



Feature Article
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Türkiye's Energy Engagement in Central Asia and the Caucasus

Brenda Shaffer

In recent years, Türkiye has significantly increased cooperation with the states of Central Asia and Azerbaijan. One of the most important geopolitical developments in recent years in Eurasia is the emerging alliance between Türkiye, Azerbaijan, and Central Asia. This emerging alliance has given impetus to increased cooperation in the sphere of energy among the states. In addition, the increases in strategic collaboration in the region are also raising the prospects of establishment of cross-Caspian energy projects. Türkiye's engagement in the energy sphere in Central Asia is likely to grow in 2024 and onward. 2024 is a pivotal year for Türkiye's energy policies as its main contracts for gas imports from Russia and Iran expire at the end of 2024 and in 2026. Thus, this year Ankara will make decisions on its future natural gas supplier mix. Türkiye's Sakarya gas field is also ramping up over 2024.

Over the last three decades, Türkiye has played a key role in the establishment of the East-West energy corridor from Azerbaijan to Europe. As a landlocked state, Azerbaijan had to establish its major energy export corridor via neighboring states, and not di-



Inauguration of the Trans-Anatolian Pipeline, 2018.

(President.az)

rectly from ports to international markets. Accordingly, it chose to build its main energy export through states – Türkiye and Georgia – which would be unlikely to disrupt the energy export for political goals. The founding of the East-West energy and transportation corridor during the early 2000s and 2010s helped to cement Azerbaijan's

alliances with Türkiye and Georgia and the ties of Azerbaijan and Georgia with the West.

The main components of the East-West Corridor from Azerbaijan to Türkiye and onward to Europe and global markets are the Baku-Tbilisi-Ceyhan oil pipeline, completed in 2006; the South Caucasus Pipeline for natural gas export, also inaugurated in 2006; and the Southern Gas Corridor which became fully operational in 2020. The TANAP segment of the Southern Gas Corridor is the largest gas pipeline in Türkiye, currently delivering over 16 BCM of gas annually. TANAP delivers over 6 BCM of its current export volumes to Türkiye, and the lion share to Europe. In 2023, Azerbaijan's overall natural gas exports to Türkiye and those transited to Europe increased significantly, with 9.5 BCM to delivered to Türkiye, and 11.8 BCM of gas was exported to Europe.¹

These projects broke the hold of Russia on energy export from the Caspian Sea. The establishment of this East-West energy corridor enabled the development of transportation projects that linked the Caspian region to Türkiye and the west, including the Baku-Tbilisi-Kars railway and the road network from Azerbaijan through Georgia and Türkiye. Through possession of a trade and transportation outlet that was not dependent

on Russia, these infrastructure projects enabled Azerbaijan and Georgia to conduct independent foreign policies and deepen cooperation with the west.

Türkiye's state-owned energy companies—TPAO and Botaş—are investors in Azerbaijan's energy sector. In the upstream field, TPAO – the Turkish state oil company – owns a 5.73 percent share in Azerbaijan's Azeri-Chirag-Gunashli project, and a 19 percent share in the Shah Deniz gas field.

In the export infrastructure, TPAO owns a 19 percent stake of the South Caucasus Pipeline, and a 6.53 percent stake in the Baku-Tbilisi-Ceyhan pipeline, and has 19 percent in the South Caucasus Pipeline Expansion (SCPX). Botaş holds 30 percent of TANAP's shares.

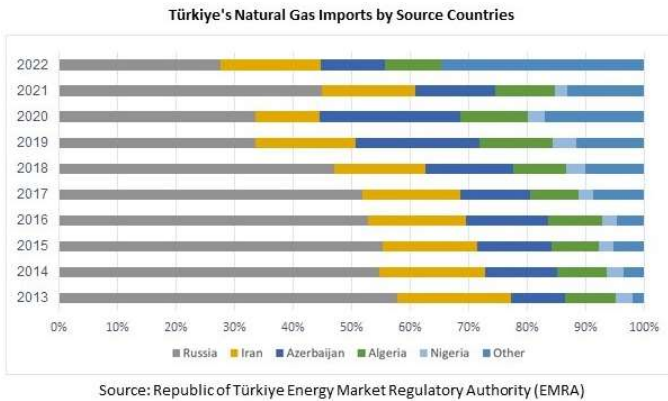
As part of efforts to double gas exports to Europe, Türkiye and Azerbaijan are discussing enlargement of TANAP and are likely to set the parameters of the expansion during 2024

Azerbaijan's SOCAR is invested heavily in Türkiye's energy sector and has become Türkiye's largest foreign investor. SOCAR made its largest foreign investments in Türkiye, currently totaling 19.5 billion. Among SOCAR's investments is the Star Refinery

¹ "Azerbaijan's gas export increased by 5.3% in 2023, says Energy Minister," Azertag, January 11, 2024.

(https://azertag.az/en/xeber/azerbaijans_gas_export_increased_by_53_in_2023_says_energy_minister-2880061)

outside Izmir on the Aegean coast. It processes a quarter of Türkiye's oil products. SOCAR has also established the Petkim Petrochemicals company outside Izmir.



Azerbaijan and Türkiye also decided in 2020 to establish a gas pipeline linking Nakhichevan, Azerbaijan's exclave, to the Turkish gas network, via the city of Iğdır.² President Ilham Aliyev and President Recep Tayyip Erdoğan led a groundbreaking ceremony for the project in September 2023. SOCAR and Botaş are carrying out the project, and plan to complete it by the end of 2024. While it is a small pipeline (97.5 kilometers) requiring minimal investment, this pipeline has strategic implications, since it will end Nakhichevan's dependence on transit through Iran.

2024: A Pivotal Year for Turkish Decisions on Natural Gas Supplies

During 2024, Ankara will make several major decisions that will affect the composition of its gas suppliers, including from the Caspian region. This year is especially important since Türkiye's major contracts with Gazprom will expire at the end of 2024, and in 2026 its contract with Iran will conclude. Accordingly, Ankara will decide this year if to renew these contracts and at what volumes and price formulation. Over the last decade, Ankara has decreased the relative proportion of gas from Russia and Iran, offset with increase imports from Azerbaijan and LNG. The amount of volumes gas available from Azerbaijan and Turkmenistan will affect Türkiye's decisions on renewal of long-term contracts with Russia and Iran and the extent of gas volumes. Türkiye's gas buyers will also examine this year concluding long-term contracts for LNG import.

During 2024, Ankara and Baku are likely to decide the number of gas volumes to be exported to Türkiye as part of the next wave of Azerbaijan's gas exports, beginning in 2028. In addition, Ankara aims this year to contract new gas volumes from Turkmenistan, most likely also to export or transit to markets in Europe. In support of this goal, on March 1, 2024, on the sidelines of the international Antalya Diplomacy

² "Erdoğan, Aliyev attend foundation-laying for Nakhchivan Gas Pipeline", Daily Sabah, September 25, 2023.

(<https://www.dailysabah.com/business/energy/erdogan-aliyev-attend-foundation-laying-for-nakhchivan-gas-pipeline>)

Forum, Türkiye's Minister of Energy and Natural Resources Bayraktar and Turkmenistan's Kurbanguly Berdymukhamedov, the chairman of Turkmenistan's People's Council, signed a Memorandum of Understanding (MOU) for natural gas export to Türkiye.³ If the MOU develops into a concrete gas supply contract, Turkmenistan will be able to diversify its gas exports and lower its dependence on exports to China.

Currently, Turkmenistan, Iran and Azerbaijan conduct periodic gas swaps that enable small amounts of Turkmen gas to be exported (virtually) to Azerbaijan and Türkiye, and thus free up additional volumes for export to Europe. The current US administration has stated that it does not view these swaps as a violation of US sanctions on Iran,⁴ but that could change under a different US administration.

Ankara is also evaluating launching a gas hub. If this is established, Türkiye would likely seek additional gas imports, including from Azerbaijan and Turkmenistan.

During 2024, Türkiye's Black Sea gas field Sakarya will ramp up production. The field is likely to peak at 15 BCM a year and likely average 11 BCM annually during production.

Accordingly, these volumes will not reduce needs for imports, but offset some of the anticipated growth in Türkiye's gas demand.

Emergence of the Turkic Alliance: Implications for Energy

In recent years, cooperation between Türkiye, Azerbaijan and the states of Central Asia has increased immensely. For the first time since independence, the states of Central Asia have concluded significant military cooperation agreements with a state other than Russia. The states have transformed the Turkic Council, which engaged mostly in cultural activity, into the Organization of Turkic States (OTS) and significantly expanded their cooperation. The military cooperation, however, is taking place in the form of bilateral treaties and agreements, such as Türkiye's defense treaty with Azerbaijan, and bilateral cooperation agreements of Ankara each with Kazakhstan and Uzbekistan, and Baku's with each of those two states.

The Organization of Turkic States has formally established cooperation in the sphere of energy

³ "Turkmenistan signs gas deal with Turkey, eyeing European sales," Nikkei, March 2, 2024. (<https://asia.nikkei.com/Business/Energy/Turkmenistan-signs-gas-deal-with-Turkey-eyeing-European-sales>)

⁴ "Swap supplies of Turkmen gas to Azerbaijan via Iran do not violate sanctions - U.S. ambassador", Interfax, January 12, 2024. (<https://interfax.com/newsroom/top-stories/98367/>)

among the member states.⁵ As part of this cooperation, the members established the OTS Program on Energy Cooperation and its Action Plan. In addition, the energy ministers of the member states meet annually. The 2024 meeting of the OTS member energy ministers will be held in Kyrgyzstan.

Lowering Dependence on Russia: Kazakhstan Seeks to Diversify Oil Export Routes

The emerging strategic cooperation has increased the confidence of the states to lower their dependence on Russia. The bulk of Kazakhstan's oil is exported via Russia's Black Sea ports. Since the 2021 invasion of Ukraine, Moscow has disrupted Kazakhstan's oil exports several times. Accordingly, Astana seeks to increase its export volumes through alternative routes, including across the Caspian Sea to Azerbaijan's major oil export infrastructure. The volumes of Kazakhstani exports along this route have increased significantly and the numbers are anticipated to continue to climb. Turkish companies are interested in investments in Kazakhstan's ship building capacity.

The risk that Russia may disrupt Turkish-led energy ventures in the Caspian Sea and Central Asia is certainly present. Türkiye, however, has

proven able to operate in many areas where there is significant Russian presence, without this eliciting direct major Russian retribution or opposition, such as in Syria and Libya.

Trans-Caspian gas: closer than ever

Changing geopolitics in Eurasia, including Türkiye's role, is increasing the prospects of initiation of gas exports from Turkmenistan westward across the Caspian.⁶ From the early 1990s, the United States and Europe attempted to establish export to the west of Turkmenistan's massive natural gas volumes. However, success was never achieved, primarily due to Ashgabat's fear (well-founded) that Moscow would take action to disrupt any serious attempts at Trans-Caspian gas export. However, recently several changes in the geopolitics of the Caspian region have shaken up the calculations and have increased the chances of initiation of westward gas export.

First, the Southern Gas Corridor is operational, delivering gas to Türkiye and Europe. While the idea was only theoretical, Ashgabat was not willing to take risks to commit its gas volumes. However, with the infrastructure up and running and with concrete demand from gas

⁵ Organization of Turkic States, "Areas of Cooperation," <https://www.turkicstates.org/en/isbirligi-alanlari#11-energy-cooperation>

⁶ Svante E. Cornell and Brenda Shaffer, "A New Spring for Caspian Transit and Trade," *Central Asia-*

Caucasus Analyst, October 17, 2023. (<https://www.caucasiananalyst.org/publications/feature-articles/item/13770-a-new-spring-for-caspian-transit-and-trade.html>)

buyers in Türkiye and Europe, the export option is more attractive to Turkmenistan. Second, Moscow is likely to refrain from blocking Turkmenistan's gas exports westward and in fact, might even be in favor. The geopolitics of gas in Eurasia have changed fundamentally with Russia losing market dominance in Europe and consequently aiming to divert its gas exports toward China. Under these conditions, Turkmen gas exported to Europe would not compete with Russian supplies, while a potential reduction of volumes exported to China, or at least the absence of growth thereof, would improve the price environment for Russian exports to China. Accordingly, Moscow may no longer be intent on impeding Ashgabat's gas exports westward. Turkmenistan also fears that Chinese demand for its gas could decrease, with the availability of significant exports from Russia, and thus seeks to diversify its exports with gas to Türkiye and Europe. Third, Türkiye and Azerbaijan have forged over the last two years deeper political relations with Turkmenistan, and this may give Ashgabat confidence to commence gas export west.

Electricity Trade

Türkiye is interconnected in electricity with Georgia and Azerbaijan and the sides regularly trade electricity. Georgia exports electricity to Türkiye.⁷ Georgia also transits Azerbaijan's electricity exports to Türkiye. Nakhchevan also receives electricity supplies from Türkiye. Türkiye and Azerbaijan intend to expand their electricity trade and electricity infrastructure interconnection.⁸ Turkmenistan has discussed with Ankara and Baku the prospects of Turkmen electricity export via Azerbaijan and Türkiye.

Turkish Companies Going Out

Türkiye's Minister of Energy and Natural Resources, Dr. Alparslan Bayraktar, is encouraging Turkish public and private energy companies to undertake commercial activity abroad. Central Asia is a likely object of their activity. Türkiye's state-owned companies Botaş and TPAO are investors in upstream activity in Azerbaijan and segments of the Southern Gas Corridor export infrastructure. Turkish companies, potentially in joint activity with Azerbaijan's SOCAR and other international companies, are likely to undertake investments in the energy sector in Central Asia in 2024 and onward. Despite

⁷ Electricity Market Operator, "Electricity Balance of Georgia, 2023", https://esco.ge/files/data/Balance/energo-balans_2023_eng.pdf?fbclid=IwAR2G49fxeRh2bIX_hFohP3fxO4Imcih45ELxc4MHjvKTFvNWA5h7iuC-luY

⁸ Ministry of Energy and Natural Resources, "Türkiye to ink deal with Azerbaijan for electricity trade," September 29, 2023. (<https://enerji.gov.tr/news-detail?id=21185>)

having significant untapped gas resources, Central Asia is encountering gas shortages. In late 2023, Uzbekistan consequently initiated new gas imports from Russia's Gazprom.⁹ The states seek to develop their own resources instead of this increased dependence on Russia. Thus, they seek exploration activity and investments in their energy sectors generally, but specifically from companies in Azerbaijan and Türkiye.

Where is the United States?

It would seem natural for the United States to seek to promote efforts of the states of Central Asia and the Caucasus and Türkiye to increase their cooperation, including in the sphere of energy, and thus lower the hold of Russia and China over these countries. Washington played a major role in the 1990s and early 2000s in the establishment of the major oil and natural gas projects from Azerbaijan and Kazakhstan westward. These projects not only enabled the Caspian states to jumpstart their economies, but helped them to establish independent foreign policies (especially those projects like the Baku-Tbilisi-Ceyhan pipeline that does not

transit the territory of Russia) and to forge cooperation with the United States. Washington's championing of these projects linking the Caspian region westward was essential to their success.

However, beginning in October 2021, the Biden administration ordered all U.S. embassies and government agencies to halt any engagement in the sphere of fossil fuels, including policy discussions.¹⁰ Accordingly, in contrast to the past, the U.S. is not playing a meaningful role in the increasing energy cooperation across the greater Caspian region, despite the clear geopolitical benefits to the United States.

For example, the 2023 initiation of new gas imports from Russia to Uzbekistan through Kazakhstan is something that should concern Washington as it creates a new lever of Moscow's influence over the region. Yet, since it relates to natural gas, a fossil fuel, Washington has not supported activity to develop alternative gas supplies. Kazakhstan is holding out and still has not signed up for new gas deliveries to its market from Gazprom.¹¹ American interest in increasing the

⁹ Stuart Elliott and Nick Coleman, "Gazprom signs strategic cooperation pact with Uzbekistan, eyes more gas routes," S&P Global, November 1, 2023. (<https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/110123-gazprom-signs-strategic-cooperation-pact-with-uzbekistan-eyes-more-gas-routes>); "Russia starts gas supplies to Uzbekistan via Kazakhstan,"

Reuters, October 7, 2023. (<https://www.reuters.com/markets/commodities/russia-starts-gas-supplies-uzbekistan-via-kazakhstan-2023-10-07/>)

¹⁰ U.S. Department of State, "Interim International Energy Engagement Guidance," December 15, 2021. Available at <https://energyworkforce.org/wp-content/uploads/2021/12/Interim-International-Energy-Engagement-Guidance-2021-12-10.pdf>

¹¹ "Kazakhstan opts out of Russian gas imports this winter," Upstream Online, November 7, 2023.

gas supplies to Central Asia could add confidence to the states of the region to seek alternatives to Russian gas supplies.

Türkiye Looking Ahead

During 2024, Ankara will make major decisions in the energy sphere. Heading into 2024, Türkiye's involvement in the energy sphere is likely to expand across the Caspian Sea into Central Asia. It's growing security cooperation with the states of Central Asia will raise the likelihood of expanded energy cooperation, as the states of the region will gain confidence to diversify away from Russia. Transit of additional gas volumes across Türkiye raises its role as an important energy transit state, and furthers its aims to establish a gas hub.

During 2024, the prospects are high that a peace agreement or series of normalization agreements will be signed between Azerbaijan and Armenia. If Baku and Yerevan make

significant process toward normalization, Türkiye is likely to open up direct trade and increase transportation connections with Armenia. This could increase Türkiye's access to Azerbaijan and Central Asia, especially if the Zangezur Corridor is established. Opening of trade and infrastructure connections can facilitate energy trade with Armenia, if Yerevan desires. Opening of new trade routes will also facilitate greater Turkish involvement in Central Asia, including in the energy sector.

Brenda Shaffer is an international energy and foreign policy specialist, focusing on the Caspian region, European energy security, ethnic politics in Iran, and Eastern Mediterranean energy. She is a faculty member at the U.S. Naval Postgraduate School, a Senior Advisor for Energy at the Foundation for Defense of Democracies (FDD), and a Senior Fellow at the Atlantic Council's Global Energy Center. She is a co-author of the forthcoming book [*Operational Energy*](#) (DeGruyter, 2024).



(<https://www.upstreamonline.com/production/kazakhstan-opts-out-of-russian-gas-imports-this-winter/2-1-1549685>)