

THE STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC (SOCAR) AND
ITS EUROPEAN REGIONAL PARTNERSHIPS: 1992-2015

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ABSTRACT

THE STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC (SOCAR) AND ITS EUROPEAN REGIONAL PARTNERSHIPS: 1992-2015

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This thesis analyzed State Oil Company of Azerbaijan Republic's-SOCAR success story and its development process from being a national-regional energy company to become an international oil company by its investments. On the contrary to the problems that national oil companies mostly face with, Azerbaijan has took a serious step by signing Contract of the Century on the September 1994 and opened its country for the Western investors and pave the way for country's both economic and social prosperity. SOCAR is the single and the most important actor of this success story by its nature of being a national oil company and its cross the borders investment strategy with developing good relationship ties and even brotherhood with the Turkey, Georgia and European Union member states. Baku-Tbilisi-Ceyhan pipeline, Trans Anatolian Pipeline and Trans Adriatic Pipeline are the main key energy projects that sustain European future energy security, develop relations between the actors and SOCAR are studied detailed in this thesis.

Keywords: SOCAR, national oil companies, Azerbaijan, foreign policy,
TANAP

ÖZ

AZERBAYCAN DEVLET PETROL ŞİRKETİ (SOCAR) VE SOCAR'IN AVRUPA BÖLGESEL YATIRIMLARI: 1992-2015

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Yüksek Lisans, Uluslararası İlişkiler Bölümü

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Bu tez Azerbaycan Devlet Petrol Şirketi-SOCAR'ın 1992 yılından günümüze kadar yapmış olduğu yatırımlar ile kendini ulusal-bölgesel bir petrol şirketi olmasının ötesinde bir uluslararası petrol şirketi olarak uluslararası enerji piyasasına kabul ettirmesinin başarı öyküsünü konu edinmiştir. Ulusal petrol şirketlerinin yaşamış olduğu zorluklarla beraber, Azerbaycan'ın kendi ekonomik bağımsızlığını sağlaması yolunda 1994 yılının Eylül ayında atmış olduğu en önemli adımlardan birisi olan Yüzyılın Anlaşması ile ülkesini Batı'lı yatırımcılara açmayı kabul etmiş ve ülkenin hem ekonomik hem de sosyal anlamda gelişmesinin yolunu açmıştır. Bu başarı hikayesinin yegane aktörlerinden biri olan SOCAR'ın bir devlet petrol şirketi olması ve sınırları aşan yatırımlar ile beraber iyi komşuluk ve hatta kardeşlik bağları ile özellikle Türkiye, Gürcistan ve Avrupa Birliği üye ülkeleri ile geliştirdiği iyi ilişkiler ve gerçekleştirdiği yatırımlar başta Baku-Tiflis-Ceyhan boru hattı, Trans Anadolu Boru Hattı ve devamında da Avrupa Birliği ülkelerinin enerji güvenliği yolunda önemli bir adım olan Trans Adriyatik Boru Hattı projeleri detaylıca incelenmiştir.

Anahtar Kelimeler: SOCAR, devlet petrol şirketleri, Azerbaycan, dış politika, TANAP

To Ahad, Samira and Ceyla

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LIST OF ABBREVIATIONS

AA	Association Agreement
ACG	Azeri Chirag Guneshli
AGRI	Azerbaijan Georgia Romania Interconnector Pipeline
AKP	Justice and Development Party
BNOC	British National Oil Company
BOTAŞ	Petroleum Pipeline Corporation
BP	British Petroleum
BSEC	Organization of the Black Sea Economic Cooperation
BTC	Baku Tbilisi Ceyhan Oil Pipeline Project
BTE	Baku Tbilisi Erzurum Gas Pipeline
CEO	Chief Executive Officer
CFP	French Petroleum Company
CIS	Commonwealth of Independent States
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CoE	Council of Europe
DCTFA	Deep and Comprehensive Free Trade Area
DEPA	Public Gas Cooperation of Greece
ECSC	European Coal and Steel Community
EITI	Extractive Industries Transparency Initiative
ENI	Ente Nazionale Idrocarburi
ENP	European Neighborhood Policy
EU	European Union

EUR	Euro
FID	Final Investment Decision
GDP	Gross Dometic Product
GPFG	Government Pension Fund Global
GPFN	Government Pension Fund Norway
GUAM	Organisation for Democracy and Economic Development
IMF	International Monetary Fund
INOC	Iraq National Oil Company
INOGATE	Interstate Oil and Gas Transportation to Europe
IOC	International Oil Companies
ITGI	Interconnector Turkey Greece Italy Pipeline
KMG	Kazmunaygaz
KNPC	Kuwait National Petroleum Company
LNG	Liquefied Naturel Gas
LNOC	Libyan National Oil Corporation
MNC	Multi National Cooperations
NFKR	National Fund of the Republic of Kazakhstan
NGO	Non-governmental organizations
NIOC	National Iranian Oil Company
NNOC	Nigerian National Oil Company
NOC	National Oil Companies
NWF	National Welfare Fund
NWFR	National Welfare Fund Russia
ONGOC	Oil and Natural Gas Corporation Limited
OPEC	Organization of Petroleum Exporting Countries
OSCE	Organization for Security and Co-Operation in Europe
PCA	Partnership and Cooperation Agreement

PdVSA	Petroleum of Venezuela
PETKIM	Petkim Petrochemical Holding Company
PETLIM	Petlim Port Holding Company
PSA	Production Sharing Agreements
QGPC	Qatar General Petroleum Corporation
SCP	South Caucasus Pipeline
SCPx	South Caucasus Pipeline Expansion
SHT	Societe Des Hydrocarbures du Tchad
SOCAR	State Oil Company of Azerbaijan Republic
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SWF	Sovereign Wealth Funds
TANAP	Trans Anatolian Pipeline Project
TAP	Trans Adriatic Pipeline Project
TPAO	Turkish Petroleum Corporation
US	United States
VAT	Value Added Tax
YPF	Yocimientos Petroliferos Fiscal

CHAPTER I

INTRODUCTION

1.1. Scope and Objective

The thesis seeks to examine an answer to the research question how is SOCAR developing by Azerbaijan as a NOC and what are the SOCAR's investment strategies in order to improving its business strategy in European and regional states. It is crucial to emphasize the fact that despite SOCAR is 100% state owned oil company, it still has some economic and technical inadequacies for being 100% national oil company.

State Oil Company of the Azerbaijan Republic (SOCAR) was established in 1992 as a state oil company of the Azerbaijan. Since that time, SOCAR is making huge investments in Europe, Asia and even in Africa. SOCAR tends to develop its characteristics of being national oil company (NOC) with the company investments and developments in oil and gas sector.

In Azerbaijan, SOCAR has played the important role of being the domestic partner of the international oil companies through production sharing agreements (PSA). With the production sharing agreements, foreign involvement in petroleum sector is controlled and SOCAR is a partner in all PSAs. SOCAR has commercial and regulative roles in PSAs.

History of the oil was started in Azerbaijan in the late 19th century when the Nobel Brothers discovered important and huge oil reserves in Caspian Sea. Importance of Azerbaijan in energy scheme is motivated researcher to deeply analyze factors how important for a small Caucasus state to establish a state oil company and how story began in the West side by creating national oil companies. Despite the lack of information about particular motives and characteristics as a NOC, investigating SOCAR's development story and its investments from the 1992 till 2015 is very interesting in terms of the making contribution to research about the SOCAR that will be one of the crucial European energy security contributor in few years.

The main purpose of this master thesis is, working on especially quite a new topic for the Caspian energy rich states, having a national oil company desires. This thesis is not concentrated on the Azerbaijan energy policy and its political decisions, as there are quite many works that emphasize Azerbaijan's importance for the European

energy security. Thus, Azerbaijan is the home government of the SOCAR, throughout the chapters there are references for the both Azerbaijan energy and foreign policies. SOCAR's investment strategy within the region and the Europe is also seen as a good example for the post-Soviet energy exporter states. The topic is important due to SOCAR's increasing importance in both regional and international relations. After the dissolution of the USSR, Azerbaijan became a solely energy rich state that should took important states in order to take into the consideration by the Western countries. The year of the 1994 is the milestone in Azerbaijan history for signing Contract of the Century agreement by the Western states and opened state for the international investments. Since 21 years when the Contract of the Century was signed, Azerbaijan starts benefited from the decision that took in last decade. Today, especially crisis between the Ukraine and Russia makes think European states about Azerbaijan's possible contribution to the European energy security. Azerbaijan in compare with the other energy exported states in the Central Asia region as Kazakhstan and Turkmenistan could be assumed as the more opened to the European states for developing relations by the help of the SOCAR's business strategy in oil and gas sphere.

SOCAR's possible contributions in Turkey and Georgia are already seen as important infrastructural projects. SOCAR with its investments, according to the research carried on, also promoting economic stability within these particular states. On the other side, with the first gas to Europe in 2019, SOCAR will also become one of the major gas supplier to the continent. This thesis hopes to contribute academic and field researches about SOCAR in particular and wishes more work to be done about SOCAR in next years.

1.2. Literature Review

This thesis is a product of the over one and half a year researches in both written and unwritten sources. Due to limited number of work have been conducted about the SOCAR, the company's investment strategy, its prospective ventures and good relationships between the European regional states mostly based on the interviews that made in Baku in January-February 2014.

The second chapter of this thesis consists of the works of the particular authors; Leslie E. Grayson and most referred and prominent work- National Oil Companies book gave a critical point of view regarding the NOCs. However the book has written in 1980s, it has very valuable information about the characteristics of NOCs. In company

with Grayson, Valerie Marcel's work on the Oil Titans: National Oil Companies in the Middle East shows the factors in which scope IOC and NOC differs and what are the key drivers of the IOCs.

Silvana Tordo's World Bank Report National Oil Companies and Value Creation analyses NOCs from different perspectives and draw attention on the relations between the home governments and NOCs. World Bank, OPEC and U.S. Energy Information Administration reports and the cited publications mostly used throughout this chapter in order to give a broad point of view of NOCs.

Throughout the third chapter of this thesis, as it mostly keen on the establishment and development of SOCAR and then continues with the regional partnerships, BP World Energy Outlook reports, SOCAR, TANAP, BTC and TAP websites andwith the interviews.

Fourth chapter is dedicated to SOCAR's European investment strategy so European Commission policy papers, official statements of the government representatives and reports of the Gulmira Rzayeva on the energy security of European Union, Turkey's and EU's energy security and lastly daily newspaper and journal articles cited mostly. Throughout this part interviews also has an inevitable contribution.

Last chapter of this thesis dedicated to investigate and study national oil companies and their national oil funds and compare them with the SOCAR. Throughout this chapter mostly Yelena Kalyuzhova's article The National Fund of the Republic of Kazakhstan: From Accumulation to stress-test to global future is a comparative work in case of understanding post-Soviet NOCs and their national oil funds. Richard Gordon and Thomas Stenvoll's Statoil: A Study in Political Entrepreneurship article has a guiding way in order to understanding Norway's state oil company and its development process. This work is very crucial in order to referring and comparing Kazmunaygaz, SOCAR and Rosneft throughout the last chapter

1.3. Thesis Argument

Contrary to the expectation some scholars who assume that SOCAR as a national oil company would have concentrated in consolidating its position in Azerbaijan energy market through monopolistic strategies, this thesis argues that SOCAR differs from other national oil companies in that it considers partnerships with Western multinational energy companies at the backbone of its strategy of compensating its weaknesses as a national oil company.

National oil companies are a trend that started taken into the consideration after the 1950s in oil sphere. National oil companies mostly have a motivation for acting in favour of the national interests in energy debates. SOCAR, is not a fully dependent oil company from the home state, however SOCAR is not only concentrated in Azerbaijan's exclusive energy market.

This thesis argument supported that SOCAR tends to be national oil company by its investments in foreign states and developments in its relations with the foreign partners. Being a national oil company consist some aspects as having national interests, actives as a commercial oil company and having responsibilities with the particular state and community.

This thesis argues that it is the business strategy of SOCAR that establish international partnerships and orientation becoming an actor to European energy market. This work is discussing SOCAR's motivations for being a national oil company throughout the all chapters. As it is relatively new topic for Caspian energy exporter states having a NOC, SOCAR is criticizing for being a national oil company which is not an independent company from the Azerbaijani state.

United Nations Working Group on Business and Human Rights in their official visit to Baku on August 2014, suggested SOCAR to become accounted to Parliament and become more transparent.¹ It has known that SOCAR is the member of the Transparency Initiative for becoming more transparent in oil industry.² However, in the latest Human Rights Watch Report 2015, EITI delivered its concerns about human rights violations within the country and pressure over the non-governmental organisations.³ SOCAR, as the biggest representative of Azerbaijan has a lot work to do in case of the civil society participation, freedom of press and transparency issues. It is not only becoming an energy rich country's national oil company, it is also proud and voice of the Azerbaijani people in abroad. BTC and TANAP projects gives an opportunity for becoming a Western company for SOCAR, however in order to continue its success and good relations with the European counterparts SOCAR should take additional decisions.

¹Statement at the end of visit to Azerbaijan by the United Nations Working Group on Business and Human Rights, OHCHR(27 August 2014), <http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=14965&LangID=E>, 06 February 2015.

² Azerbaijan-Nations in Transit, Freedom House, <https://freedomhouse.org/report/nations-transit/2014/azerbaijan#.VNhzauasVAo> 06 February 2015.

³ Azerbaijan: Transparency Group Should Suspend Membership, Human Rights Watch, <http://www.hrw.org/news/2014/08/14/azerbaijan-transparency-group-should-suspend-membership> 06 February 2015.

1.4. Theoretical Framework and Methodology

This thesis is following liberal international relations theory towards the energy security debates within the Europe. On the contrary to the some views or realist scholars, SOCAR is making allies in European and regional states and cooperating with them. Cooperation with these particular counterpart states is more than competition in energy market for the SOCAR.

On the other hand, Azerbaijan is using its soft power over the negotiation process rather than the hard power and the conflicts. It is very clear to observe that SOCAR is a negotiator of the state in energy debates. SOCAR is using soft power over the Turkey and Georgia mostly with its good relationships towards these countries. In the European countries, SOCAR's real estate investments and also national branding over the sports campaigns could be seen as examples.

Besides these features, due to SOCAR has close relationships with European and regional states, rule of law and democracy issues within the state are seen as important values for the development of the state. Especially transparency and accountability of company is crucial in SOCAR's relations with Western counterparts.

Lastly, in terms of liberal point of view, SOCAR is also a key player of state's increasing of wealth in recent years. SOCAR's successful cooperations with counterparts make the state wealthier than before.

This thesis used interviews with Gulmira Rzayeva from the Strategic Research Center-Azerbaijan, Bakhtiyar Aslanbayli from Baku State University, Elnur Soltanov from Azerbaijan Diplomatic Academy, Ilham Shabanlı from Caspian Barrel online newspaper, diplomats from Republic of Azerbaijan Ministry of Foreign Affairs and lastly Dr. Vitaly Baylarbayov Deputy Vice President of the SOCAR are contributed to this thesis with their views of SOCAR's investments in European regional level.

1.5. Organisation of the Thesis

The thesis comprises four main chapters. Second chapter is dealing with the national oil companies trends in the developing world, third chapter consists of the SOCAR's regional neighbour activities in Georgia and Turkey, fourth chapter is SOCAR's relations with the European states and institutions. Finally, fifth chapter of this thesis is a comparative study of the national oil companies Kazakhstan, Norway and Russia.

Second chapter of this master thesis aims to give a conceptual analysis of the national oil companies. In order to making proper analysis about SOCAR, it is very important to sustain main framework of the historical background of the national oil companies. It continues with the factors behind the establishment of NOCs and key drivers of the NOCs and lastly developing trends and contemporary challenges to the NOCs are analyzing throughout the chapter.

Third chapter consists of the information about SOCAR at a glance. Due to emphasizing more on the SOCAR's investment strategy, third chapter is relatively gives narrow and basic information about SOCAR's establishment period. Throughout this subchapter, researcher also discuss SOCAR's inter (national) attitude towards joint ventures with the partner countries. Chapter continues with the SOCAR's investments in Turkey and Georgia and concludes with the both states active participation projects: BTC, BTE and TANAP.

Fourth chapter is making links from SOCAR's regional projects to the European ones. Those two chapters are the main contributors to SOCAR's investment strategy through the becoming a NOC. This chapter starts with the geographical order and investments in Greece, then continues with Italy and finally SOCAR's active participation in European energy security agenda. Trans Adriatic Pipeline project (TAP) is also considered throughout this chapter.

Fifth chapter of this master thesis is a comparative study of SOCAR, Kazmunaygaz, Statoil and Rosneft. This thesis starts with the historical background of the NOCs and finishes with the current representatives of the NOCs from the Kazakhstan, Norway and Russia. Due to importance of the Kazakh gas, post-Soviet energy rich state representative and its possible inclusion to TANAP, Kazmunaygaz was chosen for the comparative study. Statoil is one of the best example for NOC in Europe and its Norwegian Model contribution to energy and wealth studies, makes research more interesting and challenging in case of the other NOCs. Finally, oil giant Rosneft and its different development process than the other NOCs, makes this chapter a comparative study between the representatives of Azerbaijan, Kazakhstan, Norway and Russia.

CHAPTER II

NATIONAL OIL COMPANIES AND DEVELOPMENT TRENDS IN WORLD

National Oil Companies have an importance for the state, the government and for citizens of the particular state which has NOC, and for the international oil market in order to sustain its power for the future of the market. NOCs are the flagship enterprises for their countries and they could assume as sources of national pride and employment.⁴ Some of them provide public services such as education, building roads, airports and investing in country's communications systems. These two-sided coins sometimes make NOCs as favorable companies in both domestic and international relations for the states.

In this chapter of the master thesis, history of the national oil companies, factors behind the establishment of national oil companies and lastly developing trends and challenges for national oil companies is going to be analyzed.

2.1. History of the National Oil Companies

At the end of the 18th century when the first commercial oil was discovered, there were 36 private oil companies⁵ in United States and some of them were the predecessors of the Seven Sisters. The first national oil company was established in Austria- Hungary by Emperor Franz Joseph in 1908 for controlling crude oil and building a topping plant.⁶ In 1914, on the eve of the First World War, Anglo-Persian Oil Company known as British Petroleum, was United Kingdom invested 2.2 million pounds and got 51 percent of the ownership of the company.⁷

Energy was a crucial factor for the security of supply and continuation of the power. In each pieces of work, the author have read about NOCs, authors mostly cited Winston Churchill-at the time the First Lord of the Admiralty-, "If we cannot get oil,

⁴ Donald L.Losman, The Rentier State and National Oil Companies: An Economic and Political Perspective, *The Middle East Journal*, 64(3), Summer 2010, p.433.

⁵Silvana Tordo(2011), National Oil Companies and Value Creation, *World Bank Working Paper* ,N.218, p.15.

⁶ *Ibid*, p.16.

⁷ *Ibid*.

we cannot get corn, we cannot get cotton and we cannot get a thousand and one commodities necessary for the preservation of the economic energies of Great Britain.”⁸

Europe was also under the pressure for establishing its own national oil companies, for securing supply of the security. France and Italy established their NOCs in the middle of the 1920s. One of the locomotives of the oil exporter a region, Latin America was also established NOCs. First Latin American NOC was Argentinian Yocimientos Petroliferos Fiscales (YPF) in 1922.⁹ Chile (1926), Uruguay (1931), Peru (1934) and Bolivia (1936) followed Argentina.¹⁰ Today’s oil giant region Middle East and its reserves were found in 1930s. Bahrain, Kuwait and Saudi Arabia were the key players of the region in energy scheme and they had and still have an important impact on both NOCs and international energy profile. In 1960 September, when OPEC was established, it had drastically changed the history of the NOCs in a positive way.

Every story has its own milestones and exact dates for NOCs were the 1973-74 oil crisis¹¹. Before that date, oil did not take any attention for manipulating political and economic purposes, according to the Planning Director of ENI stated in 1979, ‘Oil is a political commodity. It is not something to be left to markets and businessmen.’¹² Oil was cheap, it could be reached and it was under the control of several big powers. However, 1973-74 shifted oil and energy agenda, while prices suddenly rose four times and stock markets crashes arose, NOCs birth on history scene at the end of the 1970s. Dependency on the foreign multinational cooperations(MNC), had risks for the hosting states in the manner that these MNCs were responsible for their owner states. That was one of the major reasons for governments, establishing their own national oil companies where they will have control power.

The national oil company is the company whether 100% state owned or majority of the shares is under the state control¹³. In basic explanation, if 51% of the shares are owned by the state or government, it can be announced as state oil company¹⁴. The

⁸ Alberto Clo(2000), *Oil Economics and Policy*, Springer: New York , p.37.

⁹ Silvana Tordo(2011), National Oil Companies and Value Creation, *World Bank Working Paper* ,N.218, p.16.

¹⁰ *Ibid*, p.17.

¹¹ Leslie E. Grayson (1981) , *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.3.

¹² *Ibid*.

¹³ The National Oil Company- Transforming the competitive landscape for global energy, Accenture, <http://www.accenture.com/sitecollectiondocuments/pdf/accenture-noc-brochure-rvs.pdf>, p.3.

¹⁴ Evangelia Fragouli, Adedolapo Akapo(2014), National Oil Companies& Energy Market: The Energy Matrix Change and Its Implications, *International Journal of Information, Business and Management*, p.27.

responsibility of the company is on the state that is a reason how states and governments could control their NOCs. Economic, strategic and commercial purposes motivate NOCs and making investments in favor of their home governments. Energy, as it mentioned frequently, is a political commodity since 1970s while states realized unless energy power, it was very difficult ware to control both national and international relations.

According to Fragouli's work ,it was mentioned that oil is under the control of the NOCs and NOCs are controlled by their particular governments¹⁵. States' roles are altered from one state to the other one, but states' mostly have similar objectives about NOCs. Wealth distribution, economic development, foreign policy instrument, energy security and lastly vertical integration are the objectives of NOCs that are analyzing deeply in following part of this work. However, objectives and obstacles are less similar about regulating national oil companies.

A special report regarding national oil companies that was published in 2006 August by The Economist, Oil's Dark Secret, is categorized similar problems that NOCs faced. There isn't a huge difference since 2006 while NOCs were controlling nearly 90% of the energy market¹⁶. According to the report, there is a list of the troubles that disturb national oil companies; bureaucratic troubles, structural problems, used for foreign policy purposes by states, transparency and accountability doubts and maximization of incomes.¹⁷ These problems mostly are seen in developing countries rather than Norway or other developed ones. It is crucial to emphasize that NOCs are established frequently in Middle East and Gulf region which controls two third of the world energy market.¹⁸

It is important to underline that how NOCs, are different from the international oil companies (IOC) and in which perspective they have mutual concerns and objectives. Leslie E.Grayson, in his "National Oil Companies" book that was published in 1981, gives an attention to the important parts how oil companies could be described as "national" ones. It is obvious that in order to be called as a national company, this company should have national purposes¹⁹. These national purposes motives

¹⁵ Evangelia Fragouli, Adedolapo Akapo, National Oil Companies& Energy Market: The Energy Matrix Change and Its Implications, *International Journal of Information, Business and Management*, p.26.

¹⁶ Oil's Dark Secret(2006), *The Economist*, <http://www.economist.com/node/7270301>, 17 September 2014.

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ *Ibid.*

governments for taking decisions in favor of the oil company. NOCs national purposes, operating both within the state and abroad, have differed from the MNCs.

“Countries with NOCs could better control their balances of payments and tax policies. NOCs could enable home countries to accumulate international business and technological expertise and could also be instrumental in foreign economic ventures, which would enhance the country’s prestige at home and abroad. Thus by establishing NOCs, governments hoped to counterbalance the oil majors’ powers and to augment their own.”²⁰

National oil companies and their motivation for maximization of the state’s power, make home government stronger in both domestic and international relations. It should be underlined in this part of the work that, especially in countries which have NOCs domestic and foreign relations are correlated. Unless becoming successful in domestic relations it is very hard to succeeded achievements in international relations when the national resources are the case of the topics. From the researcher’s, especially in Middle East and Caspian energy exporter states, most of the incomes from the oil are spent for the infrastructural projects. To exemplify, Dubai won Expo2020, Azerbaijan hosted Eurovision in 2012 and will host First European Summer Games in 2015 and Qatar will host FIFA 2020 World Cup²¹. This kind of the infrastructural and image-making projects raise both state’s international power and in domestic, it shows a little piece of the prosperity for the citizens. It is not sinister or disastrous walking through the Boulevards with the most expensive brands or being known by some of the Western tourists.

Lastly, about this part while emphasizing the history of the national oil companies, it is crucial to underline in which regions when most of the NOCs established. After 1960s when the OPEC was established, in the Middle East in Kuwait, Saudi Arabia and Iraq, in the Africa Algeria, Libya and Nigeria were established their own NOCs²². The second important moment, after the fell down of the Soviet Union, in Russia, Azerbaijan, Kazakhstan and Turkmenistan established NOCs. The selected NOC lists with their establishment year and home countries are given at the end of this chapter.

National oil companies are not too much keen on having profit as it does in international oil companies and multinational cooperation’s. Tasks of the NOCs are properly developed by the state and the governments that is the reason in which scope

²⁰ Leslie E. Grayson (1981) , *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.9.

²¹ Opening speech by Ilham Aliyev at the first meeting of the Organizing Committee of the European Olympic Games due to be held in Baku in 2015, President of Azerbaijan Ilham Aliyev, <http://en.president.az/articles/7176> , 20 May 2014.

²² See the Table 1.

NOCs are different from the IOCs²³. Secondly, NOCs are faced with the serious bureaucratic problems in order to become an independent entity and investing in profitable projects. Bureaucracy involves both in the management level of the NOCs and in the investment strategy level²⁴.

The investment strategy of the NOCs mostly differs from the IOCs in as much as the revenues that NOCs gained are relatively smaller than the IOCs²⁵. Lastly, NOCs are free from the short-term financial pressures as they are mostly addicted to the long-term perspectives.²⁶ Corruption, transparency and accountability issues are the other part of the NOC history. Throughout this chapter, all of these factors and also relations with the host governments and NOCs are going to be analyzed in details.

NOCs are the reality for the today's oil market where they have over 80% power of voice²⁷. It is inevitable to carry out a research without analyzing NOC situation and developing trends in the current oil market. NOCs are directly involved in state's foreign policy decisions that are why NOCs mostly defined as the flagship companies and honor of the states.

National oil companies and their success from the perspective of the establishing states are important phenomena in nationalizing oil cases. NOCs are at the center of the resource nationalism; how Stevens explains it is a battle between the national interests and foreign influences.²⁸ Oil is a necessary target for state ownership and control²⁹ and that is the reasons why states are aiming have their own national or state-owned oil companies.

²³ Silvana Tordo(2011), National Oil Companies and Value Creation, *World Bank Working Paper* ,N.218, p.27.

²⁴ Donald L.Losman, The Rentier State and National Oil Companies: An Economic and Political Perspective, *The Middle East Journal*, 64(3), Summer 2010, p.436.

²⁵ *Ibid*, p.437.

²⁶ Valerie Marcel(2006), *Oil Titans- National Oil Companies in the Middle East*, Chatnam House: London, p.72.

²⁷ Daniel Yergin(2008), *The Prize The Epic Quest for Oil, Money&Power*, New York: Free Press, p.770.

²⁸ Paul Stevens(2008), National oil companies and international oil companies in the Middle East: Under the shadow of government and the resource nationalism cycle, *Journal of World Energy Law& Business*, 1(1), p.8.

²⁹ *Ibid*, p.12.

“Over 80 percent of world reserves are controlled by governments and their national oil companies....the government-owned national oil companies have assumed a preeminent role in the world history.”³⁰

State interests and state's desire of controlling natural resources and especially one of the most valuable one, oil motives creations of the NOCs. Political arguments and economic arguments are the two main pillars of the ideas behind the NOCs establishment processes³¹. How it was mentioned before, NOCs are not only important actors in foreign politics; they have an important impact on the domestic politics as well. Most of the examples of the NOCs are re-shaping of the state's destiny and citizens' life in both positive and negative ways. Especially Dutch disease issues where prices are getting higher and people could not be able to afford even basic needs, corruption degrees increased and gap between the political elites who are mostly involved in oil sector, and the citizens' enormously fall out³².

Lastly, it is crucial to identify objectives and characteristics of the NOCs in order to making a proper analysis about their establishment and relations with the home governments. According to Pirog, on his detailed CRS Report for U.S. Congress, six important objectives are carried out by the NOCs and four characteristics NOCs have³³. Objectives are as follows; wealth distribution, economic development, foreign policy, energy security, job programs and vertical integration.³⁴ These objectives are going to analyzing deeply under this part of the work and going to be referred in following chapters of this thesis. The most important three objectives, from the point of researcher's view and this study are NOCs active engagement in economic development and their inevitable role in state's GDP percentage, NOCs role in government's foreign policy decisions and NOCs impact on state's international relations and last one energy security and especially supply security for oil importer and exporter states'.

³⁰ Daniel Yergin(2008), *The Prize The Epic Quest for Oil, Money&Power*, New York: Free Press, p.770.

³¹ Paul Stevens(2008), National oil companies and international oil companies in the Middle East: Under the shadow of government and the resource nationalism cycle, *Journal of World Energy Law& Business*, 1(1), p.12.

³² For more information: Financial Times, Lexicon-Dutch Disease, <http://lexicon.ft.com/Term?term=dutch-disease>

³³ Robert Pirog (2007), *The Role of National Oil Companies in the International Oil Market*, *CRS Report for Congress*,p.5-14.

³⁴ *Ibid*,p.6-7.

Characteristics of the NOCs are as follows; efficiency, investment, reserves and production and access to capital.³⁵ It is very hard to assume that NOCs are working very efficient while making their operations however inefficiency is a situation which both NOCs and IOCs are faced. About reserves and production operations, recently, NOCs have the most important pie from the natural resources reserves. Mostly NOCs are involved in upstream operations which are commonly referred as exploration and production sector³⁶. The investment strategy of the NOCs and IOCs are different as it should be. IOCs aim maximization of the shareholder value, on the other hand NOCs have a motive of the state interests where it would not be able to take decisions independent than the government³⁷.

National Oil Companies Establishment Dates

³⁵ *Ibid*, p.9-10.

³⁶ *Ibid*, p.9.

³⁷ *Ibid*, p.11-12.

Table 1

YEAR	COUNTRY	COMPANY
1914	UK	BP
1922	Argentina	YPF
1924	France	CFP
1926	Italy	Agip
1938	Mexico	Pemex
1951	Iran	NIOC
1953	Brazil	Petrobas
1956	India	ONGC
1960	Kuwait	KNPC
1962	Saudia Arabia	Petromin
1965	Algeria	Sonatrach
1967	Iraq	INOC
1970	Libya	LNOC
1971	Indonesia	Pertamina
1971	Nigeria	NNOC
1972	Norway	Statoil
1974	Qatar	QGPC
1974	Malaysia	Petronas
1975	Venezuela,RB	PdVSA
1975	Vietnam	Petrovietnam
1975	Canada	Petro-Canada
1975	UK	BNOC
1976	Angola	Sanangol
1982	China	CNOOC
1988	China	CNPC
1988	Saudi Arabia	Saudi Aromco
1989	Russia	Gazprom
1992	Azerbaijan	SOCAR
1993	Russia	Rosneft(2006)
1997	Turkmenistan	Turkmengaz
2002	Kazakhstan	Kazmunaygaz
2002	Equatorial Guinea	GEPetrol
2006	Chad	SHT

Source: Tordo(2011), World Bank Report.

In the conclusion of this part, national oil companies have different motives and also aim than the international oil companies. It is crucial to emphasize the factor that

national oil companies have a huge share in the domination of the oil market. The creation of the national oil companies is closely related with the state interests. It is relatively easy to control both domestic and international oil market if the particular state owns a national oil company. Next part of this chapter is going to be deal with the establishment of the national oil companies and the state attitudes towards the NOCs.

2.2. Factors behind the Establishment of National Oil Companies

This second part of the work is going to analyze factors which factors are behind the establishment of the NOCs and why states' aim to establishing and having state-owned national oil companies.

National oil companies, especially after 1960s started establishing in oil producing and exporter regions as Middle East and Africa ones³⁸. Motives for establishing and nationalizing oil mostly are differed from state to state and even from the representative person of the state.

On the other side, national oil companies and their power of stabilizing the economy and create wealth prosperity for the state makes NOCs an important economic actor in state's relations³⁹. Besides the economy, NOCs are also in some cases dominant actors in politics and realizing national state interests⁴⁰.

States establishing national oil companies for three main objectives according to the Grayson. The first one is reducing state's dependence on the oil multinational cooperations⁴¹. Dominance over the transporting, refining and marketing facilities of these MNCs, are under the control of the foreigners. "Large industrialized nations are loath to depend on foreign corporations' supply and control of the essential ingredients of economic growth."⁴²

National oil companies have brought together three important objectives as it has shown in graphic below; commercial, reputation and positioning and national mission

³⁸ See the Table 1.

³⁹ John Cassidy, Venezuela's "Resource Curse" will outlive Hugo Chavez, The New Yorker, <http://www.newyorker.com/news/john-cassidy/venezuelas-resource-curse-will-outlive-hugo-chvez> 18 May 2015.

⁴⁰ Especially the case of the Russia is the best example fort his statement.

⁴¹ Leslie E. Grayson (1981) , *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.9.

⁴² *Ibid.*

objectives⁴³. Junction point of all three objectives is shareholder/stakeholder value. In which percent and in which scope these objectives are valid is the question of this part.

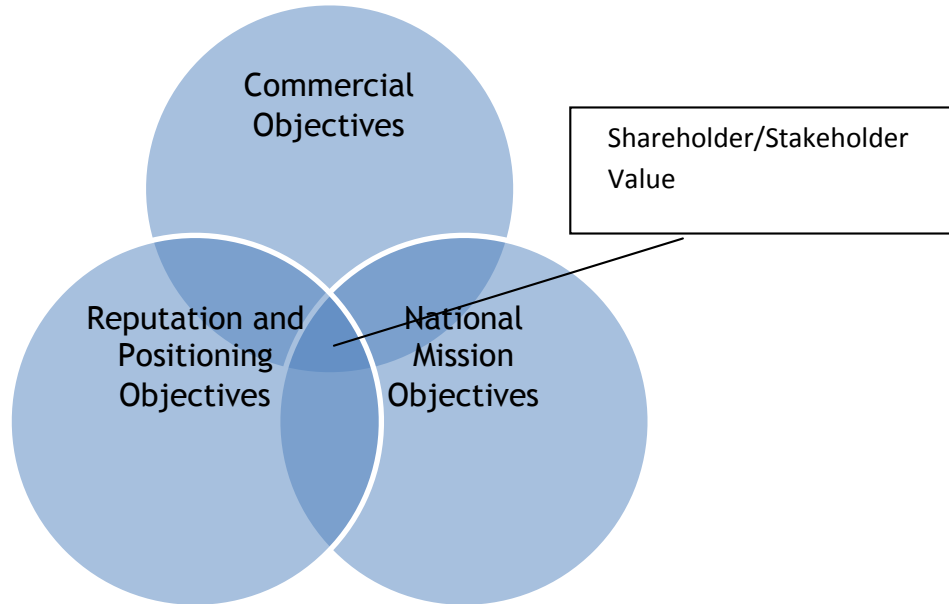


Figure 1

Key National Oil Companies Value Drivers⁴⁴

Economic and political motives have started to get importance since the beginning of 1970s when the Bretton Woods system diminished⁴⁵. Economy had been introduced as an inevitable part of the politics and oil, the giant factor, became one of the major sources for manipulating states economies. It is important to emphasize the security and especially energy security under this objective. Oil's significant increase and states started curious about their energy security also. Whoever controls oil and oil routes, it has powered the "others". After the oil crisis and embargoes in mid 1970s and following decades, energy security got the highest priority in the political issues.

⁴³ Accenture (2011), Do national oil company leaders have the skills to deliver their national mission? <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-National-Oil-Company-Leadership-Survey-11-0712-NOC-July-11.pdf> 17 September 2014.

⁴⁴ *Ibid.*

⁴⁵ M. Fatih Tayfur, International Political Economy, Middle East Technical University, *Lecture*, 17 November 2013.

To sum up, states desire for controlling their economic, political and security purposes are heavily depended on reducing dependence on MNCs and establishing their national oil companies.

Second objective according to Grayson, is to enable home governments to develop the specific understanding of the oil industry needed to check the MNCs activities⁴⁶. Home governments would prefer gaining petroleum industry knowledge from the NOCs rather than the MNCs⁴⁷. Controlling their own companies is easier than controlling multinational cooperations that operating in their countries. Grayson's depiction of establishing a national oil company is for home governments would like to have "window" in order to regulate market and providing adequate information about the oil industry⁴⁸.

Last objective of national oil companies is assuring crude supplies which are inexpensive and reliable⁴⁹. This objective is also closely related to the energy security which consists of the major elements of establishing NOCs.

Grayson summarizes third objective in four points. Compare to the MNCs, national oil company is more reliable and stable partner⁵⁰. When the economic and political crisis occurs, MNCs could be under the host governments' pressure and could leave home government alone⁵¹. Second factor, out of 12 OPEC members, all of them have national oil companies and access to crude oil could be better gained by national oil companies.⁵² Third factor, rather than MNCs, national oil companies can support weak markets and can choose unprofitable markets for making investments⁵³. National oil companies have government guarantees and may able to choose and support weak markets. Last factor, NOCs can choose in which extend it could make investments for long term purposes. In some cases, NOCs social discount rate is much lower than the private discount rates. MNCs would avoid risks for waiting market opportunities⁵⁴.

"Once national oil companies were established, governments often set further domestic objectives aimed at increasing the governments' social, political and economic control."⁵⁵

⁴⁶ Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.11.

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*, p.9.

⁴⁹ Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.14.

⁵⁰ *Ibid.*

⁵¹ Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.10.

⁵² OPEC, http://www.opec.org/opec_web/en/360.htm. 07 September 2014.

⁵³ Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.11.

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*

Public purposes and public interests are determined by the governments' political and economic motives which integrated with the national oil companies activities. NOCs are not only the oil companies that controls governments' oil and energy policies, these companies are also been responsible for determining balances of payments, tariffs, taxes and states' socio-political policies⁵⁶.

Norwegian model of the "oil fund" mechanism is accepted as one of the most successful way to provide transparent, anti-corrupted and more democratic state structure for the governments⁵⁷.

Oil, which is the most political commodity of the 21st century, has a big impact on reshaping communities of particular states. State oil funds are the best examples which are going examined in details in the last chapter of this thesis.

“...national companies are instruments of the state. Their operations and strategy are restricted by government directives. For instance, they are required, for the most part, to use their international refining assets as outlets for national crude, even when this is uncommercial. ...NOCs do not always operate on the basis of a commercial rationale. They may serve the state's strategic interests and its social welfare objectives as well as the more common objective of the oil and gas business of generating profits.”⁵⁸

Once national oil companies established growth of these companies have close relationships with their governments. All the NOCs while started, they have sought and obtained government support.⁵⁹ This support ranges from one government to the other one but mostly governments seek to establish NOCs with the influential cadres within the company. Although NOCs are mostly owned by the public, some operations as maximizing profits, creating new markets at home and abroad motives NOCs as private entities in some cases. According to Garyson, NOC's relationship with its governments is determined by two key elements: the NOC's actual internal behavior and the behavior of the government toward the NOC.⁶⁰

Internal functions can be found to be taken internal decisions and which personnel took them. Decisions about pricing policies, sources of the crude oil and gas, composition of the market are the determinant factors of the internal functions. On the other hand, government's behavior towards NOC consists of taxes, subsidies,

⁵⁶ Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.250.

⁵⁷ More information could be found at the last chapter of this thesis.

⁵⁸ Valerie Marcel(2006), *Oil Titans- National Oil Companies in the Middle East*, Chatnam House: London,p.231.

⁵⁹ Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.19.

⁶⁰ *Ibid*, p.18.

establishing charter of the Company and state's power of appointment or removal personnel.⁶¹ Other important point on the government's manipulating power is on NOC is political pressure and public opinion. Governments have required that NOCs operate in accordance with specific socioeconomic and political policy.

To sum up this part of work, according to Valerie Marcel, in her "Oil Titans-National Oil Companies in the Middle East" book, the important factor is that is ninety percent of the world's oil reserves are entrusted to state owned companies.⁶²

"The NOC is powerful because of its knowledge. It has technical and business expertise: it knows the fields and understands how the business works and what it costs. Government, for its part, sets the rules of the game: it determines the targets for the sector and decides whether to introduce competition and invite foreign investment. Society seeks information regarding the NOC's activities and influence over the government's decisions concerning the sector."⁶³

Increasing awareness of the national oil companies made them as a success story and flag carrier companies of the particular states. NOCs, established with national purposes, realizing state's foreign policy interests and manipulating energy game in favor of their home governments. Thanks to the government's political and economic support, national oil company of the state has become an important actor in the international energy arena.

2.3. Contemporary Challenges for the National Oil Companies

National oil companies are different from the international oil companies in the matter of the ownership, decision taking procedure and market shares. Ninety percent of the

⁶¹ *Ibid.*

⁶² Valerie Marcel (2006), *Oil Titans- National Oil Companies in the Middle East*, Chatnam House:London,p.1.

⁶³ *Ibid*, p.10.

World's oil and gas reserves were controlled by the national oil companies⁶⁴. There is an increasing trend of having national oil company in order to manipulate world energy game in favor of the state interests and strategic objectives.

This third and last part of the work is going to emphasize challenges which NOCs are facing with and in which scope NOCs are important key players of the energy game for both regional and international level. In order to understand NOCs, from the researcher's point of view, it is preeminent to give examples of NOCs that are the core elements of this thesis. Azerbaijan Republic's state oil company, SOCAR, aims to be an international oil company with its over twenty year experience in the state-owned oil company. SOCAR, contrary to the specialist of energy issues, is managing been an international oil company by the mutual agreements in Europe, Asia and even in Africa.

Statoil, SOCAR and Rosneft are the successful representatives of the both national and international oil companies. However, Kazmunaygas on the contrast to these three companies, is mostly admitted as a "closed" national oil company of the Kazakhstan Republic.

"Many NOCs are monopoly players blessed with a favourable resource endowment, but even where public and private firms compete, the state firms often have (historically or by law) preferential access to the most attractive assets, whether upstream fields, refinery plant locations, or retail networks."⁶⁵

According to Marcel, first difference is about the finances of the company. National oil company's financial structure is not independent of the government⁶⁶. The state has a regulatory tool on funds and could be able to limit investments of NOC.

However, state and national oil company has mutual benefits in which they need to move together. The state is not a private owner as in international oil companies.⁶⁷

"Why is resource nationalism on the rise? One explanation usually offered as "energy security", a woolly and much-abused notion. Since September 11th 2001, goes the argument, the energy world has been much riskier than it was during the go-go 1990s, when governments

⁶⁴ Daniel Wagner, Bethany Johnson, The Rise of National Oil Companies, Huff Post Business, http://www.huffingtonpost.com/daniel-wagner/the-rise-of-national-oil-_b_2138965.html 29 August 2014.

⁶⁵ Christian Wolf, Does ownership matter? The performance and efficiency of State Oil vs. Private Oil.(1987-2006), *Energy Policy*, (37)2009, p.2644.

⁶⁶ Valerie Marcel(2006), *Oil Titans- National Oil Companies in the Middle East*, Chatnam House:London,p.230.

⁶⁷ *Ibid*.

were largely content to leave it to the markets to match up supply and demand.”⁶⁸

Monopoly over the state’s resources makes a significant difference between the national and international oil companies. According to Marcel, most of the private shareholders is higher in international oil companies than the NOCs⁶⁹. Some of the biggest NOCs as Gazprom, Statoil, Pemex and Petrobas have a special structure which has both features of NOCs and IOCs.⁷⁰ Third factor is more supportive in the case of the SOCAR which Marcel mentions as NOCs are more engaged in promotion of social welfare, having special educational programmes, involved in infrastructure development and prosperity of the society⁷¹.

NOCs, in some cases, are not only oil companies but also companies that aim wealth and stability of the society. Last point, transparency and accountability is very crucial for NOCs in order to continue their legitimacy over the society and in international relations⁷². Especially Norwegian model oil funds mechanism provides more accountable environment for national oil companies.

“For oil reserves and production, state ownership was gradually reduced since the early 1990s, but this has been reversed since 2002. For gas the picture is slightly different: since the mid-1990s (after the part-privatisation of Gazprom) the NOCs’ share in gas reserves and production has risen gradually as these companies now make an increased effort to find and to possibly exploit an increasingly valuable resource.”⁷³

Out of the 10 World’s biggest oil companies, 7 are national oil company which has a dominant role in world energy scheme⁷⁴. Except Gazprom, all of them increased their volumes in producing oil. National oil companies, now, are important actors and key

⁶⁸ Global or National? The Perils Facing Big Oil(2005), *The Economist*, <http://www.economist.com/node/3884594#sthash.dqQtjTZq.dpbs>, 17 September 2014.

⁶⁹ Valerie Marcel(2006), *Oil Titans- National Oil Companies in the Middle East*, Chatnam House:London,p.230.

⁷⁰ *Ibid.*

⁷¹ *Ibid.*

⁷² *Ibid.*

⁷³ Christian Wolf, Does ownership matter? The performance and efficiency of State Oil vs. Private Oil.(1987-2006), *Energy Policy*, (37)2009, p.2647.

⁷⁴ Christopher Helman, The World’s Biggest Oil Companies, 2013, *Forbes*, <http://www.forbes.com/sites/christopherhelman/2013/11/17/the-worlds-biggest-oil-companies-2013/> 17 September 2014.

players that have undeniable power of the manipulating and controlling world energy demands, exports and prices.

Table 2

The World's Biggest Oil Companies, 2013			
Company	State	2003(BOE)	2013(BOE)
Saudi Aramco*	Saudi Arabia	9.9	12.7
Gazprom*	Russian Federation	9.5	8.1
National Iran Oil Company*	Iran	4.9	6.1
ExxonMobil	United States of America	4.6	5.3
Rosneft*	Russian Federation	-	4.6
Royal Dutch Shell	Netherlands-USA	4.1	4
Petro China*	China	2.5	3.9
Pemex*	Mexico	3.6	4.2
Chevron	United States of America	3.2	3.5
Kuwait Petroleum Company*	Kuwait	2.3	3.4

*National Oil Company

BOE=Barrels of Oil+ Gas

Source: Forbes⁷⁵

Lastly, discussions among the researchers and experts of the energy issues show unique factors about the success and the future of the national oil companies. On one hand, some says that till 2040s there will not be any NOCs, on the other hand NOCs success and progress is witnessed day by day in energy relations and developments of the companies⁷⁶. Figure 1 illustrates the factor that NOCs are permanent actors in the energy game and their success will continue. According to Christopher Helman from Forbes, in ten years from 2003-2013, World's largest oil companies out of ten seven are NOCs. Trends of nationalizing oil companies, latest example is Russian private oil

⁷⁵ *Ibid.*

⁷⁶ The future of oil and gas and the resultant challenges and opportunities for NOCs, OPEC, http://www.opec.org/opec_web/en/864.htm 26 August 2014.

company Yukos's nationalization procedure and becoming oil giant Rosneft. Rosneft now is the biggest oil company in the world.

Successful companies or figures are always facing the jealous issues. From the researcher's point of the view, NOCs are the success stories of their home states. NOCs are making their countries more "open" to the other world and their citizens are living in better conditions than before. In the last words, challenges of NOCs may be continuing in the future but it is no doubt their roles are also going to increase.

2.4. Conclusion

National oil companies are the newly introduced phenomena rather than the private or multinational cooperations. Oil and its importance and role in international relations, derive states that would prefer to have a voice in energy relations. Oil is a political commodity which reshapes totally all spheres that linked to it. It is not difficult to understand in today's world to Iraq, Syria, Afghanistan and other parts of the world. The latest examples and Arab Spring issues in the Middle East and North Africa showed us the realities of the energy again.

National oil companies are the energy and especially oil and gas giant companies that are controlling more than 80% percent of the oil and gas producing and market shares. From some point of the views, NOCs are bulky and inefficient entities that are concealing in the back of the home states. The author is not agreeing with this type of generalizing definitions of NOCs. Throughout this work, the author had a chance for analyzing views of different scholars and public or state owned entities' reports about NOCs.

It is obvious factors for conclusion as NOCs are desirable companies for both states and the international oil market. There are three reasons why NOCs are getting increasing priority in energy debates as follows:

Firstly, NOCs have home government support and promotion in its operations. It gives to NOCs in the case of taking decisions more freely in the manner of the economic side, especially for the big ones about making investments or not. Intergovernmental oil pipeline projects or building refinery attempts could not be possible unless home states' material support and national bank promotions. The best example for this is TANAP's pipeline infrastructures are going to build with the support of the Azerbaijan State Oil Fund's.

Secondly, national oil companies have the biggest share in the international oil market. Out of the ten biggest oil companies, seven ones are national. NOCs development models are different from the international oil companies that are aiming maximization of their profits. NOCs using their energy power as an ability of conducting their state interests. In today's multi-polar world, not only historical super powers as Western states but also energy rich Eastern states have a voice in world politics.

Thirdly, on the contrary, the debates about the future of the oil, nationalizing issues will continue about energy issues. Imagine that, what will you prefer your own company or a "foreigner" company? In which one will you trust more? From which one you will get more in the manner of human capital, contributing to the state's economy and state's infrastructure projects? NOCs are the flagships, success stories and inspiring companies of the energy game.

Last words about this chapter is about the NOCs are trending companies in world politics also. Today, if we are discussing about energy weapon and threats to the energy security issues, it is power of the national oil companies, because, unless having your own national company, it is very hard to manipulate the world energy game.

The next chapter is about give information about SOCAR and its development process, then continues with the SOCAR's regional investment strategy in the Turkey and Georgia. SOCAR's investments and joint ventures in regional partnerships states and important pipeline projects are going to be analyzed.

CHAPTER III

STATE OIL COMPANY OF AZERBAIJAN REPUBLIC and SOCAR's INVESTMENTS IN REGIONAL STATES

SOCAR has the biggest investments, especially with the two of the neighbor states: Turkey and Georgia. State Oil Company of the Azerbaijan Republic is not only the oil company, but also the flagship of the Azerbaijan Republic in foreign states. SOCAR is a representative in economic, diplomatic and cultural relations of the Azerbaijan Republic. In economic relations, SOCAR's investments in Turkey and Georgia are in astonishing amounts. In Turkey only SOCAR's investments in İzmir, Aliğa Star Refinery is about 7-8 billion US Dollars.⁷⁷ Star Refinery is the highest direct investment in Turkish Republic history, according to the SOCAR Turkey.⁷⁸ In Georgia, SOCAR is the biggest taxpayer within the country.

This chapter is going to give information about SOCAR at a glance and then continue with its investments in Turkey and Georgia in general. Due to, Turkey and Georgia two neighbor states are also important energy players in realizing Baku-Tbilisi-Ceyhan (BTC), Baku-Tbilisi-Erzurum (BTE) projects and now working on the Trans Anatolian Pipeline (TANAP) project. Subchapters of this part are as follows; SOCAR's investments in Turkey, BTC, BTE, TANAP and SOCAR's investments in Georgia.

3.1. State Oil Company of the Azerbaijan Republic

State Oil Company of Azerbaijan Republic, as it mostly referred as SOCAR, is a development and continued success story of the Azerbaijan Republic. Establishment of the SOCAR and its development strategy and especially investments in foreign states and good relations with the Western counterparts are a very good example of Azerbaijan's neighbors. This subchapter is evaluating the state oil company and its structure at a glance. SOCAR is the main and the most important actor in Azerbaijan

⁷⁷ Star Rafinerisi için 4 Milyar Dolarlık İmza, Petkim, <http://www.petkim.com.tr/basin-bulteni/157/729/STAR-RAFINERISI-ICIN-4-MILYAR-DOLARLIK-IMZA.aspx> 26 May 2013.

⁷⁸ *Ibid.*

energy relations. SOCAR's undoubtedly existence in Azerbaijan energy relations shapes Azerbaijan's foreign and domestic politics as a whole⁷⁹. Throughout this chapter of the work, SOCAR's investments in regional states are going to be analyzed.

SOCAR's investments in foreign states as Turkey and Georgia, its warm and productive relations with the Western states and in general with the European Union, makes this national oil company different from its counterpart NOCs which are analyzed detailed in the last chapter of this thesis. SOCAR is a state owned national oil company which operates in domestic and international energy arena and has a single voice for Azerbaijan energy agenda. Today Azerbaijan's proven natural gas reserves are over 3 billion and developments in the new fields are constantly resuming⁸⁰.

SOCAR has different characteristics for becoming a national oil company and investment strategy of SOCAR in regional states makes this company a desired national oil company of Azerbaijan.

SOCAR is relatively a new national company and this is the reason throughout the research for this chapter, the author has faced with the limited access to the sources. This chapter is mostly built on the interviews with the representatives from the SOCAR and other big oil companies that are operating in Azerbaijan, government representatives and scholars from the most prominent universities and NGOs in Azerbaijan.

State Oil Company of the Azerbaijan Republic (SOCAR) was founded on 13 September 1992 by Decree 200 of the President of the Azerbaijan Republic, with a combination of the two state owned companies "Azerineft" and "Azerneftkimya"⁸¹.

SOCAR is included in investigating oil and gas fields, creating, preparing and transporting oil, gas and gas condensate, advertising petroleum and petrochemical items in residential and imperatively in worldwide markets furthermore supplying normal gas to industry and for people in general purposes in Azerbaijan⁸². Under the SOCAR's corporate elements operation, there are three creation divisions, two oil

⁷⁹ Gulmira Rzayeva, Personal interview, 03 February 2014.

⁸⁰ Emin Emrah Danış, The Future of the Azerbaijan-Turkmenistan-Turkey Energy Cooperation, Hazar Strateji Enstitüsü, http://www.hazar.org/blogdetail/blog/the_future_of_the_azerbaijan_turkmenistan_turkey_ener_gy_cooperation_923.aspx 18 May 2015.

⁸¹ History of the SOCAR, SOCAR, <http://www.socar.az/socar/az/company/about-socar/history-of-socar> 18 May 2015.

⁸² Activities, SOCAR, <http://www.socar.az/socar/en/activities/exploration/absheron> 18 May 2015.

refineries and one gas handling plant, one oil tanker armada, a profound water stage manufacture yard, two trusts, one establishment and 22 subdivisions.⁸³.

SOCAR has got important joint ventures such as in Georgia and Turkey, consortia and operating companies that are doing business in different parts of the petroleum industry with SOCAR's participation⁸⁴.

SOCAR has delegated workplaces in more than 10 nations as Georgia, Turkey, Romania, Austria, Switzerland, Kazakhstan, Great Britain, Iran, Germany and Ukraine.⁸⁵ SOCAR has also trading company offices in Geneva, Singapore and Dubai⁸⁶. SOCAR is also making a real estate investment in Spain and South Korea⁸⁷. In order to understand company's structure and its motivation on the continuation Azerbaijan oil and gas politics it is crucial to look at the SOCAR's mission and vision:

“Mission: is to provide energy security of the Republic of Azerbaijan, strategic interest on development of oil and gas, and petrochemical industry, support the increase of scientific and technical, economic and intellectual potential of Azerbaijan by applying advanced and eco-friendly technologies, hold crucial position in regional and international energy projects, and maximize the profit from the sale of hydrocarbon reserves and derived products in the domestic and foreign markets.”⁸⁸

“Vision: is to become a vertically integrated international energy company resting upon advanced experience on operation efficiency, social and environmental responsibility.”⁸⁹

SOCAR makes dreams real for Azerbaijan by participating in international giant petroleum and gas projects as BTC and TANAP. These two giant projects have seen as “imagination” according to the Ministry of Energy and Natural Resources of Turkey Taner Yıldız. Yıldız on his speech that was delivered in Ankara, October 2014 mentioned important factors that no one could believe in realization of BTC project when it started. Now, TANAP is also seen as a “distant” project according to some of

⁸³ For more information, SOCAR Azerbaijan Website:

<http://www.socar.az/socar/en/company/organization/azerigas-production-union> 18 May 2015

⁸⁴ Services, SOCAR, <http://www.socar.az/socar/en/activities/services/socar-georgia-gas> 18 May 2015.

⁸⁵ Trans Adriatic Pipeline, About our shareholders, <http://www.tap-ag.com/about-us/our-shareholders> 18 May 2015.

⁸⁶ About Us, SOCAR Trading, <http://www.socartrading.com/about-us/offices> 18 May 2015.

⁸⁷ SOCAR, South Korean Company eye co-op, Azernews, http://www.azernews.az/oil_and_gas/62564.html 18 May 2015.

⁸⁸ About SOCAR, <http://new.socar.az/socar/en/company/about-socar/mission-and-vision>, 21 April 2014.

⁸⁹ *Ibid.*

analysis. However, the first gas is planning to arrive in Turkey in 2018 and in 2019 to the Europe⁹⁰.

According to the Kjaernet, SOCAR has a dual role; representing the state in the negotiations of PSAs and being government representative and secondly being shareholder in important international projects.⁹¹

SOCAR is a one hundred percent state owned oil company which is responsible for giving directions to Azerbaijan energy politics with President, Ministry of Industry and Energy and Ministry of Foreign Affairs⁹². SOCAR is a new company while comparing with the other international companies that are operating in the Caspian Sea.⁹³

SOCAR was established “cooperative management” system newly that’s why Company still has some problems about the management system⁹⁴. However according to the state officials throughout the interviews in Baku, SOCAR is seen as the success story of the Azerbaijan. I would prefer to categorize the facts that why SOCAR is crucial in Azerbaijan energy politics and then why it won’t be? Firstly, after the independence period, “Azerneft” company was founded in 1991 in order to operate Azerbaijan oil and gas negotiation and make investments. In 1992, only 1 year after independence state owned company SOCAR was created and since that day SOCAR is actively working in this sphere. Not only with its investments, SOCAR is also an active actor in international relations of Azerbaijan Republic⁹⁵.

It is stated in company’s mission that SOCAR is providing energy security for Azerbaijan also advocating state interests in foreign markets. Secondly, it is much easier to control a company which is under the domination of the state. However, it has reverse effects on state structure. As I mentioned before, President Ilham Aliyev was the former vice-president of the SOCAR and Minister for Industry and Energy Natiq Aliyev was the president of the SOCAR. These facts show us control mechanism over the company is very strong and that’s why it is hard to evaluate

⁹⁰ Murat Utku, Tanap 2018’de Tamamlanacak, Aljazeera Turk, <http://www.aljazeera.com.tr/al-jazeera-ozel/tanap-2018de-tamamlanacak> 18 May 2015.

⁹¹ Heidi Kjaernet (2012), National Oil Companies and the State, Challenges of the Caspian Resource Boom Domestic Elites and Policy-Making, Andreas Heinrich, Heiko Pleines(Ed.),Palgrave Macmillan, Hampshire, p.195.

⁹² State Oil Company of Azerbaijan Republic Rated ‘BB’; Outlook Positive, Qafqaz University Department of Finance, <http://fi.qu.edu.az/en/news/State-Oil-Company-of-Azerbaijan-Republic-Rated-BB%3B-Outlook-Positive-1010.html> 18 May 2015.

⁹³ It is mentioned about BP, Statoil, TPAO and so on.

⁹⁴ Bakhtiyar Aslanbayli, Personal interview, 30 January 2014.

⁹⁵ Gulmira Rzayeva, Personal interview, 03 February 2014.

SOCAR as an independent company⁹⁶. Thirdly SOCAR is a growing company and it has over 60 thousand employees around its projects⁹⁷.

SOCAR has worldwide experiences since Azerbaijan oil and gas history have important roots. It has strong economic aspects so that SOCAR is the locomotive company in Azerbaijan oil and gas sector⁹⁸. While comparing the beginning of the independence period, Azerbaijan was totally depended on the Western companies in order to make productions of oil and gas. But now, SOCAR could use foreign companies' management and technology systems. SOCAR is choosing the best for making investments such as underground pipelines and employees⁹⁹. SOCAR has an access to the best technology and Azerbaijan is using its access in most areas¹⁰⁰. However, on one hand while all these aspects are diminishing attitudes towards the SOCAR as a NOC, on the other hand it strengthens the argument of this thesis. SOCAR chooses the way making multinational cooperations in order to develop its deficits especially technological ones in this case.

Fourthly, oil and gas role on Azerbaijan GDP was 70% and today it is nearly 63%.¹⁰¹ SOCAR's role in Azerbaijan's GDP incomes is very high and SOCAR is a leading company in Azerbaijan and in regional states. For example, SOCAR Energy Georgia is the biggest tax payer in Georgia.¹⁰² SOCAR Turkey Company made the biggest investment in Turkish Republic history by "Value-Site 2023" project.¹⁰³ Lastly, as a state owned company SOCAR can open most of the locked doors and has state guarantee behind its projects. For instance, SOCAR Turkey and SOCAR Energy Georgia investment are mostly enhancing by Azerbaijan Republic initiative in oil and

⁹⁶ State Oil Company of Azerbaijan Republic Rated 'BB'; Outlook Positive, Qafqaz University Department of Finance, <http://fi.qu.edu.az/en/news/State-Oil-Company-of-Azerbaijan-Republic-Rated-BB%3B-Outlook-Positive-1010.html> , 18 May 2015.

⁹⁷ 2013 SOCAR Sustainable Development Report, About the Company, <http://socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2013.pdf> , p.6, 18 May 2015

⁹⁸ Diplomats from Republic of Azerbaijan Ministry for Foreign Affairs, Personal interviews, 02 February 2014.

⁹⁹ Vitaly Baylarbayov, Personal interview, 06 February 2014.

¹⁰⁰ *Ibid.*

¹⁰¹ The World Factbook, Middle East: Azerbaijan, <https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html>, 22 April 2014.

¹⁰² SOCAR becomes largest investor and taxpayer in Georgia, <http://neftgaz.ru/en/news/view/120040>, 22 April 2014.

¹⁰³ SOCAR Türkiye'ye rafineri yatırımı için 475 milyon dolar transfer , Anadolu Ajansı, <http://www.aa.com.tr/tr/sirket-haberleri/gundem/1064429>, 22 April 2014.

gas politics. “One nation two states” vision by Heydar Aliyev is continue in warm Turkish-Azerbaijan relations¹⁰⁴.

On the other hand, SOCAR has a few negative impacts on the being of the state owned company. The first one is, being the locomotive company on states budget has a big and fragile responsibility for SOCAR. Because most of the state’s income are related to the SOCAR’s investments and productions. How much SOCAR produced and sell, in this scope Azerbaijan will earn money. Due to the prices on oil and gas is changing rapidly and suddenly, it is a big risk that SOCAR take.

The second one is, as much responsibility the company takes, as much risk on making failures is increasing. As being a big company and having thousands of employees sometimes create harmful work for a developing company.

Lastly, SOCAR is a one sided company and it has serious structural problems with transparency and structure management¹⁰⁵. While comparing with the other operating companies in Azerbaijan such as BP or TOTAL, SOCAR has a long way for maintaining its structural problems¹⁰⁶. However, it is important to keep in mind that SOCAR is comparatively a young company that could shape Europe’s destiny in few years.

According to the interview in Baku with the SOCAR Deputy Vice-President Investments and Marketing, Dr. Vitaly Baylarbayov, I had several questions regarding the SOCAR’s current situation and future prospects of the company¹⁰⁷. I am interested in the SOCAR’s future developments in following years. According to the Baylarbayov, SOCAR’s main aim is to become horizontal company and it would like to have operations not only near abroad but also in other land like Africa. Process is continuing in everywhere. There won’t be main changes in following ten years. SOCAR would prefer to decrease its number of employees and separating services unit from its operational structure. In terms of counterpart states, both Georgia and Turkey are important countries but it is clear that Georgia is much smaller than the Turkey and relatively market in Georgia is smaller. In order to be clear he mentioned that for SOCAR, the priority is to ensure energy security of the region because it is affected all countries that are supplying energy from the Azerbaijan. Sustainable development of the Caucasian states economies as Iran, Georgia and Turkey is an

¹⁰⁴ Official motto of the TANAP Project, <http://www.tanap.com/> 18 May 2015.

¹⁰⁵ Ilham Shaban, Personal interview, 02 February 2014.

¹⁰⁶ *Ibid.*

¹⁰⁷ Vitaly Baylarbayov, Personal interview, 06 February 2014.

important asset. Turkey can be seen as the main partner of the Azerbaijan in all spheres. Azerbaijan has projects with Turkey not only in energy sphere but also in railway project (Kars-Tbilisi-Baku project which will start operating in the second half of the 2015) and rebuking fiber optic cables¹⁰⁸.

Continue with the questions, regional security has always been a top priority in SOCAR's relations. There should be a stabilized economy within the regional states. SOCAR would not limit itself in the terms of making investments through countries. According to the statistics, Azerbaijan is going to have an important amount of gas for supplying to foreign markets and this gas would search for the proper exits from the Azerbaijan. No wonder Turkey won't be the only country that wants to benefit from Azeri gas that's why SOCAR should go further by constructing new routes. Due to today's political atmosphere alliances with Iran and Iraq are out of the SOCAR's list.¹⁰⁹ Turkey is Azerbaijan's reliable and long term partner in energy issues would like to become an energy hub by the future developments in Azeri gas fields. With the help of TANAP project, Azeri gas will transfer to the Europe directly. According to the Baylarbayov, TANAP project will not be enough for Turkey to become an energy hub. Turkey needs to more connections with neighbouring countries and as he mentioned Turkey is in a proper way about energy politics.

3.2.SOCAR's Investments in Turkey

Economic relations between Turkey and Azerbaijan are based on the energy relations, trade relations and other investments in the countries. All detailed information about the big energy projects and transportation ones are going to be given in following chapter. Turkey is the first country that was recognized Azerbaijan's independence in 9th November 1991, after 20 days when Azerbaijan declared independency from the Soviet Union¹¹⁰. Azerbaijan and Turkey are two brother states since the beginning of the 1990s¹¹¹.

¹⁰⁸ First test train operates on Baku-Tbilisi-Kars railway, Agenda.ge, <http://agenda.ge/news/28897/eng> 18 May 2015.

¹⁰⁹ Vitaly Baylarbayov, Personal interview, 06 February 2014.

¹¹⁰ Türkiye Cumhuriyeti Bakü Büyükelçiliği, *Bilgi Notları*, <http://www.baku.emb.mfa.gov.tr/ShowInfoNotes.aspx?ID=170188> 18 May 2015.

¹¹¹ *Ibid.*

In cultural relations, being “one nation two states”¹¹² has a big motivation on both states relations. Azerbaijan and Turkey have lots of common interests, cultural relations and maybe the most important have very similar languages: Turkish-Azerbaijani. Azerbaijan and Turkey also have similar religious which is the difference between in Azerbaijan-Georgian or Azerbaijan-Russian relations. The biggest motive in relations between Azerbaijan and Turkey are the development in the energy sphere since the developments in Baku-Tbilisi-Ceyhan oil pipeline¹¹³. After this project, investments increase day by day. Both countries move with the motive of being brother states, good neighbours and reliable, stable and good allies in economic and diplomatic relations.

Turkey was closed borders with Armenia in April 1993 after the Armenian occupation of Azerbaijan territory¹¹⁴. However, since 2009 Turkey has started normalization of relations process and it has objections from Azerbaijan occasionally¹¹⁵. Turkey is the strongest supporter of Azerbaijan territorial integrity and Turkey had given biggest support to Azerbaijan army during the construction period of the Azerbaijan army. Lots of Azerbaijani students is studying in Turkish universities and lots of Azerbaijani academicians, musicians are working in Turkey¹¹⁶. Azerbaijan is going to make Turkey an “energy hub” in 2020s with the completion of the TANAP¹¹⁷. Azerbaijan is working very closely with Turkey in order to realise 2023 Vision of Turkey¹¹⁸. Turkey’s participation in the Shah Deniz field by buying TOTAL’s 10% stake in the end of May 2014, is the clearest example of Turkish desire to have closer relations with Azerbaijan.¹¹⁹

It is important to stress that trilateral relations between the Azerbaijan-Georgia-Turkey are the other aspect of the relations between the states in the region. Azerbaijan and

¹¹² Azərbaycan-Türkiye İlişkileri, *Heydar Aliyev Heritage-International Online Library*, <http://lib.aliyevheritage.org/tk/4610295.html> 18 May 2015.

¹¹³ *Ibid.*

¹¹⁴ Alican sınır kapısı açılmayacak!, *NTVMSNBC*, <http://www.ntv.com.tr/arsiv/id/25524750/> 18 May 2015.

¹¹⁵ Davutoğlu Bakü’ye gidiyor, *Hürriyet*, <http://www.hurriyet.com.tr/gundem/12740805.asp> , 18 May 2015.

¹¹⁶ Azərbaycan diasporasının yerləşim coğrafiyası, *Azerbaijans*, http://www.azerbaijans.com/content_1713_tr.html 18 May 2015.

¹¹⁷ Efgan Nifti, Magsud Mammad, *A Quest to Become an Energy Hub: The Case of Turkey*, Hazar Strateji Enstitüsü, http://www.hazar.org/blogdetail/blog/a_quest_to_become_an_energy_hub_the_case_of_turkey_482.aspx 18 May 2015.

¹¹⁸ SOCAR Türkiye, *Şirketlerimiz*, <http://www.socar.com.tr/sirketlerimiz/> 18 May 2015.

¹¹⁹ TPAO to boost Shah Deniz Stake, *Natural Gas Europe*, <http://www.naturalgaseurope.com/tpao-shah-deniz-total-stake> 04 June 2014.

Georgia have the same foreign policy movement: Euro-Atlantic integration¹²⁰. Both states have negotiations with the NATO and EU. Georgia is going to sign Association Agreement with the EU in the end of June 2014 however Azerbaijan is not planning to be a member of EU¹²¹. Turkey is the strong ally of NATO in the region and security provider and negotiator for the region. Turkey has an important role due to its strategically location: it can be a part of the many problems that is arising in the Black Sea region, Caspian and Middle East.

“Our cooperation is based on common interests. At the same time we realize joint projects that go beyond regional boundaries and are global in nature.”(Aliyev, 2014)¹²²

“These projects are important not only for the region but also globally. We are all aware of the importance of these global projects and these three countries are doing their utmost to ensure security and stability in the South Caucasus.”(Gül, 2014)¹²³

During the Elchibey era, Azerbaijan’s most Turkish oriented president, declared that Turkey will occupy the first place in Azerbaijan’s foreign policy¹²⁴. Over the relations with Turkey, there some factors such are Iran and Russian relations. After the Elchibey period, while Heydar Aliyev was elected as the 3rd President of the Azerbaijan Republic, he had balanced foreign politics among the all neighbours except Armenia¹²⁵. Turkey has always been a priority in Azerbaijan foreign politics. Especially after the realization of the Baku-Tbilisi-Ceyhan project which was a long term dream of the Azerbaijan, Turkey became a reliable, stable partner and brother state for Azerbaijan¹²⁶. This was Heydar Aliyev’s vision to include Turkey to Azerbaijan energy security issues.

“Cultural affinity between the peoples has been reinforced by strategic friendship between the governments, providing an outlook of solid and lasting partnership.”¹²⁷

¹²⁰ Bakhtiyar Aslanbayli, Personal interview, 30 January 2014.

¹²¹ Gulmira Rzayeva, Personal interview, 03 February 2014

¹²² Cooperation between Georgia, Turkey and Azerbaijan is important for the whole world, *Contact.az*, <http://contact.az/docs/2014/Politics/050600077712en.htm#.VSTz8fmUeZt> 10 May 2014.

¹²³ *Ibid.*

¹²⁴ Elnur Soltanov, Personal interview, 05 February 2014.

¹²⁵ *Ibid.*

¹²⁶ Gulmira Rzayeva, Personal interview, 04 February 2014

¹²⁷ Nazrin Mehdiyeva (2011), *Power Games in the Caucasus: Azerbaijan’s Foreign and Energy Policy Towards the West, Russia and the Middle East*, London: *I.B.Tauris*, p.194.

Since now, states as Turkmenistan and Kazakhstan are afraid to change balances in favor to Western politics and hurts Russia. However, by the Azerbaijan active energy diplomacy, Turkmen gas could be involved in Trans Anatolian Pipeline and transfer to Europe¹²⁸. These steps are taken by the Heydar Aliyev's son, Ilham Aliyev, fourth President of the Azerbaijan Republic. Ilham Aliyev has also good relations with Turkey since he was elected in 2003 while in Turkey ruling party was AKP and President Recep Tayyip Erdoğan. Relations between the leaders are also affecting decisions of the foreign policy and Aliyev-Erdoğan relations are in the top level in last years¹²⁹.

Since 2003, during 12 years both leaders are developing relations among Azerbaijan and Turkey. It can be observed from the press that there isn't any single day in Azerbaijani and Turkish press if there isn't any news about cooperation between Azerbaijan-Turkey in energy developments¹³⁰. Azerbaijan believes in Turkey's 2023 Vision and is working with the Turkey in order to realize this vision. Turkey can be seen as the "leading actor" of the Azerbaijan in 1995 while its inclusion to BTC project was very crucial for Azerbaijan. Now, Azerbaijan is paying its bill to Turkey and making enormous investments in Turkey with different project.

SOCAR's daughter company SOCAR Turkey's investments in Turkey have 5 important companies: Star Refinery, Petkim, Petlim Port, Socar Power and Socar Gas Trade.¹³¹

Turkey has a privilege in gas prices. However, these prices are not officially disclosed, but local Turkish media have reported that Turkey pays \$490 per 1,000 cubic meters of Iranian gas, \$425 for Russian gas, and \$335 for Azerbaijani gas, which is supplied via the Baku-Tbilisi-Erzurum pipeline¹³². It is the best example that examples the historical, economic and political ties between the Turkey and Azerbaijan. Azerbaijan and Turkey are connected by several important regional economic projects; there is 3 pipeline projects- BTC, BTE and TANAP, one company: SOCAR Turkey and one transportation projects: Baku-Tbilisi-Kars Railway project. Economic relations and

¹²⁸ Bakhtiyar Aslanbayli, Personal interview, 30 January 2014.

¹²⁹ Türkiye Cumhuriyeti Bakü Büyükelçiliği, Türkiye-Azerbaycan Arasında Yapılan Üst Ziyaretler (2010-2014), <http://www.baku.emb.mfa.gov.tr/ShowInfoNotes.aspx?ID=170177> 18 May 2015.

¹³⁰ According to the data collection Project for the University of St. Gallen that was conducted by the author from the January 2014 till March 2015 for the ISSICEU Project.

¹³¹ SOCAR Türkiye, for more information: <http://www.socar.com.tr/sirketlerimiz/> 08 April 2015.

¹³² Rufiz Hafizoglu, Azerbaijani gas is much cheaper than Russian gas for Turkey-minister, *Trend.az*, <http://en.trend.az/business/energy/2375476.html> 18 May 2015.

bilateral cooperation between Azerbaijan and Turkey have reached a high level, and trade turnover between the two countries amounted to \$1.8 billion in the first eleven months of 2013¹³³.

In May 2014, Turkey showed the highest desire to involve in Shah Deniz gas field. Turkish TPAO bought 10% of the TOTAL's stake in Shah Deniz field that worth 1.5 billion US Dollars and increased its share in field to 19%.¹³⁴

In signing ceremony, Turkish BOTAS, increased its share in TANAP project from 20% to 30%.¹³⁵ Operating company of TANAP is still SOCAR. Developments in the Shah Deniz field and the increasing role of the Azerbaijan in European energy security, motives Turkey to increase its share in common projects with Azerbaijan. After the realization of TANAP project, Turkey is going to get 6 bcm3 gas per year and transfer 10 bcm3 to Europe¹³⁶. By 2020, Turkey is won't be only a gas supplier country from Azerbaijan but also a transit country of Azeri gas¹³⁷. Latest developments in gas fields and Turkmen gas possible involvement in TANAP will make Turkey closer to its "energy hub" dream for the future.

"The investments of the second phase of development of the "Shah Deniz" gas condensate field as well as expansion and creation of gas transport infrastructure in Azerbaijan and Turkey is estimated at \$46.5 billion. Azerbaijan's Energy Minister, Natig Aliyev made the remarks in his interview with 'The Business Year-Azerbaijan 2014' magazine. In particular, the cost of the second phase of development of the field totals approximately \$ 27 billion, the expansion of the Sangachal Terminal Expansion and of the South Caucasus gas pipeline - \$ 6.5 billion, and the estimated cost of construction of the Trans-Anatolian gas pipeline (TANAP) - about \$ 13 billion. The implementation of the second phase of the Shah Deniz 2 will have a major positive impact on the economies of many countries, including Azerbaijan, Turkey, Georgia, Italy, Greece, and Azerbaijan."¹³⁸

¹³³ Aynur Jafarova, Azerbaijan ready to supply energy resources to Turkey at affordable price: minister, *Azer News*, http://www.azernews.az/oil_and_gas/64239.html 18 May 2015.

¹³⁴ Enerjide tarihi imzalar atıldı, TPAO, <http://www.tpa.gov.tr/tp5/?tp=haber&id=20> 04 June 2014.

¹³⁵ Şahdeniz ve TANAP projeleri ortaklık artırımı anlaşması imzalandı, Republic of Turkey Ministry of Energy and Natural Resources, <http://www.enerji.gov.tr/tr-TR/Bakanlik-Haberleri/Sahdeniz-ve-TANAP-Projeleri-Ortaklik-Artirimi-Anlasmasi-Imzalandi> 04 June 2014.

¹³⁶ Vitaly Baylarbayov, Personal interview, 06 February 2014.

¹³⁷ *Ibid.*

¹³⁸ Emil Ismayilov, Shah Deniz-2 project to have significant impact on economies of many countries, *Trend-Az*, <http://en.trend.az/capital/energy/2274558.html>, 17 May 2014.

Due to geographical circumstances and the ongoing frozen conflict in Nagorno-Karabakh, Azerbaijan choose Georgia as the partners for its energy giant projects. Next subchapter of this part is going to continue with the investments in Georgia and at the final SOCAR's joint venture projects in Turkey and Georgia is analyzed.

3.3 SOCAR's Investments in Georgia

Azerbaijan and Georgia have historically good relations since both states were the part of the Soviet Union. Under the Soviet dominance, Azerbaijan and Georgia had good relations and after the dissolution of the Soviet Union, Georgia recognized Azerbaijan as an independent state in November 1992¹³⁹. Georgia and Azerbaijan have strategically energy relationship as Georgia is the exit point of the Azerbaijan oil and gas. Tbilisi is the transit point for the BTC and BTE projects. Except BTC and BTE, now Baku-Tbilisi-Kars railway is under construction and will start operate in 2015. With the achievement of this railway, Georgia has become a transportation supporter also for both Azerbaijan and Turkey. Azerbaijan and Georgia both have conflicted zones in their territories: South Ossetia and Abkhazia in Georgia and Nagorno-Karabakh in Azerbaijan. Both states have experienced terrorism period within their territories that's why they have close relations about regional security.

“A window of opportunity opened when people began to see that Georgia had value as a transit country for energy routes running from East to West. Based upon the development of Azerbaijan's offshore resources and cooperation with Turkey, Georgia developed a niche as a transit country with the construction and operation of the Baku-Tbilisi-Ceyhan (BTC) pipeline.”¹⁴⁰

Stability and security of the South Caucasian region could only be provided by the region states own state securities. For this reason, regional energy security and in general European energy security are heavily depends on the region states security in particular. Azerbaijan and Georgia joined in the Commonwealth of Independent States

¹³⁹ Azerbaijan-Georgia Relations, Republic of Azerbaijan Ministry for Foreign Affairs, <http://mfa.gov.az/files/file/Azerbaijan%20-%20Georgia%20relations%20%283%29.pdf> 18 May 2015.

¹⁴⁰ Robert M.Cutler, Turco-Caspian Energy Security and the Caucasus: Threats and Opportunities, *Caucasus International*, 2(3), Fall 2012, p.343. https://www.academia.edu/3129377/Turco-Caspian_Energy_Security_and_the_Caucasus_Threats_and_Opportunities

(CIS) in 1993 and after the 2006 Georgia-Russian War Georgia left the CIS¹⁴¹. Both states are Council of Europe member states and both states were founded GUAM-Organization for Democracy and Economic Development in 2001 by the European Commission initiative¹⁴². Members of GUAM are Georgia, Ukraine, Azerbaijan and Moldova. Azerbaijan and Georgia have an important oil pipeline between Baku and Supsa which started operating in 1999¹⁴³.

SOCAR Energy Georgia is the biggest taxpayer in Georgia and has enormous projects in Georgian energy infrastructure as Kulevi Oil and Transportation Terminal¹⁴⁴. SOCAR is the supplier of the Georgian energy security and have important social projects within the Georgia. Since the beginning of the October 2013, SOCAR is supplying free gas to Georgian churches, mosques, synagogues and other religious facilities as it has been continue in Azerbaijan religious facilities.¹⁴⁵ Georgia will continue to being an energy transit country and its role will increase in following years by developments in Azerbaijan gas fields.

“Both countries identify the relationship as the “Caucasian Tandem”, a “time-tested friendship” and, importantly, each country’s National Security strategy paper identifies the other as a “strategic partner”. In particular, the large-scale energy projects across the region created opportunities for an economic partnership, which consolidated the political relationship.”¹⁴⁶

Azerbaijan and Georgia have close relations since the beginning of the new oil history of the Azerbaijan after the 1991. Unless Georgia it was hard to achieve Azerbaijan’s goals in order to open the country to foreign investors as Azerbaijan is a landlocked country. Over Armenia built pipelines and transit oil and gas was undoubtedly unlogical situation for Azerbaijan¹⁴⁷. For this reason Azerbaijan had two options: Georgia and Turkey. Azerbaijan used both options and made two states as transit

¹⁴¹ Georgia officially quits CIS, *Russia Today*, <http://rt.com/news/georgia-officially-quits-cis/> 18 May 2015.

¹⁴² GUAM, About, <http://guam-organization.org/en/node/440> 18 May 2015.

¹⁴³ Transport Routes of Azerbaijani Oil(Baku-Novorossiysk, Baku-SUPSA), Azerbaijan,az, http://www.azerbaijan.az/Economy/OilStrategy/oilStrategy_05_e.html 18 May 2015.

¹⁴⁴ Kulevi Oil Terminal, History, <http://kulevioilterminal.com/en/view-page/114/History> 18 May 2015.

¹⁴⁵ Nazrin Gadimova, SOCAR to supply free gas to Georgia’s religious facilities, *Azernews*, http://www.azernews.az/oil_and_gas/60824.html 01 November 2013.

¹⁴⁶ Zaur Shiriyev(2013), An alliance built on understanding: The geopolitics of Georgian-Azerbaijani relations, In Kornely Kakachia and Michael Cecire(Eds.), *Georgian Foreign Policy-The quest for sustainable security*, Konrad Adanauer Stiftung, http://www.kas.de/wf/doc/kas_37002-1522-1-30.pdf

¹⁴⁷ Due to continuous war over the Nagorno-Karabakh region.

states. In order to understand close ties between Georgia and Azerbaijan it is important to give emphasis to President Shevardnadze's speech in January 1993;

“Our interests complement each other. We need their railroads if we want to remain in contact with Russia and other CIS states. They need our Black Sea ports if they want to export anything to the West.”¹⁴⁸

Warm relations with Georgia were built up following the Soviet period. Baku-Supsa oil course is an 833-kilometer long oil pipeline, which keeps running from the Sangachal Terminal close Baku to the Supsa terminal in Georgia¹⁴⁹. Oil transports from the Azeri-Chirag-Guneshli field. BP is the administrator of the pipeline. The arrangements for the pipeline's development began in 1994. On 8 March 1996, President of Azerbaijan Heydar Aliyev and President of Georgia Eduard Shevardnadze conceded to the foundation of Baku–Supsa pipeline¹⁵⁰. The trilateral contract was marked between Azerbaijan International Operating Company, SOCAR and the Government of Georgia. Basically, the Baku–Supsa pipeline is a restored Soviet period pipeline with a few recently manufactured area¹⁵¹.

Baku-Tbilisi-Ceyhan (BTC) oil pipeline was one the most important story on Azerbaijan oil history that had ever built. From the point of view author, TANAP will be the “golden Project” of both Azerbaijan and Turkish masterpiece while it will construct.

The next parts of this chapter are going to give informations about SOCAR's investments in BTC, BTE and TANAP projects. Due to both states, Turkey and Georgia are the parts of these three projects, information about them bounding both sides.

3.4. Baku-Tbilisi-Ceyhan (BTC) Project

Baku-Tbilisi-Ceyhan oil pipeline project and its realization is one of the most achievable moments in Azerbaijan history. Azerbaijan and its Western counterparts

¹⁴⁸ Emmanuel Karagiannis (2002), *Energy and Security in the Caucasus*, Routledge:London , p.145.

¹⁴⁹ Transport Routes of Azerbaijani Oil(Baku-Novorossiysk, Baku-SUPSA), Azerbaijan,az, http://www.azerbaijan.az/ Economy/ OilStrategy/oilStrategy_05_e.html 18 May 2015.

¹⁵⁰ *Ibid.*

¹⁵¹ BP Caspian, Supsa Terminal, http://www.bp.com/en_az/caspian/operationsprojects/terminals/supsaterminal.html 18 May 2015.

and especially border states-Georgia and Turkey help to Azerbaijan for making its dreams real¹⁵².

BTC project is the first successful path of the SOCAR's projects as it follows with Baku-Tbilisi-Erzurum gas pipeline and later on with the European giant project, TANAP. SOCAR has three main motivations and aims while realizing BTC project which started operating in 2006. The first one is providing oil to Europe bypassing Armenian territory and using Georgia than Turkey and from Turkish port Ceyhan to the Europe, providing oil to Turkey and European states. Secondly, SOCAR aims to motive as a national oil company by its commercial and national interest goals. Lastly, SOCAR starts a chain of successful investments in Turkey which is continuing in Europe by TANAP.

The Baku-Tbilisi-Ceyhan(BTC) pipeline is 1768 km long and oil comes from the Azerbaijan's one of the most important discovered offshore field-Azeri-Chirag-Guneshli (ACG)¹⁵³. Oil from the ACG links with the Sangachal terminal and from the Caspian shore derives to the Ceyhan port.¹⁵⁴ Turkey is the major contributor part of the project and has 1076 km length pipeline that across the Turkish territory¹⁵⁵. British representative BP is the commercial operator of the BTC in Azerbaijan and Georgia and Turkish representative BOTAŞ is the operator of the Turkish part of the pipeline¹⁵⁶. BTC has 11 international shareholders including U.S Chevron, Norwegian Statoil and Italian ENI.¹⁵⁷

These technical details help to figure out how SOCAR works in an international arena by the help with the Turkish state. Unless Turkish active participation and its desire for becoming a transit state for Azeri oil, this project could not be realized. From the Turkish point of view, BTC helps Turkey for becoming an energy hub. Energy hub is more heated debates in these days while Russian President Vladimir Putin announced the cancelation of the Southern Gas Corridor and transportation of gas to the Europe by Turkish Stream in the late of the 2014.¹⁵⁸ In realization of the BTC project, BOTAŞ

¹⁵² Making dreams real phrase mostly used by the states official of particular countries as Minister for Energy and Natural Resources Taner Yıldız and President of SOCAR Rovnag Abdullayev. That is the reason it is mostly used during the text.

¹⁵³ Baku-Tbilisi-Ceyhan Pipeline, BP, http://www.bp.com/en_az/caspian/operationsprojects/pipelines/BTC.html 30 June 2014.

¹⁵⁴ *Ibid.*

¹⁵⁵ *Ibid.*

¹⁵⁶ *Ibid.*

¹⁵⁷ *Ibid.*

¹⁵⁸ Russia and Turkey agree on new gas route, RIA Novosti, <http://rt.com/business/226747-turkey-stream-gas-route/> 30 January 2015.

was the main actor that creates a secure and stable area for the SOCAR in order to make every step appropriate.

As it mentioned before, BTC is the opening page of the long-lasting Azerbaijani-Turkish energy relations chapter. In 2008, SOCAR& Turcas Petrochemical consumed Turkey's İzmir Petkim Refinery and started making investments for Star Refinery, Value-Site 2023.¹⁵⁹ In 2012 May, SOCAR Turkey company established as a sister company of SOCAR in Istanbul and actively participates in both national and international Turkey on behalf of the Azerbaijan and Turkey¹⁶⁰. BTC, makes partnerships real between Azerbaijan and Turkey in energy sphere also.

From the point of the view of SOCAR, BTC project makes company more commercial than the before. Since the realization of the project, between June 2006 and till September 2014, 272 million tonnes of crude oil loaded to 2665 tankers and sent to world oil markets.¹⁶¹

The BTC project is a successful implementation of the relations between the SOCAR and Turkey in energy sphere. Besides strong partnership between Azerbaijan and Turkey in economy, culture and even politics, these two states are strong partners in developing European energy security debates. SOCAR gets biggest role in the substation of the becoming international oil company by significant and vital investments in bordering states, Georgia and Turkey.

“Turkey and Azerbaijan have signed an intergovernmental agreement for Azerbaijan's gas to transit through Turkey to European markets. This is itself a new development for Turkey. It marks the first time Turkey has committed politically and comprehensively to fulfill the role of a transit country; Turkey imports gas from Russia, Iran, and Algeria, but all of that gas stays in Turkey. Gas from Azerbaijan's offshore in the Caspian Sea, however, will move through Turkey for sale in European markets.”¹⁶²

In conclusion of this part, it is important to mention that BTC is a bit hazardous project during its implementation time. In order to sustain energy security of a

¹⁵⁹ PETKİM Kurum Profili, PETKİM, <http://www.petkim.com.tr/Sayfa/1/8/KURUMSAL.aspx> 06 February 2015.

¹⁶⁰ SOCAR Türkiye Hakkında, SOCAR Türkiye, <http://www.socar.com.tr/kurumsal/> 18 May 2015.

¹⁶¹ Baku-Tbilisi-Ceyhan Pipeline, BP, http://www.bp.com/en_az/caspian/operationsprojects/pipelines/BTC.html 06 February 2015.

¹⁶² Robert M.Cutler, Turco-Caspian Energy Security and the Caucasus: Threats and Opportunities, *Caucasus International*, 2(3), Fall 2012, p.345-346.
https://www.academia.edu/3129377/Turco-Caspian_Energy_Security_and_the_Caucasus_Threats_and_Opportunities

particular pipeline, it is crucial to consider critical energy infrastructure part of the project and become aware of the threats to the pipelines especially in conflict zones.¹⁶³ The conflicts between the Azerbaijan and Armenia, Georgia-Russia disputes and most importantly in Turkey, regional attack risks on the pipelines makes this project more vulnerable than the before.

SOCAR has inevitable role in BTC project with its desire for developing its role in European energy security, establishing very good and productive relations with the Turkey, having an important role in Turkish economy by providing over 2500 employees only with this project and lastly as a national oil company being a flagship company with its investments to the project¹⁶⁴.

3.5 Baku-Tbilisi-Erzurum (BTE) Project

Baku-Tbilisi-Erzurum (BTE) project is a gas pipeline and is 980 km long.¹⁶⁵ This project realized in the March 2007¹⁶⁶. This gas pipeline has also known as South Caucasus Pipeline and has from Shah Deniz field delivers to Turkish city Erzurum by this pipeline.¹⁶⁷ BTE has 7 international shareholders and operates by BP and SOCAR¹⁶⁸. Turkish Petroleum is one of the shareholders in BTE project¹⁶⁹.

South Caucasus Pipeline expansion (SCPx) project is an concern after the Shah Deniz Consortium took the decision for investment to the Trans Anatolian Project (TANAP) in the end of 2013.¹⁷⁰ SCPx makes possible to deliver Azerbaijan gas from Shah Deniz and Shah Deniz II fields to Turkey and European energy markets.

BTE project helps Turkey to meet requests of Turkish gas market and its domestic usage. BTE built in a parallel line with the BTC. SOCAR is not directly involved in

¹⁶³ Bakhtiyar Aslanbayli, NATO's possible role in the protection of critical energy infrastructure in Azerbaijan, *Caucasus International*, p.138.[http://cijournal.az/storage/posts/31/files/NATO%E2%80%99s%20Possible%20Role%20in%20the%20Protection%20of%20Critical%20Energy%20Infrastructure%20in%20Azerbaijan%20\(I\).pdf](http://cijournal.az/storage/posts/31/files/NATO%E2%80%99s%20Possible%20Role%20in%20the%20Protection%20of%20Critical%20Energy%20Infrastructure%20in%20Azerbaijan%20(I).pdf)

¹⁶⁴ Türkiye'nin Enerji Stratejisi, Türkiye Cumhuriyeti Dışişleri Bakanlığı, http://www.mfa.gov.tr/turkiye_nin-enerji-stratejisi.tr.mfa 18 May 2015.

¹⁶⁵ Baku-Tbilisi-Erzurum Gas Pipeline, SOCAR, <http://www.socar.az/socar/en/activities/transportation/baku-tbilisi-erzurum-gas-pipeline> 07 February 2015.

¹⁶⁶ *Ibid.*

¹⁶⁷ South Caucasus Pipeline, BP, http://www.bp.com/en_az/caspian/operationsprojects/pipelines/SCP.html 07 February 2015.

¹⁶⁸ *Ibid.*

¹⁶⁹ *Ibid.*

¹⁷⁰ *Ibid.*

BTE project as it is in BTC, however for the future of the South Caucasus pipeline project, BTE is an important step of the project¹⁷¹.

3.6 Trans Anatolian Pipeline (TANAP) Project

Trans Anatolian Pipeline project as it already known as TANAP is the miracle and dream of Azerbaijan, Turkey and European states. This project has three important dimensions for partner sides of the whole project. The major attention and main contributor of the project is SOCAR as it is the owner of the project¹⁷². After the 17 December 2013 Shah Deniz Consortium's decision for investment to Shah Deniz II field, TANAP became the foremost topic of the European energy security debates¹⁷³.

From the point of the technical details; 1850 km long natural gas pipeline, across over 20 Turkish cities, by the expansion of the SCP, TANAP will merge with the Trans Atlantic Pipeline (TAP) from the border between Turkey and Greece¹⁷⁴. Operator of the TANAP is SOCAR and Turkish BOTAŞ with British BP are the other shareholders of the project.¹⁷⁵ It is expected to arrive first gas from Shah Deniz field to Turkey in 2018 and to the Europe in 2019¹⁷⁶. In the first stage TANAP's capacity will be 16 billion cubic meters per year while 6 bcm for Turkey's consume and 10 bcm for export to the Europe.¹⁷⁷ There are debates about the Turkmen participation in TANAP for the future.

TANAP is the realization of the idea "two states one nation". It is significant to mention that Turkey's active participation in all regional energy projects and give an occasion to Azeri oil and gas for consuming in Europe is Azerbaijan's success in both

¹⁷¹ For more information : South Caucasus Pipeline, BP, http://www.bp.com/en_az/caspian/operationsprojects/pipelines/SCP.html 18 May 2015.

¹⁷² Robert M. Cutler, Azerbaijan Becomes Operator of South Caucasus Pipeline, EurasianSecurity.com, <http://www.eurasiansecurity.com/energy-security-geopolitics/asia/southwest-asia/azerbaijan-operator-gas-south-caucasus-pipeline/> 18 May 2015.

¹⁷³ Shah Deniz Final Investment Decision paves way for Southern Corridor gas link with Europe, BP Caspian, News, http://www.bp.com/en_az/caspian/press/pressreleases/Shah-Deniz-Final-Investment-Decision-paves-way-.html 18 May 2015.

¹⁷⁴ Enerjinin İpek Yolu'nda Temeli Atıldı, TANAP, <http://www.tanap.com/medya/basin-bultenleri/enerjinin-ipek-yolunda-temel-atildi/> 18 May 2015.

¹⁷⁵ Rufiz Hafizoglu, BOTAS, BP Pipelines intend to become TANAP shareholders, *Trend-Az*, <http://en.trend.az/business/economy/2344645.html> 20 December 2014.

¹⁷⁶ Marat Gurt, Exclusive- European Union sees supplies of natural gas from Turkmenistan by 2019, *Reuters*, <http://uk.reuters.com/article/2015/05/02/uk-turkmenistan-gas-europe-exclusive-idUKKBN0NN0FI20150502> 18 May 2015.

¹⁷⁷ Vladimir Socor, SCP, TANAP, TAP: Segments of the Southern Gas Corridor to Europe, *Eurasian Daily Monitor*, 11(8), http://www.jamestown.org/single/?tx_ttnews%5Bswords%5D=8fd5893941d69d0be3f378576261ae3e&tx_ttnews%5Bany_of_the_words%5D=Statoil&tx_ttnews%5Btt_news%5D=41821&tx_ttnews%5BbackPid%5D=7&cHash=afc2067be4307e56147de91d55eb4da4#.VNemAZ2UeZS

diplomatic way and economic one. By the help of the TANAP, Turkey finally becomes an energy hub in the region¹⁷⁸. TANAPs construction and STAR Refinery building process will make Azerbaijan biggest investor in Turkey.¹⁷⁹ TANAP is the brightest project of the SOCAR due to its enormous meaning for the European energy security.

3.7. Conclusion

This chapter and the next chapter of this master thesis is going to provide examples of the SOCAR's investment and cooperation strategy of the company. In order to become a national oil company as the home government Azerbaijan desires, SOCAR chooses the way making ventures in neighbour countries.

Turkey and Georgia as it emphasized so many times throughout the chapter are good neighbours and also profitable energy markets for SOCAR. Since the 1990s when SOCAR started to grow up in energy sector, its investments in regional states as Georgia and Turkey helped to expand SOCAR's investment strategy.

It is very essential to take attention SOCAR's attitude towards the regional neighbours. Especially, due to lack of the documents and the research regarding the SOCAR, interviews with the field experts in Baku showed the different picture of SOCAR. First of all, as most of the national oil companies do, SOCAR aims to maximize national interests of the Azerbaijan in energy debates. The best example of this is, relations with the Georgia and Turkey and enormous investments to these states. Secondly, SOCAR deals also with the domestic purposes of the Azerbaijan. Since, this thesis mostly concentrate on the SOCAR's foreign ventures it is fair to mention SOCAR's power within the Azerbaijan as it is the main sponsor of the international events as 1st European Games-Baku 2015, has a Baku High Oil Academy for the continuation of the energy sector in Azerbaijan and give special attention for the internal displaced person after the Nagorno-Karabakh War.¹⁸⁰ Lastly, SOCAR's investments in Turkey and Georgia as having a sister companies, SOCAR

¹⁷⁸ Efgan Nifti, Magsud Mammad, A Quest to Become an Energy Hub: The Case of Turkey, Hazar Strateji Enstitüsü, http://www.hazar.org/blogdetail/blog/a_quest_to_become_an_energy_hub_the_case_of_turkey_482.aspx 18 May 2015.

¹⁷⁹ Oktay F. Tanrisever(2014), Turkey's Policy towards the Caspian Sea Region: Widening Gap between Ankara's Expectations and Capabilities, In Carlo Frappi and Azad Garibov (Eds.), *The Caspian Sea Chessboard: geo-political, geo-strategic and geo-economic analysis*, Egea (Milano), p.230.

¹⁸⁰ SOCAR, Social Responsibility, <http://www.socar.az/socar/en/social-responsibility/social-support/care-about-displaced-persons> 18 May 2015.

Turkey and SOCAR Georgia help for international acknowledgement and support for the next developments.

Next chapter of this master thesis is going to be analyzing SOCAR's investments in European states- Greece, Italy and relations with the European Commission. Due to geographical reasons, the oil and gas that is taken from the Azerbaijan cross through Georgia, Turkey and then pass to the Europe.

CHAPTER IV

STATE OIL COMPANY OF AZERBAIJAN INVESTMENTS IN EUROPEAN COUNTRIES

State Oil Company of Azerbaijan Republic (SOCAR) is the negotiator company of the Azerbaijan energy security issues. The crucial role of SOCAR is to stabilize energy security issues of Azerbaijan state. Azerbaijan in recent years becomes an arbiter in Europe and provider of the energy security for Europe. It is important to ask what are the needs of European states from Caspian region and from Azerbaijan in particular ? Answers to this question willingness determine the progress of this chapter and SOCAR's role in European energy security.

This chapter of master thesis is going to deal with the SOCAR's investments in European states and especially in Greece, Italy and European Commission in general. Chapter starts with the SOCAR's investment strategy in Greece, continues with SOCAR's investments in Italy and finished with the SOCAR's role in European Union legislation and policies.

4.1. SOCAR's Investments in Greece

Relations between the Greece and Azerbaijan date back to old times were started from the 9th Century BC¹⁸¹. During the Ottoman Empire period and Soviet hegemony under the Azerbaijan, both states had not got close relations¹⁸². After the independence in 1991, Greece became one of the first countries that recognized Azerbaijan independence in 31th December 1991¹⁸³. According to the diplomatic sources, diplomatic relations between states established in 1992 and Greece opened its embassy in Baku in 1993 and Azerbaijan embassy in Athens opened in 2004¹⁸⁴. Greece and Azerbaijan are full of membership of the Council of the Europe, The Organization for Security and Co-Operation in Europe (OSCE) and the Organization of the Black Sea Economic Cooperation (BSEC).¹⁸⁵ Relations during the Heydar

¹⁸¹ Embassy of the Republic of Azerbaijan to the Hellenic Republic, Azerbaijan-Greece Political Relations, 9 May 2014, http://www.azembassy.gr/?page_id=101 .

¹⁸² *Ibid.*

¹⁸³ *Ibid.*

¹⁸⁴ *Ibid.*

¹⁸⁵ OSCE, Participating States, <http://www.osce.org/states> 9 May 2014.

Aliyev period while EU presidency was on Greece was beneficially, thus during 1994-2004 there were bilateral agreements that signed in the field of economy, science, education, tourism, culture and etc.¹⁸⁶ After the election of Ilham Aliyev, relations with Greece predominantly have depended on the energy issues, thus Azerbaijan has newly discovered gas fields and Greece solicited be a transit and supplier country for Europe with Azerbaijan gas. On August 2007, “Memorandum of Cooperation between Greece and Azerbaijan Oil and Gas Fields” was signed by Greek Minister of Development Dimitris Siufas and Azerbaijan Minister of Economic Development Heydar Babayev¹⁸⁷. In 2009 while Ilham Aliyev paid an official visit to Greece, he mentioned about the importance of the European energy security and the role of the Greece.¹⁸⁸ During Aliyev's visit, “Memorandum of Understanding among the Ministry of Industry and Energy Republican of the Azerbaijan and the Ministry of Development of the Hellenic Republic in the field of renewable energy sources and energy efficiency” was signed.¹⁸⁹

Greek President Karolos Papulyas expressed priorities in relations with Azerbaijan and assert energy security, investments, cultural and educational cooperations.¹⁹⁰ After the investments in energy sphere was increased in Azerbaijan, relations between Greece was also get warmer and both sides started to visited each other more often. In 2011, in interview with the Greek Ambassador in Azerbaijan, Metaxas mentioned that Greece wants to be the first EU member which imports directly gas from Azerbaijan.¹⁹¹ In 2011 April, during the official visit of the Greek President to Azerbaijan, Memorandum of Understanding between State Oil Company of the Azerbaijan Republic (SOCAR) and Public Gas Corporation of Greece (DEPA) was signed.¹⁹²

¹⁸⁶ Azerbaijani-Greece Relations, ‘Heydar Aliyev Heritage’ International Library, <http://lib.aliyev-heritage.org/en/3954050.html>, 21 June 2014.

¹⁸⁷ Garanfil Hasanova, Azerbaijani-Greek Relations: New Vision, <http://rieas.gr/images/middleeast/eurasia/garanfil15.pdf>, 09 May 2015.

¹⁸⁸ Ilham Aliyev visits Greece, *Azeri Report*, 9 May 2014, http://azerireport.com/index.php?option=com_content&task=view&id=1019

¹⁸⁹ Azerbaijan-The Hellenic Republic Relations, Ministry for Foreign Affairs of the Republic of Azerbaijan, http://www.mfa.gov.az/files/file/Azerbaijan_-_Greece_relations_14.08.2014.pdf, 09 September 2014.

¹⁹⁰ Azerbaijan plans to export gas to Europe via Greece: Azerbaijani president, Trend News Agency, <http://en.trend.az/capital/energy/1425640.html>, 3 July 2014.

¹⁹¹ Greece ‘wants to be first EU member’ to directly import Azeri gas, Azernews, <http://www.azernews.az/azerbaijan/34954.html>, 5 July 2014.

¹⁹² Ceremony of signing of Azerbaijani-Greek documents was held, President of Azerbaijan Ilham Aliyev, <http://www.president.az/articles/1829?locale=en>, 8 July 2014.

Relations between the SOCAR and Greece have been improved after the Final Investment Decision (FID) of Shah Deniz Consortium was taken in favor of the Trans Adriatic Project (TAP). Greece has a special interest to Azerbaijan due to its important hydrocarbon reserves and geostrategic position. As relations between energy and foreign politics are related with each other, Greece supports initiatives to strengthen EU-Azerbaijan relations.¹⁹³ According to the State Statistical Committee of the Republic of Azerbaijan data, Greece mainly exports crude oil, diesel and kerosene from Azerbaijan. A trade export relation in 2004 was only 20.2% however this rate in 2011 was 208.1%¹⁹⁴. This shows that in such 8 years export rates arose 10 times which has strongly relations with developments in oil and gas sector in Azerbaijan.¹⁹⁵

SOCAR has been seen as a long term and reliable Caspian partner that could provide gas for Europe. With the discovery of the Shah Deniz II gas field, Azerbaijan is getting started to occur as a new “hope” for the European energy needs. Therefore, European states had a competition between them in order to sign agreements with the Azerbaijan and securing their necessary supports for the future. Azerbaijan’s role in the future could be transmittance of gas to the transit country as soon as it will start to deliver Turkmen gas to Europe through the TANAP and TAP.¹⁹⁶ As it was mentioned before, relations between the Greece were gained speed after the developments in gas sector in Azerbaijan however, outbreaks of Eurocrisis that hit Greece sharpest among the all member states, changed the all picture of stable relations. Greece was faced with the harsh decisions that was taken by the European Commission and IMF, had strong protests among the country, biggest inflation rates and dozens of the unemployment people. Eurocrisis changed Greece economic, political and social atmosphere and also this situation has influenced to Greece bilateral relations. In the last month of 2013, while FID was taken in favor of the making investment to TAP project rather than the Nabucco West, Greece took a breath since this decision means that there will be huge investments to the Greece and also new employment chances for the Greek people¹⁹⁷. Ambassador of Hellenic Republic to Azerbaijan Republic

¹⁹³ Bilateral Relation between Greece and Azerbaijan, Hellenic Republic Ministry of Foreign Affairs, <http://www.mfa.gr/en/blog/greece-bilateral-relations/azerbaijan/>, 8 July 2014.

¹⁹⁴ Trade and economic relations, Trade relations between the Republic of Azerbaijan and the Hellenic Republic, Embassy of the Republic of Azerbaijan to the Hellenic Republic, http://www.azembassy.gr/?page_id=103, 4 March 2014.

¹⁹⁵ *Ibid.*

¹⁹⁶ Marat Gurt, Turkmenistan inks deal with Turkey to supply gas to TANAP pipeline, Reuters, 18 December 2014. <http://www.reuters.com/article/2014/11/07/turkmenistan-turkey-tanap-idUSL6N0SX2QK20141107>.

¹⁹⁷ Greece to assist in progressing of EU-Azerbaijan relations, *Azer News*, <http://www.azernews.az/azerbaijan/63594.html>, 22 January 2014.

Dimitrios Tsoungas was appreciated selection TAP project and mentioned that relations between two states will increase in distinct spheres of economy, culture, tourism and education.¹⁹⁸ Greece also gave fully support to Minsk Group in order to solve Nagorno-Karabakh conflict between Armenia and Azerbaijan. During the EU Presidency, Greece advocates a resolution of conflict between both states.¹⁹⁹

From the perspective of the energy relations between the Greece and SOCAR, according to the Greece Foreign Minister Venizelos, "The success of the TAP bid was very important to Greece, since in addition to bringing in a huge foreign investment and creating thousands of new jobs, it was a show of the private sector's confidence in Greece and the future of our economy."²⁰⁰ Due to the fact that TAP project will pass through the Greece, relations between the Greece and SOCAR could be described as strategic importance.

SOCAR's influence over the region is not only related with the TAP project but also SOCAR has acquired 66 percent block of share of the Greek natural gas transmission network, DESFA on the last days of December 2013.²⁰¹ From the point of view energy security of the regions, SOCAR gained a big role to implementing energy security projects of the Balkan region and also attracting foreign investments to Greece.

4.1.1.SOCAR-Greece-TAP Triangle

Trans Adriatic Pipeline (TAP) which is the part of the Southern Gas Corridor project was proposed in the beginning of the 2003 while Swiss company and the part of the project Axpo proposed to construct a new pipeline which was passing through the Adriatic Sea²⁰². After the long term negotiations about the choosing route and becoming partners of this project, finally in 2012 February Trans Adriatic Pipeline was the first project that pre selected for negotiations with Shah Deniz Consortium²⁰³. In 2013, when Shah Deniz Consortium took a decision and selected TAP project

¹⁹⁸ Aynur Jafarova, Greece-Azerbaijan ties getting better day by day: envoy, *Azer News*, <http://www.azernews.az/azerbaijan/63823.html>, 3 August 2014.

¹⁹⁹ Sara Rajabova, Greece fully supports Minsk Group to resolve Nagorno-Karabakh conflict, *Azer News*, <http://www.azernews.az/azerbaijan/63606.html>, 08 March 2014.

²⁰⁰ Greece to assist in progressing of EU-Azerbaijan relations, *Azer News*, <http://www.azernews.az/azerbaijan/63594.html>, 22 January 2014.

²⁰¹ SOCAR obtains 66% share of Greek gas company DESFA, *Azer News*, http://www.azernews.az/oil_and_gas/62821.html, 22 January 2014.

²⁰² Trans Adriatic Pipeline Project, SEE Energy Week, Belgrade 2005, *European Commission*, [http://ec.europa.eu/enlargement/archives/seerecon/infrastructure/sectors/energy/documents/031005gas/TAP%20\(03-10-2005\)%20SEE%20GIW%20Belgrade.pdf](http://ec.europa.eu/enlargement/archives/seerecon/infrastructure/sectors/energy/documents/031005gas/TAP%20(03-10-2005)%20SEE%20GIW%20Belgrade.pdf) 22 January 2014.

²⁰³ Azerbaijan: Shah Deniz Partners Select TAP Pipeline, *Offshore Energy Today.com*, <http://www.offshoreenergytoday.com/azerbaijan-shah-deniz-partners-select-tap-pipeline/> 16 Mart 2014.

rather than the Nabucco West, then Greece, Albania and Italy became the parts of this huge and important project²⁰⁴. Nevertheless, Nabucco West or TAP project, Azerbaijan with its Shah Deniz II gas field will be the supplier of the gas and Turkey will be the transit country with its TANAP project, however, from the side of the Greece, Albania and Italy the new “leading actor” of the European energy security, selection of TAP project has crucial importance. Throughout this part, the researcher is going to examine important facts that could change relations between the Greece and SOCAR and this project’s positive impacts on the SOCAR’s investments in Greece.

Trans Adriatic Pipeline’s technical details could provide an important source of information in order to understand stakeholders of this project. TAP is seen as the “Project of the Common Interest”²⁰⁵ of the European Union. In order to become successful in such as big and costly projects, states should secure their economies and also have recovery options and find the most feasible project for making investments. TAP project is an intergovernmental and interregional project in united Europe, Anatolia and Caspian regions. Unless European Union’s positive support, it was arduous to succeeded and even imagine that Caspian gas would distribute gas in Europe. Especially, after the energy crisis between the Ukraine and Russia, taking serious measures of energy security was inevitable for the European Union. This is the fact that, both Nabucco West and TAP projects had top priority in European energy agenda. Trans Adriatic Pipeline’s gas will be provided by the Azerbaijan’s newly discovered Shah Deniz II gas field. This project should be considered together with the Trans Anatolian Pipeline (TANAP) project. TAP and TANAP Cooperation Agreement signed in November 2012.²⁰⁶ Turkey will be the transit country while providing gas to Europe. However, in there first step 16 bcm3 gas, 6 bcm3 gas will be used by Turkey and 10 bcm3 will be transferred to TAP and Europe²⁰⁷. It is clear that TAP project is also making warmer relations between Turkey and European Union in

²⁰⁴ Greece, Italy, Albania in full Support of TAP, *Pipeline&Gas Journal*, <http://www.pipelineandgasjournal.com/greece-italy-albania-full-support-tap> 14 April 2014.

²⁰⁵ TAP, <http://www.trans-adriatic-pipeline.com/tap-project/eu-status/>, 19 June 2014.

²⁰⁶ TAP, http://www.trans-adriatic-pipeline.com/fileadmin/pdfs/CD3130_TAP_Executive_Summary_f_web_13May.pdf, 19 June 2014.

²⁰⁷ Vladimir Socor, SCP, TANAP, TAP: Segments of the Southern Gas Corridor to Europe, *The Jamestown Foundation*, http://www.jamestown.org/regions/europe/single/?tx_ttnews%5Btt_news%5D=41821&tx_ttnews%5BbackPid%5D=671&cHash=b19e6b9dcec369702fc84a46c2e2d56a#.VVmkBvmqqko 19 June 2014.

energy sphere and also Turkey is going to gain an important amount of gas for its domestic needs²⁰⁸.

There are 5 sides of the TAP project: Azerbaijan, Turkey, Greece, Albania and Italy. In 2012 September, Albania, Greece and Italy signed Memorandum of Understanding and in 2013 February these states signed intergovernmental agreement²⁰⁹. Operator of this project is Trans Adriatic Pipeline AG and first gas expected in 2018 for arriving in Turkey and in 2019 in Europe²¹⁰.

There are 6 important international energy companies that are involved in TAP Consortium. British BP, Azerbaijani SOCAR, Norwegian Statoil, Belgium Fluxys, Spanish Enagas and Swiss Axpo.²¹¹ The chart is created on the latest data taken from the April 2015.

²⁰⁸ Gulmira Rzayeva, Natural Gas in the Turkish Domestic Energy Market: Policies and Challenges, *The Oxford Institute for Energy Studies*, p.57.

<http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf> .

²⁰⁹ *Ibid*, p.61.

²¹⁰ *Ibid*, p.58.

²¹¹ Information and graphic based on the latest information in April 2015. For more information; <http://www.tap-ag.com/about-us/our-shareholders> 08 April 2015.

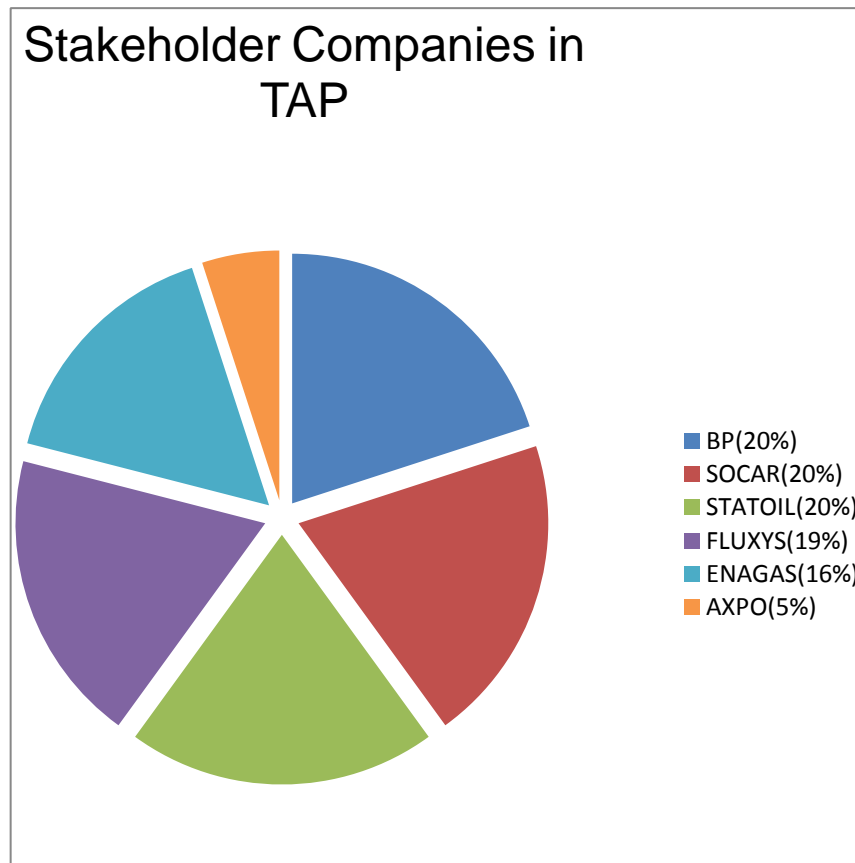


Figure 2

According to the decision support package that TAP A.G prepared in order to be selected by the Shah Deniz Consortium for final decision of the Shah Deniz II gas fields, there are 5 important facts that why TAP project is crucial for Europe and why should it need to be selected. The first one is that this project is the commercially and technically most optimal route and the shortest route of Caspian to Europe rather than the other projects²¹². Secondly, scalability of project could promptly respond to expanded capacity from 10 bcm3 to 20bcm3²¹³. Thirdly, in this project there are such technical experienced partners as Statoil and Axon who have undoubtedly important projects across the Europe. Fourthly, there is a strong support in terms of the financial and commercial strength from the stakeholder companies. Finally, TAP project is fully

²¹² A Tale of Two Pipelines: Why TAP Has Won The Day, *Natural Gas Europe*, <http://www.naturalgaseurope.com/southern-corridor-strategic-importance-tap-nabucco> 7 April 2014.

²¹³ TAP Submits Decision Support Package to Shah Deniz Consortium, TAP, <http://www.tap-ag.com/news-and-events/2013/03/28/tap-submits-decision-support-package-to-shah-deniz-consortium> 7 April 2014.

compliance with the international standards in terms of the construction, cooperation, social policy and environmental policy²¹⁴.

The biggest part of the construction work will continue in Greece while 870 km of pipeline's 545 km will be constructed in Greek land²¹⁵. This has several positive impacts on the Greece both political and economic relations within the region and across the Europe. The first one is this project has a crucial importance for the Balkan region in where dependency on Russian gas is nearly 100% percent.²¹⁶ (Bosnia and Former Yugoslav Republic of the Macedonia) With this project Greece is going to play connective role both in energy relations and foreign relations. To give an example, Turkish Foreign Minister Mr. Davutoğlu, during his official visit mentioned that, there will be cooperation between the Balkan states and he gave an example of the Turkey-Azerbaijan and Georgia for Caspian region.²¹⁷ Greece could be an important actor of the region that will unite Balkan states across the energy relations. Secondly, Greece will be a significant state for the European energy security provider and transit country. After the devastating of Eurocrisis in 2008, Greece still used to live under the IMF and European Commission's recovery plans. With this infrastructure, Greece will have a chance to create new job opportunities for its citizens. According to the latest reports, with this investment and infrastructures within the Greece, nearly EUR 1.5 billion is going to enter to the Greece and in the next 50 years this will be 17-18 billion euros.²¹⁸

In conclusion, distribution company of the Azeri gas across the Greece is DESFA in which SOCAR is 66% stakeholder²¹⁹. It is the best example to explain how both states have close relations and how they cooperate in energy relations. As it was mentioned before, this is a win-win game between the SOCAR and Greece. SOCAR enters to the European energy market with the aid of the Greece and Greece started to recovery its economy and reputation among the Europe.

²¹⁴ TAP ESIA Italy Project Report, http://www.tap-ag.com/assets/07.reference_documents/english/esias/italy/038-Annex-13---HRIA-Summary-and-Main-Findings.pdf 23 May 2014.

²¹⁵ Trans Adriatic Pipeline Route, TAP, <http://www.tap-ag.com/the-pipeline/route-map> 18 May 2015.

²¹⁶ South Eastern Europe, TAP <http://www.trans-adriatic-pipeline.com/why-tap/benefits-for-south-eastern-europe/>, 23 May 2014.

²¹⁷ Balkanları yükselen bölge yapabiliriz, Anadolu Ajansı, <http://www.aa.com.tr/tr/s/328083--balkanlar-i-yukselen-bolge-yapmak-icin-guclu-siyasi-irade-gerekir>, 16 June 2014.

²¹⁸ Holman Fenwick Willan, The Southern Gas Corridor, <http://www.hfw.com/downloads/HFW-Oil-Gas-Briefing-0713.pdf>, 22 May 2014, p.3.

²¹⁹ Aynur Jafarova, SOCAR obtains 66% share of Greek Gas Company DESFA, Azernews, <http://www.tap-ag.com/the-pipeline/route-map> 27 May 2014.

4.2. SOCAR's Investments in Italy

Relations between the Italy and Azerbaijan have a long historical period which started from the first states that established in Azerbaijan lands and Italian ones. However, throughout this part of the work, researcher is keen on the period of time after the independent Azerbaijan Republic was established. As it is mentioned on the relations between the Azerbaijan and Greece, relations between the Azerbaijan and Italy are heavily depending on the energy issues. Especially, after the realization of the Trans Adriatic Pipeline project, both countries are not becoming only exporter friends but also good allies in political and economic matters.

Italy was recognized independent Azerbaijan Republic in 01st January of 1992 and on the 8th May of 1992 diplomatic relations between the Azerbaijan and Italy were established²²⁰. Italy opened its embassy in Baku in 1997 and Azerbaijan opened its embassy in 2003 in Rome²²¹. Good relations between the Azerbaijan and Italy were set throughout the Organization for Security and Cooperation of Europe's Minsk Group in 1992²²².

Italy is one of the members of the OSCE-Minsk Group which was established in order to prevent tensions between the Azerbaijan and Armenia over the Nagorno-Karabagh dispute and occupied 20% of the Azerbaijan territory. It is still questionable whether Minsk Group whose co-chairs are Russia, France and USA is functional or not. Italy gives support in order to finish dispute between the Azerbaijan and Armenia under the OSCE and Council of Europe. Both Italy and Azerbaijan are the members of the Council of the Europe and OSCE. Due to the fact that, they have close relations, throughout the 1998-2003, while Heydar Aliyev was ruling of Azerbaijan, there were several bilateral agreements and both states President's paid official visits to Italy and Azerbaijan²²³. While Azerbaijan has started to grow up in energy politics, then the relations between particular states respectively changed in favor of the oil and gas politics. Italy and Azerbaijan has historical cultural and economic relations that are still progressing today.

²²⁰ Azerbaijani-Italian Relationships, Heydar Aliyev Heritage International Online Library, <http://lib.aliyev-heritage.org/en/8696201.html> 08 May 2014.

²²¹ *Ibid.*

²²² OSCE, Minsk Group-Who We are, <http://www.osce.org/mg/108306> 10 May 2014.

²²³ Azerbaijan-Italy Relations, Ministry for Foreign Affairs Republic of Azerbaijan, <http://mfa.gov.az/files/file/Azerbaijan%20-%20Italy.pdf> 10 May 2014.

In 2012, SOCAR exported 16% of its crude oil to the Italy²²⁴. According to the State Statistical Committee of Azerbaijan Republic 2012 Trade Reports, Italy is the first trade partners of the Azerbaijan²²⁵. Italy has approximately 25% percent in Azerbaijan trade relations.²²⁶ Italy is the largest importer of the Azerbaijani goods and exports in 2013 increased 22% compared to 2012.²²⁷

According to the latest business forum that held in Baku in the beginning of the 2014, more than 45 Italian companies have been operating in the Azerbaijan²²⁸. Especially since the Azerbaijan has started to become wealthier in the beginning era of the important oil and gas contracts, mostly Italian famous wearing and furniture companies owe important market in Baku. Throughout the researcher's visit to Baku, on February 2014, I witnessed that one of the most famous avenues and shopping malls in Baku, are full of the Italian brands.

On the other side, from the point of view SOCAR and Italy are good partners in energy relations, thus Italy is the main hydrocarbon exporter of the SOCAR. Italy was one of the first states that were invited during the milestone of the Azerbaijan history, "Contract of the Century". Italy was the 5% owner of the Contract of the Century with the Italian ENI-Agip Company and it was also involved in the construction of the Baku-Tbilisi-Ceyhan pipeline.²²⁹ Italy was also gave support in discovering Shah Deniz gas field and Kyurdashy actively²³⁰. It is important to show the facts how Azerbaijan SOCAR and Italian ENI have relations in energy cooperation sphere. In following parts relations between the two state owned companies are going to be examined in details.

Italy has been involved in two important projects that have close relations with the Azerbaijan. Especially Italian economy that has heavily depended on the industry and 8th largest economy in the world according to the International Monetary Fund(IMF)

²²⁴ Energy Supply Security 2014, Italy, https://www.iea.org/media/freepublications/security/EnergySupplySecurity2014_Italy.pdf , 10 May 2015.

²²⁵ State Statistical Committee of Azerbaijan Republic, Import and Export, <http://www.stat.gov.az/news/?id=1594> 28 April 2014.

²²⁶ Italy makes over 25% of Azerbaijani export, *News.Az*, <http://news.az/articles/economy/57083> , 28 April 2014.

²²⁷ Nazrin Gadimova, Azerbaijan, Italy discuss expanding cooperation, *Azer News*, <http://www.azernews.az/business/65341.html>, 28 April 2014.

²²⁸ Amina Nazarli, Azerbaijan, Italy to strengthen economic cooperation, *Azer News*, <http://www.azernews.az/business/80058.html> , 08 April 2015.

²²⁹ Kronoloji, Bakü-Tiflis-Ceyhan HPBH Proje Direktörlüğü, <http://www.btc.com.tr/proje.html> 6 February 2014.

²³⁰ *Ibid*.

2014 in terms of nominal GDP.²³¹ In order to become successful and have strong economy, Italy needs to feed its industry with energy resources. Unless having sufficient energy resources, it is difficult to imagine making investments and become one of the top economies in the world. According to the 2006 statistics, Italy exported 86% percent of the energy resources from the abroad and 91% of its, was natural gas.²³² That is the fact that, Italy needed to taking serious steps in order to both diversity its exporters and secure its energy routes. As being one of the third biggest economy of the Eurozone, Italy is also heavily depend on the European Union energy politics²³³.

Italy, since the independence of the Azerbaijan has an interest to Azerbaijan's hydrocarbon reserves. These reserves are important that would provide energy diversification of both Italy and European Union. After the serious problems between the Russia and Ukraine that was started in the end of the 2013 and in 2014 March when Crimea announced unification decision with the Russia, Italy's other energy resource projects "South Stream" was fall into the danger and European Union stopped negotiations with the Russia.²³⁴ Because 50% percent of the pipeline project is owned by the Russian Gazprom and European Union tends to take measures of energy negotiations with the Russia²³⁵. However, it has known that European states dependency in Russian gas is inevitable for near future. That's why Italy now give bigger priority to Trans Adriatic Pipeline (TAP) project.

In order to become more independent in energy relations Italy aims to diversify its energy resources such as building LNG terminals, making investments for renewable energy resources and also shell gas improvements. Adriatic LNG Terminal²³⁶, which

²³¹ Report for Selected Countries and Subjects, International Monetary Fund, http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/weorept.aspx?sy=2010&ey=2018&scsm=1&ssd=1&sort=country&ds=.&br=1&c=136&s=NGDP_RPCH%2CNGDPD%2CLUR%2CGGXONLB_NGDP%2CGGXWDG_NGDP&grp=0&a=&pr.x=77&pr.y=4, 2 June 2014.

²³² Italy energy exports statistics, *Eurostat*, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-GH-09-001/EN/KS-GH-09-001-EN.PDF, 03 June 2014.

²³³ *Ibid.*

²³⁴ AB, Güney Akım doğalgaz projesini askıya aldı., *Milliyet*, <http://ekonomi.milliyet.com.tr/ab-guney-akim-dogalgaz-projesini/ekonomi/detay/1849565/default.htm>, 3 May 2014.

²³⁵ Gazprom, South Stream, <http://www.gazprom.com/about/production/projects/pipelines/south-stream/> 10 May 2015.

²³⁶ The Terminal, Adriatic LNG, <http://www.adriaticlng.it/wps/portal/alng/en/terminal>, 12 January 2015.

was constructed in 2008 and operated by the Qatar Terminal Ltd., is providing 10% of the Italy natural gas needs.²³⁷

Due to Italy's strategic importance and its geopolitical location, Italy is one of the main energy importing country in the region and has significance in European energy security²³⁸. Italy has domination in the European energy market and third country within the European Union that is importing gas from the abroad²³⁹. Hence, Italy needs to diversify its resources and building new pipelines and construct and conduct new relations with the energy producer countries.

“Italy is heavily dependent on Algeria and Russia for its gas imports: 67% of Italy's gas comes from Russia (31%) and Algeria (36%). As a result, the Italian Energy Authority for Electricity and Gas (Autorità per l'Energia Elettrica e il Gas, AEEG) has started promoting the development of gas trading hubs to increase security of supply, the diversification of sources and also becoming a key trading center for the Mediterranean region.”²⁴⁰

In conclusion of this part, SOCAR has an important role in energy security and supply chain of Italy. Investment strategy of SOCAR in Italy is different from the Greece one as the weight of energy sector different in two states. Thanks to the latest improvements in energy sector and new discoveries in energy fields of Caspian shore, SOCAR finds a big manoeuvre area in Italy's economy that related with the energy sector.

²³⁷ About us, Adriatic LNG, <http://www.adriaticlng.com/wps/portal/alng/en/about.us/>, 12 January 2015.

²³⁸ EU Energy Markets in 2014, *European Commission*, http://ec.europa.eu/energy/sites/ener/files/documents/2014_energy_market_en.pdf p. 87.

²³⁹ *Ibid.*

²⁴⁰ Gani Nasirov, Energy Projects in Perspective of Turkey's Energy Policy: The Case of the Caspian Basin Oil & Gas, *Caspian Weekly*, <http://en.caspianweekly.org/center-for-energy-research/355-energy-projects-in-perspective-of-turkeys-energy-policy-the-case-of-the-caspian-basin-oil-a-gas.html>

4.3. Position of SOCAR on EU Legislation and Policies of the European Commission

European Union's story began with the establishment of the European Coal and Steel Community in 1951²⁴¹. While 6 countries, France, Germany, Italy and Benelux countries decided to remake European economy and establishment peace over the continent they signed the treaty in Paris in 18 April 1951²⁴². The main aim of this treaty is free movement of coal and free access to sources of the production²⁴³. Coal is the main source for European states for production. Creating of ECSC decision was not only economic but also had political aims. In order to controlling sources and not allowing to one particular state became more powerful than the others, ECSC created. Since the creation of community in 1951, in 63 years Europe has amended with 9 treaties and main motive was about European energy issues.²⁴⁴

After 63 years, European Union has again in a turmoil situation in both economic and political issues. It is also debatable in which scope European Union is a successful story ,however, from this thesis topic, European Union's endless dependency on Russia created this situation in where EU's out of 53% imports of the energy 39% of gas and %33 of oil come from Russia²⁴⁵.

European Union has serious problems with Russia especially after the Ukrainian crisis and Crimea's decision for joining to Russian Federation in the end of the March 2014, increases worries inside the EU about Russia. However, taking measures and sanctions against Russia is very problematic cases in a matter of how could EU survive without Russian energy sources. European Union member states have different thoughts about sanctions against Russia. According to ITAR TASS press agency, sanctions against the Russia will have reverse effect for European Union member states. EU Commissioner for Economic and Monetary Affairs, Siim Kallas,

²⁴¹ Treaty establishing the European Coal and Steel Community, ECSC Treaty, Europa Summaries of EU Legislation, http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm 3 February 2014.

²⁴² *Ibid.*

²⁴³ *Ibid.*

²⁴⁴ Treaty establishing the European Coal and Steel Community, ECSC Treaty, Europa Summaries of EU Legislation, http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm 3 February 2014.

²⁴⁵ Questions and Answers on security of energy supply in the EU, *European Commission*, http://europa.eu/rapid/press-release_MEMO-14-379_en.htm 3 June 2014.

there is an inequality between member states relations with Russia and states as Finland and Cyprus will affect from sanction more than the others.²⁴⁶

According to the latest new from the Brussels, where Eurocrats are mostly keen on the sanctions against Russia over the Ukrainian dispute, member states have a fear of the second crisis in European economy after the Eurocrisis in 2003 that hit the small country mostly inside the Union.²⁴⁷ On the other hand, in Russia, A senior economic aide to President Vladimir Putin, Andrey Belousov, metioned that “I hope Europe does not act foolishly with more sanctions” and warns Europe.²⁴⁸

On the press conference was held on 28th May of 2014 by the European Union Commissioner for Energy, Günther Oettinger, and introduced European Union new energy strategy in Brussels²⁴⁹. According to his speech, dependency to Russian oil and gas should be decreased, North Stream projects as TAP and TANAP will be given highest priority and close relations with Middle East and Caspian regions should be increased²⁵⁰. On the other hand, in European Union’ s 2030 Energy Strategy and Climate Change , renewable and other sources of energy have a special importance. In 2006 and in 2009, disputes among the Russia and Ukraine had very negative impacts on European states so that they had days without gas in cold winter²⁵¹.

Since that day, according to Commissioner, EU is working on the European Union energy security issues. European Union spends daily more than 1 billion Euros for energy consumption and in last year²⁵².

European Union’s new energy strategy consists of 8 important propositions for member states. They are as follows; completing internal energy market and build missing infrastructure links, diversifying suppliers, developing third internal energy

²⁴⁶Siim Kallas, European Commission: Sanctions vs. Russia may seriously affect European economy, *TASS Russian News Agency*, <http://en.itar-tass.com/economy/730494>, 13 May 2014.

²⁴⁷Giles Elgood, Exclusive:EU weighs Russia Sunctions from caviar to oil and gas., *Reuters*, <http://www.reuters.com/article/2014/05/23/us-ukraine-crisis-eu-exclusive-idUSBREA4M0J020140523> , 2 February 2014.

²⁴⁸ EU must be ‘stupid’-Russia. *The Herald*, <http://www.herald.co.zw/eu-must-not-be-stupid-russia/> 1 June 2014.

²⁴⁹ Questions and Answers on security of energy supply in the EU, *European Commission*, http://europa.eu/rapid/press-release_MEMO-14-379_en.htm 3 June 2014.

²⁵⁰ *Ibid.*

²⁵¹ Rainer Ackermann, Gas Crisis: 2006, 2009....2015?, *The Budapest Times*, <http://budapesttimes.hu/2014/07/18/gas-crisis-2006-2009-2015/> 3 August 2014.

²⁵² Energy Union Package, A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, *European Commission*, http://ec.europa.eu/priorities/energy-union/docs/energyunion_en.pdf, p.2. , 6 March 2015.

market package, strengthening emergency and solidarity mechanisms and protecting critical infrastructure, improving one voice in external energy policy, taking energy efficiency measures, developing energy technologies and lastly increasing energy production within the Union.²⁵³ The next question asked by the researcher after EU's new strategy is "Who will provide European energy security in next days?" Azerbaijan is joining to this debate in following European energy security issues.

"The EU is now focusing on supporting the building of new gas pipelines to new supplier countries like Azerbaijan. The so-called Southern Gas Corridor will connect the EU market to the largest concentration of hydrocarbons in the world, loosely defined as the Caspian and Middle East region. In a first phase it is expected that 10 billion cubic meters of natural gas produced in Azerbaijan will reach the European Market through the Southern Gas Corridor by 2020."²⁵⁴

Story between the European Union and Azerbaijan started in the 1996 when Partnership and Cooperation Agreement (PCA) between the Azerbaijan and European Union was signed²⁵⁵. PCA entered into force in 1999 and it is the legal framework of European Union and Azerbaijan relations²⁵⁶. This agreement covers political dialogue, trade, economy and cultural cooperation topics in general. In 2001 January, Azerbaijan became 43rd Council of Europe's member²⁵⁷. Since 2001, Azerbaijan and Council of Europe has close ties and Commissioners of CoE visits Azerbaijan. In 2004 April, European Neighborhood Policy (ENP) Agreement was signed between EU and Azerbaijan.²⁵⁸ This agreement was the continuation of the PCA and EU's desire for extends cooperation between Azerbaijan in different fields. This agreement focuses on democracy, human rights, socio-economic reform, conflicts and energy issues. Especially energy is going to determine future of the EU-Azerbaijan relations.

²⁵³ European Commission Press Release, http://europa.eu/rapid/press-release_MEMO-14-379_en.htm , 1 June 2014.

²⁵⁴ Questions and answers on security of energy supply in the EU, *European Commission*, http://europa.eu/rapid/press-release_MEMO-14-379_en.htm, 29 May 2014.

²⁵⁵ EU Relations with Azerbaijan, *European Union External Action*, http://eeas.europa.eu/azerbaijan/index_en.htm 29 May 2014.

²⁵⁶ *Ibid.*

²⁵⁷ Azerbaijan-Member State, *Council of Europe*, <http://www.coe.int/en/web/portal/azerbaijan> 29 May 2014.

²⁵⁸ Partnership and Cooperation Agreements (PCAs): Russia, Eastern Europe, the Southern Caucasus and Central Asia, *Europa Summaries of EU Legislation*, http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/eastern_europe_and_central_asia/r17002_en.html, 5 February 2014.

In 2006 November, Memorandum of Understanding between Azerbaijan and European Union in energy field was signed²⁵⁹.

Interstate Oil and Gas Transportation to Europe (INOGATE) is European Union's energy cooperation between the EU, Eastern Europe, the Caucasus and Central Asia programme. It has been operating since 1996²⁶⁰. The main aim of this programme is cooperating is oil, gas, electricity and renewable energy sources, supplying energy efficiency and enhancing European energy security. Azerbaijan is one of the member state as the other CIS states and Turkey²⁶¹. In Baku Initiative, in 2004, scope of this programme was expanding²⁶².

Azerbaijan and European Union are strong members in energy issues. Especially, after the latest developments in Caspian Sea's Azerbaijani sector and conflict among the Ukraine, strengthen relations between two sides. However, Azerbaijan does not see becoming member of the European Union as a priority and has not got willing to sign Association Agreement (AA) with the EU²⁶³. Decision of the Azerbaijan could be analyzing from the different points of the view however, the most important one is the Azerbaijan is continue balanced foreign policy²⁶⁴ and does not prefer to have bad relations with its neighbors Russia and Iran. Second, Azerbaijan has important weight on EU's export rates and it will continue to increase year by year due to construction of the new pipelines. According to the Professor Bakhtiyar Aslanbeyli, "Euro-Atlantic Integration" is an important aspect for the Azerbaijan foreign politics²⁶⁵. Azerbaijan would not prefer getting reaction of Russia that's why Azerbaijan will continue to its path by strengthen its economy and relations with the EU and USA²⁶⁶. Azerbaijan is the only country among the CIS states that has an independent energy policy so, Azerbaijan could control to choose its energy partners²⁶⁷. According to Professor Oktay Tanrısever Azerbaijan would not have a deep interest in signing AA with EU for a short term.

²⁵⁹ Memorandum of Understanding between Azerbaijan and European Union in energy field was signed, *European Commission*, http://ec.europa.eu/dgs/energy_transport/international/regional/caucasus_central_asia/memorandum/doc/mou_azerbaijan_en.pdf, 6 March 2014.

²⁶⁰ Inogate, About-Inbrief, <http://www.inogate.org/pages/1?lang=en> 6 March 2014.

²⁶¹ *Ibid.*

²⁶² *Ibid.*

²⁶³ Gulmira Rzaeva, Personal interview, 03 February 2014.

²⁶⁴ Jason E. Strakes, Azerbaijan and the Non-Aligned Movement: Institutionalizing the "Balanced Foreign Policy" Doctrine, Istituto Affari Internazionali, IAI Working Paper 15-11, p.3. <http://www.iai.it/sites/default/files/iaiw1511.pdf>.

²⁶⁵ Bakhtiyar Aslanbayli, Personal interview, 30 January 2014.

²⁶⁶ *Ibid.*

²⁶⁷ Bakhtiyar Aslanbayli, Personal interview, 30 January 2014.

“...The Belarusian and Azerbaijani leaders are not interested in deepening their level of cooperation with the EU in the short run. They are pragmatically oriented towards the Eastern Partnership as part of their strategy of maintaining a degree of dialogue with Brussels. This strategy aims to reduce the criticisms of European countries concerning authoritarian trends in both countries. Although staying engaged in the EU frameworks does not actually reduce the criticisms of European countries concerning their problems in the process of democratization, both Belarus and Azerbaijan could use their EaP status to claim that they are different from other post-Soviet countries like Turkmenistan and that the EU is hopeful about at least their “potential” for becoming more democratic and their “potential” to take their place in the European family of nations. The similarities between Belarus and Azerbaijan could also account for their low profile positions during the Vilnius Summit. Firstly, both Belarus and Azerbaijan prioritize political stability over European-style democratization processes. They both have a “gradualist approach” to democratization. Secondly, the economies of both countries are characterized by monopolistic rules. The industrialists of Belarus and the state-owned energy company of Azerbaijan –SOCAR– prefer to operate without the trade and competition rules of the EU’s DCFTAs. Finally, both countries are keen not to antagonize Russia, for fear of retaliation as in the cases discussed above.”²⁶⁸

Ilham Aliyev has given the most priority to energy issues during his Presidency. Being former Vice-President of the SOCAR, Aliyev is running on his full support to new energy projects. Aliyev is one of the most active leaders who uses actively his social media accounts. On his tweets on 28th May 2014, in Azerbaijan Republic Day, he mentioned that:

“Azerbaijan has long resolved its energy security issues and is now contributing to the energy security of other countries. Today the main priority is TANAP. TANAP is a project that changes the energy map of the region. Azerbaijan is the main investor, the main initiator and the main contractor of the project.”²⁶⁹

The EU connects uncommon significance to TAP since it is a piece of the EU's Southern Corridor system that was received at the May 2009 Prague Summit and in this manner the EU has proposed to store €100 million for the venture, calling it an undertaking of European enthusiasm for the European recuperation arrangement.²⁷⁰

²⁶⁸ Oktay Tanrısever, EU’s Eastern Partners and the Vilnius Summit: Opportunities Seized and Missed, *Turkish Policy Quarterly*, 4(12), p.104. http://turkishpolicy.com/pdf/vol_12-no_4-tanrisever.pdf

²⁶⁹ President of Azerbaijan Ilham Aliyev, *President.az*, <http://en.president.az/articles/11948> 28 May 2014.

²⁷⁰ Çiğdem Üstün, Energy Cooperation between Import Dependent Countries: Case of Italy and Turkey, *Perceptions*, Spring 2011, 16(1), p.82, http://sam.gov.tr/wp-content/uploads/2011/12/cigdem_ustun.pdf

4.3.1 Southern Gas Corridor and Investment Strategy of SOCAR to the European Union

Southern Gas Corridor undertaking is an activity that was proposed by the European Commission in 2008 with a specific end goal to expand its vitality suppliers and maintaining steady and dependable new vitality security accomplices from the Caspian and Middle East locales.²⁷¹ European Commission's Second Strategic Energy Review "An EU Energy Security and Solidarity Action Plan" has a close relation with the EU2020 energy and environment policy²⁷². EU2020 new energy plan committed to reduce greenhouse gas emissions by 20% in 2020, increasing share of renewables in energy consumption by 20% and improving energy efficiency by 20%²⁷³. Azerbaijan and the other energy rich states are involved to EU's energy security map by Commission's 3 important objectives: sustainability, competitiveness and security of supply.²⁷⁴

"A southern gas corridor must be developed for the supply of gas from Caspian and Middle Eastern sources, which could potentially supply a significant part of the EU's future needs. This is one of the EU's highest energy security priorities. The Commission and Member States need to work with the countries concerned, notably with partners such as Azerbaijan and Turkmenistan, Iraq and Mashreq countries, amongst others, with the joint objective of rapidly securing firm commitments for the supply of gas and the construction of the pipelines necessary for all stages of its development. In the longer term, when political conditions permit, supplies from other countries in the region, such as Uzbekistan and Iran, should represent a further significant supply source for the EU." ²⁷⁵

Southern Gas Corridor is developing since the 2008 and consisted 6 projects: Nabucco, South Stream, ITGI, TAP, AGRI and White Stream²⁷⁶. When Shah Deniz Consortium took decision to make investment to TAP project, biggest race between Nabucco and TAP was finished, and winners are the Italy and Greece with the Turkey.

²⁷¹ Europe' Southern Gas Corrdior: The Great Pipeline Race, *European Dialogue*, <http://www.eurodialogue.eu/energy-security/Europe-southern-gas-corridor-The-great-pipeline-race> 15 May 2014.

²⁷² An EU Energy Security and Solidarity Action Plan, *European Commission*, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF> , p.1.

²⁷³ *Ibid*.

²⁷⁴ Energy Security and Solidarity Action Plan, *European Commission*, http://europa.eu/legislation_summaries/energy/european_energy_policy/en0003_en.htm , 27 March 2014.

²⁷⁵ An EU Energy Security and Solidarity Action Plan, *European Commission*, <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52008DC0781> 04 April 2015.

²⁷⁶ Stefan Meister, Marcel Vi tor, The Southern Gas Corrdior and the South Caucasus, *The German Council on Foreign Relations*, <https://dgap.org/en/think-tank/publications/further-publications/southern-gas-corridor-and-south-caucasus> .

“Azerbaijan, which took a bold decision to assert its independence against Russian energy domination, remains the linchpin for bringing in new sources from new countries. Guarantee of access to transport infrastructure for additional gas sources sourced across the Caspian or entering TANAP, which Azerbaijan is majority owner in, is essential for building confidence of other possible supply countries and companies. Likewise, Turkey should build confidence through third party access guarantees in line with the European Energy Community. Efficiencies in expanding TANAP capacity will be found with acting expeditiously.”²⁷⁷

According to the Deputy Vice-President of SOCAR Vitaly Baylarbayov in his presentation at European Gas Conference Vienna 2013, Azerbaijan’s gas strategy consists of 7 important points²⁷⁸:

- Secure energy stability and sustainability
- Strategic cooperation with leading energy companies
- New infrastructure development and upgrade, modernization and efficient use of existing infrastructure
- Optimization of management
- Expansion of SOCAR’s investment portfolio and geography of operations
- Diversification of consumer markets and export transportation routes

Baylarbayov emphasized that, Azerbaijan is proven hydrocarbon reserves as 4, 55 billion tons, forecasted hydrocarbon reserves 10 billion tons and prospective onshore and offshore structures as 40 billion tons²⁷⁹. Azerbaijan gas will only be an alternative route for European energy supply security; it would not be a competitor to Russian gas as the first delivery to Europe from TAP project will be started in 2020²⁸⁰. European Union is also think about short term alternatives as LNG from Middle East or increasing energy efficiency rates.

In conclusion of this part, Azerbaijan and Europe will both gain important acquisitions during the negotiations and partnership deals. In briefly, what will SOCAR gain from these positive relations could be discussed in several factors. First SOCAR, as a

²⁷⁷ David Koranyi and Neil Robert Brown, Revitalizing the Southern Gas Corridor to Counter the Russian Energy Threat, *The Huffington Post*, http://www.huffingtonpost.com/david-koranyi/revitalizing-the-southern-gas_b_5214501.html, 26 July 2014.

²⁷⁸ Vitaly Baylarbayov, European Gas Conference, *Update on Southern Gas Corridor Development*, <http://www.europeangas-conference.com/sites/default/files/Vitaly%20Baylarbayov.pdf>.

²⁷⁹ *Ibid.*

²⁸⁰ *Ibid.*

national oil company, is becoming day by day to an international oil company who has offices across the Europe. Second, SOCAR is an important player of energy security of European Union and becoming stable and reliable partner of the member states. Third, SOCAR is increasing its revenues and recognition among the Union in where Greece DESFA could be a good example. Fourth, in Azerbaijan energy security SOCAR is becoming the most important actor and also negotiator for Azerbaijan energy issues. Lastly, SOCAR is the flagship company of the Azerbaijan Republic where Azerbaijan could be seen as a regional leader of its region.

4.4. Conclusion

SOCAR increases its experiences in both regional and global sphere, thus it is overcoming with its structural problems inside the Company as being a 100% state-owned company. In order to developing SOCAR as a national oil company, Azerbaijan using SOCAR as a forerunner company for making international investments especially in European region.

It is inevitable for SOCAR being an international oil company without economic and technological expertise. For the period of the interviews Baku in February 2014, mostly scholars and experts stressed the fact that European countries and investment strategy of SOCAR in European states is motivated by the head of the state, Ilham Aliyev. State-owned oil companies mostly confused with the national oil companies as it mentioned in the second chapter of this work, however SOCAR is a pure example of the state-owned oil company.

SOCAR's investments and policies towards the European states as signing contracts for ensuring European energy security, giving opportunities both in economic and social life for Greece and Italy and lastly enter to the domestic oil markets of European states make SOCAR an international oil company.

The next chapter of this thesis continues with comparing SOCAR with the representatives of the Kazakhstan, Norway and Russia national oil companies. These states' investment strategies and their development processes is going to be compared with the SOCAR in order to see the similarities and differences between them.

CHAPTER V

COMPARING SOCAR WITH THE OTHER NOCS: KAZMUNAYGAZ, STATOIL AND ROSNEFT

The last chapter of this thesis aims to analyze State Oil Company of the Azerbaijan's Republic's (SOCAR) active involvement in oil and gas activities of the state and becoming an international oil company since having crucial characteristics of the national oil company (NOC). In the first chapter of this work, main objectives of the NOCs are discussed and three important sub-chapters were designed for the last chapter.

NOCs control nearly 90% of the world oil reserves in today's energy arena and there are more than 35 big and important NOCs which operate the energy world²⁸¹. I would like to discuss three NOCs which are going to be compared with the SOCAR in this chapter: Norwegian Statoil, Russian Rosneft and Kazakhstan Kazmunaygaz. These three companies are chosen due to their performance, country profiles and positions among world NOCs. Under the three sub-chapters, these companies are going to be analyzed in details: the structure of the companies, national oil funds and contributions to this fund with making foreign and domestic investments.

5.1. Kazakhstan National Oil Company-Kazmunaygaz

Kazakhstan is a land locked state which has the biggest territory in the Central Asia. Proven oil reserves of the country are 30.0 thousand million barrels and 1.5 trillion cubic meters natural gas reserves at the end of the 2013.²⁸² Energy sector has an important role in Kazak economy and also in Kazak daily life.

²⁸¹ For more information please see Chapter II of this work.

²⁸² BP Statistical Review of World Energy(2013), *BP*, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf , p.7-20.

Proven Oil Reserves

Table 3

Rank	States	Thousand Million Barrels-at the end of 2013
1	Russian Federation	93.0
2	Kazakhstan	30.0
3	Norway	8.7
4	Azerbaijan	7.0

Source: BP Statistical Review of World Energy, 2013, p.6.

Proven Natural Gas Reserves

Table 4

Rank	State	Trillion Cubic Meters-at the end of 2013
1	Russian Federation	31.3
2	<i>Turkmenistan</i>	17.5
3	Norway	2.0
4	Kazakhstan	1.5
5	Azerbaijan	0.9

Source: BP Statistical Review of World Energy, 2013, p.20.

Prior to the 1990s, while Kazakhstan was one of the Soviet Republic, its natural resources were controlled by the Kremlin as it was done like the other energy rich republics as Turkmenistan and Azerbaijan. It has a long history of the *state building* and *nation building* processes which motivate Kazakhstan for establishing its own national oil and gas company: Kazmunaygaz.

It was 2002 February Kazmunaygaz was established in the Kazak capital, Astana²⁸³. In order to become an actor in energy games which is also called as *The New Great Game*²⁸⁴ in Central Asian territory, it is crucial and inevitable to control own natural resources. On the contrary to SOCAR, main actor of this thesis, Kazmunaygaz is more locked company in both making foreign investments and opening doors to Western companies in Kazakhstan energy system. Factors of this situation could be described as following; first of all being a former Soviet Republic was obstructed situation for Kazakhstan. Kazakhstan is the last independent state among all fifteen Soviet Republics; it gained its independence in 16th December 1991²⁸⁵.

Kazak economy has risen nearly 10 times from the independence in 1991 till today; GDP of the Kazakhstan was 24.9 billion US Dollars in 2014 it is already 224.41 US Dollars.²⁸⁶

Natural resources especially oil and gas has the significant role in Kazak economy. After the dissolution of the Soviet Union, independent states who have significant natural resources reserves, started to establish their own energy policies, technologies and foreign relations with the oil importer states²⁸⁷. Comparing to Azerbaijan, Kazakhstan entered later to international energy arena than the Azerbaijan as it did in 1994 with signing *Contract of the Century*.

Secondly, Kazakhstan does not open fully its own energy resources to states, as it can be discussed by another research, trust problem of the Kazakhstan to the European and US powers. For Kazakhstan, being a landlocked state and having two super powers- Russia and China as neighbors limited Kazakhstan's swing power. In order to be an important energy player in the region, it is crucial to have an independent energy

²⁸³ Kazmunaygaz, *History*, http://www.kmgep.kz/eng/the_company/history/, 18 May 2015.

²⁸⁴ The New Great Game has a reference to the Great Game in the 19th century between the British Empire and Russian Empire in Central Asia. This term re-borned towards the geopolitical attitudes towards Central Asian states by the Western powers and Russia. For more information; Lutz Kleveman(2003), *The New Great Game Blood and Oil in Central Asia*, Groove Press(New York). Alexander Cooley, *The New Great Game in Central Asia Geopolitics in a Post-Western World*, Foreign Affairs, <https://www.foreignaffairs.com/articles/central-asia/2012-08-07/new-great-game-central-asia> 10 May 2015.

²⁸⁵ Timeline: Kazakhstan, BBC World, http://news.bbc.co.uk/2/hi/asia-pacific/country_profiles/1298395.stm 18 May 2015.

²⁸⁶ Kazakhstan GDP, *Trading Economics*, <http://www.tradingeconomics.com/kazakhstan/gdp> , 24 March 2015.

²⁸⁷ For more information; Justin Burke, *Post-Soviet World: What you need to know about the 15 states*, New East Network, The Guardian, <http://www.theguardian.com/world/2014/jun/09/sp-profiles-post-soviet-states> 10 May 2015.

policy. Within all independent post-Soviet republics, only Azerbaijan has an independent energy policy that motivates it continues its prospect.²⁸⁸

Third and the most important factor is the Russian influence over the Kazakhstan. Relations between the Russia and Kazakhstan have odds prior to the Soviet rule. Russia is using soft power over the Kazakhstan by having the biggest Russian minorities within the Kazakhstan and also Russian language is the second official language in Kazakhstan²⁸⁹. Kazakhstan is the member of Eurasian Customs Union and the Eurasian Economic Union with the Belarus and Russian Federation. Kazakhstan and Russia are the richest and biggest energy producer countries which is equal to total 2.7 trillion US Dollars GDP²⁹⁰ and producing nearly 21% of the world needs natural gas and nearly 15% of world need oil.²⁹¹

Kazakhstan and its national oil and gas company Kazmunaygaz would be also important actors of the European energy security. A Memorandum of Understanding (MoU) on cooperation in the energy field between the European Union and Kazakhstan was signed in 2006.²⁹² Main objectives of this memorandum are integration between European and Central Asian energy markets, sustainable development of the energy relations between counterparts and lastly enhancing energy security of the particular regions.²⁹³

“The liberalization of the oil industry in the former Soviet Union has changed the competitive position of all oil-producing countries”.²⁹⁴

Caspian Sea and Central Asian energy resources are getting significance especially after the crisis in the Middle East which are frequently continued in different parts of the region and the latest crisis in Ukraine. The European Union has an aim to decrease

²⁸⁸ Azerbaijan committed itself to independent energy policy- Consul General, *AzerNews*, http://www.azernews.az/oil_and_gas/56553.html 24 September 2014.

²⁸⁹ World Directory of Minorities and Indigenous Peoples, Kazakhstan Overview, Minority Rights Group International, <http://www.minorityrights.org/2359/kazakhstan/kazakhstan-overview.html#peoples>, 10 May 2015.

²⁹⁰ Introducing the Eurasian Economic Union, Where three is a crowd, *The Economist*, <http://www.economist.com/blogs/banyan/2014/05/introducing-eurasian-economic-union> 24 September 2014.

²⁹¹ BP Statistical Review of World Energy, *BP*, p.7-20.

²⁹² Memorandum of Understanding on Co-operation in the field of energy between the European Union and the Republic of Kazakhstan, *European Commission*, http://ec.europa.eu/dgs/energy_transport/international/regional/caucasus_central_asia/memorandum/doc/mou_kazakshtan_en.pdf, 25 September 2014.

²⁹³ *Ibid.*

²⁹⁴ Silvana Tordo(2011), National Oil Companies and Value Creation, *World Bank Working Paper N.218*, p.20.

dependency on the Russian gas however in the near future it has seen as a miracle. Due to the facts that European energy in some regions has dependency on Russian gas, oil and electricity sources nearly 90% percent.²⁹⁵

"With these two documents, the Republic of Kazakhstan and the European Union have laid the foundations for constructive co-operation in the energy sector which will be extremely fruitful for both parties." Jose Manuel Barroso²⁹⁶

Kazmunaygaz (KMG) was founded on 20 February 2002 under the Decree of the President of Kazakhstan Republic number 811²⁹⁷. Kazakhstan has a long oil and gas history like Azerbaijan. In 1993, *Contract of the Century* was signed in Kazakhstan between American Chevron for 40 years.²⁹⁸ At the end of the 1993, international consortium of 7 companies- Ajip, British Petroleum, Statoil, British Gas, Mobil, Total and Shell created in order to conduct activities in the Caspian Sea.²⁹⁹

Kazmunaygaz provides 65% of oil transportation with "KazTransOil" company, 100% of gas transportation with "KazTransGaz" company and 50% of tanker transportation with "KazMorTransFlot" company within the Kazakhstan.³⁰⁰

Kazmunaygaz is one of the youngest national oil company which is operating in the oil and gas sphere. National oil companies are very important actors in post-Soviet area after the dissolution of the Soviet Union. NOCs are "hopes" of the hydro-carbon rich states and especially in this case, Kazakhstan and Azerbaijan's. Prosperity of NOCs and their success is relevant to the prosperity of the state. That is the most important reason why KazMunayGas development policy is more aggressive than the SOCAR ones.³⁰¹

According to the authors who are dealing with the Central Asian and Caspian energy politics, Kazak and Azeri national oil companies have different aims with common

²⁹⁵ Especially Baltic region countries: Estonia and Latvia.

²⁹⁶ EU, Kazakhstan strengthen energy links, *Euractiv.com*, <http://www.euractiv.com/energy/eu-kazakhstan-strengthen-energy-links/article-160243> 25 September 2014.

²⁹⁷ Martha Brill Olcott (2007), KAZMUNAIGAZ: Kazakhstan's National Oil and Gas Company, *The James A. Baker III Institute For Public Policy and Japan Petroleum Center*, http://bakerinstitute.org/media/files/page/9820ee52/noc_kaz_olcott.pdf, p.7.

²⁹⁸ Kazmunaygas, About, <http://www.kmg.kz/en/about/today/> 29 September 2014.

²⁹⁹ *Ibid.*

³⁰⁰ *Ibid.*

³⁰¹ Martha Brill Olcott (2007), KAZMUNAIGAZ: Kazakhstan's National Oil and Gas Company, *The James A. Baker III Institute For Public Policy and Japan Petroleum Center*, http://bakerinstitute.org/media/files/page/9820ee52/noc_kaz_olcott.pdf, p.2.

goals. KMG has more common things and values with Russian NOCs and in particular with Gazprom about vertical integration process.³⁰²

Kazmunaygaz is a single company that has oil, gas and mining activities under the one big company. KMG is a main stakeholder in projects and also in making productions in Kazakhstan and mission of the KMG is stated as; “providing maximum profits for the Republic of Kazakhstan and development of the national petroleum industry, increasing company value and its profitability, becoming a competitive petroleum company integrated in the international market and support for domestic suppliers of goods, work and services.”³⁰³ KMG operates in six main fields: oil and gas upstream, oil transportation, sales and marketing, refining, petro chemistry, export/import, transportation and sales, gas transit³⁰⁴.

Chairman of the KMG is Umizrak Shukeyev and according to 2011 research, over 64.000 employees are working in KMG.³⁰⁵ KMG is owner 44 oil fields in Kazakhstan³⁰⁶. KMG has oil stations in Kazakhstan, Georgia and Romania.³⁰⁷

KMG regulates pipelines in country. In 2004 situation changed in favor of the company and Kazmunaygaz has became official contractor of the Kazak energy policy and also in any foreign production PSA, company should have at least 50%³⁰⁸. Foreign participation within the state is limited up to 50%³⁰⁹.

5.1.1. The National Fund of the Republic of Kazakhstan (NFRK)

Sovereign Wealth Funds has two main roles called savings and stabilizations. Republic of Kazakhstan has two important funds; National Fund of the Kazakhstan Republic which is known as “national oil fund” and Samruk-Kazyna “sovereign welfare fund” which is a government owned holding company and focuses on

³⁰² Oil and Gas of Kazakhstan, <http://www.ukessays.com/essays/geography/oil-and-gas-of-kazakhstan.php>, 29 September 2014.

³⁰³ Kazmunaygaz, Company, *Strategy*, <http://www.kmg.kz/en/about/strategy/>, 29 September 2014.

³⁰⁴ Kazmunaygaz, Company, <http://www.kmg.kz/en/manufacturing/map/>, 10 May 2015.

³⁰⁵ *Ibid.*

³⁰⁶ *Ibid.*

³⁰⁷ Samruk-Kazyna, History of the Company, <http://www.sk.kz/company/3>, 29 September 2014.

³⁰⁸ Martha Brill Olcott (2007), KAZMUNAIGAZ: Kazakhstan’s National Oil and Gas Company, *The James A. Baker III Institute For Public Policy and Japan Petroleum Center*, http://bakerinstitute.org/media/files/page/9820ee52/noc_kaz_olcott.pdf, p.24.

³⁰⁹ *Ibid.*

economic development objectives of the Kazak government.³¹⁰ National Welfare Fund “Samruk-Kazyna” was founded in 13 October 2008 under the Decree of the President of the Republic of Kazakhstan No 669 and two companies “Samruk” and “Kazyna” were combined³¹¹.

This company is owned by the Kazakhstan Government and it is a joint stock company. Samruk Kazyna owns 19 important Kazak companies in Kazakhstan and KazMunayGas is one of these companies³¹². Kazakhstan railroads, post services, telecommunication service and Kazakhstan Development Bank are also owned by Samruk-Kazyna.³¹³

NFRK was established in 2000, as took occurrence of the Norwegian model of SWF.³¹⁴ According to the Kayrat Kelimbetov from Kazakhstan Agency for Strategic Planning, situation both in Kazak economy and the world economic crisis in 1998 and the sudden decrease of oil prices changed situation of establishment NFRK and delayed it for two years³¹⁵.

In 2000, when oil prices started to increase, giant discoveries of hydro-carbon reserves in Caspian Sea and foundation idea of the Caspian Pipeline Consortium motivated Kazak government for establishing NFRK.³¹⁶ Norwegian model was chosen due to number of reasons; the crucial role played by financial indicators of Norwegian fund, the company’s investment strategy, and supports from the Norwegian national oil and gas company “Statoil” and lastly Statoil’s big investments in Kazakhstan.³¹⁷ At the final stage on establishment NFRK Norwegian, Kuwait and Alaska Oil Funds characteristics could be found according to Kayrat Kelimbetov.³¹⁸ On the 23 August 2000, under the Decree of the President of Kazakhstan Republic No 402, NFRK was founded³¹⁹.

³¹⁰ David Kemme, Sovereign Wealth Fund Issues and The National Fund(s) of Kazakhstan, *William Davidson Institute Working Paper Number 1036*, August 2012, p.2.

³¹¹ Samruk-Kazyna, *About*, <http://sk.kz/page/kratko-o-fonde?lang=en>, 10 May 2015.

³¹² *Ibid.*

³¹³ Samruk-Kazyna, <http://www.sk.kz/section/4431> 26 September 2014.

³¹⁴ Yelena Kalyuzhnova, The National Fund of the Republic of Kazakhstan (NFRK): From Accumulation to stress-test to global future, *Energy Policy*, 39(2011),p.6651.

³¹⁵ Проблемы и перспективы Национального фонда Республики Казахстан, <http://www.transparencykazakhstan.org/UserFiles/file/78.pdf>.

³¹⁶ Проблемы и перспективы Национального фонда Республики Казахстан, <http://www.transparencykazakhstan.org/UserFiles/file/78.pdf>.

³¹⁷ *Ibid.*

³¹⁸ *Ibid.*

³¹⁹ Yelena Kalyuzhnova, The National Fund of the Republic of Kazakhstan (NFRK): From Accumulation to stress-test to global future, *Energy Policy*, 39(2011),p.6651.

The Management Council of the NFRK appointed by the President, members are as following: the President, the Prime Minister, the Chairman of Senate, the Chairman of the Majilis, the Chairman of the National Bank, the Deputy Prime Minister, Minister of Finance and the Chairman of the Accounting Committee for the Control of the Execution of the National Budget.³²⁰ The Management Council sets the general investment strategy and general governance policies.³²¹ According to the Kazakhstan Republic's *Strategy 2020*, goals are reached assets at least %30 of GDP and 90 billion US Dollars.³²²

The National Fund was created in order to control market prices and equal distribution of the oil and gas revenues³²³. Revenues from oil, gas and mining sectors, payments of corporate income tax, excess profits tax, royalties, VAT, bonuses and PSAs are paid to NFRK.³²⁴

Structure of the NFRK consists as; 80% long term investment function-saving portfolio and 20% smaller stabilization function saving portfolio.³²⁵ NFRK is owned by the Ministry of Finance and managed by the Treasury Department of the National Bank of Kazakhstan.³²⁶ Creation of the NFRK did not involve Parliament of Kazakhstan Republic and only President can make changes³²⁷.

Parliament has no power over the National Fund; President can bind the regulations, oversight provisions and the approval of the external auditing.³²⁸ In accordance with the NFRK's transparency; there are doubts still it has some problems regarding the transparency, accounting and auditing. The National Bank of Kazakhstan, creates daily, monthly, quarterly and annual reports for Ministry of Finance however these

³²⁰ David Kemme, Sovereign Wealth Fund Issues and The National Fund(s) of Kazakhstan, *William Davidson Institute Working Paper Number 1036*, August 2012, p.20.

³²¹ *Ibid.*

³²² David Kemme, Sovereign Wealth Fund Issues and The National Fund(s) of Kazakhstan, *William Davidson Institute Working Paper Number 1036*, August 2012, p.23.

³²³ *Ibid.*

³²⁴ Yelena Kalyuzhnova, The National Fund of the Republic of Kazakhstan (NFRK): From Accumulation to stress-test to global future, *Energy Policy*, 39(2011),p.6652.

³²⁵ *Ibid.*

³²⁶ Institutional Investor's Sovereign Wealth Center, National Fund of the Republic of Kazakhstan, <http://www.sovereignwealthcenter.com/fund/46/National-Fund-of-the-Republic-of-Kazakhstan.html#.VCVU0PmSyZs> , 26 September 2014.

³²⁷ *Ibid.*

³²⁸ Yelena Kalyuzhnova, The National Fund of the Republic of Kazakhstan (NFRK): From Accumulation to stress-test to global future, *Energy Policy*, 39(2011),p.6654.

reports are not fully open to the public, only summarizes and small parts of the reports are published in press and could be reached thoroughly NFRK's website.³²⁹

The other important part of the transparency is "Santiago Principles" that was created by the International Working Group of Sovereign Wealth Funds (IWG) and consists of 26 IMF member states. Santiago Principles are Generally Accepted Principles and Practices (GAPP) which is a set of 24 voluntary guidelines for the operations of SWFs.³³⁰ Kazakhstan's NFRK is not accepted Santiago principles which are accepted by other 3 focus SWFs of this work.

Table 5

State	Fund	Assets(billion US Dollars)	Accepting GAPP
Norway	Government Pension Fund Global	893	Yes
Russia	National Welfare Fund	88	Yes
Kazakhstan	NFRK	77.5	No
Azerbaijan	SOFAZ	36.6	Yes

Source: Kalyuzhnova, p.6654 and Sovereign Wealth Fund Institute.³³¹

In conclusion, it is important to emphasize the factor that NFRK is totally different from the Samruk Kazyna which is a sovereign wealth fund that was created in 2008 and has important companies in Kazakhstan that are involved in Kazak energy sector as Kazmunaygaz.

³²⁹ *Ibid.*

³³⁰ Sovereign Wealth Funds G.A.P.P. – Santiago Principles (2008), *International Working Group of Sovereign Wealth Funds*, <http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf>. 26 September 2014.

³³¹ Sovereign Wealth Fund Institute, Fund Rankings, <http://www.swfinstitute.org/fund-rankings/> 26 September 2014.

5.2. Norway National Oil Company- Statoil

Statoil, Norwegian National Oil Company, was established in 1972 as a national oil company. When Statoil was established, it was one of the youngest NOC in Europe³³². For Norway, discoveries of the oil fields would not bolster the economy as it was needed in the United Kingdom³³³. According to the Laryson, author of the National Oil Companies, development of the new found resources were slowly in order to not to disturb the Norwegian way of life.³³⁴

Norwegian Statoil's success story is different from the 3 others: SOCAR, Rosneft and KazMunayGas. Norway did not require any state-building process or re-birth of its economy by its oil revenues. Statoil had seen as a study of conflicts of interest according to Laryson.³³⁵ From the point of the Norway's Western European allies, Norway's new hydro-carbon reserves would reduce dependency on the Middle East resources and it gave a new hope for developing Norwegian resources. Secondly, as a government, Norway would prefer to develop its oil industry but the work load of the oil industry with environmental, agricultural and fishing cases was bearing the extent of the development³³⁶. Lastly and importantly for the point of the NOCs, there was a potential conflict between the Statoil and the Norwegian government. While Statoil would like to be an independent entity with free from political control, government wants to control the company.³³⁷

Norway has always seen as a wealthy country in Europe despite the fact that it has a relatively small population. Main incomes were from the agriculture, fishing and timber before the developments of the oil industry³³⁸. North Sea's importance was seen after the 1967 Arab-Israeli War and forthcoming OPEC oil embargo.³³⁹ Developments in the North Sea started in the end of the 1960s and finally taking into account in the beginning of the 1970s. In June 1972, the Norwegian government decided to establish Norwegian Petroleum Directorate and national oil company Statoil as a holding company.³⁴⁰

³³² See the Table-1 in Chapter II.

³³³ Leslie E. Grayson(1981), *National Oil Companies*, John Wiley&Sons Ltd.; Norwich, p.197.

³³⁴ *Ibid.*

³³⁵ *Ibid.*

³³⁶ *Ibid.*

³³⁷ *Ibid.*

³³⁸ Leslie E. Grayson (1981) , *National Oil Companies*, John Wiley&Sons Ltd. : Norwich, p.199.

³³⁹ *Ibid.*

³⁴⁰ *Ibid.*

Statoil established in 1972 with a mission of, “to carry out, by itself or in participation or in cooperation with other companies, exploration and production, transportation, refining and marketing of petroleum and products derived therefrom, and other activities reasonably related thereto.”³⁴¹ Statoil is responsible for the operations and duties as being a national oil company, political, social and economic aims of the governments: Supply security, optimal development acquiring expertise and technology, providing better control of private operators, fostering competitive Norwegian goods and services and earning reasonable return on the government investment.³⁴²

Statoil has aims to be an international oil company since the establishment and tries to be as much as far away from the political pressure during the company development. Statoil has different characteristics rather than the ordinary national oil companies that are discussing throughout this thesis. The first and the most important difference is Statoil is not fully political instrument of the Norwegian government as it is in Azerbaijan, Kazakhstan and Russia. Using oil revenues for re-establishing the state and the nation are different from the using hydro-carbon reserves as “political weapons”³⁴³. The very recent example is Russia that trying to change the political and economic situation in favor as Russia did it in 2006 Ukraine crises and doing it in 2014 Ukrainian dissolution processes against European states³⁴⁴.

Establishing a national oil company and using it as a political instrument is more related with the government legacy and democracy issues of the state. Statoil’s power in the end of the 1970s was limited by the government for avoiding “becomes a state within the state”.³⁴⁵ Statoil has a political pressure from its European counterparts in order to decrease dependency on the Middle Eastern resources and developing Norwegian ones so that Norway and the United Kingdom could control the energy policy of the European region³⁴⁶.

³⁴¹ *Ibid.*

³⁴² *Ibid.*

³⁴³ For more information; Walter Mayr, Putin’s Cold War: Using Russian Energy as a Political Weapon, *Spiegel Online International*, <http://www.spiegel.de/international/spiegel/putin-s-cold-war-using-russian-energy-as-a-political-weapon-a-394345.html>, 10 May 2015.

³⁴⁴ *Ibid* and Jon Henley, Is Europe’s gas supply threatened by the Ukraine crisis?, *The Guardian*, <http://www.theguardian.com/world/2014/mar/03/europes-gas-supply-ukraine-crisis-russia-pipelines> 10 May 2015.

³⁴⁵ Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd.: Norwich, p.206.

³⁴⁶ *Ibid.*

State's oil company Statoil, was privatized in 2001 and becomes a public limited company. Today, 67% of the company's shares owns by the government of Norway and 33% by public stock³⁴⁷. Statoil has operations in 36 countries and has involved in important international projects³⁴⁸. In case of this work, Statoil is partner in Baku-Tbilisi-Ceyhan (BTC) project, has shares in Azeri-Chirag-Guneshli and Shah Deniz with a share in South Caucasus Pipeline.³⁴⁹ However Statoil decreased its shares in Shah Deniz by 10% percent in May 2014, Statoil is still an important actor in the Caspian with BP³⁵⁰.

Statoil has over 23 thousand employees and the richest European energy company³⁵¹. Statoil is an integrated oil company and the leading company in the Norwegian Continental Shelf³⁵².

Statoil benefited from two privileges throughout the establishment period till the 1980s. Privileges are, *minimum participation of 50 percent, carried through the exploration phase, in all petroleum licenses, implying a veto power on all development decisions; and once a discovery was declared commercial, the option to increase the participation by up to 80 percent based on a sliding scale linked to production levels.*³⁵³ Privileges decreased concerns in the Norwegian Parliament (Storting) in the mid-1980s while Statoil's influence on the domestic economy and politics were understood³⁵⁴. After the removal of the privileges, Statoil became more commercially oriented company and on the other hand, state could rely on efficient exploitation of its hydro-carbon resources³⁵⁵. Statoil benefited from this decision and took actions for

³⁴⁷ Statoil, *Major Shareholders*, <http://www.statoil.com/annualreport2011/en/shareholderinformation/pages/majorshareholders.aspx> 10 May 2015.

³⁴⁸ About Statoil, *Statoil Worldwide*, <http://www.statoil.com/en/About/Worldwide/Pages/default.aspx> 10 May 2015.

³⁴⁹ Statoil, *Worldwide- Azerbaijan*, <http://www.statoil.com/en/About/Worldwide/Azerbaijan/Pages/default.aspx> , 30 September 2014. Since 1st of May 2015, SOCAR is the commercial operator of South Caucasus Pipeline as Statoil sold 15.5% stakes to the Malaysian Petronas company in Shah Deniz project.

³⁵⁰ Statoil's farm down in Shah Deniz and South Caucasus Pipeline Completed, *Statoil News and Media*, http://www.statoil.com/en/NewsAndMedia/News/2014/Pages/06May_ShahDeniz.aspx , 8 May 2014.

³⁵¹ Statoil, *This is who we are*, <http://www.statoil.com/annualreport2012/en/quickfacts/pages/01thisiswhoweare.aspx> , 8 May 2014.

³⁵² *Ibid.*

³⁵³ Silvana Tordo(2011), National Oil Companies and Value Creation, *World Bank Working Paper N.218*, p.87.

³⁵⁴ *Ibid.*

³⁵⁵ *Ibid.*

becoming an international operator by improving its efficiency and reducing its operating costs.³⁵⁶

Statoil is such company that since the establishment Norwegian government granted the company with administrative and financial independence so that gave to Statoil a commercial focus.³⁵⁷ Oil revenues for the Norwegian government are for the purposes of diversification of the Norwegian economy, it is not for the re-birth or re-establishment of the state economy as it was in Russia, Azerbaijan and Kazakhstan. Oil revenues are a tool for the government, not the purpose of the state economy and *raison d'être*.³⁵⁸

Norway is the 3rd biggest natural gas producer in the world after USA and Qatar and 12th largest oil exporter in the world in 2013.³⁵⁹ Norway's revenues from crude oil, natural gas and pipeline transport services are consisting %23 of GDP and %30 of government revenues.³⁶⁰ According to the statistics, Norway's oil production are decreasing after the oil boom in 2001, however natural gas production is in increase. That means hydro-carbon reserves will continue have an important share in state incomes.

In 2006, Statoil unified with Norsk-Hydro private-public company³⁶¹. %44 percent of shares Norsk-Hydro is owned by Norwegian government³⁶². After this merge, Norwegian governments share in this company was accounted %67 percents.³⁶³

Statoil evolved in the international market rather than domestic purposes. Statoil is very important actor of development a national oil industry and oil politics. Now, Statoil is working more commercial oriented. According to Tordo, from her World Bank report, Statoil is very successful in the corporate governance system so that responsibilities of all parts in management are clearly defined. Vertical integration of the company is making company one of the most important international oil company

³⁵⁶ *Ibid.*

³⁵⁷ Silvana Tordo(2011), National Oil Companies and Value Creation, *World Bank Working Paper N.218*, p.97.

³⁵⁸ Raison d'être means purpose of being.

³⁵⁹ U.S. Energy Information Administration, *Norway*, <http://www.eia.gov/countries/cab.cfm?fips=no> 01 October 2014.

³⁶⁰ *Ibid.*

³⁶¹ Statoil to buy Norsk Hydro's oil, gas division, *Market Watch*, <http://www.marketwatch.com/story/statoil-to-buy-norsk-hydro-energy-division-for-about-30-billion> 01 October 2014.

³⁶² *Ibid.*

³⁶³ *Ibid.*

in the world. %80 percent of the domestic oil and gas production is controlled by the Statoil.³⁶⁴

In conclusion, Norwegian government's attitude shaped Statoil's national oil company characteristics. Firstly, Norway would not prefer to use Statoil as a political instrument however Norway's decision to enter the European Economic Area in 1994, forced Statoil for thinking more commercially rather than the particular NOCs. State did not burden Statoil for non-commercial domestic obligations as social benefits.³⁶⁵ Statoil's need for improving efficiency and compete internationally made the company more commercially oriented. Success of Statoil is in Norwegian government policies; adaptation of its policies to changes in geological, economic and market conditions, good governance transparency, already developed industrial sector and closeness to European markets.³⁶⁶ Statoil is a success story of the Norwegian government and European energy market.

5.2.1. Government Pension Fund Global (GPFG)

Since 1972 when the Statoil founded, Norway introduced a new model of the oil management to the world: "Norwegian Model", in general terms, this type of management consists of the separation of three distinct government bodies: a national oil company (Statoil) which is engaging in commercial hydrocarbon resources, a government ministry (Ministry of Petroleum and Energy) to direct policy and a regulatory body (National Petroleum Directorate) for providing oversight and technical expertise.³⁶⁷

Separation of roles is in commercial, policy and regulatory levels.³⁶⁸ In order to become a successful and long-term investor in oil sector, Norway's democratic and bureaucratic tradition has a crucial role. These practices make Norway successful in its intra-governmental checks and balances.³⁶⁹ Successful separation of roles and management bodies made Norway Government Pension Fund Global number one in world's richest sovereign wealth fund³⁷⁰. Statoil's success was in Norwegian

³⁶⁴ Silvana Tordo(2011), National Oil Companies and Value Creation, *World Bank Working Paper N.218*, p.66.

³⁶⁵ *Ibid.*

³⁶⁶ *Ibid.*

³⁶⁷ Mark C. Thurber et al., Exporting the "Norwegian Model": The effect of administrative design on oil and sector performance, *Energy Policy*, 39(2011), p. 5366.

³⁶⁸ *Ibid.*,p.5367.

³⁶⁹ *Ibid.*,p.5371.

³⁷⁰ See the Table 5 in this chapter.

government's ability of diversification of government bodies roles and so that Statoil could concentrate in commercial activities mostly.

Success story of the GPFNG is related to the Norwegian oil industry's development and its wealth policies. Main actors in the establishment of sovereign wealth funds are country's hydrocarbon reserves. Statoil's prominent investments in Angola and especially in Azerbaijan could be seen as company's international operations.³⁷¹ Statoil faced with difficult times in the management system and corruption scandals in the 1980s and also Norwegian governments "fear" of the Statoil's political power, forced the company changed its management structure with the new CEO and become more international company³⁷². Notably, BP's assistance in the mid 1990s was crucial for Statoil in order to introduce with the international investment opportunities and importantly for development in Azeri-Chirag-Guneshli (ACG) field in Azerbaijan.³⁷³

Norway has 2 sovereign wealth funds: The Government Pension Fund Global (GPFNG) which was formerly The Government Petroleum Fund and The Government Pension Fund Norway (GPFN) that was The National Insurance Scheme Fund. GPFN was established in 1967 when the first oil discovered in the North Sea in 1960s and GPFNG was established in 1990³⁷⁴. Both funds changed their names in 2006³⁷⁵. Under this part of work, GPFNG is going to evaluate due to its incomes and foreign investments. GPFNG is managed by the Norges Bank Investment Management which is responsible to the Ministry of Finance of Norway³⁷⁶. GPFNG is world's richest SWF according to its assets 893 billion US Dollars in October 2014.³⁷⁷ Incomes are, 62 percent from invested in equities, 27 percent fixed income and 1 percent from real estate.³⁷⁸ GPFNG only makes investments outside the Norway and especially in

³⁷¹ Richard Gordon, Thomas Stenvoll, Statoil: A Study in Political Entrepreneurship, *James A. Baker III Institute for Public Policy of Rice University*, March 2007, p.11.

³⁷² Leslie E. Grayson (1981), *National Oil Companies*, John Wiley&Sons Ltd.: Norwich, p.206.

³⁷³ Richard Gordon, Thomas Stenvoll, Statoil: A Study in Political Entrepreneurship, *James A. Baker III Institute for Public Policy of Rice University*, March 2007, p. 31.

³⁷⁴ The Sovereign Wealth Fund Initiative, Profile: Government Pension Fund Global(Norway), <http://fletcher.tufts.edu/SWFI-OLD/~media/Fletcher/Microsites/swfi/pdfs/2012/profiles/Norway%20Fund%20Profile.pdf> p.1.

³⁷⁵ Norges Bank Investment Management, *History*, <http://www.nbim.no/en/the-fund/history/> 18 May 2015.

³⁷⁶ Richard Gordon, Thomas Stenvoll, Statoil: A Study in Political Entrepreneurship, *James A. Baker III Institute for Public Policy of Rice University*, March 2007, p.11.

³⁷⁷ Sovereign Wealth Fund Institute, Fund Rankings, <http://www.swfinstitute.org/fund-rankings/> 08 October 2014.

³⁷⁸ Norges Bank Investments Management, *Investments*, <http://www.nbim.no/en/investments/> 08 October 2014.

developed markets. GPFG follows ethical, transparent and sustainable principles.³⁷⁹ GPFG is the signature of the GAPP, Santiago Principles as Azerbaijan and Russia do.

According to the GPFG, this fund is responsible for facilitating government savings to finance rising public pension expenditures and supporting long-term considerations in the spending of government petroleum revenues.³⁸⁰ GPFG is saving for the future generations in Norway. The Fund is working in cooperation with the Norwegian government; the government may spend only the expected real return on the fund which is estimated 4 percent per year.³⁸¹ GPFN is operating more domestic on the contrary to GPFG. GPFN mostly invested in domestic companies. GPFG is not an ordinary pension fund that operates within the particular state and using as a prosperity tool for social purposes. By the end of the 2020, it is estimated that GPFG's assets will be nearly 1 trillion US Dollars.³⁸² GPFG is owned 100% by the Ministry of Finance on behalf of the people of Norway³⁸³.

GPFG is a stabilization fund and all the government's oil and gas related income including taxes, ownership shares and country dividend from Statoil are given to GPFG.³⁸⁴ Along with transparency ratings- Santiago Principles rating, Truman Scoreboard and Linaburg-Maduell Rating, GPFG is the most transparent fund in the world.³⁸⁵ GPFG invests more than 8 thousand companies across the world and operating more than 82 countries.³⁸⁶ Nestle, Royal Dutch Shell, Novartis, Roche Holding and Apple are the largest equity investments.

In conclusion, Norway is a model country for oil producing developing states especially in Central Asia, Caucasus and in some part of the Africa. Norway's success is in separating roles of the government's bodies which are dealing with the oil revenues. In order to become a wealthier state and avoid Dutch disease effect it is

³⁷⁹ Sovereign Wealth Fund Institute, Government Pension Fund Global-Norway, <http://www.swfinstitute.org/swfs/norway-government-pension-fund-global/> 08 October 2014.

³⁸⁰ Ministry of Finance Norway, *Government Pension Fund Global*, <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/government-pension-fund-global-gpfg.html?id=697027> 08 October 2014.

³⁸¹ Norway The Official Site in China, Norway's Government Pension Fund, http://www.norway.cn/News_and_events/Business/Innovation-Norway-and-NSEC/Norways-Government-Pension-Fund-Global/#.VDUc7PmSyZs 08 October 2014.

³⁸² The Sovereign Wealth Fund Initiative, Profile: Government Pension Fund Global(Norway), <http://fletcher.tufts.edu/SWFI-OLD/~media/Fletcher/Microsites/swfi/pdfs/2012/profiles/Norway%20Fund%20Profile.pdf>

p.1.

³⁸³ *Ibid.*

³⁸⁴ *Ibid.*, p.2.

³⁸⁵ *Ibid.*, p.3.

³⁸⁶ Norges Bank Investment Management, *Investments*, <http://www.nbim.no/en/investments/holdings-/holdings-and-voting/> 08 October 2014.

crucial to have a stable democracy with the strong pattern in “good governance” practices. It is very hard to think about Russia or Kazakhstan without their strong leaders-Putin and Nazarbayev and their influence on the hydrocarbon industries. However, Azerbaijan, with its strong desire to create totally transparent sovereign wealth institution-SOFAZ, could be a hope for the rest of the oil and producing states in Central Asia. GPFG has become world number one by its investments outside the Norway. Its revenues mostly come from its equity companies. In line with this thesis argument, SOCAR’s achievement is in the company’s foreign investments and especially in golden projects: BTC and TANAP. Norway was succeeded this and created fully transparent GPFG in order to sustain revenues not only from the oil but also from the investments. It is obvious that oil has only 50 years but it is important to think about the future generations.

5.3. Russian National Oil Company- Rosneft

Rosneft is Russian public oil and gas company. Importance of Rosneft is in its post-Soviet legacy and being a Russian giant in Eurasian energy game. In previous parts of this chapter, Russia is mostly referred as using energy as a “weapon” against to the states which are manipulating Russian’s desires: being in the top of the world politics. Russian domination in European energy politics makes Europeans have more fear in energy debates. Current situation in Ukraine and continuous talks between European Commission-Ukraine and Russia tries to relaxation relations between the triangles. Russian latest developments in energy sector after the dissolution of the Soviet Union forwarded its power in both politics and economics.

According to the US Energy Information Administration’s 2013 Russia Country Report, Russia is the second largest producer of dry natural gas and third largest oil producer in the world.³⁸⁷ 52% of the federal budget depended on the revenues from the hydrocarbon revenues³⁸⁸ which show us how Russian economy is vulnerable to oil and gas prices.

Rosneft was founded in April 1993³⁸⁹. After the dissolution of the Soviet Union, more than 250 industrial enterprises and organizations were merged in the new government company, Rosneft.³⁹⁰ OJSC Rosneft is a vertically integrated company and established

³⁸⁷ US. Energy Information Administration, *Russia*, <http://www.eia.gov/countries/cab.cfm?fips=RS>, p.1. 09 October 2014.

³⁸⁸ *Ibid.*

³⁸⁹ Rosneft, *History*, <http://www.rosneft.com/about/history/> 08 October 2014.

³⁹⁰ *Ibid.*

under the Russian Government Decree No 971 on the 29 September 1995³⁹¹. Strategic priorities of the company are stated as follows: *industrial safety, environmental protection, refinery modernization, field development and oil production increase*.³⁹² Rosneft was the largest taxpayer in Russia in 2013³⁹³. Current President of the Company is Igor Sechin, close ally of Russian Federation President Vladimir Putin.

Rosneft accounts more than 40% of the Russian oil production and was the third largest gas producer in 2013. Rosneft activities are; hydrocarbon exploration and production, upstream offshore projects, hydrocarbon refining, marketing crude oil, and gas within Russia and overseas³⁹⁴. Company owned by the 100% state owned Rosneftegaz with 69.5% share, BP with 19.75% and other 10.75% are publicly traded³⁹⁵.

Rosneft is the key oil and gas producer and exporter in Russia. Company is operating in both domestic and abroad. Rosneft is not a national oil company as Azerbaijan's or Kazakhstan's but it is mostly controlled by the state owned enterprises and has very powerful pressure from the Russian government and especially from the President Putin. Rosneft's production activities are transferred across the Russian territory and abroad countries by state owned pipeline monopoly giant, Transneft³⁹⁶.

Mainstream of Russia's oil production that accounts two thirds of the all production is from the Western-Siberia³⁹⁷. Oil production is dominated by the Russian firms and the top of the company is Rosneft. East Siberia is under the control of the Rosneft.³⁹⁸ Dissolution of the Soviet Union was drastically changed oil politics in both Russia and oil producing post-Soviet countries. However, the oil sector has been privatized in Russia; it is still under the state control. That is the reason why Rosneft could be analyzed as a national oil company.

³⁹¹ *Ibid.*

³⁹² *Ibid.*

³⁹³ Rosneft posts record 2013 results: daily hydrocarbon production reached 4.9 mmbbl, EBITDA amounted to RUB 947 bln supported by hydrocarbon production growth, increased efficiency and integration of new assets, *Rosneft*, <http://www.rosneft.com/news/pressrelease/04022014.html> 18 May 2015.

³⁹⁴ About, Rosneft, <http://www.rosneft.com/about/> 09 October 2014.

³⁹⁵ *Ibid.*

³⁹⁶ For more information: Transneft, <http://en.transneft.ru/> 10 May 2015.

³⁹⁷ U.S. Energy Information Administration, *Russia Overview*, <http://www.eia.gov/beta/international/analysis.cfm?iso=RUS> 10 May 2015.

³⁹⁸ U.S. Energy Information Administration, *Russia*, <http://www.eia.gov/countries/cab.cfm?fips=RS>, p.3, 09 October 2014.

In Russia, oil and gas sector is under the domination of the domestic companies which are controlled and regulated by the government bodies³⁹⁹. On the contrary to the Statoil, government bodies are directly involved in oil and gas sector's development.

According to the US Energy Information Administration Russia 2013 country report, Rosneft is the top oil producer company in 2012⁴⁰⁰. Russia has 40 oil refineries in where Rosneft is the largest refinery operator⁴⁰¹. In 2012, Rosneft is the Top 5 gas producer companies where state owned Gazprom is the biggest. In 2013 March, Rosneft acquired TNK-BP, third largest oil producer company in Russia and became world's largest oil company.⁴⁰²

Table 6

Oil Producing Comp.	Thous and bbl/d	Gas Producing Comp.	Bcf/d
Rosneft	2,448	Gazprom	47.1
Lukoil	1,670	Novatek	5.5
TNK-BP	1,493	Lukoil	1.6
Surgutneftegaz	1,223	TNK-BP	1.3
Gazprom Neft	626	Rosneft/ Surgutneftegaz	1.2

Source: US Energy Information Administration, Russia 2013 Country Report (2012 Data)

Rosneft is a very crucial and important company for Russia both in economy and policy purposes. The Russian economy is heavily depended on the hydrocarbon reserves and oil and gas exports⁴⁰³. In 2012, 79% of the Russian oil exports were

³⁹⁹ Nina Poussenkova, Lord of the Rigs: Rosneft as a mirror of Russia's Evolution, *James A. Baker III Institute For Public Policy and Japan Petroleum Energy Center Report*, March 2007, p. 45.

⁴⁰⁰ See the Table 6.

⁴⁰¹ U.S. Energy Information Administration, *Russia Overview*, <http://www.eia.gov/beta/international/analysis.cfm?iso=RUS> 10 May 2015.

⁴⁰² Rosneft finalizes TNK-BP deal, becomes world's largest oil producer, *Russia Today*, <http://rt.com/business/rosneft-finalize-tnk-bp-deal-largest-oil-producer-583/>, 09 October 2014.

⁴⁰³ For more information: Russian Energy Policy, Global Security, <http://www.globalsecurity.org/military/world/russia/energy.htm> 10 May 2015.

going to Europe⁴⁰⁴. Rosneft's influence in the international arena and especially in Europe is strengthening Russian government's hands in negotiations over the tensions in the Caucasus, Ukraine and even the Middle East, Syria.

Rosneft is not an ordinary national oil company as in the Middle East or Latin America ones. Actually SOCAR, KazMunayGas or Statoil are also having different interpretations of being national oil companies and representing the home state's interests. Yet, Rosneft is always aiming acquisition more than the before as buying YUKOS and BP-TNK and being world's biggest oil company.

In 2006, Russian government took more serious decisions in order to have a stable and powerful state oil company⁴⁰⁵. Rosneft had a complicated relationship with the home government during the establishment period till the 2000⁴⁰⁶. Situation was not in favor of the Rosneft and Russian state and its oligarchs were the only "winners" in this game. Though, Putin's desire and power will change the situation in favor of the Rosneft in a couple of years while after 20 years of the establishment, Rosneft would become a global national oil company. Before the 2000s, Russian government faced with the serious economic problems and crisis throughout the transition period to market economy.⁴⁰⁷

"Our welfare at present and, to a great degree, in the future directly depends on the place we will take in the global energy context."⁴⁰⁸ - Vladimir Putin

In order to balance oligarchs within the state, it was crucial for Putin to establish a powerful state oil company.⁴⁰⁹ Powerful leaders and Putin's influence showed a new path and strategies for Rosneft. In 2002, Company accepted "transnational energy

⁴⁰⁴ Kenneth Rapoza, On Energy Russia Tilting to Less Dramatic Asia, Forbes, <http://www.forbes.com/sites/kenrapoza/2014/05/16/on-energy-russia-tilting-to-less-dramatic-asia/> 10 May 2015.

⁴⁰⁵ Nina Poussenkova, Lord of the Rigs: Rosneft as a mirror of Russia's Evolution, *James A. Baker III Institute For Public Policy and Japan Petroleum Energy Center Report*, March 2007, p. 47.

⁴⁰⁶ *Ibid.*

⁴⁰⁷ Nina Poussenkova, Lord of the Rigs: Rosneft as a mirror of Russia's Evolution, *James A. Baker III Institute For Public Policy and Japan Petroleum Energy Center Report*, March 2007, p.10.

⁴⁰⁸ Neil Buckley, Gas Pressure: why Putin is risking the West's ire, *Financial Times*, <http://www.ft.com/cms/s/1/a79361c0-7c90-11da-936a-0000779e2340.html#axzz3FvOsUROy> 12 October 2014.

⁴⁰⁹ Nina Poussenkova, Lord of the Rigs: Rosneft as a mirror of Russia's Evolution, *James A. Baker III Institute For Public Policy and Japan Petroleum Energy Center Report*, March 2007, p.23.

company” strategy and started to make collaboration with international oil companies like BP, Statoil and ExxonMobile.⁴¹⁰

Rosneft’s active role in domestic politics is inevitable. Rosneft is a both negotiator and stabilization of the current situation within the Russia and especially in conflict areas. Security of the Russian energy is providing by the domestic security issues⁴¹¹.

“The activity of Rosneft in the South of Russia with its old and depleted reserves is hardly connected with any serious economic benefits. However, the Southern region is strategically important for Russia and therefore, the state company might be putting its house in order to meet the state objectives.”⁴¹²

In foreign politics, being a state owned oil company, motivates Rosneft for taking decisions in favor of the Russian state interests. According to Poussenkova, Rosneft became from NOC to “state agent” in the foreign policy realm.⁴¹³

“Gazprom used to be in a class of its own in terms of mismanaging the company and destroying its value, but it now has a serious rival...Miller is legendary for his inability to make decisions, while Sechin, who is sufficiently close to Putin, makes decisions more quickly. Finally, for historical reasons, the oil market still benefits from far greater freedom and more private enterprise than the strictly controlled gas market.”⁴¹⁴

In conclusion of the one of the most interesting state owned, national oil company, Rosneft; there are some factors that should be analyzed why Rosneft became an aggressive global/transnational NOC. Rosneft is considered energy games in Russia as its “own game” in domestic politics and has its “own rules”. Rosneft makes the situation harder for the international energy companies and almost restricted foreign involvement in its developments in upstream activities⁴¹⁵. Rosneft was used as a weapon against the Russian oligarchs as Berezovsky and Abrahamovich who were dealing with the Siberian oil games⁴¹⁶.

Lastly, after the 20 years, thanks to the Putin, situation for Rosneft and Russia become to “win-win”. Both state and Rosneft are happy for developments of the

⁴¹⁰ *Ibid*, p.30.

⁴¹¹ *Ibid*, p.43.

⁴¹² *Ibid*.

⁴¹³ *Ibid*, p.47.

⁴¹⁴ Anders Aslund, How Rosneft Is Turning Onto Another Gazprom, *The Moscow Times*, <http://www.themoscowtimes.com/opinion/article/how-rosneft-is-turning-into-another-gazprom/482022.html> 12 October 2014.

⁴¹⁵ *Ibid*.

⁴¹⁶ For more detailed information: Marshall I. Goldman (2004) , Putin and Oligarchs, Foreign Affairs, <http://www.cfr.org/world/putin-oligarchs/p8018> , 08 May 2015.

relations and common interests. Without strong leaders, unfortunately it is impossible to strengthen energy politics in Russia, Kazakhstan and Azerbaijan. All of the 3 states are owed to their current or past Presidents: Putin, Nazarbayev and Aliyev's (father&son) for developments of their economies.

5.3.1 National Welfare Fund Russia (NWFR)

National Welfare Fund Russia (NWFR) was established in 2008⁴¹⁷. NWFR is an oil origin sovereign wealth fund. Fund is managed by the Russian Ministry of Finance. Main purpose of the fund is guaranteeing pensions of the citizens and helping to the Russian government. Russian Federation with its over 140 million population has the biggest state in the world, needs to secure its future development in socio-economic matters⁴¹⁸. NWFR is helping balancing Russian Pension Fund⁴¹⁹.

In 2004, Oil Stabilization Fund under the Russian Federal Law No 184 was established. In February 2008, fund separated into two funds⁴²⁰. Official sovereign wealth fund in Russia is National Welfare Fund.⁴²¹

Mission of the NWF is states as; "The National Wealth Fund (NWF) is a part of federal budget assets⁴²². NWF is dedicated to support the pension system of the Russian Federation to guarantee long-term sound functioning of the system⁴²³. Fund's primary assignments are to co-finance voluntary pension savings of Russian citizens and to balance budget of Pension Fund of the Russian Federation."⁴²⁴

Accumulation of oil and gas revenues are from the oil and gas production tax, export customs duty on crude oil, export customs duty on natural gas and export customs duty on oil products. Reserve Fund and National Wealth Fund are two separate entities where the transfers from each other to the federal budget are available⁴²⁵. The Ministry

⁴¹⁷ SWF Institute, *National Wealth Fund-Russia*, <http://www.swfinstitute.org/fund/russia.php> 08 October 2014.

⁴¹⁸ *Ibid.*

⁴¹⁹ *Ibid.*

⁴²⁰ *Ibid.*

⁴²¹ *Ibid.*

⁴²² Ministry of Finance of the Russian Federation, *National Wealth Fund*, <http://www.minfin.ru/en/nationalwealthfund/mission/> 11 October 2014.

⁴²³ *Ibid.*

⁴²⁴ *Ibid.*

⁴²⁵ Ministry of Finance of the Russian Federation, *Accumulation*, <http://www.minfin.ru/en/nationalwealthfund/accumulation/> 11 October 2014.

of Finance is responsible for spending from the Reserve and National Wealth Funds.⁴²⁶

“The Reserve Fund and the Wellbeing Fund are managed by the central bank in accordance with Ministry of Finance guidelines. Under current rules, money in the Wellbeing Fund can be invested in sovereign debt, deposits at state development lender Vnesheconombank, or VEB, and infrastructure projects.”⁴²⁷

Russian National Wealth Fund, is quite different from the 3 other SWF's-SOFAZ, GPFG and NFKR. Being one of the biggest economies in the world, Russia is still having transparency problems within its economy. One of the major incomes of the Russian economy is hydro carbon revenues however transparency and accountability issues lack the system of the sovereign wealth funds in Russia.

"In general we are ready to consider these proposals (for financial support) under the general terms within the limits of 60 percent of NWF funds which are envisaged for investments." Russian Ministry of Finance⁴²⁸

Russian National Wealth Fund is involved in some infrastructure projects in Moscow and even modernization of the Trans-Siberian Railway⁴²⁹. Disputes over which projects should be financed by the RNWF is still under the discussions. It is clear that, in order to have a stable, accountable, transparent wealth fund, Russian governments should first deal with the problems in its energy companies. Under the sanctions from the EU and United States of America and Ukrainian crisis, it will take too long time to realize these dreams.

⁴²⁶ *Ibid.*

⁴²⁷ Evgenia Pismennaya&Olga Tanas, Why Putin's Raid On Wealth Fund Won't Cure What Ails Russia, *Bloomberg*,<http://www.bloomberg.com/news/2014-07-10/why-putin-raiding-wealth-fund-won-t-cure-what-ails-russia.html> , 11 October 2014.

⁴²⁸ Russia says ready to help Rosneft and Novatek from wealth fund, *Reuters*,<http://www.reuters.com/article/2014/09/13/russia-wealthfund-rosneft-idUSL5N0RE0B420140913>, 11 October 2014.

⁴²⁹ Alexander Panin, Trans-Siberian Railroad Getting New Lease on Life, *The Moscow Times*,<http://www.themoscowtimes.com/business/article/trans-siberian-railroad-getting-new-lease-on-life/482732.html> 10 May 2015.

5.4. Conclusion

This part of the work aims to show similarities and differences between the national oil companies of Azerbaijan, Russia, Norway and Kazakhstan. Azerbaijan's national oil company SOCAR is at the core of this work due to its importance for SOCAR's economic and foreign policy successes.

SOCAR's progress in regional and international politics makes the company an important actor for energy politics. On the contrary to the Rosneft, SOCAR is relatively a small national oil company however SOCAR's agreements between the European states, Turkey and Georgia make the company a valuable energy partner for transnational energy relations. Statoil is the most transparent national oil company in comparison to KazMunayGas, SOCAR and Rosneft. KazMunayGas is the closed NOC for the foreign investments between the 4 companies.

Statoil's identity is different from the Norway's.⁴³⁰ This is the success of the Statoil's management structure. All of the four national oil companies are the major players in their domestic energy markets. Foreign participation in domestic energy sectors is mostly restricted unofficially in Kazakhstan and Russia. Azerbaijan and Norway are more open-minded countries rather than the other two states. Norway experienced "good governance" practices throughout the Statoil's establishment period till the 1980s.

About the SWFs of particular states, Statoil has the richest sovereign wealth fund that is making foreign investments for the future generations of the Norway. SOFAZ and GPFG has similar missions to make international investments as SOFAZ will also financing building of the TANAP pipelines from its revenues. NFKR and NWFR are working more domestically compare to the 2 other funds. However, SOFAZ's contribution to the state's education and youth policies are very important.

Lastly, the main aim of this chapter is analyzing 4 important oil companies and their oil funds that were established from these companies oil and gas companies. Every story and every leading across have its own pluses and minuses. All of the 4 oil companies, from the researcher's opinion, are the leading actors of their states and their economies. In spite the fact that, all of them faced with the difficult times throughout their establishment and rising periods, all of them succeeded became major companies in energy politics.

⁴³⁰ James Henderson, Rosneft- On the Road to Global NOC Status?, *The Oxford Institute for Energy Studies*, January 2012, p. 36.

CHAPTER VI

CONCLUSION

The thesis discussed SOCAR's successful achievement in energy relations with the neighbour states and European Union. Being a national oil company in some cases harms SOCAR's work for working individually and dependent from the state. However, SOCAR has positive feedbacks from its counterpart states about its investments in their countries.

Taking into the consideration, it is a win win game for SOCAR and Azerbaijan, SOCAR is seen as the flagship company of the state which has some privileges in domestic and foreign energy markets thanks to the state's positive image. On the other hand, Azerbaijan has developed a national oil company and could be able to enter to the world energy arena by the help of its home government.

According to the the works mostly cited throughout this thesis 1994, is the milestone in SOCAR's history due to introduce with the foreign investor companies and have a chance for working together. A stable partnership especially with the Western states follows by BTC and TANAP projects. Now, both Turkey and European states are waiting for the 2018 when the TANAP project is going to start to its operations and flow first gas to these particular states⁴³¹.

In the beginning of the 2000s, after a decade of the dissolution of the Soviet Union, Azerbaijan finally able to turn its economics in profitable rate and since 2005s the role of the hyrīcarbon sources over the states economy increasing⁴³². It is still a big discussion whether is it true to count on the states' hydrocarbon reserves, however SOCAR's latest investments in states agricultural, educational and finance sectors is very important for the future⁴³³. Especially throughout the researcher's visit to Baku in May 2015, shows the facts that representatives of the civil society organizations and young people in Azerbaijan are satisfied with the SOCAR's both domestic and foreign investment strategies.

⁴³¹ For more information please see Chapter IV of this work.

⁴³² Vitaly Baylarbayov, Personal interview, 06 February 2014.

⁴³³ *Ibid.*

This master thesis argues how SOCAR turns its technical and economic inadequacies to the favorable partnerships with the European and regional states. As it mostly emphasized, Turkey and Georgia are the two major transit states for SOCAR in realizing its huge projects. Unless Georgia and Turkey's desires both BTC and TANAP could not be implemented. Once more, SOCAR is the largest tax payer in the Georgia gives free gas to religious prayer halls and has an important role in Georgia's economy. On the other hand, Turkey is the brother state of Azerbaijan. SOCAR shows its solidarity to Turkey by establishing SOCAR Turkey Company which has important companies as PETKIM, PETLIM and Star Refinery and is the biggest foreign investment in modern Turkish history. From the point of the view SOCAR is motivated for acting as a national oil company by the Azerbaijan and also by its multinational partnerships, SOCAR enters to regional states' domestic energy markets. It is clearly shows the fact that SOCAR is quite aware of the regional energy dynamics within the region.

From the point of view energy security debates and SOCAR's business strategy for establishing international partnerships and give a direction to the European energy market is argued throughout the three chapters.

European energy security is fragile since the disputes and sanctions between the European Union and Russia continues. Dependency in energy to Russia is a big deal since decades. European Union would prefer diversify its energy resources and decrease dependency on the Russian reserves. It is not realistic to say that European Union will cut buying gas from the Russia and SOCAR's gas will be enough for Union's domestic expenditure. However, SOCAR would give an opportunity to the Union for considering Central Asian energy rich exporter states. With the realization of TANAP project, in 2019 first gas will arrive to Europe. In first phase, TANAP will deliver 10 bcm gas to Europe and it would increase by participation of the Turkmen gas in the future. While all of these factors are carried carefully, it could be seen SOCAR's possible contribution in next years to European energy market and energy security.

Even throughout this master thesis is going to written, author is in a need to update all information regarding with the latest developments in the gas fields and also shareholder companies stakes in the international projects. 2019 is quite foreseeable future for witnessing developments in the international energy agenda and especially in the European energy market.

This thesis is wished to start with the sentence of the SOCAR is a success story of the Azerbaijan and it is wished end the sentence of SOCAR will continue being a proud of its home government and its importance between the national and international oil companies will gradually increase in following years. All these sentences are more than emotional outcomes regarding the SOCAR as they based on the interviews with the Azerbaijani people and also representative of both domestic and international energy companies in Azerbaijan. It is not hard to see the SOCAR's positive energy will splash to Turkey, Georgia and European states in the following years. Official motto of the SOCAR's – energy of Azerbaijan could be transferred into the SOCAR-energy of the Europe.

Lastly, while comparing SOCAR with the other national oil companies, Azerbaijan is a “window” state and neighbour of Kazakhstan by whom Kazak gas could transport to Europe. Kazak gas and oil right now is exported to its East neighbours: Russia and China, two industry giants. In development of the BTC project, Kazak gas is also exported through Turkey to European states. Kazakhstan joined the consortium in the June 2006.⁴³⁴ In the beginning of the 2014, Kazak officials' declaration of changing routes of Kazak oil in favour of the Russia and quit from BTC creates concerns between the counterparts of the project.⁴³⁵ Jan H. Kalicki in his Caspian Energy at the Crossroads article mentioned that “Kazakhstan still heavily depend on the Russia for oil transportation.”⁴³⁶

Separation of the government bodies roles and introducing of the “Norwegian Model” is one of the finest examples for national oil companies in Russia, Azerbaijan and Kazakhstan⁴³⁷. State interference should be at least in order to have an independent national oil company that motives for state interests. Otherwise, nor state neither the national oil company could be a winner in energy games. State support is inevitable for NOCs but it should be limited in decision period and structural management. For instance, Russian oil giant Rosneft, with latest developments on its strategy aimed to decrease the number of the state officials from its BoD. In Norway, “zero-state interference in the operational and strategic management of the company”⁴³⁸ is accepted by both Statoil and the Norwegian government.

⁴³⁴ BTC: Kazakhstan Finally Commits to the Pipeline, *Eurasianet.org*, <http://www.eurasianet.org/departments/business/articles/eav061906.shtml> 25 September 2014.

⁴³⁵ Kazakhstan considers to divert oil export route from BTC to Russia, *Hurriyet Daily News*, <http://www.hurriyet.com.tr/english/finance/9714319.asp?scr=1> 25 September 2014.

⁴³⁶ Jan H. Kalicki, Caspian Energy at the Crossroads, *Foreign Policy*, 5(80), 2001, p.123.

⁴³⁷ For more information please see Chapter V of this work.

⁴³⁸ Jan H. Kalicki, Caspian Energy at the Crossroads, *Foreign Policy*, 5(80), 2001, p.47.

This thesis emphasized national oil companies developments and their features throughout the chapters. Thus, SOCAR is 100% state owned oil company it does not mean it is 100% national oil company. SOCAR is assumed and motivated by the home government for acting as a NOC due to numerous benefits in energy game. However, SOCAR is neither dependent as Statoil is nor landlocked as Kazmunaygaz. SOCAR is in between all these three companies that is comparing within the last chapter.

It was mentioned in the beginning of this work, due to lack of information about SOCAR both in Azerbaijan and in European regional research spheres, the living sources try to decrease gaps between SOCAR in theory and SOCAR in reality. The author could not be able to reach profit rates of SOCAR as it is seen secret of the state and even receive a reply to her e-mails and enquires. The interviews especially with the Deputy Vice President Dr. Baylarbayov and journalist Ilham Shaban shows two different points of views for SOCAR's development and business strategy. It is one of the most important outcomes of this thesis as this thesis built not only pro-SOCAR researches.

In addition to SOCAR's development story between the 1992-2015 years, Azerbaijan coped with the serious war with Armenia while it needed to establish its economy and survive after the harsh Soviet sanctions over its oil sector. Aggression of Armenia against Azerbaijan continues with occupied 20% of Azerbaijan territory and over than 1 million refugees and internally displaced people after the Nagorno-Karabakh War. Today SOCAR, with the help of its social responsibility projects is also an active actor for creating opportunities to these people within the country. SOCAR not only started to change states economic destiny but also helps to the Azerbaijani nation to transition from the Soviet legacy to a market economy one.

Throughout the crucial changes in oil prices, however SOCAR lost 48, 8% from its oil revenues⁴³⁹, SOCAR continues its investments inspite the fact that the price of the oil falling, disputes between the Russia-Ukraine and EU and instability in the Middle Eastern oil exporter countries.

Last but not the least, researches that was conducted in order to argue this master thesis argument as -State Oil Company of Azerbaijan Republic is developing by the Azerbaijan as a NOC however, SOCAR's economic and technologic inadequacies is limited SOCAR for considering as a NOC. SOCAR is improving its mentioned inadequacies by its multinational cooperations, is fully supported and proved by the

⁴³⁹ 2015-ci ildə Azərbaycan neftinin orta qiyməti neçə olub?, *Caspian Barrel*, <http://caspiabarrel.org/?p=30890>, 18 May 2015.

outcomes of this work. It is quite early for assuming SOCAR as a 100% national oil company. It is rather better to assume SOCAR as a foreign investor state owned oilcompany to regional and European states. With the developments in the Caspian fields empowering SOCAR's investment and business strategy which help improving technological and economic deficits of company. Whether the company has a very profitable budget, it is not one day issue to overcome technological inadequacies. As SOCAR already doing, it is very important to create its national human power in order to have more voice and negotiation power over the energy disputes especially in the region. SOCAR is a good example for Caspian energy-rich states but also could assume as a good example for Turkey also. Turkey that is aiming being an energy hub in next decade also should have its own energy research centers, energy schools and more energy related departments in universities.

Finally, it is hoped that this research will give a broad perspective from the Caspian to the Europe. This work is not limited to the energy geopolitics but also adds cultural and diplomatic perspectives to the company's investment strategy agenda. In next years, SOCAR will continue its development strategy by adding more regional and European countries according to Dr. Baylarbayov. It will be very exciting to predict next investment steps of SOCAR's for the next years.

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APPENDICES

A. PRODUCTION SHARING AGREEMENTS (PSAs)⁴⁴⁰

Onshore PSAs

ABSHERON		
Company	Country	Interest %
SOCAR	AZERBAIJAN	40
TOTAL	FRANCE	40
GDF SUEZ	FRANCE	20

ARAZ ALOV SHARG		
Company	Country	Interest %
ENCANA	CANADA	40
SOCAR	AZERBAIJAN	15
BP	UK	15
TPAO	TURKEY	15
STATOIL	NORWAY	10
EXXON	USA	5

AZERI-CHIRAG-GUNESHLI		
Company	Country	Interest %
BP	UK	35
ACG	AZERBAIJAN	11
CHEVRON TEXACO	USA	11
INPET	JAPAN	10
STATOIL	NORWAY	8
EXXON	US	8
TPAO	TURKEY	6
ITOCHU	JAPAN	4
AMERADA HESS	USA	2

BAHAR GUM DENIZ		
Company	Country	Interest %
BAHAR ENERGY	AZERBAIJAN	50
BP	UK	50

⁴⁴⁰ All information retrieved from the Socar.az website according to May 2015 data.

Onshore PSAs Continues

SHAFAG ASIMAN		
Company	Country	Interest %
ACG	AZERBAIJAN	50
BP	UK	50

SHAH DENIZ		
Company	Country	Interest %
BP	UK	28.8
SOCAR	AZERBAIJAN	16.7
STATOIL	NORWAY	15.5
LUKOIL	RUSSIA	10
TOTAL	FRANCE	10
NICO	IRAN	9
TPAO	TURKEY	9

Offshore PSAs

BALAKHANY and Other Fields		
Company	Country	Interest %
UGE LANSER	SINGAPORE	75
SOCAR	AZERBAIJAN	25

KUROVDAGH		
Company	Country	Interest %
GLOBAL ENERGY	AZERBAIJAN	80
SOCAR	AZERBAIJAN	20

BINEGEDI and OTHER FIELDS		
Company	Country	Interest %
AZEN	AZERBAIJAN	75
SOCAR	AZERBAIJAN	25

Offshore PSAs Continues

KURSENGI GARABAGHLI		
Company	Country	Interest %
SOCAR	AZERBAIJAN	50
CNODC	CHINA	25
FORTUNATE	CHINA	25

MISHOVDAGH KELAMEDDIN		
Company	Country	Interest %
GLOBAL ENERGY	AZERBAIJAN	85
SOCAR	AZERBAIJAN	15

NEFTCHALA and OTHER FIELDS		
Company	Country	Interest %
NEFTCHALA INV.	AZERBAIJAN	80
SOCAR	AZERBAIJAN	20

PADAR		
Company	Country	Interest %
GLOBAL ENERGY	AZERBAIJAN	80
SOCAR	AZERBAIJAN	20

PIRSAHHAT		
Company	Country	Interest %
PETRO HONG KONG	CHINA	50
MIDDLE EAST		30
SOCAR	AZERBAIJAN	20

SURAKHANY		
Company	Country	Interest %
RAFI OIL	SAUDI ARABIA	75
SOCAR	AZERBAIJAN	25

Offshore PSAs Continues

ZIGH HOVSAN		
Company	Country	Interest %
ABSSHERON INV.	AZERBAIJAN	75
SOCAR	AZERBAIJAN	25

THREE BLOCKS OF SOUTH WEST GOBUSTAN		
Company	Country	Interest %
COMMONWEALTH		40
UNION TEXAS	USA	40
SOCAR	AZERBAIJAN	20

Source: SOCAR Azerbaijan. These tables created by the author in order to show foreign participated companies in Caspian oil and gas fields.

B. TURKISH SUMMARY

1. Tezin Amacı ve Argümanı

Bu tez Azerbaycan Devlet Petrol Şirketi'nin, bundan sonra SOCAR olarak adlandırılmak üzere, bir devlet petrol şirketi olarak benimsediği yatırım stratesini ve Azerbaycan'a komşu bölge ülkeler ile Avrupa ülkelerine yaptığı yatırımları incelemeyi amaç edinmektedir. Buna göre, bu tez boyunca yapılan tüm araştırmalar sonucunda SOCAR'ın %100 bir devlet petrol şirketi olduğuna dair oluşturulan hipotezi desteklemektedir.

Tez boyunca ana vurgunun Azerbaycan ve Azerbaycan'ın enerji politikası olmasından ziyade SOCAR üzerine odaklanmasının iki temel sebebi vardır. Bunlardan ilki, devlet petrol şirketlerinin karlılığı hakkında süregelen tartışmalara istinaden özellikle enerji zengini ve eski Sovyet coğrafyasında konumlanan ülkelerin enerjideki hakimiyetlerini kurdukları devlet petrol şirketleri ile göstermeleridir. Bu duruma en iyi örneklerden birini bu tez boyunca devlet petrol şirketi özelliklerini yaptığı uluslararası yatırımlar ile geliştirmeyi amaçlayan SOCAR'dır. Diğer örnekler de sırasıyla Rusya devlet petrol şirketi Rosneft ve Kazakistan devlet petrol şirketi Kazmunaygaz oluşturmaktadır. İkinci neden olarak da, özellikle SOCAR hakkında daha önce tez düzeyinde herhangi bir araştırmanın yapılmamış olmasıdır. Böylece araştırmacı, yeni bir araştırma konusunun bulgularını paylaşabilmektedir.

Devlet petrol şirketleri özellikle 1970'lerde yaşanan petrol krizi ve ardından fiyatların ani artışının ardından güçlenmeye başlayan ve dünya enerji haritasında önemli bir rolü üstlenen kurumlar olmuşlardır. Tez boyunca incelenen çalışmalarda ve özellikle Daniel Yergin'in Petrol- Para ve Epil Güç Çatışmasının Epik Öyküsü adlı kitabında da belirttiği üzere bugün dünya petrolünün yaklaşık %80'lik kısmı devlet petrol şirketleri tarafından enerji piyasasına aktarılmaktadır. 2013 yılında Christopher Helman tarafından yapılan bir araştırmaya göre de dünyanın en büyük 10 petrol şirketinden 7 tanesi devlet petrol şirketi olma özelliğini taşımaktadır.

Bu tez boyunca SOCAR'ın devlet petrol şirketi olarak faaliyetlerini geliştirebilmesi ve büyümesi adına yaptığı yatırımlar konu edilmiştir. Buna göre, devlet petrol şirketlerinin kurulmasının arkasında yer alan ve Accenture'nin yapmış olduğu araştırmaya göre; kar amacı güden amaçlar, itibar arttırmayı hedefleyen amaçlar ve son olarak devletlerin ulusal amaçlarını maksimizasyonuna hedeflemeleridir. Bu bölümün son kısmında SOCAR'ın hangi amaçlara hangi ölçüde ulaştığı konusundaki bulgular paylaşılacaktır.

Bu tez SOCAR hakkında yayınlanmış olan çalışmaların kısıtlılığına ve kar amacı güden bir şirket olarak faaliyetlerine devam ederek, karlılık oranlarını kamuoyu ile paylaşılmasına rağmen gerek devlet petrol şirketleri hakkından özellikle 1970'lerden sonra yapılan çalışmalar gerekse enerji sektöründe faaliyet gösteren kurumların rapor ve araştırmalarından sonuçlar çıkarılarak hazırlanmıştır. Buna göre SOCAR'ın kuruluş yılı 1992 yılından günümüz 2015 Mayıs ayına kadar yapmış olduğu yatırımlar bu tez boyunca konu edinilmiştir.

Bu tez boyunca devlet petrol şirketleri hakkında Leslie E. Grayson tarafından yazılan ve oldukça kapsayıcı bir kitap olan National Oil Companies adlı esere sıklıkla başvurulmuş. Bunun yanında devlet petrol şirketlerinin gelirlerini düzenlemek ve petrol gelirlerinin sosyal amaçlarla birikim ve/veya yatırım fonları olarak kullanılmasını sağlamak amacıyla kurulan devlet petrol fonlarını incelemek adına Dünya Bankası tarafından yayınlanan ve Silvano Tordo tarafından hazırlanan National Oil Companies and Value Creation raporu referans olarak alınmıştır. Bu kaynakların yanısıra özellikle konunun literatürde yeni olması ve SOCAR hakkında yayınlanan sınırlı sayıda kaynak olmasından ötürü, yazar tarafından Bakü'de Ocak-Şubat 2014 ayları arasında SOCAR temsilcileri, Azerbaycan Dışişleri Bakanlığı diplomatları, akademisyenler ve enerji sektöründe çalışan kurum temsilcileri ile röportajlar yapılmıştır. Ayrıca enerji sektörü ve özellikle Hazar bölgesindeki yatırımlar ile Avrupa'ya yatırımlarını inceleyen önemli raporlara da yer verilmiştir.

Bu tez süresince uluslararası ilişkiler teorilerinden liberal görüş benimsenmiş ve özelinde de Avrupa enerji güvenliği tartışmalarında sıklıkla vurgulanan enerji güvenliğini açıklamak üzere tezde vurgulanmıştır. Buna göre realist görüşün temsilcilerinin görüşlerinin aksine, SOCAR bölge ülkeleri ve Avrupa ülkeleri ile yaptığı işbirlikleri sayesinde kendisine enerji piyasasında bir yer bularak, devlet petrol şirketi olarak faaliyetlerini sürdürmektedir. Ayrıca SOCAR'ın, Azerbaycan

devletinin de desteđi ile beraber özellikle blge lkeleri Trkiye ve Grcistan zerinde kullandığı yumuşak gç ile beraber hem kendine yeni bir alan açıyor hem de bu lkelerin transit lke olmasından faydalanarak yeni pazarlara açılma imkanını da deđerlendiriyor. Her ne kadar Azerbaycan lke topraklarında Ermenistan ile sregelen bir savař hali ve toprakların %20'si işgal altında olsa da, Azerbaycan enerji devi SOCAR ilişkilerinde işbirliği kurma ve mzakere gcn kullanmayı tercih etmektedir.

Bu tezin argmanı; SOCAR'ın bir devlet petrol řirketi olarak, Azerbaycan enerji piyasasında tekelci stratejiler zerine yođunlaşmasını varsayan bazı yazarların aksine, bu tez SOCAR'ın bir devlet petrol řirketi olarak sahip olduđu zayıflıkları, Batılı çokuluslu enerji řirketler ile yaptığı anlaşmalar ile telafi etme stratejisi merkezine koyarak diđer devlet petrol řirketlerinden ayrılmaktadır.

SOCAR bir devlet petrol řirketi olarak her ne kadar ev sahibi hkmetinden bađımsız bir kurum olarak deđerlendirilemese bile, sadece Azerbaycan'ın enerji i pazarına odaklanmayarak, faaliyetlerini ulustesi yatırımlar řeklinde devam ettirmektedir. zellikle yazarın 2014 Ocak ve řubat aylarında, enerji sektr temsilcileri, akademisyenler ve enerji alanında faaliyet gsteren sivil toplum ve dřnce kuruluřları temsilcileri ile yapmış olduđu rportajlarda, SOCAR'ın nmzdeki on yıl ierisinde blge lkelerinin ve zellikle de Avrupa enerji gvenliğine nemli katkılarda bulunacađının altı çizilmiştir.

2. Tezin Blmleri

Bu tez drt ana blm, giriř ve sonu blmlerinden oluřmaktadır. Ayrıca sonu blmnn sonunda yazar tarafından hazırlanmış ve SOCAR'ın kıyı ve açık deniz petrol ve gaz sahalarında çokuluslu petrol řirketleri ile yaptığı retim paylařım anlaşmalarına yer verilmiştir.

Bu tezin ikinci blmnde devlet petrol řirketlerinin dnya enerji piyasalarındaki geliřim eđilimlerine deđinilmiştir. Tezin bu blm devlet petrol řirketleri hakkında kavramsal bir analiz yapmayı amalamıştır. Buna gre SOCAR'ın kuruluř ařaması ve yatırım stratejisini anlayabilmek ve de son blmde bahsiğen diđer devlet petrol řirketleri ile karřılařtırma yapabilmek adına devlet petrol řirketlerinin tarihi, kuruluřlarına sebebiyet veren faktrler ve son olarak da devlet petrol řirketlerinin karřılařtığı gncel sorunlar incelenmiştir.

Üçüncü bölüm teze adını veren SOCAR'ın kısaca kuruluşu ve yatırım stratejisi ile birlikte komşu bölge ülkeleri Türkiye ve Gürcistan'a yaptığı yatırımları kapsamaktadır. Buna göre altı yan başlıktan oluşan bu bölümde, Bakü-Tiflis-Ceyhan petrol boru hattı, Bakü-Tiflis- Erzurum doğalgaz boru hattı ve son olarak da Trans Anadolu Projesi hakkında detaylı bilgiler verilmiştir.

Tezin dördüncü bölümü, üçüncü bölümün devamı niteliğinde olup, SOCAR'ın Avrupa ülkelerine yaptığı yatırımları ve SOCAR'ın Avrupa enerji güvenliğindeki rolü üzerinde yapılan bir araştırmayı kapsamıştır. Bu bölüm, SOCAR'ın Yunanistan ve İtalya'daki yatırımları ile beraber Trans Adriyatik boru hattı ve Güney Gaz Koridoru ve SOCAR'ın Avrupa Birliği yasama ve politikalarındaki rolünü kapsamaktadır.

Son bölüm, yukarıda bahsi geçtiği üzere SOCAR'ın diğer devlet petrol şirketleri ile karşılaştırılmasının yapıldığı bir bölümdür. Buna göre Kazmunaygaz ve Kazakistan Cumhuriyeti Devlet Petrol Fonu, Statoil ve Hükümet Emeklilik Küresel Fonu ve Rosneft ve Rusya Ulusal Refah Fonu bu bölüm altında incelenmiştir.

3. Bulgular

Bu tezin en önemli bulgularından biri sanılanın aksine devlet petrol şirketlerinin etkilerinin azalmasından ziyade hala petrol ve doğal gaz piyasasında etkinliklerini büyük bir önemle sürdürmektedirler. Her ne kadar çokuluslu enerji şirketleri de yatırımlarına enerji sahalarında devam etseler de, günümüz enerji sektörünün %80'lik kısmı devlet petrol şirketleri tarafından domine edilmektedir.

İkinci olarak, özellikle hükümetlerin devlet petrol şirketleri kurmaları ve bu şirketleri desteklemeleri yönünde önemli sonuçlara varılmıştır. Buna göre, her hükümet kendi kontrolü altında tutabileceği ve ülkenin çıkarlarını şirketin çıkarları gibi benimseyeceği devlet petrol şirketlerini, uluslararası petrol şirketlerine tercih etmektedir. Bu seçimdeki en önemli nedenlerden biri, devlet petrol şirketlerinin ev sahibi hükümete çok daha sadık olacağı düşüncesi ile beraber ayrıca finansal açıdan da devletin kimi zaman yetemediği veya kaynak bulamadığı sosyal alanlara da yatırım yapmayı teşviklemesidir. Bu tez boyunca örnekleri verilmiş olan, SOCAR'ın petrol ve doğal gaz satışından elde ettiği gelirlerini kontrol etmekle yükümlü Azerbaycan Cumhuriyeti Devlet Petrol Fonu-SOFAZ'ın Bakü-Tiflis-

Kars demiryolu projesinin yapımını üstlenmiş olması, Azerbaycan'da 1980'lerin sonunda başlayan Karabağ Savaşı'ndan kaçan kaçkın ve mecburi göçgün durumuna düşmüş olan 1 milyon vatandaşın topluma entegrasyonunu sağlayacak projelere ayırdığı fonlar bu duruma en iyi örneklerden biridir.

Ayrıca, özellikle Ortadoğu ve Ukrayna'da devam eden çatışma ve savaş durumu nedeniyle özellikle Avrupa Birliği'ne üye ülkelerin, Rusya'ya olan doğalgaz bağımlılığını azaltma ve olası kriz durumlarında herhangi bir enerji sıkıntısı yaşamamak adına Rusya'ya alternative olabilecek yeni çözüm yolları arayışına girmeleri sonucunda Azerbaycan'ın enerji projelerine verilen önem her geçen gün daha da artmaktadır. Buna göre, Azerbaycan'ın yeni keşfedilmiş en büyük doğal gaz rezervlerinden biri olan Şah Deniz sahasından çıkacak gaz ile beraber, Gürcistan ve Türkiye üzerinden Avrupa'ya uzanacak TANAP projesi, Yunanistan'dan İtalya'ya TAP projesi ile birleştirilecek ve 2019 yılında ilk gaz Avrupa'ya ulaşacaktır. Bu hem SOCAR'ın Avrupa enerji güvenliğinde artan etkisini hem de Avrupa enerji piyasasındaki müzakere gücünü ortaya koymaktadır.

SOCAR'ın diğer devlet petrol şirketlerinden farklı olarak özellikle benimsediği yatırım stratejisi ile birlikte, devlet petrol şirketi olmanın getirdiği çeşitli ekonomik ve teknolojik yetersizliklerini de dengelediği görülmektedir. Buna göre, bir devlet petrol şirketi olarak tamamen bağımsız karar alma mekanizmasına sahip olmamasının yanında özellikle ev sahibi hükümetinin iyi ilişkiler geliştirdiği ülkelerin enerji pazarlarına girişte bu ikili ilişkilerin gücünden faydalanmaktadır. Ayrıca henüz 23 yıllık bir şirket olmasına rağmen kademeli olarak yatay entegrasyonunu tamamlamak üzerine hareket etmekte ve çeşitli yapısal sorunlarını çözmeye çalışmaktadır.

Diğer petrol şirketlerinden farklı olarak, SOCAR şeffaflık ve hesap verilebilirlik mekanizmalarını geliştirmeyi amaçlamakla beraber hala çeşitli sıkıntıları barındırmaktadır. Bunun aksine SOFAZ, devlet petrol fonları arasında yer alan en şeffaf kurumlardanbiri olarak gösterilmektedir.

Bu tezin bir diğer bulgusu da SOCAR'ın devlet petrol şirketleri arasında artan bir eğilime sahip olması olmuştur. Buna göre SOCAR, devlet petrol şirketlerinin önemini tartışıldığı bir dönemde özellikle enerji ihraç eden ve yeni bağımsızlık kazanmış bir ülkenin temsilcisi olarak yaptığı ulusötesi yatırımlar ile sadece kendi

ülkesinde faaliyet gösteren bir şirket olmadığını göstermektedir. Özellikle Kazakistan ve Türkmenistan gibi dünyanın önemli enerji rezervlerine sahip ülkeler için de iyi bir örnek oluşturmaktadır.

SOCAR'ın yaptığı yatırımlar ile birlikte ileriki aşamalarda Kazakistan ve Türkmenistan gazı ile birlikte son dönemlerde tartışılan İran'ın da TANAP projesine katılabilecekleri olasılıklar arasında değerlendirilmektedir.

SOCAR'ın Avrupa enerji güvenliğinin sağlanmasında aktif rol alacağına dair bulgular gerek Avrupa Birliği temsilcilerinin Azerbaycan'a yaptığı ziyaretlerde gerekse Avrupa Komisyonu'nun benimsediği enerji arzı ve güvenliği politika belgelerinde sıklıkla ve altı çizilerek vurgulanmaktadır. Özellikle Hazar Denizi'ne komşu olan ve enerji ihracatçısı ülkelerin, önümüzdeki yıllarda yapımı tamamlanacak olan ve SOCAR'ın imzasını taşıyacak Trans Anadolu Boru Hattı Projesi ile birlikte Rusya'ya olan enerji bağımlılığını azaltacakları öngörülmektedir. Diğer yandan da Azerbaycan'ın tarihi kardeşlik bağları ile bağlı olduğu komşu devlet Türkiye'nin de enerji güvenliği ve enerji arzı konularındaki konumunda önemli bir artışın yaşanacağı beklenmektedir. Buna göre, dünya enerji rezervlerinin yaklaşık %75lik kısmına komşu olan Türkiye'nin de Avrupa enerji güvenliğinde transit bir ülke olarak adından söz ettirmesi olasıdır.

Bununla birlikte SOCAR'ın bölge ülkeleri Gürcistan ve Türkiye üzerinden hayata geçirdiği projelerin karşılığı olarak, bu ülkeler de kendi iç pazarlarında SOCAR'a bir hareket gücü kazandırıyor ve bunun yanında da SOCAR bu ülkelerde sosyal projelere desteğini sürdürüyordu. Bu duruma örnek olarak, Gürcistan'ın en çok vergi veren şirketi iki yıl üstüste SOCAR Gürcistan şirketi olarak seçilmiş ve ayrıca da SOCAR Gürcistan'daki ibadet mekanlarına ücretsiz doğalgaz vermiştir. Ayrıca, Azerbaycan ile Türkiye arasında yapılması kararlaştırılan fiber optic kabloların döşenmesi ve hızlı veri aktarımı projesi de SOCAR'ın desteği ile hayata geçirilecektir.

Buna göre, SOCAR sadece bölge ve Avrupa ülkeleri ile iyi ilişkiler geliştirmekte kalmıyor ayrıca bu ülkelerin iç pazarlarına da girerek, enerji sektöründe aktif rol almaya çalışıyor. Son örnek olarak, Yunanistan boru hatları şirketi DESFA'nın %66'lık kısmı SOCAR tarafından alınması gösterilebilir. SOCAR Yunanistan'a,

TANAP ve TAP üzerinden doğalgaz aktarımı yaparak kalmayarak ayrıca ülke içinde de doğalgazın dağıtım rolünü üstlenecektir.

SOCAR aynı zamanda bünyesinde faaliyet gösteren SOCAR Trading şirketi ile birlikte özellikle İsviçre, Birleşik Arap Emirlikleri ve Rusya'da da aktif olarak çalışmalarına devam ederek, SOCAR'ın ulusötesi işbirliklerini arttırmayı amaçlamaktadır. SOCAR'ın Azerbaycan iç pazarı haricinde, Gürcistan, İsviçre, Romanya ve Ukrayna'da dolum istasyonları ile birlikte Azerbaycan petrolünü iç pazarlara ulaştırmaktadır.

Son olarak da bir devlet petrol şirketi olarak SOCAR'ın hem kar amacı güden işbirliklerine gittiğini hem de ülkenin ulusal çıkarları çerçevesinde hareket ederek ev sahibi hükümetin desteği ile yatırımlarına devam etmektedir. Bugün Azerbaycan'ın gayri safi milli hasılasında enerji sektöründen elde ettiği gelirler toplam gelirlerin %48'ne tekabül etmektedir. Bu rakamın önceki yıllarda %90'lara ulaşmış bugün neredeyse yarısına inmesindeki en önemli nedenlerden birinin SOCAR'ın enerji dışı sektörlerde yaptığı büyük yatırımlar sayesinde olmuştur. Buna göre ileriki dönemlerde enerji fiyatlarındaki ani fiyat değişimlerinden etkilenmemek üzere iç piyasada tasarlanan bu sistem sayesinde ülke ekonomisinin de enerji sektörüne bağımlılığı azaltılmış olmaktadır.

4. Sonuç ve Öneriler

Bu tez 3 yıllık bir araştırmanın sonucu olarak ortaya çıkmış ve bir devlet petrol şirketi SOCAR'ın 23 yıllık hikayesini konu almıştır. Geçen bu süre içerisinde SOCAR hem ülkenin iç hem de dış politikasında aktif bir rol üstlenerek yatırımlarını şekillendirmeye devam etmiştir. Buna göre SOCAR'ın Azerbaycan dış politikasında da önemli bir aktör olduğunu söylemek zor olmayacaktır. SOCAR'ın Türkiye'ye yaptığı cumhuriyet tarihinin en büyük yatırımlarından biri olan Star Rafinerisi, SOCAR Türkiye şirketinin kurulması ve Türkiye petrokimya endüstrisinin öncü şirketi Petkim'i ve Petlim'i SOCAR Türkiye şirketinin satın alması bu duruma en iyi örneklerden biri olabilir.

Devlet petrol şirketi olarak her ne kadar hareket alanı sınırlandırılrsa ve ev sahibi hükümet ile sahip olduğu yakın ilişkiler nedeniyle tam bir serbestliğe sahip olmasa

da SOCAR bir uluslararası petrol şirketi olabilme yolunda, devlet petrol şirketi olmanın getirdiği avantajları lehine kullanmaktadır.

Bu duruma verilecek en iyi örneklerden biri, SOCAR'ın yapmış olduğu projelerde, bir uluslararası petrol şirketine kıyasla daha rahat kararlar alarak, karlılığı ikinci plana koyarak yatırımlarına devam etmesidir. Özellikle 17 Aralık 2013 yılında Şah Deniz Konsorsiyumu'nun almış olduğu nihai yatırım kararı neticesinde, Şh Deniz II sahasından çıkarılacak olan doğalgazın Nabucco Projesi yerine, TANAP ve TAP aracılığı ile Avrupa'ya taşınması olabilir. Azerbaycan ekonomisinin hala enerji sektöründen elde ettiği gelirlere olan bağımlılığının önemli bir seviyede olmasına istinaden, özellikle son iki yıl içerisinde petrol fiyatlarından düşüş yüzünden SOCAR neredeyse %49 varan bir oranda gelir kaybı yaşamış ve ülke 2015 Şubat ayında devalüasyona gitmek zorunda kalmıştı. Ancak, SOCAR fiyatlardaki ani değişiklikleri dengeleyebilmek ve devlet petrol fundunun desteğinden olabildiğince az faydalanmak adına üretimini kademeli olarak azaltma kararı almıştır. Lakin, ne Trans Anadolu Projesi'ni durdurma ne de Avrupa enerji güvenliğindeki rolünü azaltma gibi sonuçlara yönelmemiştir.

Bununla birlikte, SOCAR'ın yatırımlarının Avrupa'ya ulaşmasındaki en büyük paydaşlardan birisi olan Türkiye'nin, özellikle Rusya Devlet Başkanı Vladimir Putin'in Aralık 2014'teki ziyaretinde açıkladığı ve adını Türk Akımı koyduğu yeni projesi ile Ukrayna'yı tamamen saf dışı bırakarak, Avrupa birliği ülkelerinin Rusya'ya uyguladığı yaptırımlar neticesinde Güney Akım Projesi'ni de durdurduğunu açıklamıştır. Böylece bir enerji merkezi olmayı hedefleyen Türkiye, hem Rusya'dan hem de Azerbaycan'dan alacağı doğal gazı Avrupa'ya taşıyacak mega bir transit ülke konumuna yükselecektir. Ancak, süregelen tartışmalara istinaden SOCAR yetkilileri ve Azerbaycan Devlet Başkanı İlham Aliyev tarafından, Türk Akımı Projesi'nin Trans Anadolu Projesine bir rakip olmadığı defalarca tekrarlanmış ve TANAP projesinin SOCAR'ın altın projesi olacağı vurgulanmıştır.

Sonuç olarak, yazarın yaptığı mülakatlarda da sıklıkla bahsedildiği üzere SOCAR Azerbaycan'ın başarı öyküsü ve bayrak taşıyıcı kurumudur. Bir enerji şirketi olmasının ötesinde ayrıca ülke içi yatırımları ve ülke dışında ülkenin tanıtımı için hayata geçirilen uluslararası projelere verdiği destek çok önemlidir. Hatırlanacağı üzere SOCAR, Bakü'de 2015 Haziran ayında gerçekleştirilen Birinci Avrupa Oyunları'nın resmi sponsorudur. Buna göre de hem ülke içi hem de ülke dışında

bir devlet petrol şirketi olarak ülkenin ulusal çıkarları çerçevesinde hareket etmektedir.

Azerbaycan'ın sahip olduğu enerji potansiyeli gereği özellikle ileriki yıllarla beraber artacak olan nitelikli personel ihtiyacını karşılamak üzere SOCAR'ın kurduğu Bakü Petrol Akademisi'nin yanısıra düşünce kuruluşlarına da verdiği değer önemlidir. İstanbul'da kurulmuş olan Hazar Stratejisi Enstitüsü(HASEN), SOCAR'ın desteği ile faaliyetlerine devam etmekte ve Hazar bölgesi ve Türkiye enerji gündemini takip etmektedir. Özellikle Türkiye gibi enerjide bir merkez olmayı amaçlayan bir ülke için de bu tür kurumların kurulması ve desteklenmesi önem arz etmektedir.

Bu tezin Hazar bölgesinden Avrupa'ya uzanan bir coğrafyanın enerji güvenliği ve enerji politikaları ekseninde SOCAR odaklı yapılan bir araştırmasının sonucu olarak ortaya çıkmıştır. Bu araştırma enerji jeopolitiği ile sınırlandırılmaktan ziyade, SOCAR'ın yatırım gündemine aldığı diplomatik ve kültürel bağları kullanarak benimsediği yatırım stratejisini kapsamaktadır. Yapılan mülakatlar ve araştırmalar neticesinde, SOCAR'ın önümüzdeki yıllarda büyüme ve genişleme stratejisine dahil edeceği bölge ülkeleri ve Avrupa ülkelerinin sayısının artacağı gözükmemektedir. SOCAR faaliyetlerini sadece iki bölge ile sınırlandırmayarak ayrıca Afrika ve Güney Kore'de de aktif çalışmalar yürütmektedir. Buna göre de, özellikle TANAP'ın tamamlanmasının ardından SOCAR'ın ulusötesi işbirliklerine devam ederek, amaçladığı uluslararası petrol şirketi olma yolunda yatırımlarına devam edeceğini belirtmek yanlış olmayacaktır. Bu aşamada da özellikle Bakü-Tiflis-Ceyhan projesinden çıkardığı dersler ve deneyimler ile Trans Anadolu Projesinin inşasına hız kesmeden devam edeceği görülmektedir.

Bir devlet petrol şirketi olarak kendini sınırlamayan ve Kazakistan, Rusya ve Türkmenistan gibi enerji zengini ülkelere göre göreceli küçük sayılabilecek rezervlere sahip Azerbaycan'ın çıkarmış olduğu devlet petrol şirketi SOCAR'ın tarihinde milat sayılabilecek en önemli yıl olan 1994 yılında imzalanan Yüzyılın Anlaşması, sadece bir şirketin değil aynı zamanda da bir ülkenin kaderini değiştirmiştir. 1994 yılı Eylül ayından itibaren ülkeye Batılı büyük şirketler tarafından yapılmaya başlanan yatırımlar neticesinde yeni petrol ve doğal gaz sahaları keşfedilmiş ve Azerbaycan petrol dünya pazarlarına satılmaya başlanmıştır. 2005 yılında tamamlanan ve Azerbaycan-Gürcistan-Türkiye arasında bir dostluk ve kardeşlik köprüsü görevini de gören Bakü-Tiflis-Ceyhan petrol boru

hattı projesi ile de SOCAR zor olanı başararak dünya enerji piyasasına giriş yapmıştır. İşte bu tez boyunca da SOCAR'ın benimsediği yatırım stratejisinin diğer devlet petrol şirketlerinden farklılaşan bölümleri konu edinilmiş ve bulunan farklılıklar paylaşılmıştır.

SOCAR'ın diğer petrol şirketlerinden farklılaşması konusundaki en önemli adımlardan biri, kendisine rol model olarak aldığı başarılı devlet petrol şirketlerinin gelişim ve yatırım stratejileri olmuştur. Buna istinaden, bu tezin son bölümünde konu edinilen Norveç devlet petrol şirketi Statoil bu duruma en iyi örneklerden biridir. Kuruluş aşamasında yaşadığı çeşitli sıkıntılara ve ev sahibi hükümetin baskılarına rağmen yatırım stratejisini değiştirmeyerek, şirketin yönetim aşamasında radikal kararlar alarak hükümetin şirket içindeki etkinliğini kıran Statoil, bugün dünyanın en önde gelen uluslararası petrol şirketlerinden biri olarak gösterilmenin yanı sıra bünyesinde kurduğu Norveç Emeklilik Küresel Fonu da dünyada en çok petrol ve doğal gaz geliri elde eden enerji fonunun başında gelmektedir. Ayrıca da gelişmekte olan devlet petrol şirketleri ve çokuluslu enerji şirketleri için de örnek oluşturmaktadır.

Bugün SOCAR, yapmış olduğu yatırımlar neticesinde hem Avrupa enerji güvenliğinde yavaş yavaş söz sahibi bir şirket olmaya başlıyor hem de bölge ülkeleri ile geliştirdiği iyi komşuluk ilişkileri sayesinde de iç pazarlarda da önemli roller üstleniyor. Özellikle SOCAR temsilcisi Vitaly Baylarbayov ile Bakü'de SOCAR merkez ofisinde yapılan görüşmede, SOCAR'ın en büyük önceliğinin bölge ülkelerdeki enerji güvenliğinin sağlanması olduğu aktarılmıştır. SOCAR'ın on yıl içerisinde kendini nerede konumlandığı sorusuna, Baylarbayov bugün SOCAR olarak neredeyse yarın da orada olacağız diyerek cevap vermiş ve yatırımlarına ulusötesi işbirlikleri ile devam edeceklerinin altını çizmiştir. 1994 yılında Azerbaycan'a ilk Batılı petrol şirketleri geldiğinde SOCAR'ın tecrübesizliğinin bugünkü bilgi ve deneyimi ile karşılaştırılmaz olduğunun da altını çizmiştir. Buna göre, SOCAR bugün alanında en ileri teknolojiler ile petrol ve doğal gaz arama ve çıkarma çalışmalarına devam ederken aynı zamanda da konusunda uzman kişiler ile de çalışmaktadır. SOCAR'ın başarısı buradan gelmektedir diyerek de sözlerine devam etmiştir.

Son söz olarak SOCAR, başarılması bir hayli zor olan ve devlet petrol şirketi karakteristiklerini yaptığı başarılı yatırım stratejisi ile birleştirerek, Azerbaycan'ın enerji iç piyasasına odaklanmakla kalmayıp, ulusötesi işbirlikleri sayesinde yaptığı

yatırımlar ile sınırlarını aşmaktadır. SOCAR'ın yatırım stratejisi hem şirket, hem ülke hem de Avrupa bölgesel ülkelerde sonuçlarını yansıtmaktadır. Devlet petrol şirketlerinin yeniden önem kazanmaya başladığı bu günlerde, özellikle süregelen çatışma ortamları ve ekonomik krizler neticesinde, SOCAR arkasında desteğini hissettiği Azerbaycan hükümeti ile birlikte yatırımlarına hız kesmeden devam etmektedir.

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