumulative amount of 81 million US dollars in the decade between 2000 and 2010 to 3,125 million between 2011 and 2014[23]. As a consequence, according to Baku's Ministry of Economy[24], the stock of Azerbaijani FDI in Turkey reached 8 billion US dollsrs in mid-2016 and it is expected to rise up to 20 billion by the beginning of next decade—making Azerbaijan the first foreign investor in the country.

The main pillar of Baku's investment strategy in Turkey is the Trans-Anatolian gas Pipeline (TANAP). It is a joint Azerbaijani-Turkish

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[23] Author's calculation based upon: Republic of Turkey, Ministry of Economy, *Foreign Direct Investments in Turkey*, various editions.

[24] Trend (2016).

initiative, launched in November 2011, and aimed at tackling the financial and political shortcomings in EU-sponsored gas transportation projects between Anatolia and central Europe through the assumption of direct responsibility for the construction and operation of a pipeline connecting Turkey's eastern and western borders. Designed as the central segment of the pipelines system linking Caspian fields to southern European gas markets[25], TANAP perfectly matches both Azerbaijani and Turkish energy and foreign policy strategies in both the short and mid term. In particular, the scalability in its transport capacity from an initial 16 to 31 billion cubic meters per year is intended to allow the inauguration of the EU Southern Corridor by 2019. While making it possible, over the mid and long terms, to accommodate the transportation of gas extracted in Azerbaijan's third generation field as well as in Near Eastern and Caspian producing areas potentially connectable to Anatolia. Against this backdrop, a crucial element in Azerbaijani investment strategy has been the resolve to keep the majority stake in the infrastructural project, thereby accepting to bear the highest financial burden for its implementation in order to retain the control over its management as well as over the associated decision-making processes[26].

Significantly, besides investments in infrastructures Azerbaijani FDI also targeted the Turkish energy transformation and distribution sectors. In this context, the main results of the Azerbaijani "going abroad" strategy in Turkey were the SOCAR acquisition of the majority stake (currently 56.32%) in Petkim, Turkey's largest petrochemicals company, and construction of the STAR oil refinery, the first private-led initiative of the kind, which after 2018 will allow Turkey to reduce its dependence on foreign refined oil products[27].

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[25] TANAP is going to be connected, on the Caucasus front, with the expanded SCP while, on the Thracian one, with the Trans-Adriatic Pipeline, devoted to transport 10 Bcm/y of gas from the Greek border to South-Eastern Italy, with possible spin-offs to Bulgaria and the Balkans.

[26] Nowhere Baku's resolve to retain control over strategic decision-making emerged clearer than in negotiations over possible transfer of shares to interested energy companies. At the time of its inception, SOCAR detained the 80% of TANAP consortium and refused to sell cumulatively more than 29% of the quota either to Total, Statoil or Turkish company explicitly referring to the will of retaining not less than 51% as well as the 'last word' over strategic decisions—such as potential additional suppliers. Consequentially SOCAR currently detains 58% of the consortium's shares, while the Turkish company BOTAŞ and BP respectively detain the remaining 30% and 12%. Accordingly, SOCAR is expected to contribute to the 9.3 billion USD project with 5.3 billion.

[27] For an overview of current Azerbaijani investment in Turkish energy sector and obstacles to further developments, see Rzayeva (2015).

## Conclusion: The regional implications of the reduced power asymmetry



Over the last 25 years, energy cooperation has been the leitmotiv behind the emergence and successive enhancement of the bilateral partnership between Turkey and Azerbaijan, facilitating the pursuit of both actors' national interests in economic as well as political terms. Indeed, energy cooperation with Baku not only ensured Turkey the safeguard of national energy security needs, but also presided over the rise of the country's strategic significance and bargaining power *vis à vis* energy consumer and producer countries interested in diversifying respective import or export channels. Under this perspective, energy cooperation with Baku has been crucial to Ankara in order to tackle the post-bipolar double coupling dilemma. This holds true not only for the period immediately following the dissolution of the USSR, but also with reference to the AKP government era, as a result of the "economization" trend in Ankara's foreign policy choices[28].

The growing relevance of the energy sector to foreign policy and the connected enhancement of the Turkish-Azerbaijani partnership upon an interdependent base went along with the progressive reduction in the bargaining power gap between Ankara and Baku. Although the political land-lockedness remains an unavoidable corollary of the lack of access to the sea—along with the associated vulnerability—Azerbaijan nevertheless managed in downgrading its measure. It exploited the incentives-disincentives system enjoyed by virtue of its energy potential in order to prevent Turkey from disaligning, as well as to relaunch and strengthen the partnership on a more favorable base.

As demonstrated by the outcome of the "Protocol Crisis", the growing importance attached by Ankara to the partnership with Baku along with the growth in the latter's bargaining power results in Turkish Caucasian policy being not only centered upon Arzebaijan, but to a great extent also influenced by the latter. That is, the partner's priorities and the partnership's common agenda and shared goals end up reducing Turkish room for diplomatic maneuver and reinforcing the traditional vectors of its Caucasian policy, i.e. the engagement of Georgia and the containment of Armenia.

As far as the latter is concerned, in a regional context where the Armenian Genocide, the Turkish-Armenia normalization process, and the

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[28] See Kirişci (2009); Kirişci and Kaptanoğlu (2011).

Nagorno-Karabakh conflict issues tightly overlap, creating an inextricable diplomatic short-circuit, the gradual balancing of the Turkish-Azerbaijani relationship seems to add an additional polarization factor, and, simultaneously, an additional hurdle to the coherent and inclusive development of the area. In fact, Azerbaijan managed in re-launching and further hardening Turkish containment policy versus Armenia, making Ankara a key partner in the strategy aimed at isolating Yerevan. A strategy that, given the persistent impossibility of achieving a negotiated settlement of the Karabakh conflict, aims to capitalize on the exclusion of Armenia from the major Caucasian cooperation and infrastructure projects, deepening the already dire consequences of the closure of the Eastern and Western borders of the country[29].

The reverberations over Turkish-Georgian relations of the enhanced partnership with Baku are, ostensibly, opposite in sign. The relevance of Georgia as a physical and political link between Turkey and Azerbaijan presided over the gradual but steady formation of a trilateral axis for cooperation, progressively institutionalized by the launch of tripartite formats for cooperation. Therefore, as far as Georgia is concerned, energy cooperation had relevant spill-over effects, which fostered a tripartite engagement—in wider economic, financial, and security terms—and put forward a new model for transnational and interregional cooperation in the Caucasus area[30].

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[29] In the word of Azerbaijani President Ilham Aliyev, "We have our say in the region and our position will become even stronger. We can never allow Armenia to join any political, economic, energy and transport projects. We have isolated them and make no secret of that. In the future, our isolation policy must be continued. It is paying off" (Aliyev 2012).

[30] See Frappi and Valigi (2015).

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