Azerbaijan's Energy Policy: Balancing North and East, Going West

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Azerbaijan's Energy Policy

- Not in par with agricultural, demographic or healthcare policies.
- The framework determining the foreign policy identity of the country.
- The main and the most important aspect of the oil/gas factor: consolidation sovereignty.

Oil vs. Gas Policies

- Oil
- Gas

Gas Fields of Azerbaijan

- Onshore Fields (SOCAR)
- ACG Offshore Field (AIOC)
- Shah Deniz Offshore Field
- Shareholders in the Shah Deniz consortium: BP (25.5%), StatoilHydro (25.5%), Total, Lukoil, SOCAR, Naftiran each hold 10%, and TPAO (9%).

- Proved gas reserves:1.3 trillion cubic meters
- At the current rate may last for 50 years
- More than 20 billion annual production
- 10 billion used domestically
- The rest is exported and injected underground into oil deposits

- Azerbaijan became a net exporter of natural gas till 2007 – from Russia
- Not only self-sufficient, but also, exports to Georgia, Turkey, Russia, Iran and in the future, the EU

- Separate pipelines to Russia and Iran
- South Caucasus or Baku-Tbilisi-Erzrum pipeline: 6-7billion capacity could go up to 20 billion (with an additional pipeline).
- The Shah Deniz consortium owns and operates the pipeline.

Export to Turkey

- Turkey buys 6.6 billion from Shah Deniz I; plans 6 billion more from SH II
- Turkey has been shipping part of Azeri gas to Greece since 2008 (close to 1 billion)
- Currently stopped pending a final agreement between Turkey and Azerbaijan

Export to Russia

- Russia started to import 0.5 billion (2009 agreement);
- probably this year it will go beyond 1 billion;
- could be increased up to 2 billion under current agreements.

Export to Iran

- Due to economic blockade of the Nakhchivan enclave of Azerbaijan by Armenia, Azerbaijan in late 2006 began a swap deal with Iran
- Iran receives a 15 percent commission on transit fees.
- Transit levels started at 2.47 Bcf/y in 2006 and were slated to rise to 12.4 Bcf/y by 2009.
- In 2011 is supposed to increase to 1 billion.

Export to Georgia

- Georgia: 250 million cubic meters of gas as transit tax and another 300 million cubic meters for $57 per 1,000 cubic meters in 2010.
- Georgia can buy Azerbaijani gas for 169 per 1,000 cubic meters under a long-term agreement covering the next 5 years.

- Shah Deniz I: 8,6-9 billion cubic meters
- Shah Deniz II: 16 billion cubic meters
- Shah Deniz II means about $20 billion in investments

Delays in SD II: Comparing BTC with Nabucco, etc.

- 3 actors vs. too many actors
- Regional and global leader (Turkey and USA) vs. neither local global leader
- Leadership chemistry
- Turkey and Azerbaijan: relaxed
- The nature of the product: oil vs. gas
- Enough oil vs. not enough gas

Which way?

- North?
- South?
- West?

- What are the criteria for choice?

Which way?

- Nabucco?
- ITGI?
- TAP?
- AGRI?

- TAP or ITGI?
- Politically less visible
- Economically less threatening
- Technically less complex and cheaper
- Past experience with Turkey
- At least a regional leader
- Reliability of Turkey (rule of law)
- Fewer actors

- Keeping Russia and Iran satisfied
- Keep alternatives open: as long as cost effective
- Managing relations with Turkey: too many eggs, but also the most reliable
- Keeping healthy relations with Georgia

Thank you!

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- Empowering SOCAR: Turkey, Romania, Georgia
- Biggest taxpayer in Georgia in the last 3 years

- Rate of extraction vs. Rate of new findings
- Peak oil and gas?
- This could intensify exploration in new fields – a potential for conflict in the Caspian

Turkey and Azerbaijan

- Turkey: doing well and relaxed
- a. already feeling like an energy transit country
- Lucrative and politically strategic deals with Russia
- Knows it is the best option

Turkey and Azerbaijan

- Azerbaijan: doing well and relaxed
- a. earning more than $10 billion a year; in some ways more than its economy could absorb
- $30 billion in the oil fund
- Less sure knows Turkey well enough