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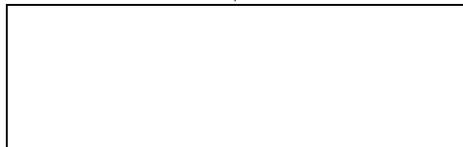
Directorate of Intelligence



*Economic
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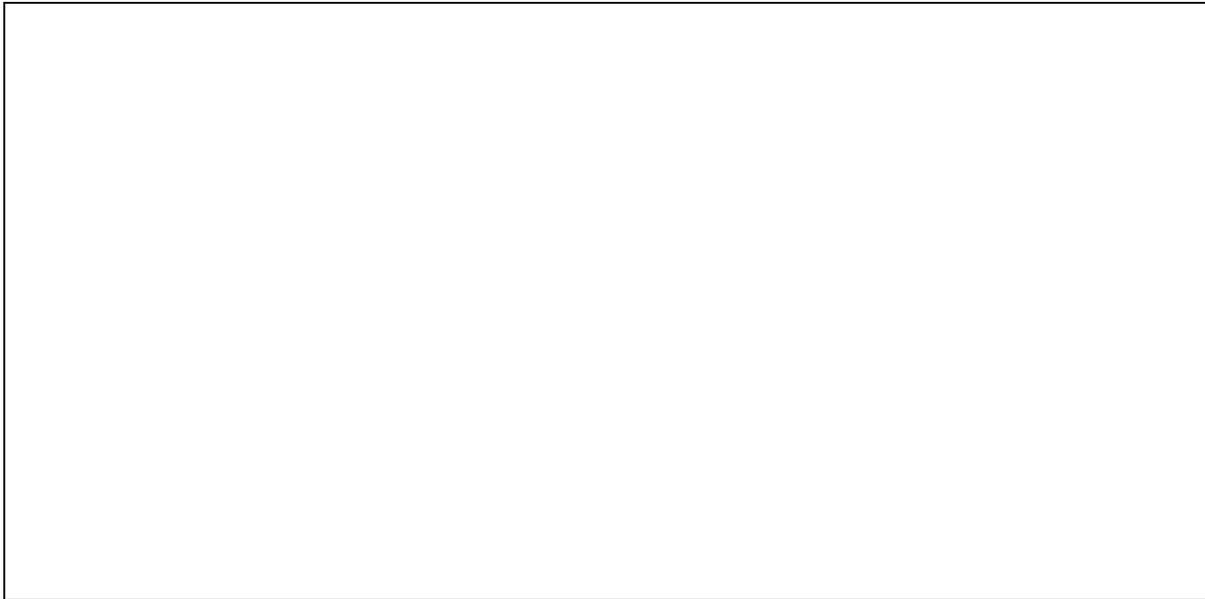


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Caspian Gas: Turkey Shifting Focus to Azerbaijan as Supplier []

The Presidents of Turkey and Azerbaijan have authorized negotiations on the sale of gas from the recently discovered Shah Deniz field, spurred on by Turkmen President Niyazov's failure to commit to the Trans-Caspian gas pipeline (TCP) project. Turkey is desperate for more gas and would benefit from the quicker completion of the pipeline segment from Baku.

- The President of BP—a Shah Deniz partner—told [] field development was moving ahead but that the partners would not commit to the project until a sales agreement is signed.
- Valeh Aleskerov, Director of Foreign Investment for the Azerbaijani state energy firm SOCAR, predicted that Turkey will contract to buy 5 billion cubic meters (bcm) per year with subsequent annual deliveries of 16-20 bcm. []

Niyazov []

GE Capital and Bechtel are frustrated with Niyazov [] and are about to withdraw from the consortium, ceding the lead role to Shell, [] Niyazov has failed to come to grips with the emergence of Azerbaijan as a competitor in supplying Turkey with gas, and he continues to treat Russia's Blue Stream project as nonviable even though construction has begun. []

[] lack of progress on the TCP has made Moscow and Tehran resistant to Ashgabat's pricing terms.

- Russia offered to buy an additional 5 bcm this year and 50 bcm per year for 30 to 40 years at the previously negotiated price of \$36 million per bcm, only half to be paid in cash. Turkmenistan wants \$40-42 million.

- Iran offered the same as Russia, and Niyazov broke off negotiations. []

Niyazov's replacement of Foreign Minister Shikhmuradov with First Deputy Minister Berdiyev last week is unlikely to affect Turkmenistan's Caspian policy or pipeline strategy because Niyazov retains ultimate decisionmaking authority.

[]

Turkish Supply Still Problematic []

The line from Baku could be completed by 2002, but Turkey would still have to turn to Iran and Russia if Azerbaijani production later this decade fails to meet projections.

- Turkish officials remain committed to the TCP and say they want to limit their gas dependence on Russia and Iran to the Blue Stream and the Iran-Turkey pipelines. []

The Iran-Turkey pipeline is nearly complete, but startup is not planned until August of next year.

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