CHAPTER 4

The Geopolitics of Caspian Basin and Turkey’s Energy Politics in the Post-Cold War Era

Turkey requires increased imports of oil and gas to fuel internal development, maintain its existing society, and meet its security requirements. On this point there is general agreement. The important issue for Turkey is where and how its energy supplies will be obtained: these choices are fraught with complications, liabilities, and hazards. Such considerations have become more important as an aspect of Turkey’s foreign policy in the last decade, not least because Ankara does not want to be overly dependent on any one energy source. In addition to other problems relevant to each particular source, this concern underpins Turkey’s overall regional energy strategy.

Turkey is at the nexus of several volatile, strategically and economically important regions, including the awkward triangle of the Middle East, Central Asia, and the Caucasus – each carrying its own seeds of violence and explosive conflict. As Simon Mayall put it, “Bosnia, the Middle East Peace Process, Iraqi Sanctions, Operation Provide Comfort, Trans-Caucasus separatism, Russian activities in the ‘Near Abroad’, CFE (Conventional Forces in Europe Treaty) flank issues, NATO enlargement, Cyprus, Central Asia, and energy pipelines (cannot) be discussed without reference to Turkey”.

The growing Turkish economy, which is now the world’s seventeenth largest and a population of over 62 million people (and growing), Turkey’s energy needs are

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1 Retired General Sitki Oruz, technical advisor to the state run Turkish Armed Forces Foundation, proclaimed that Turkey would spend $150 billion over the next twenty five years in an effort to modernize and upgrade its military forces. “New $150 billion Military Agreement with Israel”, Turkish Press Review, Ministry of Foreign Affairs Government of Turkey, January 28, 1997 of this, $65 billion is to be spent on the air force, $60 billion on the army, and $25 billion on the navy.

increasing quickly. The Turkish Ministry of Energy and Natural Resources estimates that the demand for energy (primarily gas and oil) will raise an average of 6.2 percent each year until 2010.³

Turkey’s gas demands during the 1990s have been growing at 10 percent per year, and by the year 2005 these demands are expected to quadruple to 45 billion cubic meters. Oil needs are similarly urgent, with predictions that 22 million tons will have to be imported annually by 2010.⁴ In addition, Turkey’s traditional energy sources have become less viable: Russia is now unreliable as a gas supplier, although in contrast, the re-discovery of large oil reserves in nearby Azerbaijan has given Turkey an alternative to Saudi Arabia or Iran⁵.

The Caspian Connection

While the end of the cold war has led to increased strains in Turkey’s relations with Europe, it has also opened up new prospects for the expansion of Turkish influence in Central Asia, the Caucasus, and the Caspian region. Turkey is seen by many of these countries as a model and a source of economic assistance. While Turkey has been relatively cautious about exploiting these new opportunities for fear of antagonizing Russia, it has stepped up economic assistance and cultural ties to many of the newly independent states in the region. These expanding ties have given Turkish policy a new geopolitical focus and sparked a lively debate within Turkey about Turkey’s national interest and national identity.⁶

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⁴ Bulent Aras and George Foster, Turkey and the Azerbaijani Oil Controversies: Looking for a Light at the End of the Pipeline, research paper 43 (Athens: Research Institute for International European Studies, 1998), p2.
⁵ The term “rediscovery” is used here because Azerbaijan had been the site of two earlier oil booms, one at the turn of the nineteenth century and the other at the end of world war II.
The energy issue, moreover, has given Turkish interest in Central Asia and the Caucasus a sharper focus. The Caspian region is a major source of gas and oil that Turkey needs to meet its increasing domestic requirements. Although earlier expectations that the region could come to rival the Middle East as a source of energy have to be scaled down, the Caspian basin’s proven reserve, as of the end of 1998, are put at 16.1 billion barrels of oil (about the same as those of the North Sea) and 7.4 billion cubic metres of gas (about double those of the North Sea). Possible reserves have been put at 160 billion barrels and 15 percent of the world’s proven oil reserves, and 12 percent of its gas reserves. Ankara is particularly interested in the construction of a pipeline to carry Caspian oil through Turkey. This would not only help assure Turkey’s growing domestic energy needs, but would increase its political influence in the region over the long run. Whoever controls the transport of oil and gas is likely to be the dominant political actor in the region.

Indeed, control over the energy resources of the Caspian region is becoming one of the central issues of post cold war politics and the struggle for influence in the post-Soviet space. In a certain sense, the old nineteenth century “Great Game” is being reenacted in a new geopolitical setting. However, whereas in the nineteenth century the Great Game pitted British interests against those of the Russian Empire and German Reich, the new Great Game has a more diverse group of players which includes not only Russia but also Turkey, Iran, Saudi Arabia, and Western Oil

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companies. In the new Great Game, oil and pipelines have replaced the railroad as the
key geostrategic factors.

The “Great Game”

The “Great Game” of nineteenth century has been revived in numerous
headlines. Azerbaijan and Turkmenistan have claimed to be the new Kuwait, and the
title “Persian Gulf of the twenty-first century” is even sometimes awarded to the
Caspian Basin region. Undoubtedly there is substance, then, to speculation in
describing current rivalries in the region as a simple continuation of the classical
“zero-sum” rivalry that preceded it, and careful not to oversimplify the complicated
factors that are now involved. To start with, there is no consensus about the key
players. The new game has been characterized as being between Turkey and Iran;
between Turkey and the United States and Turkey on the one hand, and Russia and
Iran on the other. Within the game-and it is not always clear which one is being
played – complex interdependencies among these players, as well as among those
within the region, further complicate the notion of allegiance to one side or another.

The United States has a military alliance with Turkey, supports closer Turkish
ties with the Newly Independent States (NIS) of the Transcaucasus and Central Asia,
sees Turkey as a secular, democratic model to follow in an area that it hopes will
develop along democratic lines, and has been promoting Turkey as one of the
countries through which the Main Export Pipeline (MEP) from Baku (in Azerbaijan)
to Ceyhan (On Turkey’s Mediterranean coast) should pass. The United States also
supports sanctions against Iran in response to concerns about Iran’s continuing
support for international terrorism, its opposition to the Middle East peace process,
and its continuing attempt to develop weapons of mass destruction. In recent months

the United States has symbolically eased these sanctions slightly in order to induce Iran to change its ways, but the internal struggle within Iran has not enabled the Khatami government to respond as constructively to these incentives as the U.S. would like to.

The United States (with a strong pro-Armenian lobby) has ties with, and has given support to Armenia, which is also supported by Russia and Iran in Armenia’s war with Azerbaijan. Armenia has no diplomatic relations with Turkey, which has been extremely vocal in its support of its ethnic brethren in Azerbaijan in their war with Armenia over Nagorno-Karabakh. Azerbaijan, although subject to U.S. Congressional aid restrictions over its embargo of Armenia (under section 907 of the FREEDOM support Act, which the executive branch opposes), has a vital interest in political, economic and military ties with the United States. Azerbaijan, also has important ethnic ties to the Azeris in the Iranian province, of Azerbaijan, and it has mutual economic interests with Iran, as does Turkey, which, over U.S. objections, signed a $23 billion natural gas agreement in 1996 with Iran. Turkey has also signed a major natural gas deal (including plans for a 247-mile pipeline under the Black Sea) with Russia, which continues to be Turkey’s most important trading partner in the region. Russia, meanwhile, continues to give military support to Armenia, whose geographic location between Azerbaijan and Nakhchivan (a province that is part of Azerbaijan but is separated from it by Armenian territory) obstructs Azerbaijani and U.S. efforts to construct an east-west pipeline and thereby serves Russian interests.

Geopolitics Versus the Regulatory Regime

The United States and Europe have strong stakes in the outcome of this new Great Game. The resources from the Caspian region will be important in ensuring economic prosperity in the twenty first century and in reducing the West’s
dependence on Persian Gulf oil. Moreover, oil revenues can help to ensure the independence of the neighbouring Caspian basin and allow these states to reduce their dependence on Russia. In short, much more is at stake than simply hard currency earnings from the export of gas and oil. The outcome of the various Caspian pipeline negotiations will have a profound effect on the geopolitics of the whole Caspian region and Central Asia.

The United States has emerged as a key player in the new Great Game. Washington has pursued three main policy goals in the region. First, support of the sovereignty and independence of the newly independent states in the region, second, support of its own commercial involvement in the region’s oil production and export, and third, reduction of future dependence on Persian Gulf oil.

In addition, the United States has sought to support Turkey as a balancing factor in the Caspian against the expansion of Russian and especially Iranian influences. Washington openly backed the construction of an oil pipeline route from the Caspian basin through Turkey as part of its policy to support multiple pipelines in the region. European countries, by contrast, have not been explicit in their policy pronouncements on Caspian oil issues, especially regarding pipeline issues.

At the same time, the United States has sought to contain Iran due to its support for terrorism and its effort to sabotage the Middle East peace process. Iran was excluded from the lucrative Azerbaijan International Operating Company (AIOC) deal in September 1994, largely due to U.S. objections. Similarly, in October 1995, Azerbaijan’s President Heidar Aliyev reportedly decided against a pipeline through Iran to transport Azerbaijani oil under pressure from United States. Kazak President

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12 Ibid., pp. 17-19.
Nursultan Nazarbayev was also persuaded by strong U.S. lobbying to abandon the idea of transporting oil through Iran.

Europe has been less active in the region. The EU provides considerable humanitarian and technical assistance to the region, but it has not provided assistance to the gas and oil sector. However, recently Europe has begun to show greater interest in the Caspian region. John Brown, the British engineering subsidiary of Norway’s Kvaerver Group, is rebuilding a pipeline linking Georgia with the offshore waters of Azerbaijan, and a consortium led by British Petroleum has won an $8 billion contract to exploit these waters. France has also recently begun to show more active interest in the region, in part to offset the impression that it favours Armenia in its conflict with Azerbaijan.

But these efforts have been temporary responses to opportunities rather than part of a coherent Western strategy. Moreover, there is no strong agreement among the United States and its European allies on what Turkey’s role in the region should be. Turkey is seen by some countries, especially the United States, as a potential western “Bridge” to the Caspian region and Central Asia due to its cultural and ethnic ties to many of the countries of the region. Indeed, many of the Muslim countries in Central Asia see Turkey as a possible model.

However, as Turkey itself has found out, there are limitations to Ankara’s ability to act as a bridge and role model in the Caspian region and Central Asia. First, Turkey does not have the resources to satisfy the development need of these states, most of which are very poor. Second, Turkey initially overestimated its ethnic and

\[\text{Ibid.}, \text{p. 29.}\]
linguistic affinity with the Turkish-speaking states in the Caspian region and Central Asia.¹⁴

Third, since 1993 Russia has more forcefully reasserted its interest in the Commonwealth of Independent States (CIS), and especially in the Caucasus. The ouster of Azerbaijani president Abdul F... Elchibey in June 1993- in which Moscow is thought to have had a hand – was a strong blow to Turkish interests in the region. Elchibey had been the most pro-Western and pro-Turkish leader in the region. Since then Russia has also reasserted its influence in Georgia¹⁵. This has reduced the potential for Turkish inroads in the region.

These factors have served to dampen Turkey’s initial high expectations about the short-term prospects for the expansion of Turkish influence in the Caspian region and Central Asia. Turkey has by no means given up its aspirations to play an important role in the region - on the contrary, strengthening ties to the Caucasus is a major Turkish priority- but today there is a more realistic understanding of the difficulties involved and the length of time that the process may take.

In addition, there is no consensus between the United States and its European allies about Iran’s role in the development of the Caspian region’s energy resources. The United States has sought to block Iran’s involvement in projects that would lead to an expansion of Iranian influence in the Caspian region or result in significant material benefit to Tehran as part of its broader policy of containing Iran. However, many U.S. allies, especially France and Germany, have strong doubts about the wisdom of U.S. policy toward Iran and continue to favour contracting a “critical

¹⁴ Pope and Pope, _Turkey Unveiled_, pp. 280-290.
¹⁵ For details, see Cohen, “The ‘New Great Game’: Pipeline Politics in Eurasia”, and Croissant, “Oil and Russia Imperialism in the Transcaucasus".
dialogue" with Iran despite strong evidence linking the Iranian regime to terrorism. Thus it is by no mean clear that they will go along with the U.S. policy of isolating Iran in the Caspian region and Central Asia.

**Turkey’s Interest in Caspian Energy**

Turkey’s interest in the Caspian pipeline issue began as just one of the many strands of Özal’s broad policy of engagement with the new Turkic States. The concept of making Turkey the main export corridor for oil from Azerbaijan and perhaps Central Asia as well-by means of a pipeline linking Baku to the Turkish port of Ceyhan on the Mediterranean sea- was first discussed at a political level by President Özal and Elchibey in 1992. As Turkey’s grander ambition in the region began to fade and the Caspian oil boom picked up steam, the Baku-Ceyhan pipeline project increasingly became the core of Turkish policy toward the Caspian region and indeed an important priority of Turkish foreign policy overall.

The justification for the Turkish emphasis on the Baku-Ceyhan pipeline has three components. First, Turkey has fought into the prevailing fashion of pipeline determinism, coming to see the pipeline politics as a proxy for strategic competition in the region and ultimately the main determinant of Turkish political influence in the Caspian. For the Baku-Ceyhan pipeline to be built would at least represent the symbolic fulfillment of the activist policies pursued by Özal, at most it could create a long-term economic and political bond between Turkey and the Turkic states of Central Asia. Economic interests are the second factor driving Turkey’s support for

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the Baku-Ceyhan. The pipeline’s construction would generate a great deal of business for Turkey’s dynamic construction and engineering sector.

**Environmental Concerns**

The third and most complex reason for Turkey’s support of the Baku-Ceyhan pipeline is related to its deeply felt environmental concerns regarding the passage of oil tankers through the Turkish straits. Russian officials have been unsympathetic (Russia accounts for twenty five percent of the transit trade through the Turkish straits), asserting the right of free passage under the Montreux Convention of 1936 and accused Turkey of hypocrisy in their new found interest in the environment.

The U.S. government, which backs Turkish concerns estimates that the Caspian Pipeline Consortium (CPC) alone will eventually add three to four super-tankers a day to Bosphorous traffic. A narrow, treacherous, 19-mile strait that is 672 meters wide at its narrowest point, the Bosphorus divides Istanbul, a city of 12 million people who are quite familiar with the dire consequences of serious accidents. As Turkey’s Environment Minister, Imren Aykut, stated, “No country has the right to endanger the lives of 10 million people just because it wants to sell oil”

The Russian government and Armenian oil companies have characterized Turkey’s environmental concern about the Bosphorus as misleading, but few details should give these critics pause. According to one estimate, 1.4 million barrels of oil a day pass through the Bosphorus, over three-quarter of this total from countries of the former Soviet Union. Most figure note that between 45,000-50,000 vessels, one tenth of them tankers carrying over 30 million tons of oil, pass through the straits annually. Turkey’s Minister of Energy has estimated that the maximum capacity of the Bosphorous

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approximately 37 million tons of oil gives it little room for growth. The U.S. Department of Energy estimates that Caspian oil exports via Black Sea ports will increase by 500,000 bbl/day, with the probability of an increase of another 2 million bbl/day by 2010. Even with the development of various plans to bypass the Bosphorus, these exports will put growing pressure on the straits. Meanwhile, over the last decade, there have been over 200 collisions in the Bosphorus. A few examples illustrate the hazards posed by overcrowding the Bosphorus. A 1979 collision between Greek and Romanian tankers spilled over 95,500 tons of oil into the water and burned for weeks; in 1991, a Lebanese vessel collided with a barge and sank with 20,000 live sheep on board; and a 1994 disaster in which a Greek Cypriot tanker ruptured three of its ten tanks and spilled 20,000 tons of oil into the strait, causing 29 deaths, creating a slick that burned for five days and closed the Bosphorus for a week in December 1999, a Russian tanker carrying 4,300 tons of sticky oil fuel ran aground (it was the second ship to do so that month and sank in the sea of Marmara (the body of water between the Bosphorus and Dardanelles), close to the month of the Bosphorus, heavily polluting a six mile stretch of coastline with a viscous sludge.

Frustrated by a lack of understanding by those states using the Bosphorus, Turkey has unilaterally adjusted the shipping rules there, which Russia claims violates the 1936 Montreux Convention. Disappointed over neglect for its concerns, Turkey enacted regulations in 1994 that limit traffic through the Bosphorus to prevent

20 See: http://www.eia.doe.gov/emeu/cabs/casblk.html
environmental disasters, arguing that it has the right to issue safety and environmental ordinances for maritime traffic.

Ankara has resorted to veiled threats as well. Using the Bosphorus's dangerous overcrowding to force rule changes, Turkey has attempted to provide unfavourable circumstances for ships navigating the straits, hoping that the AIOC might consider it too much trouble and opt instead for the Ceyhan terminus. Foreign Minister Ismail Cem was most unequivocal in an October 1998 speech on transporting oil through the Turkish straits:

We warn those who are contemplating such a calculation that they will face serious difficulties in transporting not only existing oil shipments but also future ones through the Turkish straits starting in the year 1999. To this end, Turkey will start implementing all possible means afforded by international law as well as its own legislation...

...I would suggest that companies who are in a position to transport their Caspian oil either via the Baku-Ceyhan pipeline or through the Black Sea and the Turkish straits to take the above-mentioned facts into consideration. Turkey has both a right and the determination to take all necessary measures to protect the ecological system as well as the historic and cultural environment of the Turkish straits.  

Some of these measures include regulating the intensity and flow of tanker traffic through the Bosphorus in light of potential threats to the population and environment of Istanbul; curtailing increases in tanker traffic; refusing to give priority to oil tankers over other vessels and cargoes; seeking international legislation that raises the insurance liability of ships to maximum levels; requiring the declaration of hazardous cargoes and beginning in 2000, allowing only double-hulled tankers.

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The Fundamental Importance of Gas Supply

The question of access to new supplies of natural gas differs significantly from the oil business. Sources of supply and areas of demand need to be connected directly by pipelines, since shipping gas by tanker is a technically complex and expensive process. Pipelines for gas are typically much more difficult to finance than oil pipelines, since they require credible guarantees of payment from end users. Turkey is the fastest growing gas market in Europe, and in recent years it has had difficulty in obtaining enough gas to meet its increasing near-term demand. Turkish gas consumption and, therefore, economic growth, already is being artificially constrained by a shortage of supply. Meanwhile several consortia plan to build new gas-fired power plants in order to meet Turkey's rapidly growing demand for electric power. Should availability of gas supply to these plants be denied, it could lead to serious economic crisis.

The significance of gas supply for Turkey has driven it to pursue a policy toward gas pipelines for more by economics than by politics (in contrast to its approach toward oil pipelines). Working on the assumption that there is no such thing as too much gas, Turkey has signed agreements with varying degree of firmness to purchase new gas supplies from Russia (currently its primary supplier), Turkmenistan, Azerbaijan, Iran and even Iraq - all of which would be delivered primarily through a new pipeline infrastructure. In contrast to the oil pipelines, Turkey does not need to worry about being bypassed by gas pipelines. It represents the most promising target market for gas in southwestern Asia, and its potential suppliers are just as eager to supply their gas to Turkey as Turkey is to receive it. Although observers are sceptical that the Turkish market can handle all the gas that the Turkmen, Iranian and Russian projects are intended to provide, Ankara insists that it can – given its growing internal
needs. Having three sources of natural gas from countries that do not always share the same interests is only a method of protecting its energy sources, so that Turkey will never be subject to external pressures from one or even two of these states.

**Whose Oil; Whose Pipeline?**

Another contentious issue that affects the geopolitics of the region concerns the rights of exploration and ownership of resources in the Caspian Sea. Before 1991, the Soviet Union and Iran treated the Caspian Sea as a shared lake, in which they alone hold rights. They based their relationship on the Treaty of Friendship of 1921, which extended equal sailing rights to both parties. The Treaty of Commerce and Navigation in 1940 made the Caspian joint property of Russia and Iran (territorial waters were established in 1960). The collapse of the Soviet Union introduced new dynamics into these legal arrangements for the Caspian. Instead of two littoral states (Russia and Iran) three sovereign states were added (Azerbaijan, Kazakhstan and Turkmenistan). Equally important, each country has approached the question of the legal status of the Caspian Sea in a different way. The five littoral states are not unanimous in their views, with some preferring the Caspian’s legal status to be titled a “lake” and others favouring a “sea” approach. The division of the oil spoils would vary accordingly.

Russia and Iran have viewed the Caspian as a lake (hence, not covered by the law of the sea), and have taken the position that the resources of the lake should be jointly exploited by the littoral states. Azerbaijan and Kazakhstan, on the other hand, have argued that the Caspian comes under Article 122 of the 1982 UN convention on the law of the sea, and have taken the position that each littoral state has the right to exploit resources in its own section defined by demarcation lines equidistant between
Turkmenistan has been more guarded in its position, possibly because of its need to work with Iran on exchange arrangements (i.e., natural gas is transported to northern Iran and is exchanged for a comparable amount delivered to Turkmenistan at the head of Persian Gulf, thereby relieving each country of the costs of transporting gas across Iran).

In November 1996, at a meeting of foreign ministers of the five Caspian States Russia came up with a compromise solution. It said that within the 45-miles coastal zone each country exercised exclusive, or sovereign, rights of the seabed mineral resources. The central part was to remain common property with its hydrocarbons resources developed by a joint stock company of the five states. This compromise solution was immediately rejected by Azerbaijan and Kazakhstan and later by Turkmenistan as well; Turkmenistan subsequently changed its position, however, and in early 1997 signed an agreement with Kazakhstan supporting soviet-era division until the issue is resolved; Iran also withdraw its agreement. Turkmenistan and Azerbaijan, meanwhile, have quarreled over exploration rights, with the Iranians arguing that legal precedents are operative until there is a new legal regime to govern the exploitation of resources. Russia, although it reserves the right to take “appropriate measures” against those who unilaterally explore the Caspian seabed and although it is on record saying that not a drop of oil will flow until the legal status of

25 Available at http://www.cia.doc.gov/emeu/cabs/Casplaw.html
the Caspian is settled, appears willing to compromise on the question - if the right ministry is involved or if it is given a big enough share of the pie in joint ventures.

The proposal for a common zone, meanwhile, has been characterized by the U.S. Department of State as posing problems for financing and creating mechanisms for one state to block another's resource development. The state with a common interest in doing so are Russia and Iran, neither of which is land locked (which is the case of Azerbaijan, Kazakhstan and Turkmenistan) or has comparable deposits in its own sector and both of which have sufficient reserves elsewhere that are substantial enough to permit them to play a waiting game if they can jointly prevent development of the Caspian basin. Julia Nanay, Director of the Petroleum Finance Company, Ltd., believes that until now each country has been holding the others hostage, that uncertainty on the legal status issue still needs to be resourced, and that “no final solution is in sight.”

Turkey’s support for Azerbaijan derives from their common interests on this issue, as well as cultural, linguistic, ethnic and historical ties that exist between the two Turkic peoples. However, the more immediate motivation is the fact that president Aliyev has shown himself determined to throw off Russian domination and even influence, and steer his country toward the West, particularly the United States. Turkey is Washington’s nearest regional ally and a counter balance to Russia. Aliyev has, therefore, intensified Azerbaijan’s relationship with Turkey to an extent unexpected when he first came to power. Azerbaijan has reciprocated by supporting Ankara’s preferred pipeline route.

But most of Turkey’s focus has been on the MEP for oil. The MEP concerns Azerbaijan, because that country is the source for much of the Caspian’s oil and the place from where it will be transported to outside markets. This puts Azerbaijan at the center of the regional energy debate, more so than Kazakhstan or Turkmenistan. The issue of oil and gas transportation from the Caspian Sea region has now become an issue relating to the tight knot or regional rivalries, especially between Russia, Turkey and Iran.

Since achieving independence from the Soviet Union in 1991, Azerbaijan has been the focal point of intense international governmental and corporate interest. Unable to develop its offshore oil fields solely with Russian technology, Azerbaijan invited Western companies to drill for oil and help export it, along with Western governments to provide protection from Russian domination. Drilling and extracting the oil is relatively simple compared to arranging for its export, since transport routes involve highly political decisions, which most of those involved view as a zero-sum game.

In 1994, the Azerbaijan government signed what was dubbed the “contract of the century” with what was later called the Azerbaijan International Operating Company (AIOC), a consortium between the Azerbaijan government and 11 international oil companies. These foreign firms are: British Petroleum (17.1%, UK), Amoco (17%, US), Unocal (10.5%, US), Lukoil (10%, Russia), Socar (10%, Azerbaijan); Statoil (8.56%, Norway); Exxon (8%, US), Tpao (6.75%, Turkey), Pennzoil (4.82%, US) Itochu (3.92%, Japan), Ramco (2.08%, UK), and Delta Oil (1.68%, Saudi Arabia).30 The accord allows these companies to drill in three major fields (the Azerbaijan, Chirag and Gunesli), involves some $7.4 billion, and is to last

for thirty years.) The presence of a diverse number of nationalities in this consortium reflects the strong global interest in the exploration and development of the Caspian hydrocarbon resources. According to the contract between Baku and these eleven foreign companies, decisions were to have been made on selecting the direction of the MEP\textsuperscript{31}. Although the final decision rests with Baku, the AIOC was to recommend to the Azerbaijani government which pipeline route it deems most economical. Since the consortium is paying for the pipeline, it is expected that its proposals will be treated quite seriously. However by the end of 1999, these parties had yet to agree on the most appropriate route from economic and strategic prospects.

Turkey objected to the AIOC’s initial indications that it preferred a Baku-Novorossiysk pipeline route. However, Ankara from the start strenuously objected to this proposal. Given that a Turkish company does own a small stake in the AIOC (Turkish Petroleum, at 6.75%), and Azerbaijan support for Turkey’s case, the AIOC agreed to consider other options. The two most prominent choices are a refurbished line running from Baku to the Georgian Black Sea port of Supsa (oil running along this route would also have to be shipped through the Bosphorus), and a 1,081 kilometer connective line from Baku to the Turkish Mediterranean terminal at Ceyhan. The first two have been operating for some time, though both carry only small amounts of oil because the MEP is intended to provide for the bulk of oil transportation. In this context, Ankara has raised the level of its campaign for the Baku-Ceyhan pipeline, promoting good relations with Azerbaijan, Turkmenistan, Georgia, and the oil companies making the decision on the route. Turkey’s arguments include Ceyhan’s ability to handle large amounts of oil, environmental and ecological reasons indicating that the Bosphorus cannot manage more oil traffic, and the US

desire to keep Russia and Iran from any significant control of or benefit from oil transport routes.

The Ceyhan port, near the Syrian border, was once part of the pipeline network bringing Iraqi oil to the Mediterranean Sea. It is in good working condition and as Turkish authorities are quick to mention, can handle many times the capacity of Novorossiysk. In addition, and perhaps even more important, Ceyhan is on the warm waters of the Mediterranean, whose mild climate allows year-round operation. Novorossiysk, on the other hand, is located on the Black Sea, where winter weather conditions force its closure for part of the year\textsuperscript{32}.

At the fag end of 1998, there were reports that oil companies were losing interest in Baku-Ceyhan pipeline and that AIOC was more likely to recommend the Baku-Supsa line to Azerbaijan. In reaction, Ankara stated forcefully the impossibility of the Bosphorus being congested with more oil tankers, and that the recommendation from the AIOC was just a recommendation. As President Süleyman Demirel put it, referring to a Baku-Ceyhan route; “Azerbaijan is determined, Georgia and Turkey are determined and the United States is backing the project”\textsuperscript{33}. President Aliyev has similarly brushed off concerns that Baku-Ceyhan is unrealistic. Azerbaijan is meant to have the final say in choosing the MEP, but since the consortium will be shouldering the project’s costs, one wonders how independent Aliyev can really be.

Inspite of the AIOC preference for Baku-Supsa line, Ankara has been successful in bringing other countries around to its point of view. As early as December 1997, Aliyev stated that he fully backed plans to use Turkey as a transit route for Caspian oil\textsuperscript{34}. In April, 1998, the President of Turkey, Georgia and Azerbaijan confirmed their support for the Baku-Ceyhan pipeline. On October 19,

\textsuperscript{32} Aras and Foster, *Turkey and the Azerbaijani Oil Controversies*, p. 10.
\textsuperscript{33} *Reuters*, October, 12, 1998.
\textsuperscript{34} *Turkish Daily News* (TDN), 29 December, 1997.
1998, on the occasion of the seventy-fifth anniversary of the founding of the Republic of Turkey, the President of Azerbaijan, Kazakhstan, Turkmenistan, Georgia, and Turkey signed a declaration of support for the pipeline\textsuperscript{35}. In addition to governments, Turkey has also been keen on dealing directly with the oil companies involved. Turkey's energy ministry officials met, on November 5 with oil firm officials (and Azeri and Georgian decision makers) in another attempt to convince the firms that its own choice was not only more viable, but economically practical as well\textsuperscript{36}.

Since the mid 1990s, the United States has been firmly committed to the Baku-Ceyhan pipeline. Bypassing both Russia and Iran, this route would accomplish three American foreign policy goals: strengthen the independence of the Caspian states by reducing their dependence on Russia for energy exports; exclude Iran from any possible financial benefits (i.e. transit fee and foreign investment) as well as from any potential leverage; and solidify ties with Turkey and influence the Turkic states toward a free-market economy, democratic polity, and the ability to sustain a healthy secular society in Muslim nations.

U.S. Deputy Secretary of State Strobe Talbott was very clear on Washington's outlook on Caspian energy politics:

This administration remains committed to the Caspian Basin initiative and to the strategic imperative of developing multiple transportation routes for bringing oil and gas to world markets. Let me emphasize in the strongest terms that our plans and our policy continue to feature the prospect for a pipeline running through Baku to Ceyhan. We will continue to make the case for

\textsuperscript{35} Turkey, US, Caspian Countries Sign Declaration Backing Oil Pipeline.\textsuperscript{1} Associated Press, 29 October, 1999.

\textsuperscript{36} TDN, 6 November, 1998.
the pipeline as commercial negotiations among companies and transit states move forward in the weeks and months ahead.\textsuperscript{37}

Turkish efforts got further encouragement when in October 1999, BP Amoco and other companies in the consortium, which where under strong pressure from the U.S. government, came round in support of the Baku-Ceyhan project. BP Amoco also said it would take a lead in helping companies and governments to find the necessary finance.\textsuperscript{38} According to James Wolf, President Clinton’s special energy adviser, the pipeline is commercially viable on the basis of throughput guarantees, although he added that for that to happen... it would need to include not only the companies that are part of the AIOC but also other shippers in the Caspian.\textsuperscript{39} A giant step in this direction was taken during a summit meeting of the Organization for Security and Cooperation in Europe (OSCE) held in Istanbul in November 1999, when the leaders of Turkey, Georgia, Kazakhstan and Azerbaijan signed an intergovernmental agreement for construction of the Baku-Ceyhan pipeline, which they hoped to complete by 2004. In addition, another agreement was reached on advancing the construction of a companion pipeline, a 1,250 mile natural gas line from Turkmenistan to the Turkish city of Erzurum.\textsuperscript{40} President Clinton who attended the ceremony, stated that these pipelines will be an insurance policy for the entire world by helping to ensure our energy resources pass through multiple routes instead of a single chokepoint.\textsuperscript{41}


\textsuperscript{38} Reuters, 19 October 1999.

\textsuperscript{39} Ibid., 5 November, 1999.


The improved prospects for the Baku-Ceyhan project could be looked as part of a significant shift in U.S. policy towards the region, as well as some basic political realignments within the former Soviet Union which would have important implications for Turkey. In the early 1990s the Bush and Clinton administrations were still under strong pressure from the powerful Armenian lobby in the congress, and seemed reluctant to adopt policies that which would be seen as hostile in Moscow, for fear that this could lead to the overthrow of Boris Yelstin and his replacement by a more anti-Western leadership. In October 1992, Congress passed the Freedom Supports Act 907 under which Azerbaijan was denied all forms of U.S. government aid unless it ‘respects international human rights act, abandons its blockade of Armenia, ceases its use of force against Armenia and Nagorno-Karabakh and searches a peaceful solution to the conflict’. Subsequent attempts by the Clinton administration to get this blatantly partisan law removed bore no result. By the late 1990s a pro-Armenian and pro-Russian approach was clearly inconsistent with the United States emerging interest in Caspian oil, and its growing worries about Russian policy in Chechnya and elsewhere. This paralleled the apparent reduction of the power of the Armenian lobby in Turkish-U.S. relations. Hence, the U.S. administration switched to giving full support to the Baku-Ceyhan pipeline project, which was promoted, bypassing both, Russia and Iran. It also took a neutral position on the Nagorno-Karabakh dispute, by pressing the two sides to reach a peaceful settlement. On all these points, there was an almost total coincidence of policies between Ankara and Washington. Inspite of the strong US support, there are some major obstacles that need to be overcome. First, many industry analysts argue that this

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proposed pipeline would need to see oil production double to around two million barrels per day (b/d) to make it commercially viable. In other words, the volume of crude is not yet there. Second, is the cost factor. In 1998 the AIOC estimated the construction costs at $3.7 billion, but since the consortium delayed its decision on Baku-Ceyhan, Turkey insisted that the pipeline could be built for $2.4 billion, and even talked of the possibility that it would cover cost overruns. However, in May 1999 Ankara increased its estimate to $2.7 billion, citing specifications insisted upon by the AIOC43. Third, the political atmosphere within Turkey was becoming increasingly tense, further leading the consortium to question the stability of such a line. Several political parties have created a fragile and unstable political environment. In addition, the army generals enjoy tremendous leverage in the political process. Furthermore, Insipite of the arrest of Abdullah Ocalan leader of the Kurdistan Workers Party (PKK), there is no guarantee that the Kurdish rebellion is over. Thus it can be said that the domestic political instability in Turkey poses an important challenge to huge investment in the Baku-Ceyhan scheme.

Finally, the proposed pipeline travels through two troubled spots in the Caucasus: Abkhazia and Nagorno Karabakh. The continued separatist violence in the Georgian republic of Abkhazia, a region with an ethnic minority along the Black Sea coastline, threatens Georgia’s stability. Consortium members are uncertain about the relative security of a pipeline investment through Georgia, fearing that relations with Abkhazia could deteriorate in the future. Similarly, a fragile-ceasefire in the Armenian enclave of Nagorno-Karabakh in Azerbaijan also threatens the stability of the pipeline as ethnic Armenians occupy twenty percent of Azerbaijan. Disagreement

over the territory continues to weigh heavily on pipeline security as the conflict remains largely unsettled\textsuperscript{44}.

Keeping in mind the complexities associated with Baku-Ceyhan pipeline, the AIOC has considered doubling the capacity of the Baku-Supsa pipeline, which came into operation in April 1999. The Russian decision to close the Chechen sections of the Baku-Novorossiysk pipeline has put further emphasis on the Supsa route to export Azerbaijan crude. U.S. supports the expansion of Baku-Supsa as an integral part of Baku-Ceyhan not as an alternative one. The main advantage of this route is its low cost. Once crude reaches the Georgian port of Supsa, it would be loaded onto tankers and travel through the Turkish straits. The strait passes through Istanbul and constitute one of the busiest waterways in the world\textsuperscript{45}. There are serious concerns that future oil exports from the straits could seriously increase tanker traffic, thereby increasing safety threats, as well as disrupt the flow of oil from the region. Thus the problems associated with Baku-Ceyhan and Baku-Supsa necessitates the importance of alternate route for the transportation of crude. Iran is considered an attractive export route for oil and gas between Central Asia on one side and Southeast Asia on the other side. It already has a well-developed hydrocarbon infrastructure. Estimates suggest Iranian route could prove cheaper than other proposed pipelines. Not surprisingly, many sources have expressed interest in transporting Caspian's resources through Iran. In the words of Conoco's senior vice-president for government affairs, Michael Stinson, "most energy companies operating in the Caspian believe trading


Caspian crude through Iran could be highly competitive and probably represent the lowest capital costs.

The major impediment in the realization of Iranian option is the strong U.S. opposition. The 1996 Iran Libya Sanctions Act (ILSA) prevents investment of more than $40 million in these two countries. According to former U.S. Secretary of State Madeleine Albright 'Washington remains strongly opposed to oil and gas pipelines which transit Iran, and as a policy matter we will continue to encourage alternative routes for the transport of Caspian energy resources'. Thus, from mid 1997 to mid 1998, when the countries of the Caspian region began to turn their attention toward Iran as an exit route for their oil and gas, the United States invited the presidents of Azerbaijan, Kazakhstan and Turkmenistan to Washington for official visits with President Clinton. Heavy opposition by the United States of the Iranian option led these leaders to re-consider alternatives when making transport decisions.

Inspite of strong U.S. opposition, the oil companies in the United States view Iran from different angles, some, like Amoco, do not want to be involved while others, like Mobil, are willing to explore the advantages of cheap transportation for Caspian energy. An indication of this trend is the $400 million oil-swap deal by which oil companies would pump Caspian oil to northern Iran for domestic use, while an equal amount would be released in the south from Iranian ports on the Gulf. The British Monument Oil and Gas company already exports Caspian crude through Iran under swap arrangements. Inspite of Monument's success in exporting the Caspian's

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46 Long Wait for US oil, Investment in Iran Warns a New York Conference. 'Middle East Monitor (London), vol. 29, no.3 (March 1999), p. 23.
crude through Iran under swap arrangement, the Clinton administration rejected applications by two American companies (Opt market and Mobil) to engage in oil-swap deals with Iran.

Finally, it is important to point out that Iran is seeking finance for a pipeline to carry crude oil from its Caspian Sea port of Neka to Tehran. In late 1999 a partnership of China National Petroleum Company (CNPC) Sinopec and two other Chinese firms have opened negotiations for construction of the pipeline.

Three conclusions can be drawn from the political manoeuvres over choosing the appropriate pipelines. First, investment in an infrastructure to transport Caspian oil will keep pace with the development of the region’s hydrocarbon reserves. Second, the existence of multiple export routes could increased the energy security of both exporters and importers by making exports less subject to technical or political disruptions on any one route. Third, pipeline routes through Iran should not and would not be ruled out.

**Geo-Politics and the Future of Caspian Basin**

A number of factors indicate the possibility that Caspian geo-politics, may undergo some subtle but significant changes over the course of the next year or two. The most significant development concerns Russia’s changing position in the region in the wake of its military success in Chechnya and the accession to the Presidency of Vladimir Putin.

Russia succeeded in defeating a weak and divided Chechan rebellion, But it requires a massive military effort and a level of indiscriminate brutality that failed to provoke a more serious western response only because it took place within Russia’s borders.
However, we cannot deny the fact that Moscow's display of force in Chechnya and the strong image presented by Putin have affected the way that Russia is perceived by the Caucasian states. Azerbaijan has taken a few subtle steps away from the unrestrained anti-Russia and pro-U.S. (and Pro-NATO) stance it had previously displayed, and the same is arguably true to a limited extent in Georgia as well. These two states continue to see Russia as a threat to their independence. Their partnership with Turkey and the U.S. in what might be called the “Baku-Ceyhan block” is not immediately threatened, but Azerbaijan and Georgia are well aware that more flexibility and balance will be required in their relations with new Russia under Putin. The implications of Putin’s leadership for the Caspian Basin were almost immediately apparent when he said that Moscow should take a more active role to push through its national interests in the Caspian region and should throw its full weight behind efforts to compete with the United States for control of the region’s resources. He also noted that Russia’s national security council had decided to create the post of presidential representative in charge of the region. A month later, after playing up the threat of radical Islam and the inability of the Central Asian states to counter, he offered Uzbekistan military protection against Islamic fundamentalists in Afghanistan. The main goal of his statement was to reinforce a presence in Central Asia. At the summit of the CIS countries in June 2000, this goal was evident in his initiative to adopt a three-year CIS anti-terrorism programme that would authorize Russian operations in the CIS and in his efforts to create a South Caucasus regional security forum made up of Russia, Georgia, Armenia, and Azerbaijan that would over-shadow other forums in which Western countries have influence (e.g., GUUAM – a political, economic and security alliance of Georgia, Ukraine, Uzbekistan, Azerbaijan and

Moldova which, with U.S. support, seeks to create a legal framework and infrastructure for economic activity such as the Europe-Caucasus-Asia Transportation corridor, sometimes dubbed the “new silk road”.

Meanwhile, a consensus is beginning to take shape in Washington to review U.S. policy toward the Caucasus and toward Caspian energy development. U.S. policy, if one extrapolates from various statements by public officials, has the following main objective: it seeks to diversify the number of outlets for oil in the Caspian, thereby helping to position the region in a more independent position (i.e. freeing it from the monopolistic control of Russian pipelines), ensuring the flow of energy from the Caspian to the world market (through rapid development of an East/West transportation corridor) and safeguarding the energy security of the United States and its allies.

If the U.S. backed trans-Caspian gas pipeline project does indeed falter, followed in early 2001 by either victory or postponement for the longstanding American campaign in favour of the Baku-Ceyhan oil pipeline, circumstances will dictate that U.S. policy in the region no longer be focused so heavily on pipeline routes. Ultimately, the Caucasus are not nearly as important for U.S. interests as it is for Turkey, and this reality – which does not fit with the perception in the region, where it is often taken for granted that the U.S. is committed to an active and assertive long-term policy-will undoubtedly be reflected in any reformulation of policy.

Lastly, there could be greater engagement on the part of European Union in the Caspian region and Central Asia. If that happens, it will have special significance for Turkey since it has been put back in the queue for EU membership. So far the foreign policy apparatus of EU has been less active in the region, and while the

Caspian region is recognized as an area where EU interests are engaged, it is far from being a priority. However, recently EU has begun to show greater interest in the region, and to pursue a policy that blurs regional divisions rather than reinforces them.

Today, United States is the chief guarantor and protector of Turkish interests in the Caucasus and Central Asia, but as the EU engages, U.S. review its policies, and Turkey become ever closer to the EU, this will slowly change.

Thus the question that is most critical to the future of the Caspian Basin (and to the Geopolitics of the region) at this point in time is the future direction of Russia. Will President Putin, with outside help, bring the economy under control and make what some see as his only real choice – integration with the West? Or will Russia’s economy implode and a political meltdown bring the Russian right to power? The answer to these questions will determine the extent to which the countries of Central Asia will be permitted to have access to the world energy market, develop their economies, and ultimately, develop the capability to govern themselves.

Until the question of Russia’s future direction is resolved, the vision for Central Asia and Caucasus articulated by Deputy Secretary of State Strobe Talbott on 21 July 1997 remains the most conducive to the region’s development and prosperity. In that address, significantly titled “A Farewell to Flashman: American Policy in the Caucasus and Central Asia”, one of Talbott’s observations is worth quoting:

For the last several years, it has been fashionable to proclaim, or at-least to predict, a replay of the “Great Game” in the Caucasus and Central Asia. The Implication, of course is that the driving dynamic of the region, fueled and lubricated by oil, will be the competition of the great powers to the disadvantage of the people who live there.

Our goal is to avoid and actively discourage that atavistic outcome. In pondering and participating (in) the geopolitics of
oil, let’s make sure that we are thinking in terms appropriate to the 21st Century and not the 19th. Let’s leave Rudyard Kipling and George McDonald Fraser where they belong—on the shelves of historical fiction. The Great Game—which starred Kipling’s Kim and Fraser’s Flashman—was very much of the zero-sum variety. What we want to help bring about is just the opposite: We want to see all responsible players in the Caucasus and Central Asia be winners.52

In this context, Turkey’s geopolitical considerations make it an important players in regional politics, while domestic energy needs require it to pursue such a role. If Russia were to succeed in dominating the region once more, Turkey’s situation would be adversely affected. Turkey’s own interest in Caspian energy politics ensures a high level of continued political and economic involvement in the area. While the specific issues are in the realm of foreign policy, security reliable sources of energy and income from regional resources are among the most important issues affecting Turkish society and domestic politics as well.