NAVAL POSTGRADUATE SCHOOL
Monterey, California

THESIS

U.S. AND TURKISH INTERESTS CONCERNING OIL POLITICS IN THE CASPIAN SEA BASIN

by

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June 2000

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20000818 089

REPORT DOCUMENTATION PAGE		Form Approved OMB No. 0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.

1. AGENCY USE ONLY *(Leave blank)*	2. REPORT DATE June 2000	3. REPORT TYPE AND DATES COVERED Master's Thesis
TITLE AND SUBTITLE : U.S. AND TURKISH INTERESTS CONCERNING OIL POLITICS IN THE CASPIAN SEA BASIN		5. FUNDING NUMBERS
6. AUTHOR(S) Faruk Yaman, 1st Lieutenant		
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000		8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A		10. SPONSORING / MONITORING AGENCY REPORT NUMBER

11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.

12a. DISTRIBUTION / AVAILABILITY STATEMENT	12b. DISTRIBUTION CODE
Approved for public release; distribution is unlimited	

ABSTRACT ***(maximum 200 words)***

This thesis treats four major themes of vital importance to contemporary politics and strategy in the Caspian Sea region. In the first instance, it explores the growing geo-strategic role of the littoral states. Secondly, it treats the Caspian littoral as an issue of the strategic partnership between Turkey and the United States with due attention to the interaction of domestic and external politics as is plainly visible in all considerations of the Caspian littoral. In the third instance, this thesis analyzes the sources of political instability in the Caspian Sea Basin seen through the lenses of Turkish and U.S. policies. And finally, the thesis evaluates the effects of new developments on regional and global political concerns.

This thesis demonstrates that Turkey and the United States have similar interests in the region. But these allies' policies in the last decade could neither conclude the construction of a main oil pipeline from Azerbaijan nor solve the inherent problems of the littoral states. Furthermore, domestic and other international issues hinder the implementation of their policies. Considering these new developments, Turkish and U.S. policy makers must adopt a new outlook. Being stakeholders in these events requires them to revise their policies.

14. SUBJECT TERMS Energy Security, Oil Pipelines, Caspian Sea Region, Baku-Ceyhan, Trans-Caspian, Foreign Policy, Regional Stability, Instability, National Interests, The United States, Turkey, Russia.	15. NUMBER OF PAGES 120
	16. PRICE CODE

17. SECURITY CLASSIFICATION OF REPORT	18. SECURITY CLASSIFICATION OF THIS PAGE	19. SECURITY CLASSIFICATION OF ABSTRACT	20. LIMITATION OF ABSTRACT
Unclassified	Unclassified	Unclassified	UL

NSN 7540-01-280-5500 Standard Form 298 (Rev. 2-89) Prescribed by ANSI Std. 239-18

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U.S. AND TURKISH INTERESTS CONCERNING OIL POLITICS IN THE CASPIAN SEA BASIN

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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF ARTS IN NATIONAL SECURITY AFFAIRS

from the

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ACKNOWLEDGMENTS

I want to thank Prof. Magnus, Prof. Abenheim and Prof. Russell for their guidance and patience helping me prepare this thesis.

I would also like to dedicate this work to my loving mother and father who taught me the importance of diligence and responsibility.

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I. INTRODUCTION

"Energy security"[1] entered the lexicon of world policy with the 1973 Arab oil embargo and expanded to international importance with the 1979 crisis. A new era in world politics and commerce emerged with the take over of the world oil markets by the Organization of Petroleum Exporting Countries (OPEC). Embedded in the conflict in the Middle East, the United States and other countries began shaping energy security considerations at the same time. These considerations have profoundly complicated the security dimensions of energy policies. Global resource consciousness and scarcity of new oil resources had been the significant aspects of this new era. Another aspect was the increasing use of oil as a political instrument; The Iranian oil crisis between 1951-53 was an example. Oil became a more important element of world politics than it had been before. For more than two decades energy security policies have been the crucial elements of foreign policy decision making. Considering the increasing energy consumption with world oil demand and dependence on foreign oil resources, nations began to feel that they were no longer in control of their national destinies. In Henry Kissinger's words the energy crisis of 1973 was, "a grave challenge to the political and economic structure of the free world."[2] Especially in the United States, policy makers eventually became more sensitive to petroleum issues. According to one U.S. congressman,:

> The ability of the United States to exercise its free will and to carry out its responsibilities as leader of the free world could be jeopardized by an excessive dependence on foreign oil imports.[3]

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[1] For most industrial countries, energy security means ensuring access to foreign oil supplies at reasonable prices. For oil-producing countries, energy security means the physical protection and transport of oil to market for a reasonable price. Both consumers and suppliers therefore concern themselves with events that could jeopardize oil's physical security, its delivery and its price. Geoffrey Kemp, "The Persian Gulf Remains the Strategic Prize," *Survival* (London), Vol. 40, No.4 (winter 1998/1999): 41.

[2] C. Ebinger, *The Critical Link* (Washington, D.C.; Ballinger, 1982), quoted in Vito Stagliano, *Energy and National Security in the 21st Century* (Washington, D.C.; NDU Press, 1995), 127.

[3] Senator Murkowski, (AK), Senate Committee on Energy and Natural Resources, *Hearings on Implications of the Middle Eastern Crisis for Near-term and Mid-term Oil Supply*, 101st Congress, 2nd sess., September 1990, quoted in Vito Stagliano, Energy and National Security, 127.

These expressions aptly emphasize the growing significance of energy and specifically oil in the new century.

Although the security of oil has little economic meaning as a commodity easily traded in a free environment, market disruptions of oil may have fundamental policy crises on the world scale. Vito Stagliano describes the 1973 embargo as a crisis threatening the national confidence of the United States unseen since the Great Depression.[4] Obviously weaker countries, which do not have the means the United States has, can be affected more seriously from similar crises. Today OPEC remains as a powerful organization.[5] Even though its effectiveness decreased, it still has the ability to strongly influence the global market. Under these circumstances causes of contemporary oil supply disruptions may vacilliate from embargoes to more complicated issues of international relations. While other fuels remain important, petroleum dominates national attention. Supply and pricing, crisis–stimulating events and the responses to them will generate energy crises in the new century. Many powers are largely free from constraints by the superpower rivalries, rush for natural resources and unpredictability heightens the risk of regional instability. In the new environment a worldwide energy supply shortage or destabilization of the energy-producing regions can effect political structures at home and abroad. A sizable level of oil kept from markets may generate armed conflicts, and terrorist activities may effect oil trade globally. A disruption in the world oil shipping lanes at the choke points like straits or canals could result in a crisis.[6] Energy security includes political concerns and important economic issues. Apart from singular causes new energy problems might have roots in geopolitical situations.

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[4] Ibid., 128.

[5] OPEC has always operated on an economic basis and did not cause the 1973 crisis directly, but individual members and groups have always maintained the ability to use this organization for political purposes.

[6] Ibid., 174.

The lessons of the 1973 and 1979 crises continue to have a great impact on today's strategic thinking. Governments as well as major financial institutions are considering ways to overcome possible future problems. They are also trying to secure reliable and financially profitable investments. The newly–discovered energy resources exist in mostly either economically and politically risky or geographically hard to reach areas of the world. Transportation of crude oil requires long and costly processes. Most of the world's oil production is distributed by tankers and this distribution system is only possible when a pipeline web is built between the source and the markets or between the source and other shipment terminals to support maritime transportation. These pipeline webs mostly pass through several countries. The more countries and regions the pipeline passes through, the harder it becomes to decide on a planned route, or to build and manage transportation. The process of bargaining between states, multinational companies and powerful individuals may be prolonged. It may cause tensions among the interested parties and may have significant efffects on regional and world politics. The intended route may not be profitable to most of the states involved and policies may change from the original starting point because of the limited options. Even under the most beneficial conditions every step of a pipeline's construction deserves a detailed evaluation. Governments, multinational finances, international organizations and key persons that occupy authoritative positions all have stakes in energy investment and security issues.

The search for new oil resources in the last decade has provided some positive results in the North Sea, South America and the Far East with the discovery of new oil fields. But the demise of the Soviet Union had much more impact on the oil industry. The demise of the Soviet Union fundamentally altered the conditions of petroleum investment initiatives. With the collapse of the Soviet Union, three new petroleum and natural gas–rich states emerged around the Caspian Sea: Azerbaijan, Kazakhstan and Turkmenistan. Considered a backwater during the Soviet era, these countries and the Central Asian states could play a pivotal role in Eurasian and world politics in the years ahead.

Even though the Soviets paid little attention to the Caspian Sea, this region has recently attracted more concern from Western governments and private companies. According to Stephan Kinzer, today:

> Estimates of total reserves in the Caspian and the lands around it run up to 200 billion barrels, enough to meet the entire energy needs of the United States for thirty years or more. The value of the vast reserve is measured in trillions of dollars, and foreign companies are expected to invest fifty billion dollars or more merely to extract it.[7]

The strategic implications of this "gusher" hypnotize Western security planners as well as oil executives.

The political implications for the countries concerned, signify multiple challenges for the region and highlight the potential for both intra- and inter-state conflicts. Neighboring powers have considerable interests in the region. Russia is still the most important regional actor, but Turkey and Iran are also significant players. The United States moreover has both political and economic means to implement a powerful strategy in support of its national interests. Even though the region is rich in energy resources, local conflicts, political instability and a lack of cooperation endanger its security.

The western route for "early oil" from Azerbaijan for example passes just north of the breakaway Azeri region of Nagorno-Karabakh, drawing Russia, Iran and Armenia to one side of the conflict, and thereby placing Azerbaijan, Turkey and Israel on the other side of the conflict. There are ethnic separatist struggles in Abkhazia and Osetia in Georgia, Dagestan and Chechenya in Russia. These struggles seem unlikely to end in the near future. Due to the artificial boundaries drawn in the Soviet era, major concentration of ethnic minorities reside within countries other than their titular nations and this also cause unrest between neighbors.

Exporters of Caspian Sea Basin oil currently use the former Soviet pipeline, rail and tanker shipment systems to transport oil to markets, but Main Oil Pipeline (MEP) route competitions continue among countries and companies. Russia is trying to maintain

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[7] Stephen Kinzer, " A Perilous New Contest for the Next Oil Prize," *The New York Times*, 21 September 1997 [newspaper on-line]; available from http://search.nytim/.../fastweb/caspianandpipelines; Internet; accessed 25 August 1999.

its monopolist advantage in transit by building the MEPs in its territory and opposing routes that would enable other sources of oil and gas to compete in Russian export markets.[8] Turkey, on the other hand, is trying to convince multinational companies to build a MEP passing through its territory and linking Azerbaijan, Georgia and Turkey economically and politically. The multinational companies are waiting for possible changes in U.S. relations with Iran to build a less costly pipeline terminating in the Persian Gulf. U.S. policy makers are attempting to free these new states from dependence on Russia and to do so without them growing closer to neighboring Iran. U.S. policy makers are also encouraging these states to create "an East-West Trans-Caspian gas pipeline from Turkmenistan to Turkey and a main export pipeline from Azerbaijan."[9] Both policies "give Russians genuine cause for concern"[10] and most intimidating for Russia is the U.S. support for the growth of Turkish influence in the region.[11]

While states try to implement their foreign policies in the region, domestic politics cause trouble for policymakers by putting them into multidimensional dilemmas.

The United States government attempted to back Azerbaijan in political matters, but "America's role was constrained by the activism of the Armenian-American community."[12] The United States is trying to "roll back" Russian influence from the Caucasus, but is also helping Armenia, which has allowed Russia to station military forces on Armenian soil. The U.S. policy makers verbally back Turkey in its struggle with

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[8] Paul Goble, "Pipelines and Pipe Dreams: The Geopolitics of the Transcaucasus," *Caspian Crossroads Magazine*, No.1, winter 1995 [periodical on-line]; available from http://ourworld.compuserve.com/homepages/usazerb/1.html; Internet; accessed 10 October 1999.

[9] Martha Olcott, "Caspian Sea Oil Exports," *Testimony for Subcommittee on the International Economic Policy*, [document on-line]; available from http://www.ceip.org/people/olcaspw.htm; Internet; accessed 27 August 1999.

[10] Anatol Lieven, "Ham Fisted Hegemon: Clinton Administration and Russia," *Current History*, Vol.98 (October 1999): 313.

[11] Ibid., 315.

[12] Hafiz Pashayev, "Shaping Azerbaijan's Geopolitical Future," *Summary of Remarks in CSCIS Conference*, 19 July 1999 [on-line]; available from http://www.cscis.org/turkey/event990719Pashayev.html; Internet; accessed 2 September 1999.

the lenders to convince them about the need for a main oil pipeline on Turkish soil. But this support does not seem to be strong when its consequences are examined. The United States also seems to be caught between deciding on containing Russian intentions in Caucasus and giving in to Russia's priorities. The differences in the decision-making processes in these countries also make solving the multilateral problems more difficult.

Turkey is trying to relax tensions with Armenia, but is constrained by the unresolved conflict between Armenia and Azerbaijan. While Turkey tries to change assumptions about its Kurdish terrorism and its consequences on pipelines abroad, it also strives to overcome relation problems with Russia.

Russia fears Islamic radicalism but also "regards Tehran not as a threat but as an important ally."[13] While Russia tries to maintain its own stability domestically, it also tries to cause instability in the "Near Abroad" at a level sufficient to frighten away other outside players but to prevent this instability from spilling over into the Russian Federation or inviting international involvement.[14] The Newly–Independent States (NIS) of the region still have domestic and international problems. Their interests are also important factors in regional politics. They still cannot produce firm policies and their preferences in a possible alliance with different regional powers may change the policies of big powers. As a result of complex and overlapping geopolitical issues, the future of these energy rich new states' is also in question.

Generally the region is still unstable and the future of energy resources are still undecided. The western penetration started just after the demise of the Soviet Union but a decade long process did not give accountable results in the region. There are possibilities that instability in the region may continue and even heighten. Russia may restore its dominance for an indefinite period of time or this region may reach a new balance. According to the Organization for Economic Cooperation and Development (OECD) "political, ethnic or other strife in the Caspian region would have repercussions far

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[13] Anatol Lieven, "Ham Fisted Hegemon," 314.

[14] Paul Goble, "Pipelines and Pipe Dreams."

beyond its immediate shores."[15] Whatever the reasons and consequences are, routing of new oil and gas pipelines from the Caspian basin will greatly influence the region's future geopolitics.

Experts on Caspian oil issues assert different approaches to the subject. Two major approaches, policy oriented and finance oriented literature, make most of the groundwork for this study. The policy-oriented school of thought considers the regional balance of power, national security and economic benefit, while the latter mostly concerns economic logic based on commercial and financial analysis. The literature about the Caspian oil pipeline includes some misperceptions when evaluating the Turkish option. These misperceptions also understate the importance of regional actors and their interests. This thesis is modeled after current research, but revises some issues and emphasizes others.

This thesis further argues that resources and developments around Caspian are important because of the energy security and regional stability. Under any condition, the Caspian is going to contribute significantly to the global energy supply. In case of instability in the Middle East, Caspian resources could bridge the resulting gap. However the region needs a stable oil and political regime. Tiny new states around the Caspian Sea do not have the means to guarantee their futures. Continuing instability or the restoration of Russian control throughout the region would not be in the U.S., Turkey or the regional interests, but policies, which are not precisely calculated, may lead to this end. Turkey and the United States have common interests in the region and their cooperation helps the global economic and political stability. This thesis also argues that although economic factors are important, energy geopolitics plays a decisive role in determining the fate of oil pipelines in this part of the world. A rational decision can be a good balance between economic and geopolitical factors. There could be a need to revise the current policies. Firmer U.S. support for Turkish option best serves to their own interests. The United

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[15] Ben Partridge, "Central Asia: Caspian Resources Provide Alternative to Middle East," *Radio Free Europe/Radio Liberty*, 5 January 2000 [publication on-line]; available from http://www.rferl.org/nca/features/2000/01/F.RU. 000105125920.html; Internet; accessed 5 January 2000.

States, Turkey and the oil-producing countries' economic, geopolitical interests are at stake within the security problems of Caspian Sea basin.

This thesis analyzes the politics of oil in the Caspian Sea basin on the basis of recognized primary and secondary sources. Examines some of the historical and theoretical questions with a view to rethinking some basic policy issues. The analysis examines the subject in its historical context, dealing with general, national and regional oil policies. It will focus on the United States and Turkey's interests and will identify commonalties and differences. Given this framework, the subject is divided into four main sections. Chapter II examines the background and describes current and proposed pipelines while trying to give key features of oil politics in the region that the U.S. and Turkish policymakers must consider. It also describes regional and non-regional actors and their stakes. Chapter III evaluates U.S. policies' benefits and restraints while evaluating current implications. Chapter IV discusses the Turkish interests and policies and evaluates the problems with the proposed pipelines and its neighbors. Chapter V analyzes commonalties and disagreements among policies and recommends policies for future. Chapter VI provides a conclusion.

II. OIL POLITICS IN THE CASPIAN SEA BASIN

Any understanding of the Caspian pipelines and oil politics must be based on an accurate and valid account of Caspian energy reserves with reference to the world's total resource database. According to a report delivered by the State Department to the United States Congress in 1997 "proven reserves" in the Caspian region runs around sixteen billion barrels.[16] Most geologists currently classify "proven" reserves between twenty billion and thirty billion barrels. The above-cited report gives a figure of approximately 145 billion barrels as an estimate for the additional possible reserves. Geological analyses conducted by the oil companies tend to estimate the reserves somewhere between forty and seventy-five billion barrels. There are even statements saying this region's "oil reserves are estimated to be at least as large as those of Iraq and perhaps equal those of Saudi Arabia."[17] According to optimistic assessments, Caspian reserves are "roughly equal to a quarter of the Middle East's total proven reserves."[18] But even the smallest figure would represent a huge opportunity for oil companies. This is also true in commercial, technical terms, and also in the geopolitical context. Caspian oil can not replace the Middle East oil, but it can reduce the dependence on the Middle East while easing the problems in a possible supply disruption. As a multiplier in the global energy security formula, it also significantly contributes to overall global security. This region is also a place where new states as well as the neighboring countries cannot help but to be interested and involved in the region's future as a playing field, trying to gain economical

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[16] U.S. Department of State, "Caspian Region Energy Development Report," delivered to Congress as required by H.R. 3610, April 1997, quoted in Laurent Ruseckas, "State of the Field Report: Energy and Politics in Central Asian and the Caucasus," *Access Asia Review*, Vol. 1, No. 2, (1998): Essay 2 [report on-line]; available from http://www.nbr.org/publications/review/vol1no2/essay2.html; Internet; accessed 7 February 2000.

[17] Richard Pipes, "Is Russia Still an Enemy?" *Foreign Affairs*, vol. 76, no. 5 (September/October 1997): 73.

[18] Erik Kreil, "Caspian Sea Region," *Country Analysis Brief*, U.S. Department of Energy, Energy Information Administration, December 1998, [report on-line]; available from http://www.eia.doe.gov/emeu/cabs/caspfull.html; Internet; accessed 20 November 1999.

as well as political benefits. As Laurent Ruseckas put it, in the Caspian region "oil is an important piece of a larger picture."[19]

A. CURRENT AND PROPOSED PIPELINES

The Caspian is landlocked because of this reason; exporting crude oil requires pipelines or rail transportation crossing national boundaries.[20] In the Soviet era there were only a few pipelines in the region and these pipelines were mostly designed in the north-south direction to link the Soviet Union internally through Russian territory. This network is underused and comparatively small for the projected vast size of oil to be exported in the near future. This pipeline is definitely aging–40% of the total length is over twenty years old, 70% is over fifteen years old–and prone to leaks.[21] The huge volumes of crude oil are far beyond the capacity of the existing pipelines and export to east or west is clearly mandatory, but given the capacity and considering the terrain, this requires a massive investment.

Old pipelines in the Caspian region consist of two networks. First one originates in the Kazakhstan's Tengiz oil fields, passes through Russian territory, and goes north towards Samara in Russia. This branch of northern pipeline network also has a regional segment in a southern direction to Grozny in Chechenya. The second pipeline coming from Baku in Azerbaijan connects to this segment in Chechen territory. The second pipeline runs toward Novorossiysk, a Russian Black Sea Port.

Currently a new pipeline carrying Azerbaijan's "early oil" from Baku to Georgia's Supsa terminal operates to carry a limited amount of Azeri oil from the Caspian. Small amounts of oil are also shipped by rail and barge through Russia.

With the exploration of new oil fields in the Caspian region two big consortiums were formed with many comparably smaller ones around the Caspian. The Caspian

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[19] Laurent Ruseckas, "State of the Field Report."

[20] The Don-Volga Canal links Caspian to Black Sea, but its capacity to ship large quantities of oil is limited because of its physical limitations.

[21] *IF Oil and Gas Report*, 8 (271), 28 February 1997.

Pipeline Consortium (CPC) was formed to transport oil from Turkmenistan oil fields. This consortium consists of Russia (24%), Kazakhstan (19%), Chevron (15%), LukArco (12.5% Russia/United States), Mobil (7.5%), Rosneft-Shell (7.5% Russia-U.K./Netherlands), Oman (7%), BG (2% U.K.), Agip (2% Italy), Kazakhstan Pipeline Ventures (1.75% Kazakhstan), and Oryx (1.75% United States). This consortium decided on its Main Export Pipeline (MEP) route and has begun construction of a 1.34 million-bbl/day oil export pipeline between Tengiz oil fields and the Russian Black Sea Port of Novorosiisk.[22] On the west side of the Caspian the Azerbaijan International Operating Company (AIOC) will export oil from Azerbaijan's oil fields. The AIOC venture decided to ship its "early oil" through two pipelines. First one is the old Russian northern route between Baku and Novorosiisk. Transportation from this pipeline started in late 1997 while a second new one from Baku to Supsa concluded the early oil pipeline routes from Azerbaijan's portion of the Caspian in 1999. AIOC consists of BP (17.1%), Amoco (17%), Unocal (10%), Statoil (8.6%), Exxon (8%), TPAO (6.8%), Itochu (4%), Ramco (2.1%), Delta (1.6%), Socar (10%)[23]. This ratio represents a 42% in American companies' share, leaving smaller shares to other partners.

Because the CPC decided on its MEP, most of the discussions about pipeline issues originate from the undecided AIOC MEP route. There are four primary proposals to transport Azeri oil to world markets (see Map 1, Map 2). Current "early oil" pipelines from Baku to the Russian Black Sea port Novorosiisk and Baku to Georgian Black Sea port Supsa are two of the candidates for AIOC MEP route. Another proposal is to export Caspian oil directly to the Persian Gulf. Iran has suggested that the best way to export oil from Caspian should be directly south through Iran by which a new pipeline passing from Tehran and Iran's pipelines and refineries would transport Azeri oil as well as Turkmen and Kazakh oil.[24]

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22 Erik Kreil, "Caspian Sea Region."

23 Cynthia Croissant, *Azerbaijan, Oil and Geopolitics*, (Commack, New York; Nova Science Publishers, 1998), 114.

24 Erik Kreil, "Caspian Sea Region."

Existing and Potential Oil and Gas Export Routes From the Caspian Basin

Source: U.S. Department of Energy, EIA

Map 1. Existing and Potential Oil and Gas Export Routes from the Caspian Basin.

Selected Oil Infrastructure in the Caspian Sea Region

Source: U.S. Department of Energy, EIA

Map 2. Selected Oil Infrastructure in the Caspian Sea Region.

Another proposal considers the Turkish Mediterranean port of Ceyhan as a final destination for the MEP route for Azeri oil. This pipeline starts from Baku, goes north toward Supsa, turns south from Georgian territory, and passes Turkish territory diagonally while terminating in southern Turkey.

As the production from the east side of the Caspian increases, it is expected to have new pipelines linking this oil to the west. One of the proposals offers to connect the

east side of the Caspian with a cross-Caspian pipeline to the existing or to new pipelines in the west. This proposal favors Turkish option as the MEP route.

Secondary proposals need the realization of at least one of the pipelines proposed to terminate in the Black Sea. According to these proposals, tankers will carry the crude oil from the Black Sea Ports to Bulgaria's Black Sea Port Burgas, and will convey it either through a Macedonian-Albanian pipeline route to the Adriatic or through a Greek route to the Aegean Sea. There are also plans to transport this oil from Romania with barges through the Danube-Maine-Rhine en route to Germany or through a pipeline passing through one of the routes from the north through Hungary or from the south through Yugoslavia and Croatia.[25] A Ukrainian pipeline route in the central European direction is also possible in alternative proposals.

Other than European markets there are also proposals to transport oil from Kazakhstan and Turkmenistan to China and to Pakistan via Afghanistan.[26] These two proposals seem to be the only eastern route proposals among the others discussed until now.

Each pipeline proposal about the Caspian oil transportation contains a wide variety of indigenous problems, ranging from economic inviability to physical impossibility, domestic politics to regional instability and more. First of all, because oil companies will pay for the pipeline investments, the cost of pipelines and their recoverability concerns them more than the other issues. For the state and big power concerns, this just means a secondary issue. They mostly deal with the balance of power politics and the future shape of the region.

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[25] Ibid.

[26] Ibid.

B. REGIONAL AND NON-REGIONAL ACTORS' INVOLVEMENT

The Caspian Sea is surrounded by five littoral states. Russia, Kazakhstan, Turkmenistan, Iran, and Azerbaijan are naturally interested in the issues because of their producer status.

> Most of Azerbaijan's oil resources (proven as well as possible reserves) are located offshore, and perhaps 30% to 40% of the total oil reserves of Kazakhstan and Turkmenistan are offshore as well.[27]

Because most of the oil in the Caspian region is found in their territory, this situation promotes Kazakhstan and Azerbaijan to major producer as well as favorable nation status.

Economic benefits resulting from this potential lead some external powers to attempt the MEP to be built across their territory: Georgia, Turkey and China. The United States, on the other hand, both because of financial institution's involvement and the importance of the region's future for the states' national interests, could not help but to be actively involved in the regional politics. Some other countries like Ukraine, Romania, Bulgaria, Greece, Macedonia and Albania are also trying to become involved in this process less directly than the former ones. There are also countries like Oman, Norway, Great Britain and Japan, which are partners to the production and transportation agreements.

Despite the fact that states are the primary actors in Caspian oil maneuvers, in today's global economy and financial environment, they have limited power to dictate projects by themselves. Oil companies play a decisive role in choosing the pipeline routes in the Caspian Sea Basin. Without their willingness to contribute capital and risk management competence, it is hard to build pipelines. This position sometimes puts them on opposite sides and the ensuing economic logic and competition among the states complicate the pipeline rivalries.

The Newly-Independent States (NIS) of the Caspian region are supposedly governed by democracies, but a legacy of communism and a long history of authoritarian

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[27] Ibid.

rule in these countries force us to also see powerful individuals as important players. Currently Caspian nations do not own liberal democracies and liberal leaders. With only some progress in political life most of the state power resides in the hands of powerful statesmen.

C. POLITICS OF OIL IN THE WORLD AND IN THE CASPIAN SEA REGION

Petroleum reminds most people of the Middle East or platforms on the North Sea. In fact the Caspian deserves to be known as the historical origin of oil. The 13th century explorer Marco Polo reported that springs in Azerbaijan "bubbled with black goo that was good to burn."[28] In 1873, Robert Nobel, brother of Alfred Nobel, built up the region's leading oil company and at the end of the 19th century, Baku was the world's number one source of oil. "The Nobels built the world's first oil tanker, which transported oil across the Caspian Sea while the Rothchilds financed a railway line between Baku and the Black Sea Port of Batumi in Georgia.[29] According to Daniel Yergin and Thane Gustafson until the middle of the 20th century, Azerbaijan remained the largest European oil supplier. Capturing Baku was Hitler's top strategic objective when he invaded the Soviet Union in 1941.[30] After World War II, "the Soviet Union began to neglect the historic Azerbaijani fields, production fell, and the importance of the Caspian Sea as an oil-producing region declined."[31] Soviet oilmen turned their attention to the Urals and

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[28] Daniel Williams, "Oil Soaked Azeris Find Affluence Elusive," *Washington Post*, 7 September 1998, A15.

[29] Audrey L. Alstadt, *The Azerbaijani Turks: Power and Identity Under Russian Rule* (Stanford, CA: Hoover Institute Press, 1992): 21.

[30] Daniel Yergin and Thane Gustafson, "Evolution of an Oil Rush," *New York Times*, 6 August 1997 [newspaper on-line]; available from http://www.mtholyoke.edu/acad/intrel/oilrush.htm; Internet; accessed 23 November 1999.

[31] Robert Barylski, "Russia, the West, and the Caspian Energy Hub," *Middle East Journal* (Vol.49, No.2, spring 1995): 218.

then to the West Siberia for the resources that made the Soviet Union the world's largest oil producer, ahead of Saudi Arabia, by the 1980's.[32]

This region of the world was an area for the competition of empires from the early 19th century. While there were many rivals, the principles were fought between Russia and Britain. At that period, lands around Caspian were viewed in terms of military reward. The land between Europe and India was the great prize for the winner of the competition. With the Bolshevik revolution, this rivalry ended and nations of this vast land became Soviet citizens. During its last thirty years, the Soviet regime gave priority to the oil and gas fields in the Russian Federation while depriving the littoral states of a higher standard of living. The Soviet administration linked the Siberian fields to the Western markets[33] but not the Caspian fields. Under Soviet rule the transportation of energy was made only through a single line of integrated USSR-wide pipeline grid. This grid was firmly sealed off from linkages with all the countries to the south, creating an unnatural situation.[34]

> From Moscow's point of view, it made neither political nor economic sense to permit general, open competition by the fifteen constituent republics for foreign investment and foreign export market shares.[35]

After the collapse of the Soviet Union in 1991, the Soviet energy system also collapsed, each republic took over the present energy infrastructure and an opportunity for the western states and oil companies emerged.

Currently there are many companies and states investing in the Caspian region and interactions between markets, big petroleum companies, states, OPEC and International Energy Agency are defining the international oil regime. The main aspect of this regime

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[32]Daniel Yergin and Thane Gustafson, "Evolution of an Oil Rush."

[33] Robert Barylski, "Russia, the West, and the Caspian Energy Hub," 218.

[34] S.Frederick Starr, Thomas R. Stauffer and Julia Nanay, "Caspian Oil: Pipelines and Politics," *Middle East Policy* (Vol.5, No.4, January 1998): 27-50 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 4 October 1999.

[35] Ibid.

is supposedly free trade, but it is not immune to manipulations and changes by big oil cartels, powerful states or organizations of oil producing countries. The interdependence among the elements of the system brings forward a sensitive structure with much input. Until the 1980s the international oil regime was mostly an outcome of decisions by OPEC because of its power. Today this regime is mostly a product of trade, bargaining and compromise in a freer environment with many more effective elements. A powerful element of this system OPEC produced almost 40% of the world's crude oil production in 1997.[36] Although its "demise has been predicted regularly since ...1986, it survives with 11 members... controlling 78% of the world's oil reserves."[37] According to Energy Information Administration (EIA), OPEC's share is expected to be essentially unchanged by the end of the year 2005. Former Energy Secretary Frederico Pena on the other hand predicts a rise in the Middle East's share of world oil exports. Comments contributed to him assert that "the Middle East's share will ...be significantly higher in 2010 than its current level of about 50%."[38] Considering the United States' 36% and 49% imported oil dependency as an example in the years 1973 and 1993[39] and expectations for an accelerating worldwide oil demand over the next five years, we can say that this seriously effects countries that import large quantities of oil. According to the EIA's data, the collapse of the Soviet Union and the emergence of new petroleum resources coincide with a period of increasing world dependence from 31% to 42% on OPEC crude production between the years 1987 and 1993. As of 1997 the former Soviet Union was

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36 Nael Davis, "Woldwide Petroleum and Natural Gas: Prospects through 2005," *Energy Information Administration*, June 1998 [on-line]; available from http://www.eia.doe.gov/emeu/finance/usi&to/Up_98.html; accessed 6 April 2000.

37 *Oil & Gas Journal*, (9 March 1998): 39-41 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 1 February 2000.

38 John H. Lichtblau, "U.S. Caspian Area Foreign Policy in Conflict With Resource Plans," *Oil & Gas Journal*, (11 August 1997): 19-22 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 18 November 1999.

39 Patrick Crow, "Remembering the 1973 Embargo," *Oil & Gas Journal*, 11 October 1993, 32 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 18 November 1999.

the third largest oil-producing region behind Saudi Arabia and the United States.[40] This region's oil production is expected to be more than the world's average oil production increase in the years ahead. When its consequences are calculated, it is clear that Caspian oil will be another input for global energy regime with positive effects and increasing oil investor interests day by day.

Today's international energy regime is different from 1973's energy environment. Since then the world has drastically changed. In today's world countries are much more dependent on the global oil market for basic energy resources than 25 years ago, but they are much less vulnerable to the risks involved. This is not because the problems have diminished and new solutions were found. Instead, countries have developed new and successful policies to deal with the possible problems of short-term supply disruptions. Furthermore a growing number of non-OPEC oil producers helped diversify the oil resources of various countries. One fact has remained, the political use of oil still exists. Because energy is a global commodity, its price and availability may have global implications. In this environment, markets generally define the energy policies. Because the primary concern for investors and financial institutions is economic gain, their rationales are clearly with anyone and with any path that brings money in the end. If governments help financial institutions do business with any producer country, both may share the same policies while dealing with the issues. If a contradiction arises between them, both may face problems to eliminate the discrepancies. In any case, any power or any institution cannot guarantee the maintenance of the security of domestic and global energy markets. Almost every country tries to collect a specific amount of reserve to overcome sudden supply interruptions and to find other energy resources, which can replace oil.

Obviously competition for Caspian oil cannot be excluded from the general framework of the international oil regime. But, clearly, Caspian region has the distinction of being a playfield with too many actors and too many influences. This distinction forces the players to employ more classical terms of international relations. The independent

[40] Nael Davis, "Worldwide Petroleum and Natural Gas."

states of the Caspian region so far have failed to establish sustainable strategies for economic development and prospects vanished over a bulk of problems. These factors reinforce the weak position of the states of the region within the international system. Because of this reason regional politics are determined by the policies of the larger regional powers like Russia, Turkey and Iran, and major outside powers like the United States and European Union. This leaves little place for the intentions of countries of the region themselves. Even the economic prospects of the problems cannot be applied without the intervention of region's big economies.

The history of the Middle East pipelines illustrates that few pipelines have managed to exist in politically volatile areas:

> Successful pipelines (Algeria-Tunisia-Italy; Paraguay-Brazil; Algeria-Morocco-Spain) seem to be based on depoliticised environment, private law models and avoidance of much state involvement. The consequence of these difficulties is usually a multiplication of political risk.[41]

Supporting this argument, in the Caspian there is not a single route that traverses a country that is totally politically stable. The Caspian region is already under political risk and most of the questions seem to be dependent upon how to deal with the issues.

D. INTERESTS OF THE PARTIES

Billions of dollars are at stake for the governments of the Caspian, international oil companies and the transit countries bringing this oil to markets. Even at today's low prices, the oil in the Caspian region has a market value of $2.2 trillion.[42] And the choice of pipeline route will determine not just the overall price of the projects but also how its costs and benefits will be distributed to the parties involved.

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[41] Thomas Waelde, "International Good Governance and Civilized Conduct among the States of the Caspian Region: Oil & Gas as Lever for Prosperity or Conflict," *The Journal*, Vol. 4, Article 16 [on-line]; available from http://www.dundee.ac.uk/cepmlp/main/html/journal/article4-16.htm; accessed 7 February 2000.

[42] Martin Josh, "Pipeline to Profits," *Management Review*, April 1999, 45-50 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 12 November 1999.

The first winner and loser of Caspian pipelines would probably be the consumer countries and oil cartels. For the consumers, it does not matter where the oil is sent. Because of the oil market's global nature, they will still benefit from the abundance of crude oil. Oil cartels, on the other hand, will lose assets in every case. Given the producer countries' current struggle with the low oil prices, additional oil from the Caspian region would force these cartels to struggle with the low prices more than before or to engage in the Caspian production and transportation themselves.

Producer countries' stakes are larger than outside players because they have chronic economical, organizational and security problems in the region. Apart from the obvious problems, piping oil from the region means hard currency for them. Considering that these countries are the least developed in this part of the world, obviously this production of oil will highly effect the future economy of these nations. The direction of the pipeline routes will also define their roles as sovereign or dependent players.

Transit countries will also gain benefits from liabilities or transit fees. They also will have a controlling hand in regional geopolitics because of their control of the pipeline. Either through construction processes or through administration of pipelines in the future, they also will gain interdependence between each other and this will serve as a bridge between culturally, economically and even ideologically different countries. The routes of pipelines could even solve military conflicts if they are used as tools for building regional peace.

The big powers' stakes depend mostly on how they interpret the situation. Their support for firm and fruitful policies earn more than their investments, while their interpretation of current policies may deprive them of simple gains. From the big power's perspectives, apart from the economic aspects, oil is also the core of the internationalization of the struggle for Caucasus. Their situation requires them to be flexible enough to fit any situation in the future. Flexible policies may permit a new sphere of influence in the region and may shape the context of pipeline policies.

E. PROBLEMS

First of the current problems is economic inadequacy. "Individually, none of the Caucasus countries is large enough in itself as a market to offer the economies of scale that normally make major industrial investment attractive."[43] Furthermore the governments are "addicted to centralized control" and presidents make "the final decision on all major, many medium, and some small issues."[44] Like all other multinational investment issues, pipeline decisions require intergovernmental agreements, contracts and guarantees for the possible problems. Clearly that for the time being, these countries can not supply these conditions and without sufficient power and will to supply these, pipeline decisions may wait for suitable circumstances.

Political instability constitutes another problem. Russia named these republics according to their principal nationalities, "it drew their boundaries in a way designed to reduce each native group's potential for political control: Part of this community was always left stranded in neighboring republics, while ethnic groups with competing historic claims were joined to the territory."[45] Deep ethnic divisions have left these states separatist enemies to each other for a long time. With the demise of the Soviet Union, new states found their independence but state building was not easy. Russian economic dominance left new leaders of the Caucasus alone in their struggle with many old and new problems. In a deteriorating economy where a border guard or policeman's bribe can equal six month's salary,[46] it is clearly hard to maintain the means for normal governance.

Construction of new transit routes from the region is currently underway. "Early oil" pipelines are operational and MEP from Kazakhstan's portion of the Caspian is

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[43] Michael Lemnon, Ambassador to Armenia, (1999) quoted in Patrick Crow, "Six Ambassadors," *Oil & Gas Journal*, (17 May 1999): 36 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 12 November 1999.

[44] Steve Mann, Ambassador to Turkmenistan, (1999) quoted in Patrick Crow, "Six Ambassadors."

[45] Martha Brill Olcott, "The Caspian's False Promise," *Foreign Policy*, (summer 1998): 95.

[46] Ibid., 111.

expected to be finished by the end of 2001, but the proposed pipelines face difficult problems. An important limitation regarding these pipelines is that most of the current and proposed pipelines must terminate at the Black Sea Ports and this requires them to pass through the Turkish straits to reach the Mediterranean and world markets. The Turkish straits have a limited capacity and the size of tankers which can travel through these straits are subject to limitations because of both the natural features and the man-made structure on the sides of the straits.

The proposed pipeline going toward China is an ambitious one, but because of the terrain and distance between the Caspian region and China, numerous technical difficulties postpone a comprehensive pipeline agreement. This plan also seems unlikely to be financially feasible, at least for the near future.

The other eastern proposal for the Caspian oil transportation is restrained by the ongoing civil disorder in Afghanistan. The proposal was made to transport oil to Pakistan and possibly to India later on. Low oil prices, U.S. bombing raids for suspected Afghan strongholds of suspected terrorist, Osama bin Laden, the turmoil in the region and the high risk involved forced companies and states to delay the decisions for an undetermined time.[47]

Baku-Supsa oil pipeline, a candidate for the MEP if realized will compound the traffic in the Turkish straits and will also require an extra investment. This will require the building of new terminals with the capacity to load more than 1 million barrels of crude oil daily.[48]

A pipeline carrying Caspian oil through Iran economically and technically makes much more sense than the other options. But United States government does not want to make large monetary and political investments considering the Islamic Republic's twenty-one year policy in the region.

A pipeline from Baku to Russian port Novorosiisk travels through one of the least stable parts of the world. This pipeline starts from Azerbaijan, passes Daghestani territory

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[47] Erik Kreil, "Caspian Sea Region."

[48] Ibid.

and just before entering Russian soil, cuts through Chechenya. In less than ten years Chechenya went to war with Russia for the second time:

> Before the war broke out in August [1999], constant tapping of the 110 kilometer line through Chechenya made the Novorosiisk route inoperable. Since the war started, Russia has been carrying Azerbaijani oil by rail to avoid Chechenya.[49]

Chechenya and Russia still have not reached an agreement on the country's future. Russia seems to control the region, yet unresolved conflicts for the last six years has damaged the efforts to repair the old pipelines. These conditions also imperil the working conditions; makes it harder to build new lines and forces decision-makers to rethink their plans to pump oil through this pipeline. It is also likely that in case new pipelines pass through this region, Chechens will demand a portion of the pipeline or some other kind of concessions before any projectis implemented.

Turkey owns one of the biggest and most suitable ports for oil transportation from the Mediterranean but the Turkish option costs more than the other options. As the most developed state in the region, Turkey also struggles with oil companies' and regional states' presumptions. Turkey's proposed pipeline passes just across eastern and southern Turkey. International organizations see Turkey's struggle with Kurdish terrorism similar to Russia's Chechenya problem.

Trans-Caspian pipeline faces technical, legal, environmental and benefit sharing disputes among the littoral states. Oil and gas producers of the region are competitors of the same market and even though Azerbaijan, Kazakhstan and Turkmenistan are friendly to each other, this does not prevent them from having problems in market sharing agreements.

To further complicate the problems, the Caspian Sea is subject to conflicting legal issues. The legal aspect of the Caspian slows down the development of the region. Mainly these issues involve "whether the development rights [will be] governed by treaties

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[49] Michael Lelyveld, "Pipeline Project Around Chechnya Fraught with Problems," *Radio Free Europe/Radio Liberty*, 6 January 2000 [publication on-line]; available from http://www.rferl.org/nca/features/2000/01/F.RU.000106133003.html; Internet; accessed 3 February 2000.

signed between the former Soviet Union and Iran (which did not establish seabed boundaries or discuss oil and gas exploration)."[50] Littoral states have different approaches to the question and all of them try to pursue their economic interests.

Another primary issue is determining if this body of water is a sea or lake. If the Law of the Sea convention is applied, full maritime boundaries of the littoral states would be established and undersea resources would also be divided into national sectors. If the Caspian is accepted as a lake, then the resources need to be developed jointly. Because much of the oil resources are off shore in their sectors, Azerbaijan and Kazakhstan support establishing national sectors whereas Iran insists on the agreements signed with the Soviet Union in 1921 and 1940.[51] Russia switches position from time to time while trying to maintain its beneficial position and Turkmenistan tries to find a mid point between different policies.

According to some scholars, the Caspian is not a bad bet if someone is looking for a flashpoint for World War III.[52] But even without a whole scale regional war, the region itself has enough conflicts. The western route of "early oil" between Baku and Supsa just passes north of the breakaway Azeri region of Nagorna-Karabakh. Populated mostly by Armenians, this region became a problem area and cause of a war between the Armenians and the Azeris. Continuing armed conflicts were mediated by a cease-fire in 1994, but the Armenians currently control 20% of Azeri territory and a final solution to the problem is still far from probable. Animosity between neighboring countries prevents them from cooperating for a shorter pipeline passing through both their countries and Turkey. This also keeps them from developing mutual benefits in a joint project. The conflict between Armenia and Azerbaijan pushes the Turkic Azeri nation to reach closer terms with Turkey and to leave Armenia to other regional rivals, Russia and Iran's hands.

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[50] Erik Kreil, "Caspian Sea Region."

[51] Ibid.

[52] Paul Starobin, "The New Great Game," *National Journal*, (13 March 1999) [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 2 November 1999.

Georgia, another possible alternative to pipelines lost a civil war to its separatist region, Abkhazia, in 1993. On the north of the country separatist Ossetians are also posing another threat to Georgia's unitary structure. The situation is so conflicting that Georgian president, a pro-western statesman, escaped several assassinations and a coup attempt between 1992 and 1998.

Because of the deadlocks on the negotiations for a pipeline route and reemergence of the Chechen problem in late 1999, Russia built another pipeline by-passing Chechenya and passing through Daghestan. Unfortunately, the new route is over twice as long as the old one creating the opportunity for attack.[53] Probably Chechens will have a slight benefit from its operation, as a result the new route may be even more vulnerable to interruptions.

Under the current international environment, the United States' Iran and Libya Sanctions Act (ILSA) still imposes sanctions on U.S. companies prohibiting direct economic connections to Iran. These sanctions negatively effect U.S.-Iranian and U.S. regional cooperation in the Caspian issues.

F. GEOPOLITICS OF THE TRANSCAUCASUS: RUSSIA'S CASPIAN REGIME

One of the important aspects of the Caspian region is this region's long history of rivalry and Russian rule with dire memories. To analyse this region, one must understand the motives of the policy makers and the consequences of their actions.

Although the Soviet Union collapsed and new states came forth, Russian interests in the region did not fade. The demise of the Soviet Union and the end of bi-polarity have revived the common features of regional rivalry and internal strife. Geopolitical and strategic interests as well as trade and idealism became the motivation for a renewed phase of oil politics. For Russia, oil and natural gas in the region meant a $60 billion

[53] Michael Lelyveld, "Pipeline Project around Chechnya Fraught with Problems."

investment to be made by the Western Powers and suddenly it lost "its almost 200 year grip on the region."[54] According to Alexei Podberezkin in Russian eyes:

> Exploiting their financial and other resources, the West was allegedly attempting to promote disunity in the Commonwealth of Independent States (CIS) and weakening Russia's role in the former Soviet republics.[55]

Excluding Russia from sharing in these benefits would result in a loss of access to vital goods, raw materials and services that are located to Russia's south. In fact, in different ways, Russia still depends on the Transcaucasus. For example:

> Two-thirds of the oil drilling equipment it requires is produced in Azerbaijan; the Sukhoi-25 fighter-bombers are assembled in Tbilisi, and several components for other military equipment are made exclusively in Armenia.[56]

Furthermore a considerable number of ethnic Russians live in those states. The land-locked Caspian countries depend on oil and gas exports for hard currency, but they can access international markets only via Russian pipelines. Russia wants to maintain its political and economic influence over these newly-independent states by controlling the future export routes.

Azerbaijan and other petroleum producer countries' free access to markets is their survival interest, but in an area that is far more distant to the developed part of the world, Russia has been following a more aggressive and threatening strategy than anyone could imagine. A senior aide to Georgian President, Eduard Shevardnadze, summarizes the situation in the region in 1997 as highly critical.

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[54] Steve LeVine, "Oil Rich Neighbor Eclipsing Armenia." *New York Times*, 30 March 1998 [on-line]; available from http://www.mtholyoke.edu/acad/intrel/armoil.htm; Internet; accessed 23 November 1999.

[55] Alexei Podberezkin, "Russia's New Path," *BCSIA Occasional Paper* (July 1998), Kennedy School of Government Cambridge, MA: Strengthening Democratic Institutions Project [on-line]; available from http://ksgnotes1.harvard.edu/BCSIA/Library.nsf/pubs/RusNewPath; Internet; accessed 28 February 2000.

[56] Dimitri Trenin, *Contested Borders in the Caucasus,* Russia's Security Interests and Policies in the Caucasus Region (BE: VUB University Press, 1996), Ch. III [book on-line]; available from http://poli.vub. ac.be/publi/ContBorders/eng/ch0301.htm; Internet; accessed 7 February 2000

> Everything could blow up at any moment, the West wants the Caspian oil that Russia regards its strategic reserve; the titular states of the region want real independence, while Moscow incites separatism in every one. Corruption abounds and national identity, not to mention the ability for self-defense, is very weak.[57]

Even though Russia's power as a state also decreased, it still can ignite problems and employ the same tactics employed by the Soviet Union. In the past whenever the new states refused to agree on the terms of a Russian proposal, Russia began using whatever economic, as well as political and military cards, were available. When for example, Azeri and Georgian presidents refused to join the Commonwealth of Independent States (CIS), Russia began supplying arms and support for separatist movements in these countries.[58] Similar hidden threats were used to convince other new leaders to join the CIS and to receive security guarantees. According to Martha Brill Olcott, in Kazakhstan, factories were regularly left without power, and in Turkmenistan, Russia only granted access to its pipelines if Turkmenistan agreed to ship gas to bankrupt CIS states leaving the "hard currency" customers in Europe to Russia. These problems with "Russia's belligerence made the Caspian states look for foreign partners who could help finance new transit routes."[59]

Presently for economic purposes, Russia carries out five main policies in the region. First of all, by using its power, Russia dictates that new producers have to export all their oil through Russian pipelines. If it cannot manage to do this, it tries to minimize other possible options. Secondly, by forcing these southern neighbors to ration some of their energy to the CIS, Moscow assures the producer's poverty. Third, it creates debts to Russia and forces these countries to pay those debts in the form of refining and processing facilities. Fourth, it also uses western credit to manage these ambitions, and finally if Russia cannot get a share in the international consortia it tries to get those shares

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[57] Thomas Goltz, "Caspian Oil Sweepstakes," *The Nation*, (17 November 1997): 18-21 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 19 June 1999.

[58] Martha Brill Olcott, "The Caspian's False Promise," 96.

[59] Ibid. 97.

through the Caspian states.[60] In fact, Russia's moves can be interpreted as a beginning to recapture the dominant position in its southern region by exploiting control of pipeline networks, manipulating ethnic conflict and using any other means available. According to observers "Russia" makes use of "frozen conflicts that allow Russia to play one side against the other while threatening the oil export routes."[61] Influential Moscow hard-liners believe that instability in the Caucasus enhances Russia's power in the region.[62] Extraordinarily, Russia's foreign policy elite even privately and publicly criticizes their own oil companies' actions according to economic interests.[63]

Starting from October 1992,[64] Russia initiated a diplomatic campaign against international projects.

> On numerous occasions significant warnings came from behind the walls of the Ministry of Foreign Affairs, stating that 'unilateral actions' at the Caspian are illegal and will not be recognized by Moscow; that reserves the right to take necessary measures at any convenient time.[65]

Such a formulation practically needs no comments. It means little more than a direct threat of military force.

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[60] Frederick Starr, "Power Failure: American Policy in the Caspian," *The National Interest*, (spring, 1997): 20-31 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 2 January 2000.

[61] Ariel Cohen, "U.S. Policy in the Caucasus and Central Asia: Building a New 'Silk Road' to Economic Prosperity," *Heritage Foundation Backgrounder*, No.1132, 24 July 1997, 9.

[62] Ariel Cohen, "Ethnic Conflicts Threaten U.S. Interests in the Caucasus," *Heritage Foundation Backgrounder*, No.1222, Executive Summary, 25 September 1998, 2.

[63] Laurent Ruseckas, "State of the Field Report."

[64] Russian policies in the region passed through a retraction from the region with the demise of the Union, a second phase of chaotic involvement started just afterwards. Another subsequent phase was assertiveness.

[65] Duygu B. Sezer and Vitaly Naumkin, "Turkey and Russia: Regional Rivals," *Policywatch*, No: 268, (30 September 1997): 1, The Washington Institute for Near East Policy Paper.

Starting from the independence of the new states, Russia was not seeking an equal partnership.[66] The Russians still do not want to view regional countries as equal neighboring states. "Reintegration around Russia and under its auspices remains Russia's prime foreign policy objective."[67] Moscow views the Caucasus as part of its sphere of influence, and that it should have sole proprietary rights to energy, exclude foreign influence, and reorientate the new states to its economy. Thus Russia concludes treaties with Belarus and Armenia and now tries to dominate other weak states. This domination may be in different forms. Stephen Blank argues that Moscow's hand in two coups in Azerbaijan in 1993 and 1994 is almost a clear example of this intention.[68]

Because of the apparent danger of falling into Russian plans, countries are trying to find ways to overcome their influence and manipulations. In January 1999, Azeri national security adviser, Vafa Guluzade, urged NATO and Washington to exchange bases in Turkey with the ones in Azerbaijan in order to defend against external threats from Russia and Armenia.[69] Uzbekistan's announcement of its intention to leave the CIS common security agreement, Georgian President Eduard Shevardnadze's plea for a NATO solution to its Abkhazia problem, and Turkmenistan's reaching out to Pakistan, Iran and Turkey for assistance are further examples of the uneasiness in this region. These states are trying to build regional organizations to face common economic, environmental and even military problems. The GUAM initiative, formed by Georgia, Ukraine, Azerbaijan and Moldova, clearly shows the intent of the organization to resist Russian

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[66] Jayhun Molla-Zade, "Azerbaijan and the Caspian Basin: Pipelines and Geopolitics," *Caucasus and Caspian Seminar Transcripts*, Kennedy School of Government, Cambridge, MA: Strengthening Democratic Institutions Project, (1996) [on-line]; available from http://ksgnotes1.harvard.edu/BCSIA/Library.nsf; Internet; accessed 28 February 2000.

[67] Stephen Blank, "Epitaph for a Commonwealth," *The World & I*, (August 1999): 296-307 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 20 November 1999.

[68] Stephen Blank, "Russia, the OSCE and the Security in the Caucasus," *Helsinki Monitor*, (March 1995) [on-line]; available from http://www.fsk.ethz.ch/osce/h_moni/hel95_3/blank.htm; accessed 7 February 2000.

[69] Stephen Blank, "Epitaph for a Commonwealth."

economic and military pressure. Considering the new Russian president, Vladimir Putin's, recent moves, it is easy to predict that Russia will move toward a stronger government focusing its attention on internal issues and more importantly Russian patriotism.[70] As a consequence of this, for the countries concerned, Russia's likely motivation in foreign policy will be to dictate new conditions:

> Russia regards the NIS of the Caucasus, as belonging to its 'near abroad'...Russia's chief claim is that it has specific interests to defend this part of its southern flank.[71]

In its policies in the region, Russia sees economic matters from a geopolitical perspective. A route that by-passes Russia in transporting oil to the world markets is unacceptable to Moscow.[72] In Zbigniew Brzezinski's words northern route for the "early oil" was a product of the Russian ultimatum to Azeri President Aliyev "calling for a northern route only."[73] Suha Bolukbasi, commenting about this pressure, said:

> If all things were equal, these newly-independent states would, without hesitation, have opted for a Turkish route. Yet Russia holds such carrots and sticks as geographical advantage, political and military clout, and capability and readiness to doom various Caspian Sea projects....[74]

One of the subjects that troubles countries as well as oil companies is the traffic in the Turkish straits. Russia tends to see Turkey's straits policy as a political problem. They assert:

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[70] Rafik Kurbanov, "To Understand Post Communist Russia, Look Turkey," *Bridge News*, 28 January 2000 [on-line]; available from LEXIS/REGNWS/CURNWS/RUSSIA, KR-ACC-NO: BN-OPIN-RUSSIA; accessed 2 February 2000.

[71] Bruno Coppieters, *The Caucasus as a Security Complex*, Contested Borders in the Caucasus (BE: VUB University Press, 1996): conclusion [book on-line]; available from http://poli.vub.ac.be/publi/ ContBorders/eng/conclusi.htm; Internet; accessed 7 February 2000.

[72] Ibid.

[73] Paul Starobin, "The New Great Game."

[74] Suha Bolukbasi, "The Controversy Over the Caspian Sea Mineral Resources: Conflicting Perceptions, Clashing Interests," *Europe-Asia Studies*, (May 1998): 397-414 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 1 January 2000.

> There are no real insurmountable technical or ecological problems here; it is that the Turks want to force the oil community to choose the Baku-Ceyhan option for the transportation of 'big time' oil from Azerbaijan.[75]

Contrary to Russian criticism, Turkey in 1994 changed the regulations, which provides free passage of commercial tankers from the straits. Although Russia claims that this contradicts the Montreux Straits Convention (1936), the United Nations International Maritime Organization (IMO) approved the Turkish proposal for a security package.

Russia not only interferes with its former republics but also does not hesitate to use means to contain Turkish influence in the Caucasus. Russians are hindered by the Chechen problem, but they openly accuse Turkey of supporting Chechens and also try to use the Kurdish separatism in Turkey as an issue. As an example of this, on 22 May 1998 Aleksander Nevzorov, a member of the Russian Parliament's Committee on Geopolitical Affairs at that time, acknowledged that "if necessary... [they were] capable of using the Kurdish question in [their] relations with Turkey."[76] At the same time, General Yuri Yefrenov asserted that:

> An independent Kurdish state must be created. The Kurds do not have effective weapons, but they have a lot of manpower... we would be able to provide the Kurds arms via Armenia: by helping the Kurds, we help ourselves.[77]

Apart from indirect contention, there is also a possibility for a direct-armed conflict between Russia and Turkey. In 1993 when the war between Armenia and Azerbaijan deteriorated, Turks began discussing the possibility of intervening on behalf of Azerbaijan. This Turkish sympathy for Azeris "led Russian leaders to threaten a nuclear

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[75] Feliks Kovalev, "Caspian Oil: Russian Interests," *International Affairs* (Moscow, spring 1997): 53 quoted in Ibid.

[76] Robert Olson, "Turkish and Russian Foreign Policies, 1991-1997: the Kurdish and Chechenya Questions," *Journal of Muslim Minority Affairs*, (October 1998): 209-227 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 27 September 1999.

[77] Ibid.

war in that case."[78] According to analysts because Turkey is a NATO ally, the danger of a major war is higher here than almost everywhere else. Yuri Fedorov adds that any use of Russian military for political purposes in the region may also cause severe actions from Turkey, and then Transcaucasia may turn into a possible theater of military struggle with Turkish forces.[79] Of course, in fact Turkey and Russia are partners as well as rivals. Consider the following:

> Bilateral trade amounts to $14 billion. Turkey purchases major quantities of natural gas from Russia. There are 30,000 Turkish workers and some $6 billion invested by the Turkish construction sector in Russia.[80]

With its current policies, Russia neither solves regional problems nor leaves the region to follow its own path. Its leaders still do not have clear and consistent policies that would postulate suitable solutions to the complex ethno-national, economic, political and social relations in the region.[81]

Another important concern for decision-makers is Iran. Although Iranian export routes from both sides of the Caspian Sea have the advantage of directness and refraining from dealing with Russia, they bring forward another vast problem. These routes offer Iran too much control. Iran is moving toward a more moderate state of government but it still is not an open society. Iran's sponsorship of terrorism, nuclear armament program, unchanged position in the Middle East Peace Process, exporting religious extremism and ambition to get an important position in world energy sector all occupy security planners thoughts about this country. Mark N. Katz also points out the increasing cooperation

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[78] Stephen Blank, "Instability in the Caucasus: New Trends, Old Traits," *Jane's Intelligence Review*, (1 May 1998): 18 [on-line]; available from ABI Information Services (NPS domain) http:// proquest.umi.com; accessed 27 December 1999.

[79] Yuri Fedorov, "Russia's Policy Toward the Issue of Caspian Oil," *Moscow Institute of International Relations Occasional Paper.* [on-line]; available from http://www.cpss.org/casianw/ fedorov.htm; Internet; accessed 31 January 2000.

[80] Duygu B. Sezer and Vitaly Naumkin, "Turkey and Russia: Regional Rivals."

[81] Anatoliy S. Kulikov, "Trouble in the Caucasus," *Military Review*, Vol. 79 (July/August 1999): 41 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 14 July 1999.

between Russia and Iran on several issues like arms sales, support for mutual political goals and military pressure on Azerbaijan.[82] Sheila Heslin argues that Russia and Iran are maneuvering to support an Iranian route for a pipeline built from Azerbaijan.[83] On three fundamental issues Russian and Iranian interests seem to be quite similar. Neither of them wants an increase in the political influence of the United States or Turkey, neither of them wants a powerful sovereign Azerbaijan and neither of them wants to give up offshore profits from the Caspian division.[84] Both Russia and Iran see Turkey as a threat because of its economic, political and cultural proximity to Caspian states. Interestingly Russia also enjoys the problems between Iran and the United States and Turkey. Owing to these tensions, Russia gains a higher priority in U.S. thinking and also a more favorable status in pipeline routes. While dealing with regional rivals, Iran fears its own ethnic Azeri citizens and searches for ways to contain Azerbaijan from becoming a representative for all ethnic Azeris. Iranians also fear losing the opportunity to have closer relations with the new states if Turkey replaces Iran by offering more favorable structures to those states in bilateral relations. This environment motivates Iran to prevent the regional countries from becoming hostile collaborators with the West and with Turkey. There is a real danger if these countries fall into the ideology of Islamic fundamentalism just after communism. Because examples of extremist governments in the world show that these countries could easily endanger regional and global security. This competition between Iran and Turkey encourages a rapprochement between Israel and Turkey. For Israel Caspian oil means a non-Arab oil source close to home, and if this oil is transported through a friendly country, it serves Israel's own interests. In this way Israel may secure its future oil needs.

In a free-trade environment, the rules of the competition can be bargaining and economic rivalry. In the former Soviet states, it is a sad truth that considerations of power and necessity rather than principles of equality, justice and free competition replace legal

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[82] Mark N. Katz, "An Emerging Russian-Iranian Alliance?" *Caspian Crossroads Magazine*, Vol.4 (winter 1995/96): 21-24.

[83] Sheila N. Heslin, "The New Pipeline Politics," *New York Times*, 10 November 1997, A.31.

[84] Laurent Ruseckas, "Energy and Politics in Central Asia and the Caucasus."

and just principals, especially in the international arena. This completely changes the rules of engaging pipeline politics. Clearly, pipelines will not be built it they do not make economic sense. And although only oil really matters for the West and the western businesses, other parts of the Caucasus and oil-game competition can impose considerable negative effects on the developments in the region and beyond. To paraphrase Frederick Starr: whoever controls the oil, controls the fate of the countries of Central Asia and Caucasus.[85]

In the contemporary world many conflicts are generated by local factors but most of them also include a possible escalation to a greater war. There is a real need for decision-makers to consider the specific aspects of the Caspian Sea region while choosing pipeline routes. As stated earlier, Caspian is not a region for which normal rules of international law and international relations apply. Indeed, there is a huge amount of oil, but only a limited number of pipelines would be economically rational. Russia is still an important player, but it has limited capabilities. Moreover, exaggerating Russia's power may encourage it to act irresponsibly. There is a real danger that leaving these countries to their own destinies or to Russia's hands may have unpredicted effects.

Another danger for the littoral states is to be caught between big power politics. To give investors the first priority and biggest shares might have the same consequences, like surrendering them to Russian or Iranian interests. There can be improvements in the attitudes and structures of the interested countries but important decisions must be build on concrete structures and long-term assessments. Non-regional actors' priorities can be shaped by different criteria than regional parties. Any assessment made by the former criteria may not solve the latter's problems. For sure, legacies of the past may help us understand the problems, but some of the legacies may need to be changed by outside actors. A good decision about regional politics must include as much input as possible. There is also a need to have regional allies to implement decided policies. A cooperation with regional states and continuous dialog between rivals help to decrease the current tensions. In order for any policy to succeed globally that policy must first succeed in

[85] S.Frederick Starr, Thomas R. Stauffer and Julia Nanay, "Caspian Oil: Pipelines and Politics."

Caspian countries. While decision-makers implement policies, they must consider present alliances and suitable environment. As long as political motivation in Iran and Russia continues to be the same, giving them an upper hand in the regional policies hampers the Caspian states' situation. Furthermore regional countries and their leaders' pleas must be heard and their opinions must be taken seriously for every single political evaluation.

III. U.S. INTERESTS AND POLICIES

More than twenty years have passed since the 1970's oil crises awoke the U.S. to its dependence of global markets, its growing energy needs and the risks involved in this situation. The United States has adapted to the global oil regime successfully by applying up-to-date policies. These policies took different forms from time to time. Though energy security policy generally gave successful results, maintaining the future of energy security necessitates adjusting to new challenges. Currently the Caspian oil issues comprise an important part of these challenges in the United States. The United States' policies in the region are still evolving, and when the implications of the last nine years are considered, they do not reveal a solid success.

A. EVOLUTION OF U.S. POLICIES AND INTERESTS

In the 1980s, the United States took its first steps to cope with the global energy interdependence. Presidents Carter and Reagan recognized the importance of the Persian Gulf. They also recognized that the energy regime of the Persian Gulf is dependent on markets, political and military circumstances. These presidents also pursued policies that relied on market forces to promote the development and security of alternative routes.[86] Vulnerability to short-run supply interruptions was appropriately managed by the maintenance of a Strategic Petroleum Reserve. Vulnerability to long-run market concentrations, on the other hand, were handled by policies encouraging global supply diversification. With the collapse of the Soviet Union and the election of Mr. Clinton, a new era in energy policies emerged.

The Clinton administration quickly established diplomatic relations with the Caspian states just after their independence. Nevertheless outside of the regional specialists of the National Security Council and in the State Department, the Caspian Sea

[86] "Comments of the American Petroleum Institute to the Department of Commerce" Presented in *Investigation of the Effects of Crude Oil and Petroleum Product Imports on U.S. National Security* on 3 June 1999, [on-line]; available from http://www.api.org/consumer/apiimports.htm; Internet; accessed 11 April 2000.

pipeline issue hardly grabbed any attention from official government offices.[87] Initially Washington was also not too keen on asserting its influence in the region, acknowledging it as Russia's sphere of influence.[88] Washington's low-key policies were illustrated even in President Clinton's remarks in July 1994: "The U.S.A. would support voluntary moves by former Soviet Block nations to seek reunion with Russia in a larger eastern European federation."[89] Robert Barylski interprets this situation as a deep and permanent U.S. commitment to the defense of the Persian Gulf's energy basin and a reluctance to be drawn into Caspian affairs.[90] Another authoritative organization Carnegie Endowment for International Peace explains administration's initial position differently. In their interpretation, this was a focus on the domestic transformation of Russia and the heavy involvement in the domestic political needs of President Yeltsin and a group of "radical reformers" for democratization.[91]

The mutual hesitation and problems associated with bilateral misunderstandings in the first years lasted between the NIS and the United States from 1991 to 1994. By 1994-1995 the U.S. policy was in a stage of transition. The Azerbaijani oil production began to grow significantly. During this period American oil companies and their representatives initiated a campaign to educate members of the Congress and other

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[87] Jofi Joseph, "Pipeline Diplomacy: The Clinton Administration's Fight for Baku-Ceyhan," *WWS Case Study*, (Woodrow Wilson School of Public and International Affairs, 1/99) [paper on-line]; available from http://www.wws.princeton.edu/~cases/papers/pipeline.html; Internet; accessed 11 April 2000.

[88] Svante E. Cornell, "The Caucasian States and Eurasian Strategic Alignments," *Marco Polo Magazine* (Italy) No.1 (Inserto Redazionale di Acque& Terra a cura del Marco Polo Institute, 1999) [on-line]; available from http://www.geocities.com/WallStreet/Market/6808/gop1.html; Internet; accessed 5 July 1999.

[89] *The Citizen* (Canada, 4 July 1994) quoted in "Russia: Defending Its Interests," *Commentary*, No.56, (April 1995) Canadian Security Intelligence Services Publication [paper on-line]; available from http://www.csis.org/CommentaryAbstracts/Commentary No.56.html; Internet; accessed 8 February 2000.

[90] Robert Barylski, "Russia, the West, and the Caspian Energy Hub."

[91] Thomas Graham and Arnold Horelick, "U.S.-Russian Relations at the Turn of the Century," *Carnegie Endowment for International Peace Working Group on U.S.-Russian Relations*, [report on-line]; available from http://www.ceip.org/programs/ruseuras/usrus/usrepteng.htm; Internet; accessed 16 February 2000.

influential statesmen about the region's significant potential. The purpose of the campaign was to prepare a basis for an active U.S. policy in the Caspian region. An important event, the war in Chechenya, also changed the perceptions about Russia and demonstrated to U.S. policy makers the military capabilities of Russia. Active U.S. policy in the region began at the beginning of 1995.[92] Four years had already passed and Russia's effectiveness in the region was reviving. Russia's pressure on Azerbaijan to accept the northern route of the "early oil" pipeline was successful and a declaration of this decision at the end of 1995 showed Clinton administration's weak position counter to its rhetoric. This neglect also impacted the next phases of U.S. policies:

> U.S. policies in the Caspian became increasingly assertive from the second half of 1996, and the U.S. had announced that it considered the Caucasus and the Caspian region of 'vital U.S. interests.'[93]

These interests needed to be precisely pointed out. The Deputies Committee, a group of high-level officials and its chairman Sandy Berger, had a big role in defining the United States' national interests.[94] Five main interests were defined:

- strengthening the independence of Azerbaijan and its fellow NIS bordering Caspian Sea;
- promoting a westward orientation of Azerbaijan and other Central Asian states and creating a regional framework of cooperation with Turkey;
- diversifying the world's energy supplies, including reducing global overdependence on the oil reserves of the Persian Gulf;
- excluding Iran from any access to the economic benefits of regional development;
- advancing U.S. corporate interests in the region.[95]

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[92] Jofi Joseph, "Pipeline Diplomacy."

[93] Svante E. Cornell, "The Caucasian States and Eurasian Strategic Alignments."

[94] Jofi Joseph, "Pipeline Diplomacy."

[95] Ibid.

Although U.S. defined its interests in the region, it faced difficulties formulating these interests into solid policy objectives. Support for the Turkish option and a motivation for the trans-Caspian pipeline were declared as in the U.S. and Turkish interests. The U.S. support for this pipeline dominated official public announcements as well as press releases. Support for the Baku-Supsa early oil pipeline would also help reach these objectives. In the following years the Deputies Committee continued working, but according to Jofi Joseph, because neither Sandy Berger nor his counterpart Strobe Talbott from the State Department attended the meetings, the group's effectiveness decreased. Until 1997 high level visits between the countries continued, yet:

> AIOC's successive refusals to commit a specific route, culminating in a final, indefinite postponement of any decision in 1997, created the image of a disappointing setback for the Clinton administration.[96]

During the same year at the Helsinki meeting, Washington has quietly permitted an increase in Russian influence in the Caucasus in exchange for Moscow's tacit consent to NATO's eastward enlargement in Europe,[97] mostly because "Strobe Talbott, President Clinton's trusted aide on Russian affairs, considered Russia as the foremost U.S. regional partner."[98] When 1998 arrived, President Clinton seeing the need for constant attention to the developments in the region appointed Richard Morningstar as the special advisor to the President and the Secretary for Caspian Basin Energy Diplomacy. With Mr. Morningstar's leadership, a new phase in America's Caspian policy started. Mr. Morningstar's personal efficiency encouraged American activities toward regional developments. Although this new era seemed to be committed[99] to the United States,

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[96] Ibid.

[97] Alec Rasizade, "Azerbaijan, the U.S. and Oil Prospects on the Caspian Sea," *Journal of Third World Studies*, Vol.16, (spring 1999): 29-48 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 25 September 1999.

[98] Julia Nanay, "The U.S. in the Caspian: The Divergence of Political and Commercial Interests," *Middle East Policy*, Vol.6, (October 1998): 150-157 [periodical on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 7 January 2000.

[99] Although U.S. policy makers did refrain from "promising" words like this, the administration's declarations about Caspian policies reflected strong hopefulness. Contrary to this hopefulness, analysts

Turkey and regional countries' interests, this phase also achieved mixed success. The biggest achievement over which the U.S. government rejoiced was the Ankara declaration among the presidents of Turkey, Georgia, Azerbaijan, Kazakhstan, and Uzbekistan in 1998. This declaration was only a formal expression of intention to build the Baku-Ceyhan MEP and the trans-Caspian pipelines. Even though negotiations and promises were exchanged to conclude the deal in 1999, this year also passed with some confusion in U.S. policy circles. During this time, regional countries and investors tried to find a midway between economical concerns and political objectives. In 1999 the Azeri State Oil Company, SOCAR, complained about the inoperativeness of the Baku-Novorossiisk pipeline because of the Chechen war. Azeri complaints also included some severe warnings toward the interested parties. The actual complaints were a message for investors and policy makers: The development of the Caspian oil reserves has been stalled by the ongoing dispute over the routing of pipelines out of the region. U.S. policy makers, unable to convince investors or to solve embedded difficulties, changed their attitude. This time the U.S. policy shifted toward a Trans-Balkan pipeline:

> The U.S. Secretary of State on Caspian Basin Energy Issues, John Wolf, announced on July 9 that the U.S. Trade and Development Office (UTDO) would give between $600,000 to $800,000 for the expansion of the Baku-Supsa line.[100]

Rapidly following this decision, on 20 November, President Clinton signed another declaration in Istanbul as a witness, favoring the former plan to build Baku-Ceyhan MEP and Trans-Caspian gas pipelines after the Organization for Security and Cooperation in Europe (OSCE) summit. This seemed like strong U.S. support toward the Baku-Ceyhan option. Actually as one administration official said in the press release, "The President [was] not committing to ... anything; the President [was] witnessing the signature of the

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evaluating U.S. policies saw no commitments. Brzezinski in one of his speeches explained the situation: "There is a difference between commitment and reinforcement. We are reinforcing their [NIS's] chance to be independent. We are not in a formal way committing ourselves to security guarantees." Quoted in Paul Starobin, "The New Great Game."

[100] "Azerbaijan Forces Pipeline Issue," *Stratfor Commentary*, (10 July 1999) [on-line]; available from http://www.stratfor.com/CIS/commentary/c9907100010.htm; Internet; accessed 25 February 2000.

Istanbul declaration."[101] Not more than two months later the UTDO acknowledgement of a Trans-Balkan pipeline from the Bulgarian Port of Burgas through Macedonia to Albania renewed interests in a "January 12 meeting of international oil investors, U.S. Eximbank, the European Bank of Construction and Development, the World Bank and the U.S. based Albanian-Macedonian-Bulgarian Oil Company (AMBO)."[102] According to the same source AMBO would pay $392,000 and UTDO would pay $588,000 for the required $980,000 feasibility study. The options for the new situation were becoming clearer, an expansion of the Baku-Supsa line when combined with the construction of the considered Trans-Balkan pipeline would clearly mean a leaning in the opposite direction of the Baku-Ceyhan pipeline. Further developments enhanced this view of America's Caspian policy, on March 14, 2000 "Iran announced that a Chinese-Swiss consortium obtained funding from French banks for an oil pipeline project in northern Iran."[103] This new pipeline would connect Iran's Caspian Seaport of Neka with the existing Iranian pipeline network as proposed earlier and once operational 370,000 bpd (barrels per day) of Caspian oil would be shipped directly to the Iran's refining network.[104] This new pipeline significantly challenged U.S. foreign policy in the Caspian basin and in the Persian Gulf. Yet even with all the developments from the beginning considered, the U.S. has calculated its stakes, but a constant and devoted policy did not take shape in the region.

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[101] The White House, "Press Briefing on Caspian Sea Diplomacy and the Baku-Ceyhan Pipeline," *Press Briefing* by Senior Administration Official on 19 November 1999, Conrad International Hotel, Istanbul Turkey, [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 2 January 2000.

[102] "Trans-Balkan Pipeline Complicates U.S.-Turkey Relations," *Global Intelligence Update* (14 January 2000), [on-line]; available from http://www.stratfor.com/SERVICES/GIU/011400.ASP; Internet; accessed 25 February 2000.

[103] "U.S. Loses Influence Over Caspian Basin Oil," *Special Report* (23 March 2000), [report on-line]; available from http://www.stratfor.com/CIS/specialreports/special127.htm; Internet; accessed 18 April 2000.

[104] Ibid.

Seen retrospectively, the U.S. oil pipeline policies did not mature until recently. The initial policy evolved from a lack of concern because of a focus on Persian Gulf oil and the internal stability of Russia. It also included the tendency to consent to Russian priorities in the region. In its later phases, U.S. policy first saw assertiveness with tacit support for Turkey and a later phase of stagnation. When the existing policies were not beneficial the next phase became merely adapting to the situation and moving toward a less costly pipeline. While the U.S. changed policies, both Russia and Iran developed new strategies. Even the European Union were granted many concessions from the current situation.

B. THE BASIS AND THE BENEFITS OF THE CURRENT POLICY

Clinton administration seemed to have intelligently laid the groundwork for a favorable decision at the beginning of regional interactions. Dealing with the region, the administration used both private and public diplomacy. In its initial contacts, the administration often relied on the use of personal relations with influential characters like Henry Kissinger and Zbigniew Brzezinski who were also serving as consultants for the oil companies in the region.[105] The administration also tried to use financial aid to establish closer relations with the regional countries, but because of the U.S. sanctions in place against Azerbaijan,[106] this assistance lagged behind the prospects and relied on

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[105] Jofi Joseph, "Pipeline Diplomacy."

[106] The U.S. Congress complicated American Policy in the Caspian Sea region by maintaining restrictive sanctions since 1992 against Azerbaijan for its role in the conflict with Armenia over the Nagorna-Karabakh conflict. The Freedom Support act passed Congress in 1992, which singled out only Azerbaijan from any assistance program extended to former Soviet republics until Azerbaijan lifts its economic blockade of Armenia. The conflict erupted in 1992 in a full-scale war with the Armenians demanding complete independence for Karabakh or its absorption in Armenia. With Armenian and Russian help, Karabakh Armenians gained a military victory, controlling 20% of Azeri territory. According to records, more than one million Azeris became refugees because of this conflict. Currently Armenia does not concede to any negotiations and opposes pro-American and secular Azerbaijan. Until now Armenia has refused to recognize the principles put forward by the OSCE and other international bodies. They even refused a pipeline deal in exchange for peace and reconciliation. According to the Heritage Foundation Backgrounder 1222, Iran and Russia are key supporters of Armenia. Russia supplied over $1 billion in weapons from 1996 to 1998, Iran is supplying part of Armenia's fuel needs and, according to sources in Baku, pays for some Armenian arms purchases. Contrary to this position a vocal and powerful Armenian-Amerian lobby in Congress guarantees one of the biggest portions of U.S. foreign aid to Armenia.

indirect commercial and financial assistance. The administration has also offered greater U.S. defense cooperation with these countries through its Partnership for Peace (PfP) program. But again because of Section 907 of the Freedom Support Act, the United States could not maintain any military links with Azerbaijan.[107] Several attempts were made to remove the discriminatory parts of the Act, but this did not happen.

The Clinton administration viewed construction of at least one of the MEP through Turkey as vital to the U.S. as well as its ally's, interests. In this way, the administration would be investing in a safer route with greater political stability. This pipeline would by-pass Russia, freeing the NIS from economic dependence and would also serve to maintain a strict U.S. embargo on Iran.[108] Because American firms hold a substantial percentage of the Caspian consortiums and their goals have been transporting the oil by any means, the administration faced the difficulty of challenging the companies' interests and bargaining for their self-sacrifice. Washington promoted the independence and democratization of countries and the creation of free markets in the

According to a New York Times' article (30 March 1998), Armenia was among the largest per capita recipient of American aid, with $87.5 million a year [second only to Israel]. In the Congress Republicans tried to ease these sanctions with the "Silk Road Strategy Act," but a total removal of this could not take place because of the powerful lobbies and the Democrats' opposition.

[107] Jofi Joseph, "Pipeline Diplomacy."

[108] According to the assessments made by American experts, any pipeline passing through Iran would give Iran an opportunity to increase its position over the world oil supply possibily obstructing the tanker traffic in its control of the straits of Hormuz. In Jan H. Kalicki's remarks especially as the country is attempting to take more of a leadership role in OPEC, reliance on Iran, would also enhance its ability to manipulate oil policies in the region. In 1999 Tehran acquired some of the world's largest tankers to hold more than 13 million barrels of Iranian oil in floating storage and this was seen as a disincentive to other oil suppliers to increase their output. According to Mortimer B. Zuckerman even Saudi Arabia has seemed willing to compromise with Iran. Noticing the rapprochement between these countries he feared "Iran, Iraq, Syria and Saudi Arabia are joining a new cartel and even in an alliance, led by Russia." In "The Big Game Gets Bigger: Russia Will Gain Wealth and Influence If It Controls Caspian Sea Oil," *U.S. News*, 10 May 1999, on-line edition [on-line]; available from http://www.usnews.com/ usnews/issue/9905/10edit.htm; Internet; accessed; 11 April 2000. On the opposite side of the argument some political analysts, including Zbigniew Brzezinski think that if the U.S. wants a stable Persian Gulf and Central Asian region "some gradual accommodation is in the mutual interest of both countries." Part of that growing accommodation, he says, should include a southern route through Iran among the multiple pipelines. "Short of such a stake, we are likely to increase the temptation both for Iran and Russia to try to play exclusionary politics in the region" he added. Quoted in Robert Lyle, "Caspian: Brzezinski Cautions Against Iran from Pipeline," *Radio Free Europe/Radio Liberty*, (9 July 1998) [on-line]; available from http://www.rferl.org/ nca/features/1998/07/F.RU.989709124338.html; Internet; accessed 11 April 2000.

transition states[109] on top of its Caspian policy. The Clinton Administration even built an interagency-task group for Caspian issues, run by the National Security Council. All these initiatives defined interests in the region. According to Julia Nanay, the United States has even made ending the regional conflicts a primary objective for itself in order to construct multiple east-west pipelines.[110] According to Jan Kalicki, providing economic and humanitarian assistance and profits for U.S. companies were also included in this policy.[111] In Clinton administration's policies a good way to deal with so many complex issues was integrating of all of these countries, including Russia into the web of Euro-Atlantic and international institutions. Providing fundamental human rights, democratization, sponsorship of peace and cooperation were some of the basis of this policy. Turkey's active foreign policy in the region was also welcomed.[112] Along these lines many conferences and informative exchanges were made. To facilitate future moves diplomatic and scholarly discussions were used. When AIOC's early oil pipeline decisions were announced, the U.S. administration seeing the risk of reliance on either a Russian or an Iranian MEP, decided to support multiple pipelines in the region. Two "early oil" pipelines, plus the Trans-Caspian, Baku-Ceyhan and CPC MEP were granted support in the official declarations. With the war in Chechenya and the Russian assertiveness in the region, political interests also became clearer. In an effort to preserve the American interests, in the region decision-makers tried to incorporate policies into the

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[109] Ian Bremmer, "Oil Politics: America and the Riches of the Caspian Basin," *World Policy Journal*, Vol.15, (spring 1998): 27-35 [periodical on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 25 December 1999.

[110] Julia Nanay, "The U.S. in the Caspian."

[111] Jan H. Kalicki, "U.S. Policy in the Caspian: Pipelines, Partnership and Prosperity," *Middle East Policy*, Vol.6, (October 1998): 145 [periodical on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 25 December 1999.

[112] Turkey's vision of moderate Islam was the driving force under this policy. As a country with 98% Muslim population and a secular state, Turkey was a counterbalance to radical Islam. In Ross Wilson's "Turkey and the Newly Independent States: The View from Washington," *Turkish Foreign Policy Toward 21st Century: Implications for the U.S. and the Region Special Seminar*, (Washington Institute, 3-4 September 1997); available from http://www.washingtoninstitute.org/media/turkish.htm; Internet; accessed 27 October 1999.

commercial logic. From a financial point, this area was the only oil reserve open to foreign investment, free of U.S. or any sanctions, which offer good opportunities to investors in a short time. The short-term objectives became "to keep any Caspian country from monopolizing regional hydrocarbon transportation; ensure that Caspian production diversifies sources of worldwide energy supply and avoid aggravating shipping congestion in the Bosphorus Straits through Istanbul."[113] Such declarations were clearly acknowledging the mutual interests between the United States and Turkey.[114] According to followed policies "... when the full range of political, economic and commercial factors are taken into consideration, Baku-Ceyhan [was] providing a far superior route...."[115] than the other alternatives. Support for this cause would also serve other concerns, namely the relations between the United States and Turkey in a context that Turkey was occupying a special place in the American foreign policy calculus.[116] To help develop activities along these lines, U.S. government's three finance and investment agencies, the Trade and Development Agency (TDA), the Overseas Private Investment Corporation (OPIC), and EXIM Bank made their first major steps to coordinate the efforts to promote investment projects. They also opened a Caspian Trade and Investment

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[113] Andrew Dowdy, (Office of International Energy and Commodities.) Quoted in "Sanction Decision on South Pars Imminent," *Oil & Gas Journal*, Vol.96, (13 April 1998): 32 [periodical on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 13 November 1999.

[114] According to Richard Morningstar, Turkey would play a critical role in this effort, serving as the geographic, commercial and cultural bridge between the Caspian region and Europe. Turkey was the United States only NATO ally in the region, it had a geographic significance bordering both European and regional countries. It also had a common heritage of ethnic ties with the region. Furthermore Turkey's economy was the most developed among the region and this would facilitate financial and business connections. Richard Morningstar, Address to CERA Conference, (Washington, D.C., 7 December 1998); available from http://www.mtholyoke.edu/acad/intrel/morning.htm; Internet; accessed 27 September 1999.

[115] Ibid.

[116] John Tirman, "Improving Turkey's 'Bad Neighborhood': Pressing Ankara for Rights and Democracy," *World Policy Journal*, Vol.15 (spring 1998): 60-67 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 28 November 1999. In the same place it is emphasized that Ankara and Washington share common concerns on issues like Iraq, Iran, Cyprus, Greece, the Caucasus, Caspian Sea oil and Turkey's military partnership with Israel. According to the author this makes Turkey an important ally.

Finance Center in Ankara. In October 1998 TDA announced a grant of $823,000 to BOTAS, the Turkish Pipeline consortium for U.S. technical assistance.[117] The Clinton administration's drive for more support from the congress in financial projects was obtained by the Foreign Operations Act. [118] Relations with the regional countries continued to be conducted by high level officials. In order to build a better understanding and cooperation, consultation meetings were held. The United States also helped the newly-independent states of the region to get international legal and political help as an advisory agent. In the world political arena, support was awarded to structures that helped regional countries build security and economic cooperation. U.S. policy in the Caucasus even bolstered the region against Russia for a while.[119] The United States, in order to maintain western influence, especially supported Georgia. The United States has relied on its NATO ally, Turkey, to help extent U.S. military and political interests. Either through its own means or its allies' initiatives, GUAM and the Black Sea Economic Cooperation Organization[120] received support from America. Bilateral negotiations between neighbors with problems were also organized. All these policy initiatives and efforts were somewhat successful, but because of the inherent problems of the countries and the way U.S. policy was conducted in the region, this success remained limited. Former American policy priorities toward the region began to change from their original concern about democracy, human rights and broad economic development to focus only on the energy potential.[121]

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[117] Ibid.

[118] This Act was encouraging OPIC to raise its internal limits in specific energy projects in the Caspian. Ibid.

[119] "Trans-Balkan Pipeline Complicates U.S.-Turkey Relations," *Global Intelligence Update.*

[120] Black Sea Economic Cooperation (BSEC) Organization is an organization built with the leadership of Turkey in 25 June 1992. The main idea was to develop economic cooperation and better understandings between the states, which have adjacent borders to the Black Sea. Later membership status enlarged to eleven participating states; Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine.

[121] Martha Olcott, quoted in Robert Lyle, "Caspian: Brzezinski Cautions Against Iran from Pipeline."

It is obvious that U.S. policy in the region made the conduct of diplomacy easier for the parties. These links laid the groundwork for future policies. They also educated both decision-makers and regional countries about the conduct of international relations in the region. U.S. support for different policies encouraged and motivated them to build the necessary structures for today's world order. They were also encouraged to find at least a small amount of state identity in an environment in which Russian and Iranian pressures were constant. Because of the new states' western inclination and their desire to be closer to the United States, policy initiatives always found a receptive environment there. Educational, financial and technical assistance made it easier to cope with the contemporary problems. State Department and Energy Departments continuously monitored the developments in the region. The activities and coordination with the allies revealed other opportunities for cooperation and caused a rapprochement. Economic and technical, as well as political communication channels were established. But when the newly-independent Caspian states' current situation, the United States and its regional allies' declared objectives are compared these successes only present minor importance.

C. RESTRAINTS OF UNITED STATES' POLICIES IN THE CASPIAN LITTORAL

"The United States policy toward the region after ten years cannot be considered as successful as it should have been."[122] "The U.S. placed its credibility on the line through explicit support of a particular pipeline route, cultivated closer relations with regimes that held dubious democratization records, and risked a further alienation of Moscow."[123] But only one of the major oil pipelines (Baku-Supsa) was built to U.S. preferences.[124] Russia and Iran will probably dominate the other lines and the capacity of

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[122] Huseyin Bagci, "Energy Policy of Politics of Slogans," *Turkish Daily News*, (Turkey, 15 April 2000), Opinion - electronic edition; available from http://www.turkishdailynews.com/FrTDN/latest/huseyin.htm; Internet; accessed 16 April 2000.

[123] Jofi Joseph, "Pipeline Diplomacy."

[124] "U.S. Loses Influence over Caspian Basin Oil," Special Report.

them when combined far exceeds the Baku-Supsa or any other regional pipeline. [see Table 1]

Pipeline and Controlling Interest	Entities Involved	Initial Capacity (bpd)	Maximum Capacity (bpd)	Oil Source	Status
Atyrau-Samara; Russia	Kazakhstan, Kazakhtransoil, Orel Oil	200,000	300,000	Kazakstan	Operational at 200,000 bpd
Baku-Novorossiysk; Russia	Transneft, Azerbaijan International Operating Company	100,000	250,000	Azerbaijan	Operational at 100,000 bpd with rail link around Chechnya; Chechnya bypass completed in April 2000
Baku-Supsa; Azerbaijan	Azerbaijan International Operating Company	100,000	600,000	Azerbaijan	Operational at 100,000 bpd
Neka-Rey; Iran	China Petrochemical Corp., China National Petroleum Corp., Hong Kong's Federal Asia, Vitol	370,000	370,000	Azerbaijan Kazakhstan Uzbekistan	Construction begins 2000; estimated completion 2002
Tengiz-Novorossiysk; Russia	Russia, Kazakhstan, Oman, Chevron, Mobil Oil, Oryx, LUKarco, Rosneft-Shell Caspian Ventures, Agip, British Gas, Kazakh Pipeline Ventures	500,000	1,340,000	Kazakhstan	Operational 2001
The Azerbaijan International Operating Company is composed by BP Amoco, LUKoil, the State Oil Company of the Azerbaijani Republic, Pennzoil, Unocal, Statoil of Norway, TPAO of Turkey, Exxon, Itochu, Ramco Energy of Britain and Delta/Nimir.					

Source: Stratfor.com

Table 1. Pipelines and Controlling Interests.

Although in 7 February 2000, BP Amoco, a long-time opponent of the Baku-Ceyhan project, which also leads the AIOC oil production, announced support in an apparent changing policy,[125] any new lines may simply be economically infeasible.[126] This situation on the other hand may seriously undermine the importance given to the

[125] "Where is the Oil for the Baku-Ceyhan Pipeline?" *Alexander's Gas & Oil Connections*, Vol.5, Issue 2, (7 February 2000); available from http://www.gasandoil.com/goc/news/ntc00665.htm; Internet; accessed 11 April 2000.

[126] "U.S. Loses Influence over Caspian Basin Oil," Special Report.

sovereignty, economic and political independence of the three new Caspian countries.[127] "...With the states of the Caspian basin dependent upon petroleum revenues, whoever controls the routes holds a hammer over the region's economy."[128] With this criteria it is not difficult to see the geopolitical picture.

There are many reasons for the restraints to this end. Mainly the United States is carrying out contradictory policies from the beginning. Changing policies and support for different pipelines mark a major challenge for U.S. foreign policy in the Caspian Basin. The United States and other regional powers tried to shape the regional structures, but Russia and Iran implemented more active policies. While the United States focused on circumventing these two countries, Iran and Russia tried to dominate the region.[129] Americans' focus on diplomatic solutions failed to provide funding for its favored pipeline. The increase in Chinese and French involvement further complicated the financial side of the issue. The European Union's increased involvement in the recent years created a weaker U.S. image in the economic picture.[130] Today the EU even advises on the Azeri economy.[131] And the U.S. efforts in the region will now be hampered by

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[127] As and example the market value of Azerbaijani projected oil exports for this year is $2.2 billion. According to the World Bank, Azerbaijan's total GDP amounts to only $3.9 billion. Ibid.

[128] Ibid.

[129] Ibid.

[130] Because regional economies are weak, their initiatives are of minor importance for the investors. These are also markets as well as investment opportunities. The west has a common interest in the region but Europe is also a rival for American companies in the region. In British Foreign and Commonwealth Office (FCO) Minister of State, Keith Vaz said "The region has taken on new importance for the EU over the last year with the entry into force of Partnership and Co-operation agreements with most of the states of the region.... For example there are around 100 British companies with offices in Baku...."In his words "...the UK and the EU have taken a different view from the U.S. on pipelines." With this difference, he emphasizes financial motivation as a desired objective other than political purposes. But this position does not necessarily make the U.S. unsuccessful. In accord with this thesis' argument, the point is that if the U.S. had taken a more active position to use its economical initiatives it would have guaranteed its political goals.

[131] "One of the most successful [assistance is] advisors, including an official from HM Treasury, to the office of the Minister of Azerbaijan, to help [Azeri Minister of Economy] reform the Ministry and advise on sound fiscal policies." Speech by FCO Minister Keith Vaz, "Political and Economic Prospects in the Caspian Sea Region," *Wilton Park Conference,* (England, 9 March 2000) personal correspondence with

these economic set backs as well. The U.S. has failed so far to produce adequate responses to these needs.

In fact these policy restraints are results of the former policies' side effects. According to Frederick Starr:

> Under both Bush and Clinton administrations, policy toward this region has been largely derivative of other U.S. objectives, above all the desire to support the political and economic development of the new Russia and the concern to isolate the Islamic Republic of Iran.[132]

According to him, U.S. decision-makers always assumed that Russia's economic development and democratic transition must have priority. In his views the U.S. government woefully ignored these people. "Somehow, these peoples were still deemed less worthy of American solicitude than the Balts, let alone Central Europeans."[133] Furthermore the United States has tied its own hands by taking sides in the festering dispute between Armenia and Azerbaijan. A revision and the consent of U.S. in Conventional Forces in Europe (CFE) Treaty also legitimized the amount of Russian forces used for Russian interests in the Caucasus. Moreover the U.S. attitude to consider Russian pipelines preferable to Iranian ones also damaged its policy alternatives.[134] While the Clinton administration intensified its lobbying in different countries, it paid little attention to the power of financial institutions and investors. "If the U.S. placed so much strategic value in the construction of Baku-Ceyhan, it should have offered greater incentives for the oil companies."[135] It also miscalculated the target of this lobbying policy. A conciliatory midway between institutions could not be established, the United States could also have made more effort to convince Turkey to make concessions in the

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Dien Ginn, Executive Assistant to Roger Williams and Wilton Park. General information about the conference is available from http://www.wiltonpark.org.uk;

[132] Frederick S. Starr, "Power Failure: American Policy in the Caspian."

[133] Ibid.

[134] Ibid. According to Starr, in fact the U.S. might have had a bargaining instrument if it had done just the opposite.

[135] Jofi Joseph, "Pipeline Diplomacy."

construction costs. From time to time, the U.S. lost its perspective on the larger interests while belaboring the minor issues because of its belated reactions and general policy biases.[136] The United States also undermined the importance of Turkey. "As a NATO ally, Turkey is an important partner for the U.S. and European influence in the region. U.S. policy has devoted too little attention to this opportunity."[137] Congress has paid little attention to this position. There were even arguments that American commitment to bolster Turkey and Caspian states is not helpful to U.S. interests.[138] United States' failure to help Turkey become a strong regional power also implied a wariness about whether a stronger Turkey, "able to act as an independent regional force would necessarily regularly behave in ways that enhance U.S. interests."[139]

When compared with the current conditions of the region and its politico-economic objectives, the United States did not take into account the specific features identified in the previous chapters. When it pursued some of these objectives, it did not carry out the policies effectively because the initial had an impact on the other phases. Sometimes policies are subordinated to different understandings of the national interests, like the importance given to the stability of Russia, or focused on ineffective factors like personal relations. Legislative issues became captive to domestic lobbies like American-Armenians and oil multinationals. In fact the United States did not understand its true national interests in the region at the beginning. It understood it had the right goals but

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[136] Frederick S. Starr, "Power Failure: American Policy in the Caspian."

[137] William E. Odom, "U.S. Policy toward Central Asia and the South Caucasus," *Caspian Crossroads Magazine*, electronic edition; available from http://ourworld.compuserve.com/homepages/usazerb/311.htm; Internet; accessed 28 November 1999.

[138] Mortimer B. Zuckerman, "The Big Game Gets Bigger." Some of the reasons cover the limitations in U.S. resources available for helping Turkey, concerns about Turkey's human rights reports, Turkey's relations with Greece, its Cyprus policy, and policy toward northern Iraq, according to Alan Makovsky.

[139] These terms were used as an argument for general Turkish American relations in Makovsky's words. This thesis argues that the same approach has a big effect on U.S. policies toward Turkey's Caspian diplomacy. Quotation in Alan Makovsky, "The New Activism in Turkish Foreign Policy," *SAIS Review*, (Winter-Spring 1999), The Washington Institute for Near East Policy; [on-line]; available from http://www.washingtoninstitute.org/media/alansais.htm; Internet; accessed 22 April 2000.

has chosen ineffective means to attain them. When the other players participated more actively and changed the financial aspect of the pipeline policies,[140] the U.S. government with confused priorities and changing policies, tried to accommodate the situation. Financial institutions' circumstances coincided with the U.S. desire to increase its influence in the Balkan region. This initiated a move in favor of a Trans-Balkan pipeline. Because of the low oil prices and hardships originating from the regional countries' economic weaknesses, greater interests were subordinated to economic motives.

The United States could and should have played a more effective role in developing the Caspian basin's energy resources. Clearly, in one way or the other, the United States has had an interest in the region and this interest is still there. As one knowledgeable National Security Council source expresses:

> We do have an interest in a future where the newly-independent states in the Caucasus and Central Asia enjoy increased prosperity and a durable and secure independence. Oil is a means to that end. It is not an end in itself, nor... it is a guarantor of a country's widespread prosperity and stability.[141]

But consistent policies may serve this purpose. Without a coherent policy toward the region, a comprehensive plan that binds political, economic and security considerations, we can expect many more problems in the future. Although this paper advocates that there is a policy with many problems in U.S. decision making, it also acknowledges the truth to Frederick Starr's comments: " To be blunt, there is still no strategy. Instead there is mix of policies on pipelines, on security, on Russia, on Iran, on Turkey that add up, sort of, to a Caspian policy."[142]

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[140] It is obvious that there is specific amount of oil in the region. In order for any pipeline to be financially feasible number of pipelines must be kept to a minimum. With the recent enlargement in Baku-Supsa, if built with the construction of Iranian route, other pipelines will suffer more from the competition. The cost of the Baku-Ceyhan is already higher than the former two. Under these circumstances, until further development (like an increase in the amount of proven reserves), it seems that new projects will face more resistance from oil companies.

[141] Quoted in James Kitfield, "Starts and Stripes on the Silk Route," *National Journal*, Vol.31, (13 March 1999): 676-768 [periodical on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 2 December 1999.

[142] Quoted in Paul Starobin, "The New Great Game."

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IV. TURKISH INTERESTS AND POLICIES

Turkish interests and policies in the Caspian region developed after the collapse of the Soviet Union. The demise of the Union significantly effected Turkey's geopolitical environment. The Cold War was over and new Trans-Caucasian states with the Caspian littorals were enjoying the privileges of sovereignty for the first time after decades of Russian hegemony. For the first time in almost three centuries, Russia and Turkey did not have common land borders. At least for a period of time Russia left its constituent states to their own destinies and the general tendency leaned toward a peaceful coexistence in a modern world. The end of the Cold War, or freedom of some of the constituent states, however, could not end the danger of conflict in the region. With the emergence of new economic competition and the renewal of military assertiveness by Russia in the Caspian Basin, Turkey assumed different pragmatic foreign policy goals.

A. TURKISH INTERESTS AND POLICIES

Starting from the country's foundation, Turkish policies in the Caucasus developed as a subordinate part of its general foreign policy. "Ever since its establishment in 1923, the Republic of Turkey has consistently pursued a foreign policy aimed at international peace based on the principle of 'peace at home and peace in the world' laid by the republic's founding father and first president, Mustafa Kemal Ataturk."[143] Successive governments appropriately followed this principle to maintain peace inside and outside the borders of the country that was tired of centuries of long wars. "After the dissolution of the Ottoman Empire, the Republic of Turkey needed the time and means to restore itself."[144] From 1923 to early 1980s policies mostly had an insular and passive appearance, with no apparent interest in Turkic or Caucasian populations. Much of the

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[143] "The Goals and Principles of Turkish Foreign Policy," *Ministry of Foreign Affairs*, Republic of Turkey; available from http://www.mfa.gov.tr/grupe/em/01.htm; Internet; accessed 22 April 2000.

[144] Mehmet Tutuncu, "Turkey's Foreign Policy in the Caucasus," *Turkistan Newsletter*, (4 November 1997), SOTA Research Center for Turkestan, Azerbaijan, Crimea, Caucasus and Siberia; [on-line]; available from http://www.turkiys.net/sota/sota.html; Internet; accessed 8 December 1999.

Turkish foreign policy was based on the situation of the Cold War. "Turkey focused its energy on internal development and sought to avoid foreign tensions that could divert it from that goal."[145] It "was a status quo power par excellence. It neither wanted change nor did it seek it...With its efforts to liberalize its economy and to move from an import-substitution to an export-led economy in the early 1980s...Ankara navigated effectively through some of the regional conflicts close to its borders."[146] Between 1980 and 1986 a consolidation of state policies became the significant feature of this period. "Turkey undertook major reforms to open its economy, moving from statism and autochthony toward private initiative and export orientation...and has averaged more than 5 percent real growth per annum."[147] It was this period that growth in economy and increase in energy consumption brought forward the importance of new energy resources with new markets around the country.[148] "Entrepreneurial success and growing prosperity have distinguished Turkey from many of its Third World neighbors, imbuing the Turkish elite with a sense of genuine accomplishment and self confidence."[149] This was also a reason to step forward in a new direction in Turkish policies.[150] In later years Turkey's policies

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[145] Alan Makovsky, "The New Activism in Turkish Foreign Policy."

[146] Philip Robins, "Turkish Foreign Policy," *Madeleine Feher European Scholar Program Conference*, [on-line]; available from http://www.biu.ac.il/SOC/besa/books/mfa3.html; Internet; accessed 22 April 2000.

[147] Alan Makovsky, "The New Activism in Turkish Foreign Policy."

[148] Turkey needs confirmed and secure energy supplies. "This need is increased since Ankara closed the two pipelines that came from Iraq... as a result of Turkey's cooperation with the American led Allied effort in their war against Iraq in 1991." (Robert Olson) Turkish oil consumption is constantly increasing because of its economic growth and oil provides nearly half of Turkey's total energy requirements. Around 90% of Turkey's oil supplies are imported from Gulf countries, North Africa and some from Russia. "Turkey," *Country Analysis Brief*, August 1999, U.S. Energy Information Administration [report on-line]; available from http://www.eia.doe.gov/emeu/cabs/turkey.html; Internet; accessed 20 November 1999.

[149] Alan Makovsky, "The New Activism in Turkish Foreign Policy."

[150] According to Alan Makovsky, "the reasons for Turkey's greater assertiveness [in the last decade] are various and overlapping. More prosperity; a better equipped and more experienced military; the decline of neighboring states; greater regional opportunity and a greater sense of policy independence marked by the ending of restraints imposed by the Cold War." These reasons may also help understand Turkey's new activism.

in the region saw different phases,[151] which were the outcomes of different dynamics and motivations.

The period between 1986 and 1991 coincided with Mr. Turgut Ozal's prime ministry between 1983 and 1989 and his presidency between 1989 and 1993. This period was most closely identified with Turgut Ozal[152] and in some views he was regarded as the initiator of an active foreign policy toward the region.[153] Although general foreign policy direction of Turkish Republic has been immune to personal or organizational changes,[154] it is obvious that changes in authoritative positions may affect specific issues cosiderably. Other than Ozal, there were reasons to initiate active policies toward Caucasus and Central Asia. The European Community's rejection of Turkey's 1987 application for membership has led to conjecture about alternative policies in the region.[155] Turkey having failed to receive admission to the western club looked for means

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[151] The phases of Turkish foreign policy between 1986 and 1994 are adapted from Philip Robin's theoretical analysis of Turkish foreign policy and applied to the Caspian politics because of its relevance to the subject. In his original analysis he categorizes these phases into three time periods 1986-1991, 1991-1994 and after 1994. This work uses his three phases while adding two earlier and one later phase to the analysis.

[152] Philip Robins, "Turkish Foreign Policy."

[153] According to Philip Robins "he was widely regarded as having transformed the policymaking context in Turkey." In his views "Ozal was particularly adept at being able to spot good opportunities and, in moving quickly and with purpose, well able to exploit them." According to Alan Makovsky "Ozal was convinced that Turkey had achieved a new stage in its development, one that allowed it to assume a more forceful position in the region and the world." In Robins' views he also "came increasingly to dominate civilian politics" and "was the key figure in charting Turkey's future direction." But this had two main drawbacks according to him. "His intuitive and sometimes impulsive decisions, unleavened by bureaucratic checks and balances, meant that when he was wrong the consequences were often more serious than if Turkey had been pursuing a more traditionally cautious foreign policy.... Second, Ozal's personal approach to foreign relations began to undermine the rule based system that make bureaucracies, and especially diplomatic services, run smoothly and effectively."

[154] In the Turkish State tradition, policies of state and government may have distinctions. The nation's interests dealing with highly important issues are built on more precise assessments and do not change too much with the government changes. They also show a trend of continuity. Governments–on the other hand can pursue different ways to attain–their policy objectives, which mostly coincide with the state's objectives.

[155] Philip Robins, "Between Sentiment and Self-Interest: Turkey's Policy toward Azerbaijan and the Central Asian States," *Middle East Journal*, Vol.47, No. 4 (autumn 1993): 595.

that it could attain by itself. A meaningful policy of "positive neutrality" both in general terms and in particular relations with the Soviet Union (including the Turkic republics) was conducted. Because the negotiations between Baku and the western oil companies started almost in 1990,[156] Turkey also wanted to take its part in these deals without losing time. Economic interdependence was the driving motive in stabilizing and softening the difficulties emerged because of the Cold War.[157] In this period, after long years of hesitation, some kind of mutual opportunity to build relations became possible in the region. Turkey's, as well as other former Soviet republics' relations, were based on the principles laid out in this era. As a result of positive neutrality, achievements were made but because of the realities of the Cold War, the success of relations stayed at a limited level.

With the government change as a result of the general elections in 1991, foreign policy changed hands in the Turkish political structure. This period coincided with vast transformations in the region's structures. "Unlike many other members of the anti-Soviet alliance, Turkey has not emerged from the Cold War with a sense of enhanced security."[158] Because of the crises, conflicts and geopolitical changes around the country, policies were generally cautious. In this phase between 1991 and 1994, educated bureaucrats managed foreign policy by re-institutionalizing the foreign affairs.[159] With the idea that "Turkey should not act alone, but jointly with other countries, and preferably its allies, under proper international auspices...Turkey emerged as a weighty force for stability and continuity during the most turbulent period of the post Cold War systematic transition."[160] In this phase Turkey looked west and particularly to the other side of the

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[156] Suha Bolukbasi, "The Controversy over the Caspian Sea Mineral Resources: Conflicting Perceptions, Clashing Interests."

[157] Philip Robins, "Turkish Foreign Policy."

[158] Malik Mufti, "Daring and Caution in Turkish Foreign Policy," *The Middle East Journal*, Vol. 52, No.1, (winter 1998): 32-50 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 20 November 1999.

[159] Philip Robins calls this period, "Collegiate Bureaucratic Approach," Ibid.

[160] Ibid.

Atlantic in its projects in the Caspian region. With the demise of the Soviet Union, Turkey was the first country to recognize these new states.[161] As a country that has "a highly ideological view of itself and the world, Turkey [developed] a strong sense of vision"[162] for the newly-independent states. "According to this vision, the republics should emerge as essentially independent, secular, and democratic, with liberal, free market-oriented economies. Turkey believed that these are characteristics it possesses and that it, therefore should be regarded as an economic and political model for these newly-emerged states."[163] With the beginning of this phase Turkey started intensive cooperation with the Caucasus and Asian Turkish republics in the spheres of politics, economy, military, culture and education. This was a "constructive engagement."[164] Georgia, Ukraine and Azerbaijan with the other Caspian Turkic republics shared the wariness of Russia's volatile strength. For this reason, they responded to Turkey's initiatives in a positive way. High level diplomatic traffic has tended to be regular and cordial between Turkey and these countries. In 1992 and 1993, the Turkish public was shocked by reported massacres of Azeris by Armenian militias. "When in May 1992, Armenian attacks were reported on the Azeri enclave of Nakhichevan," according to foreign analysts "even the possibility of Turkish military intervention was seriously discussed in Ankara."[165] According to some, this was one of the first demonstrations of a new Turkish policy. Although these allegations remained rumors, Turkey's position was interpreted negatively by Armenia, Russia and Iran. It was also in this period that because of the significant increase in the number of tankers passing through the Turkish straits and the accidents related to this, Turkey adopted new regulations restricting the access of oil

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[161] MFA, the Republic of Turkey.

[162] Philip Robins, "Between Sentiment and Self-Interest," 600.

[163] Ibid.

[164] Philip Robins, "Turkish Foreign Policy."

[165] Freddy DePauw, *Turkey's Policies in Transcaucasia*, in Contested Borders in the Caucasus, (BE: VUB University Press, 1996), Ch.VIII [book on-line]; available from http://poli.vub.ac.be/publi/ ContBorders/eng/ch0801.htm; Internet; accessed 14 February 2000

tankers through the Turkish straits. As a consequence of active policies, Russia and Iran both tried to block Turkish initiatives, but they also tried to maintain their trade with Turkey. Economic relations between Russia and Turkey became the balancing factor in the worries of both sides. Because both sides' trade level far exceeded the other republics, they always kept their policies on a sufficient level to avoid a face-to-face confrontation.

When the political atmosphere in 1994 changed, the Turkish Foreign Ministry changed hands again. With the 1995 general elections, which failed to give a clear-cut victory for any single party, an era of short-lived coalition governments emerged.[166] This also "resulted in a large turnover in foreign ministries." Because of this "Turkey had as many as eight foreign ministers between July 1994 and June 1996."[167] Likewise the energy ministers also changed in this period. Career diplomats were able to maintain the continuity of foreign policy, but this quick change in ministerial duties prevented the implementation of an effective policy toward the region. The Caucasus was still the window to Central Asia[168] and the special importance to the protection of the independence; sovereignty and territorial integrity of the countries in this area, along with stability and peace were the necessary preconditions to profit from these relations. Even though the governments' efficiency decreased because of the changes, they tried to pursue the same priorities. With little or no credit available, Turkish diplomacy has quickly exploited some of the opportunities. In Ankara's policies "if Turkey could provide an infrastructural skeleton that connects it with these new states, then Ankara would have succeeded in locking these entities into an intimate and long-term relationship."[169] Pipeline projects were just fitting this template and those were the best opportunities for the countries of the region. Although Turkey was looking westward by all means, these

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[166] "Weak, fragmented, competitive approach" in Robins.

[167] Philip Robins, "Turkish Foreign Policy."

[168] "Ismail Cem Stresses wide-angle Foreign Policy Approach," *Turkish Daily News*, (Ankara, 19 July 1997); [on-line]; available from http://www.access.ch/tuerkei/GRUPF/IC/Dbbasing.htm; Internet; accessed 22 April 2000.

[169] Philip Robins, "Between Sentiment and Self-Interest," 604.

countries were a direct energy supply. In addition, the government realized Turkey would benefit from engineering, consultancy, construction businesses and transit fees at the end. If a structural skeleton were built, this relationship would also help develop the Turkish economy.[170]

> When the AIOC began its deliberations regarding the route of the early oil, Ankara began a forceful lobbying effort to accept the 926-kilometer Baku-Batumi route.[171]...The Turks expected that if the Georgian route were accepted for early oil, in the long run Turkey could construct a pipeline from Batumi to Ceyhan to serve as the major pipeline to export a significant portion of the Azeri crude oil.[172]

Ankara even suggested constructing this pipeline offering preferential credits with low interest rates. The Turkish treasury would be backing this offer with political risk guarantees.[173] In this period Turkey's relations with the European Union developed slightly. Contrary to its intense efforts in the northern and eastern direction, Turkey's main priorities were fixed on a western orientation.

In the second half of 1997, the Turkish foreign ministry changed hands again. Just after Foreign Minister Ismail Cem's ascendancy, European Union rejected Turkey's long-standing desire to become an EU member just as 1987. The popular distaste and uneasiness about the EU's attitude surfaced in a new assertiveness in Turkish Foreign Policy in other directions. In a conference about "Turkey and the World in 2010-2020," Turkish Foreign Minister said, "Turkey will seek a pivotal economic and political role in Eurasia." He also added:

> We want to be a part of the EU, but our target is much broader. The Balkans, Central Asian and Caucasian countries are launching efforts to

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[170] Ibid., 605.

[171] This option was not among the proposed pipelines. There was an old Russian pipeline between Baku and Batumi. This pipeline needed an extension and some renewal to be operational. If they accepted this pipeline, which was closer to the Turkish border, pipeline consortiums would accept the first part of Turkish proposal.

[172] Suha Bolukbasi, "The Controversy over the Caspian Sea Mineral Resources."

[173] Ibid.

open their economies to the world, and Turkey has entered into a new cooperation with these countries as an indispensable partner.[174]

With this event, Turkish policies in the region revived some motivation. President Suleyman Demirel also made an extra effort to conduct effective policies in the region. Consultations with both oil investors and regional countries about the cost, intergovernmental agreements and other issues were carried into a continuous bargaining status. Bilateral negotiations with the responsible authorities in the U.S. government began to be frequent because of the importance of U.S. involvement in the region. But these initiatives and Turkey's attempts to play a significant role in the production and export of the Caspian oil seemed to have been stalled by Moscow.[175] With the lack of attainable U.S. support in concluding the final agreements, Turkey was left alone in its regional pipeline diplomacy. It was also during this period that deterioration in Turkey's economic growth and investment capability, which had started in the earlier phase, reached a peak. Turkey's inherent economical restraints and the changing nature of regional policies limited Turkey's achievements. Turkey considering the region's realities and being aware of it economic capabilities initiated a policy to build a Caucasian Stability Pact in 1999.[176] When the year 2000 came, with the change in U.S. attitude and other regional countries' active economic initiatives for more economically feasible options, Turkey's pipeline policies lost significant power.

In spite of serving as a balancing factor for the peace and stability of the region with its precise policies, Turkey could not convince lenders and investors about its project. Turkey's hopes for the region and its goals for the future of Caspian remain as an

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[174] Ismail Cem, "Turkey and the World in 2010-2020," quoted in Jolyon Naegele, "Turkey: Foreign Policy Plan Aims for Pivotal Role in Eurasia," *Radio Free Europe/Radio Liberty*, 13 August 1999; [on-line]; available from http://www.rferl.org/nca/features/1998/08/F.RU.980813121643.html; Internet; accessed 22 April 2000.

[175] In this period both Russia and Iran have launched an antagonistic campaign about the legal status of Caspian sea, in order not to give way to exploitation of Caspian resources without their consent. Because Turkey was not a littoral state to the Caspian Sea it could not be involved in the issue directly and Ankara played a low-key role in the controversy.

[176] This pact did not reach its final form yet, and Turkey needs popular support from the international community.

important part of its current policies. With pipelines or without them, the region's importance persists according to Turkish decision-makers.

There are several opinions about the success of Turkish policies in the region. Some of those see Turkey's policies not more than rhetoric.[177] Others evaluate the current situation more cautiously and assert that Turkey's success was not so bad. In fact throughout its implementation, the Turkish foreign policy included a wide scope of imaginative diplomatic initiatives. According to Alan Makovsky Ankara's policies were far from venturesome. Turkey was using diplomacy and multilateralism to promote stability and prosperity in the realm of diplomatic initiative with a measured activism.[178] In general the MFA has followed the principles of non-interference concerning other countries' internal affairs and territorial integrity and favored maintaining reasonably good relations with Russia.[179] Turkey also performed a delicate balancing act in its relations between Russia and its friendly neighbors. In some ways business ties became more effective than political relations did. Turkey became more concerned with the Azerbaijani-Armenian conflict than the other countries. Ankara allotted $1.5 billion to NIS and above $7 billion worth of projects have been undertaken by more than 400 major Turkish companies. More than 10,000 scholarship and training opportunities were given.[180] Students from these countries were trained in Turkish military colleges in order

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[177] Prof. Huseyin Bagci criticizes Turkish policies as such, "expecting the wonderful rhetoric we have been witness to over the last decade, Turkish foreign policy toward those countries is also far from being a success." He also expects a decline in the efficiency of Caspian policies in the near future. According to him, President Demirel's retirement before the second half of 2000 would leave Turkey's Caspian policy weaker. Considering the diplomacy carried out by Demirel for the last couple of years he suspects a decline in efficiency of policies in the transition period. In "Energy Policy or Politics of Slogans."

[178] Alan Makovsky, "The New Activism in Turkish Foreign Policy."

[179] Gareth M. Winrow, "Turkey and the Newly-Independent States of Central Asia and the Caucasus," *Middle East Review of International Affairs*, Vol. 1, No.2, (July 1997) [on-line]; available from http://www.biu.ac.il/soc/besa/meria/journal/1997/issue2/jv1n2a5.html; Internet; accessed 7 February 2000.

[180] Figures are taken from MFA Republic of Turkey web site.

to adapt them to western systems and practices.[181] Transport and communication was also an important factor to satisfy mutual interests. In January 1992 a Turkish International Cooperation Agency (TICA) was established to coordinate and direct the assistance provided by Turkey more effectively.[182] Turkey even opened its satellite communication channels to these countries in order for them to reach the rest of the world more easily. Turkey supported GUAM and sponsored PfP programs as well as Euro-Atlantic Partnership Council attendance of these countries. With the increasing number of relations a good base for mutual understanding in the region successfully developed. Turkey tried to transform its "national interests" into "regional interests."[183] It has coped much less well with the rapid normative changes, which have accompanied the end of the Cold War. Turkey achieved many of its first steps in a volatile environment without damaging its relations and causing major tension. These all took place in only less than ten years. Of course none of these initiatives brought about the construction of the Baku-Ceyhan pipeline or any other pipelines passing through Turkey. Turkey's policies fell short of pipeline objectives.

In fact when these states became independent, Turkey was caught without enough knowledge about the real situation or prepared plans to deal with these issues. According to Suha Bolukbasi, Turkey's initiatives toward Trans-Caucasus have also been low-key because of traditional cautious diplomacy and relatively modest short-term goals.[184] Another reason for Turkey's limited success was too many other foreign policy objectives. The economic and political benefits of joining Europe far outweighed the benefits of focusing all attention on the problematic Caspian region. One important factor

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[181] Gen. Cevik Bir, "Turkey's Role in the New World Order, New Challenges" *Strategic Forum*, No.135, (February 1998), [on-line]; available from http://www.ndu.edu/inss/strforum/forum135.html; Internet; accessed 25 February 2000.

[182] "Relations with the Central Asian Republics," MFA Republic of Turkey.

[183] Busra Ersanli, "Rediscovering Multidimensionality, Turkey's Search for Cooperation with Turkic Republics" in Alaeddin Yalcinkaya, *Turkic Republics and Oil Pipelines* (Istanbul: Baglam Yayinlari, 1998), 231. (Turkish)

[184] Suha Bolukbasi, "Ankara's Baku-Centered Policy: Has it Failed?"

also added up to the current situation. Turkey did not have a desire to control the pipelines in the region.[185] The weaknesses in the transition periods became the reflections of frequently changing governments in the country. Regional countries' politico-economic weaknesses restrained policies considerably. The Newly-Independent States' military, infrastructural and linguistic ties with Moscow also effected the implementation of a successful policy. According to Lowell A. Bezemis, these countries also did not have strong demands for change[186] and this added up to the difficulties the Turkish government faced implementing its policies. Neither Turkey nor regional states wanted to confront Russia in a direct way. The projects' magnitude and lack of sufficient investment funds in the Turkish economy forced Turkey to look for foreign investment. Turkey also gave higher priority to the interstate diplomacy than effective bargaining with oil multinationals. The importance given to the ethics and good will in relations with the neighbors worked for the other rivals who did not care much about the same criteria. When the support for the Baku-Batumi early oil pipeline did not give results, Turkey lost its first hold. With this event policy efficiency was limited to other projects, which were supported by other interest groups. Turkey's failure to give more concessions and proper economic guarantees for the management of projects because of its limited financial capabilities also resulted in a decline from its proposed pipeline by investors.

In general, Turkey understood the problems and the ways to solve them in a proper way. Almost in every situation it took into account the special features of the region and used them in its assessments. It has laid out the groundwork and defined its priorities properly. Ankara managed to control the general direction of its policy toward the region but failed to succeed in specific projects because of its economic capabilities and failure to proceed toward the same goals with the same government bodies. Its policies toward the region fit into its national interest but because of higher interests some of them were subordinated to different preferences in specific periods. Because of its

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[185] Dincer Tascikar, "Economic Reforms in Central Asia and the New Great Game," in Alaeddin Yalcinkaya, 242.

[186] Robert Olson, "Turkish and Russian Foreign Policies."

commitment to regional countries' interests, Turkey's maneuvers in the region were limited to a few options.[187] The failure in predicting the further moves of other players in specific times forced Turkey to follow a path drawn by other initiatives. Turkey had the right goals, and it also has chosen the means that would work, but it needed persistent support to attain it. It proposed and maintained its goals but could not use its means to lobby in favor of its proposal in the U.S. or the EU. Undermining the importance of lobbying activities in these countries resulted in the form of indirect barriers to pipelines. It could not correct the false presumptions about its intentions in the region. It also could not convince the international community about the importance of Baku-Ceyhan that would help free the regions' weak states from powerful non-western hegemons. Turkey's main orientation in the western direction left some of its initiatives comparably weaker in the Caspian issues.

Although a final decision about the pipelines has not been made, considering Turkey's potential to pursue its objectives and financial institutions' reluctance to invest at least in the near future, one can still see a lot of changes coming in the years ahead.

B. TURKEY'S PROBLEMS WITH RUSSIA, PROPOSED PIPELINES AND POLICIES

Turkey could not attain its proposed pipeline yet. Furthermore, in spite of following a balanced policy between its interests and relations with its neighbors, being active in regional politics, and bargaining with oil multinationals, raised some questions about the Turkish activities in the region. Even the internationally recognized procedures to control the navigation through the straits faced severe criticism from Russia. Because the sellers of this oil are multinational companies, these companies supported by their respective governments may also become strong advocates in the argument, adding to Turkey's difficulties.

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[187] According to most of the Turkish policy-makers the idea that the Turkish pipeline would earn Turkey hard currency in royalties was secondary to this geopolitical and critical calculation.

One of the main criticisms of Turkey's Baku-Ceyhan oil pipeline has been the safety of this route. Oil investors and countries backing these companies tended to see Turkey's terrorism problem as similar to that of Russia's Chechen war continuing for almost a decade. Failing to see the details and the magnitude of these two issues may lead analysts to a superficial but inaccurate evaluation of the subject. Politically comparing the two problems is not valid for several reasons. First of all, Russia's war with Chechenya is a war between two states with their own elected governments; one in which the supreme entity battles one of its autonomous republics. Because of this war not only oil pipelines but almost the entire infrastructure is being destroyed in the region.[188] Analysts clearly define this campaign as a full-scale war. Spread over a large area and concerning supranational bodies like UN and OSCE, Russia's campaign is a much different situation than Turkey's. Even though there are some differences in the understandings between the West and Turkey, in Turkey, the state is dealing with an internationally recognized terrorist organization,[189] which targets both state apparatus and local residents. A comparison of both problems is not applicable because a truthful comparison shows how far Russia's Chechen problem exceeds those of Turkey's.[190] The terrorist organization, PKK, had employed brutal tactics against civilians and small units of security forces.

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[188] "The Battle for Chechnya, A Chronology," *Washington Post*, [on-line]; available from http://www.washingtonpost.com/wp-srv/world/specials/exussr/chechnya/chechnya_chron.htm; Internet; accessed 25 February 2000.

[189] PKK is currently in the U.S. State Department's Terrorist Organizations list as well as Interpol and other security organizations. "State Department on PKK Leader Abdullah Ocalan," *USIS Washington File*, 23 November 1998 on-line]; available from http://www.fas.org/irp/news/1998/11/98112310.htm; Internet; accessed 25 April 2000.

[190] According to the *Washington Post*, Russian officials admitted that 2,181 Russian soldiers have died and another 6,388 have been wounded since the beginning of the conflict last August. (David Hoffman, 28 April 2000; Page A24.) This figure only represents the last eight months losses. Independent analysts claim that figures may probably be higher. Turkey's official figure for the losses between 1984 and 1999 on the other hand measures lower than 30,000. (Prime Minister Bülent Ecevit's Opening Remarks at the Press Conference For International Journalists in Ankara, Unofficial Translation, 21 February 1999 [on-line]; available from http://www.mfa.gov.tr/grupa/ac/acf/21Febrl.htm; accessed 3 April 2000.) If the 100,000 dead left behind with the end of first Chechen War between 1994 and 1996 is taken into account, it is obvious that a comparison proves baseless. (Figure taken from "The First Bloody Battle," *BBC Analysis of the First Chechen War*, BBC News Service; [on-line]; available from http://news.bbc.co.uk/hi/english/world/europe/newsid_ 482000/482323.stm; Internet; accessed 3 March 2000)

With the capture of the terrorist organization's leader, Abdullah Ocalan, and Turkey's socio-economic, military and educational efforts toward solving this problem, a considerable decrease in terrorist activities has been observed recently. According to some foreign analysts, Turkey has taken a big step in solving its terrorism problem.[191] Even if it persists in the future, this problem would not have a significant impact on the pipelines for several reasons. First, according to John Roberts, "Contrary to many assumptions, oil pipelines and their associated infrastructure are not vulnerable to terrorist attack. To be sure pipelines are impossible to defend but they are relatively cheap and easy to repair."[192] According to him protecting critical pumping stations and control units helps maintain the operation of pipelines. Although he does not explain the effect of full-scale war, Chechenya and Daghestan examples probably give a legible precedent for evaluations. The difference obviously lies in the scale of a terrorist attack or a full-scale warfare, which effects everything. Secondly, Turkey's two current oil pipelines are a good example of the safety of lines in this region. These pipelines, coming from northern Iraq pass through this so-called "unsafe" route for 23 years.[193] They travel along Turkish-Iraqi and Turkish-Syrian borders and terminate in Ceyhan. For the last 23 years only one significant interruption occurred in these pipelines. Any significant interruption or damage other than this could not be recorded because of terrorist activity.

Other issues restrained Turkey's relations with Russia as well. Russia worsened the situation over the pipelines by playing the Kurdish card against Turkey several times in the last decade. In February and October of 1994, the Kurdish National Liberation Front (ERNK), which is a branch of PKK, received tolerance in its activities from Moscow. In October and November of 1995, so called the Kurdish Assembly held

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[191] "Ocalan's Capture: Turkey's Victory and Turkey's Test," *USIA Daily Digest*, 18 February 1999; [on-line]; available from http://www.fas.org/irp/news/1999/02/wwwh9f18.htm; Internet; accessed 28 April 2000.

[192] John Roberts, "Caspian Pipelines," (London) *Royal Institute of International Affairs*, (1996): 13. Quoted in Laurent Ruseckas, "State of the Field Report."

[193] "In 1977 a key pipeline was completed from the Kirkuk fields across Turkey to a Mediterranean terminal at Dortyol." *Library of Congress Country Analysis*, [on-line]; available from http://memory.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+iq0054); Internet; accessed 28 April 2000.

sessions in one of Moscow's official Parliament buildings.[194] Despite official Turkish protests, these kinds of activities lasted in different forms until the capture of Ocalan and just before his capture he visited Russia for a third time.[195] For their part Russians blame Turkey for having a role in the Chechen trouble. In reality Moscow uses these tools to justify its means to block Turkish efficiency in the region.

Russia protested when Turkey introduced its new regulations in the Turkish Straits. The Bosphorus is an especially extraordinary waterway. It is one of the world's busiest waterways handling some 45,000 major ships annually. According to official reports this constitutes three times that of the Suez Canal and does not include 13,000 local ships, boats or other sea vehicles travelling between the sides of the Bosphorus. Turkey's biggest city, Istanbul, with roughly 12 million people is situated around the Bosphorus. With less than one-half mile (700 meters) distance at the narrowest point, the Bosphorus requires ships to change course at least twelve times, including four separate bends at more than 45 degree turns. There are also powerful and rapid currents, which frequently drag ships off course. Under the Montreaux Convention (1936), the Bosphorus is open to all merchant ships of all nations. Unlike other comparable waterways, reporting on cargo contents is voluntary even with regard to hazardous cargo including nuclear, flammable and toxic waste and no other shipping waterway operates in such a manner.[196] Considering the EU mandates, which do not even let tankers come any closer to their shores than 20 miles and stricter regulations in the U.S.[197] Turkey's concerns can be understood easily. With the 167 large-scale accidents because of

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[194] Suha Bolukbasi, "The Controversy over the Caspian Sea Mineral Resources."

[195] News related to Ocalan's stay in Russia can be found in Turkish Press Review, 3 February 1999. [on-line]; available from http://www.byegm.gov.tr/YAYINLARIMIZ/CHR/ING99/02/99X02X03.HTM; Internet; accessed 2 January 2000.

[196] "Transporting Caspian Sea Region Oil the Mediterranean Route," Information Sheet, [on-line]; available from http://www.turkey.org/start.html; Internet; accessed 2 January 2000.

[197] Sukru S. Gurel and Ross Wilson, "Turkey and the Newly-Independent States; the View from Ankara and Washington," *Special Seminar Report*, (3-4 September 1997, Washington Institute) [report on-line]; available from http://www.washingtoninstitute.org/media/turkish.htm; Internet; accessed 2 August 2000.

increased tanker traffic between 1983 and 1993 concerns about the safety of the straits became a central issue in Turkish life. When in 1994 a Greek Cypriot tanker collided with another ship, 30 people died. Dispersed oil burnt for five days and closed the straits to traffic for almost a week. The financial cost of this accident alone was $1 billion.[198] All these factors forced Turkish statesmen to take the necessary precautions to prevent more serious accidents resulting in a tragedy in the heart of the city. But even those measures, which do not restrict but regulate traffic,[199] incited severe opposition from Russia. According to estimates "the Tengiz output alone, if carried solely by tanker, would triple the current rate of Bosphorus oil traffic."[200] Considering the new regulations and possibility of accidents, certainly long lines and waiting times in the entrance and exits of the straits in the future can be expected.

Although Turkey could not convince oil investors that its proposal was economically feasible, it wants financial institutions to consider the aspects of investing in the northern route. Turkey "has a modern and state of the art loading and storage facility"[201] in Ceyhan. This infrastructure does not need any additional construction. Ceyhan can handle the largest tankers in service (800,000 dwt), which are far larger than the size of tankers that can navigate through the straits. Because of the suitable climate in the Mediterranean this port operates all year long with easier navigational requirements than the Black Sea Ports, which endure severe weather conditions.[202] Turkey guaranteed

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[198] John Daly, "Oil, Guns and Empire: Russia, Turkey, Caspian 'New Oil' and the Montreaux Convention," *U.S.-Azerbaijan Council Web Site*, [on-line]; available from http://ourworld.compuserve.com /homepages/usazerb/325.htm; Internet; accessed 28 November 1999.

[199] New regulations are somewhat detailed. Some of them are: ship heights were limited to 190 feet, ships carrying hazardous material were restricted to single passage in daylight time, daylight passage is required from all ships over 200 meters and favorable weather is required. The UN Maritime Safety Committee approved most of these regulations in May 1994, Ibid.

[200] Ibid.

[201] "Transporting Caspian Sea Region Oil the Mediterranean Route."

[202] Jack Carter, a senior advisor for International Affairs with the US Department of Energy describes the physical conditions of Black sea ports discussing the Novorosiisk terminal. "Novorosiisk the main Russian terminal for the oil there has had some very serious problems. I just saw in the last few days that extremely high winds had prevented tankers from leaving the port, and the port is frequently closed. So

the $1.4 billion cost of the pipeline to be built on Turkish soil.[203] In case of an additional finance need, Turkey will provide additional portion of the investment. This guarantee might have helped Turkey, but it still did not satisfy investors.

Turkey's pragmatic foreign policy goals have not diminished yet. Its policies were stalled by its own and other players' problems, but attaining many of these objectives is still possible. Pipelines were an important part of Turkey's policies but other options are also important. Succeeding in other objectives is easier for Turkey and probably more attainable without help. But this thesis asserts that other objectives even if totally achieved would not be as helpful to the regional countries as the pipelines. Without a pipeline toward Ceyhan, nothing would likely change in the Caspian politics.

even if the oil gets to the Novorosiisk, there does not seem to be a guarantee that the port can physically handle the flows." Quoted in Jack Carter, "The Great Game: The Struggle for Caspian Oil," *Caucasus and the Caspian Seminar Transcripts*, Kennedy School of Government, BCSIA Publications 1996, SDI, [report on-line]; available from http://ksgnotes1.harvard.edu/BCSIA/Library/ICGreatGame?OpenDocument&ExpandSection=TheStruggleforCaspian.htm; Internet; accessed 28 February 2000.

[203] "Where is the Oil for the Baku-Ceyhan Pipeline?"

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V. ANALYSIS

Turkey and the United States entered the Caspian area almost at the same time. After their first acquaintances with the new republics they both developed policies which would attain their interests. Although the commonalties in their understandings resulted in a rapprochement for cooperation, the difference in interpreting some of the issues, the ways respective governments work and the drives behind current policies limited their success in obtaining absolute results. Furthermore their motivation and willingness to reach their declared policy objectives were crippled by domestic and international problems. Sometimes one's moves bothered the other.[204] They had more common interests and opportunities for cooperation. They also succeeded in building a mechanism of general frameworks but they could not maintain the continuity of their initiatives.

A. COMMONALTIES IN U.S. AND TURKISH THINKING AND COHERENCE WITH THE REGIONAL COUNTRIES' INTERESTS

The United States and Turkey's understandings of the Caspian region developed in the context of their normal relationship. "Since so much of the U.S.-Turkish relationship was based on the situation of the Cold War years, their partnership has undergone important changes in the new era."[205] The relationship in the post-Cold War era developed as mutual interest rather than a mutual cooperation against a common enemy. The Cold War necessities existed no longer, U.S. and Turkey found their interests and policies on important matters converging. Both nations clearly understood the importance of energy security and the geo-economic structure in the region. They had

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[204] For example when Turkey signed an agreement with Iran to buy a considerable amount of natural gas in 1997 because of the urgent need in the near future, this disappointed the U.S. Similarly the United States' unwillingness to give financial support for Baku-Ceyhan and its own companies' willingness to invest in an Iranian pipeline formed a controversy for the other side. The preferential status given to Russia and the Balkans also compounded this situation.

[205] Kemal Kirisci, "Turkey and the United States: Ambivalent Allies," *Middle East Review of International Affairs*, Vol.2, No.4 (November 1998) [on-line]; available from http://www.biu.ac.il/soc/besa/meria/journal/1998/issue4/jv2n4a3.html; Internet; accessed 7 February 2000.

also seen the necessity of regional stability to develop new opportunities. Though unequal, they both realized the need to cooperate in Caspian matters. Significantly they both were in favor of the emergence of democratic, secular and western oriented regimes. These ideas also inspired the historic communist governments of the countries. Economic wealth in the West was more attractive to the region's poor countries than the crumbling Russian economy. The cooperation would benefit the United States and Turkey as well as these countries. The secularism was also favored by the newly-independent states. Because of the policies followed in the former Soviet Union, these countries' approach to religion had been suspicion. Most citizens were not devoutly religious owing to the Soviet educational system. Although a possibility of falling into religious fundamentalism existed, a secular state became more acceptable form of a government for the local elite. Turkey and the United States shared the policies to build democracies but these policies were not coherently accepted by the region's lifetime elected autocratic leaders. Peoples of this region's interests coincided with the Turkish and U.S. interests but differed from their own leaders'. This situation even undermined the relations with respective governments.[206]

Turkey from the beginning of its interactions with the region, United States in specific periods wanted to prevent the rebuilding of a Russian hegemony. Azerbaijan and Georgia who were in search of political and economic independence also welcomed these policies. Kazakhstan acted differently because of its considerable Russian minority and its military links with the Russian Federation. Politically, Kazakhstan accepted Russia as the big brethren. Turkmenistan on the other hand developed relations with Iran and Afghanistan. These countries' physical and cultural proximity to Turkmenistan made it also easier to build economic relations. This scheme of different preferences weakened the commonalties in Turkish-U.S. policy making by diverting their focus to different issues.

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[206] Last example of this situation can easily be seen in Secretary of State Madeline Albright's recent tour to Central Asia. Albright's criticism for the lack of democracy in her visit faced with indifference in attitudes by the regional leaders. This situation worsens the relations with these countries from both sides. Regional leaders do not want to lose their princely powers and interpret these warnings as an intervention to domestic politics.

When Turkey acted as a model for the newly-independent countries, support came from the United States. The United States even promoted the idea among other countries.

A cooperation between U.S. and Turkey to prevent inter-state and inter-ethnic conflicts has always been seen in the region. U.S. and Turkish mutual efforts in consolidation of Azeri-Armenian conflict or the importance given to the unity of Georgia were the presentation of this common understanding.

"Regarding regional economic development, too, the United States and Turkey appear[ed] to support similar approaches."[207] A part of the United States' multiple pipelines policy and "east west transportation corridor" also coincided with their own thinking. Although Baku-Ceyhan route earned political support from the U.S., multiple pipelines also undermined this line's importance by decreasing the chance of Baku-Ceyhan.

The environmental and security concerns of Turkish decision-makers were respected and supported by the Clinton administration. As a result, new regulations were introduced in the Bosphorus. These regulations received little criticism, except for Russia.

The United States administration made its diplomatic support available for Turkey's activities in the region. Apart from economic benefits, the stability of the region became the central issue in most of the policies by both sides. Consent on the U.S. interests in the region made diplomacy between U.S. and Turkey easier.[208]

Iran's exclusion from the pipelines helped almost every country politically and helped Turkey and the regional countries economically. The inroads to Iranian influence and its role in trying to gain control of one main pipeline were temporarily blocked by this initiative. In this way a competitor, Iran as an oil and gas producer, was also kept out of the western oil market rivalries.

The United States' efforts to advise oil companies to invest in preferential pipelines facilitated Turkey's bargaining with financial institutions. Because oil-

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[207] Ibid.

[208] It can be said that U.S. objectives have seen consent from the interested countries because they were both general and including regional countries interests.

producing countries declared their preferences for Turkish options, efforts to invest in the western direction facilitated cooperation. Only realizing the importance of cooperation could ease the disagreements about Trans-Caspian route.

Both Turkey and the U.S. saw financial aid as an essential means to overcome the immediate problems of the Caspian States. They allotted their individual aid funds. The amount of aid changed from country to country and from time to time.

There were also common features in U.S. and Turkish thinking which negatively effected the construction of favored pipelines. First, neither of them had the necessary information and expertise when they launched their relations with the region. They were caught unprepared for the demanding NIS. When new states' appeal for more appropriate structures was not realized, this also caused unfulfilled expectations. Second, Turkey and the United States did not want to confront Russia openly. Their hesitation in active policies and their miscalculation of the Russian capabilities limited their abilities to deal with Russia. This attitude resulted in the degradation of the available bargaining diplomacy. Third, the two allies' limited economic means available for restructuring the region's environment hampered the conditions. Fourth, Turkey and United States' Caspian policies when compared with other interests fell short of the declared commitments. The countries, which looked at them enthusiastically at the beginning, turned to Russian, Chinese and Iranian counterparts because of unfulfilled promises. Fifth, both of countries were restrained by their domestic political oppositions and changes in the authoritative government posts. Their operative activities stalled with these effects and the producers were effected by the changing preferences.

B. DISAGREEMENTS ABOUT SUBSTANCE OR TACTICS

The United States and Turkey shared many common interests. They have also shared many common policies but they have faced differences in their approach to the problems. Some of these disagreements resulted from different attitudes about the nature of the regional realities. Some of them on the other hand resulted because of the tactics used by the two allies.

The biggest divergence about pipeline politics emerged when the U.S. gave Russia much more importance than Turkey did because of America's interests in geopolitical issues.[209] The failure by the U.S. to distinguish pipeline policies from the general priority given to Russia[210] created a distinction between U.S. and Turkish policies. Although Turkey maintained its economic and diplomatic relations with Russia on a constant level, in Turkish thinking the regional countries' sovereignty and stability of the region was always the first priority.

Another difference was the way pipelines were seen by the allies. Turkey has seen the pipelines as one of the very few realistic ways of freeing these states from any

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[209] Some of these issues cover NATO enlargement in the eastern direction, NATO intervention in Kosovo, Strategic Nuclear Balance and Proliferation. ("U.S.-Russian Relations at the Turn of the Century," Report of Carnegie Endowment for International Peace Working Group on U.S.-Russian Relations.) Because these concerns held much more importance in U.S. decision making, Russia's stability was seen as a priority when compared to the regional countries' well being.

[210] Andrew Hamilton a former NSC staff member from 1970 to 1971, gives another striking example of this priority. He argues that recent oil price accelerations can be explained by a desire to help Russia. He says "in an intriguing comment Bill Bradley made on March 1 during his debate with Al Gore as a Democratic presidential candidate, ... he declared 'I think the reason [for soaring energy prices] is because we more or less asked the OPEC countries to raise oil prices in hopes of helping Russia...develop its economy.'" In his article he explains this position. " Because of Russia's financial mismanagement and the suspension of international aid in 1998, the administration had few tools to help the country. However, Russia exports more than 1 billion barrels of oil a year and 20 percent of its foreign exchange in 1996 came from oil sales. Restoring a higher price would directly aid the Russian economic recovery." He also gives more detail about the issue. Andrew Hamilton, "A Look at ...The Cost of Oil," *Washington Post*, (30 April 2000): B03. According to another report, this price rise helps Russia in different ways. Paul Goble from Radio Free Liberty reports that "both Russian and western commentators have already noted that Moscow has been able to finance its war in Chechenya because of these rising oil prices." According to Goble these increases set a stage for greater independence of action for Russian decision-makers. Paul Goble, "Russia: Analysis from Washington- Oil Prices and Political Possibilities," *Radio Free Europe/Radio Liberty*, (3 April 2000) [on-line]; available from http://www.rferl.org/nca/ features/2000/04/ F.RU.00403125259.html; Internet; accessed 11 February 2000.

power's hegemony. The Turks think the economic viability of the pipelines was always in secondary place to the significance they carried. Turkey saw its objective as a mission for ethical values. Achieving its objectives would morally elevate the Turkish mood. The United States did not see the pipelines as being important as Turkey did. Furthermore, the United States saw this region as a reward of economic and political benefits for different rivals.

Probably another important difference was the realist approach Turkey pursued and the liberal approach the United States followed. Because both policy options had different benefits and assumptions, respective governments' calculations were based on dissimilar evaluations. Whenever conditions in the region were suitable for finances, this helped the United States, whenever conditions permitted Turkey benefited from the diplomatic situation.

The idea that "the area is too remote from U.S. assets and too politically and economically backward for Washington to invest the necessary resources"[211] differed from the Turkish opinion. Turks thought that even under the worst circumstances investment and allocation of assets help countries as well as investor states. There was no discrimination between the peoples of other countries in Turkish thinking.

The United States' belief that market forces would secure the future of oil pipelines with the economic well being of states significantly differed from the realities of the Caspian region. Turkey believed that free trade and economic development might be a consequence of ending the conflicts. The interdependence between them would only be realized when the necessary conditions were supplied in Turkey's calculations.

The U.S. understanding of Armenian-Azeri conflict was also different from Turkey's. A belligerent occupier of 20% of Azeri territory, Armenia was seen as a victim of Azeri repression in the U.S. Senate. Armenia's collaboration with Iran and Russia also did not receive enough attention from the United States.

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211 "Central Asia Shuns U.S. Hegemony," *Stratfor Commentary*, (28 April 2000) [on-line]; available from http://www.stratfor.com/CIS/commentary/0004281700.htm; Internet; accessed 28 April 2000.

United States' sanctioning the Iranian pipelines and accommodation efforts[212] between oil companies differed from Turkish thinking. This controversy and the U.S. distaste for Turkey's natural gas trade with Iran added to the misunderstandings in regional policies.

Another difference emerged when Turkey accelerated its efforts to end terrorism. The United States and Turkey mutually interested in building Baku-Ceyhan oil pipeline. During this time, companies have been questioning the security of Turkey's southern region and the U.S. legislation consequently cut foreign aid to Turkey.[213] This reduced Turkish and U.S. executive branches' ability to proceed in the same direction.

The differences in tactics were more significant than the understandings. America advocated multiple pipelines including one from Baku to Ceyhan, but this decreased the possibility of building this line. The U.S. support for multiple pipelines and preference of an initial Russian branch gave Russia an upper hand in rivalries. Producer countries projected sending the oil by the most reliable, most feasible means and transporting crude oil in the shortest time. Multiple pipelines prolonged the time for decision and construction, undermined the security of different lines, and reduced the feasibility of transportation. Turks on the other hand supported one route irrespective of commercial or economical factors. The U.S. preferred early oil pipelines in two directions instead of Turkey's unidirectional proposal.

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[212] Sheila Heslin, a former administration official with the National Security Council (NSC), argues that "while the U.S. government understood the potential negative side-affects of ILSA, it sought to mitigate these somewhat by allowing for oil swaps through Iran from the Caspian countries." Sheila Heslin, "Key Constraints to Caspian Pipeline Development: Status, Significance, and Outlook," *James A. Baker Institute for Public Policy at Rice University*, (April 1998): 43 quoted in Julia Nanay, "Withering the Oil Industry? The Fate of the Caspian Hangs in the Balance (The Dilemma of Transport Routes)," *SAIS Review,* Vol. 19, No. 1, (1999): 272-281 [on-line]; available from http://muse.jhu.edu/journals/sais_review/ v019/ 19.1er_heslin.html; Internet; accessed 17 April 2000.

[213] According to Kemal Kirisci, Turkey's operations in the southeastern Turkey attracted congressional and public interest affecting U.S. foreign policy toward Turkey. "This interest translated itself into legislation cutting foreign aid to Turkey as well as demanding the Administration prepare reports on the use of U.S. military equipment in situations of human rights violations. The powerful lobbying capacity of human rights and arms control groups together with anti-Turkish ethnic lobbies...[resulted in] substantial cuts in U.S. foreign assistance to Turkey during the mid-1990s." in "Turkey and the United States: Ambivalent Allies."

The United States ruled out the financial subvention for the proposed pipelines and focused its attention only on diplomatic efforts while Turkey used its entire means to construct the pipelines in the region. Although Turkey's capabilities were limited, using available financial tools to support Baku-Ceyhan became an objective in Turkish tactics. When negotiations stalled because of multi-layered problems, Turkey even advocated building its pipeline by itself.[214]

Because understandings were different, the response to the Armenian-Azeri conflict was different in U.S. and Turkish policies. While Turkey helped Azeri reconciliation efforts, U.S. saw benefits in helping Armenia. Both countries applied sanctions to the other's counterpart.

Turkey used its state-owned pipeline transportation company (BOTAS) to direct its oil policies in the region but because the United States, as a government, did not own the companies, their respective policies could not be coherently implemented with the same tactics. Similarly Turkey easily guaranteed the financial and political aspects of the Baku-Ceyhan in its unanimously decided policies whereas the United States faced strong congressional criticism on the specific financial and security issues.

Turkey saw the international organizations like OSCE, ECO, BSEC and UN as suitable grounds to solve regional problems and used each opportunity to generate initiatives that could ease these difficulties. Even though some of these saw support from the United States, the U.S. was mostly interested in bilateral relations and negotiations. This prevented some of the issues from internationalization. Owing to the similar reasons, the activities of Russia and the importance of a stable oil regime in the region escaped the attention of the international community.

The United States and Turkey used different instruments in their policies. Turkey used its cultural, linguistic and historical relations while dealing with the countries. This sometimes became an effective instrument in regional relations. The United States on the other hand relied on personal relationships and large finance institutions. Because the

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[214] This option probably cannot work without consent of oil executives in a general framework of complete transportation systems.

financial institutions approach the problem differently, the government policies were affected by the financial institutions.

With both similarities and differences in their policies, the two allies cooperated in many ways. The United States and Turkey started their projects as partners. This partnership has not changed its initial intention. From the start of this cooperation one's policy did not purposefully oppose the other's activities. But since the risks they faced, their ideology and policies differed greatly, they had vast differences in substance and tactics. Their cooperation in the region when compared with other nations, is still a meaningful commitment. They still have the opportunities to benefit from the available conditions and contribute to this atmosphere. But they need to predict the consequences of their policies.

C. PROSPECTS FOR THE FUTURE

Almost a decade has passed after the Caspian littorals declared their independence. Like other countries that depend on the oil regions, the United States and Turkey also made efforts. But too little has changed to satisfy the U.S. and Turkey. Worse than that, the political and economical conditions are still deteriorating. The United States and Turkey have been following policies built on good will and promising benefits. But their failure in concluding fruitful policies is undermining the value of region's countries by falling behind the expectations of both their decision-makers and weak regional countries.

Since Russia has done everything possible other than military intervention, and Iran has been benefiting from the international environment, the new era is prone to deteriorating conditions. The politics of both nations add up to this picture: "Consistent with its tilt in favor of both Armenia and Russia, the United States turns a deaf ear toward Azerbaijani complaints."[215] If this attitude persists, with its growing economy and army Azerbaijan may no longer accommodate the Armenian invasion of its soil and a new conflict in the region could break out.

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[215] S. Frederick Starr, "Power Failure: American Policy in the Caspian."

If Russian assertiveness continues and if it succeeds in Chechenya "the neocolonial thinkers in Moscow would be encouraged to try to destabilize Georgia, which is volatile and vulnerable."[216] If Georgia falls under the influence of Russia; the pipelines and the political and economic pluralism of the region would be at stake.[217] In case of unresolved conflicts in the region, Iranian, Armenian and Russian cooperation may take the shape of a concrete anti-western alliance.

Russian military intervention close to Turkey's borders can ignite regional conflicts. A confrontation between Russia and Turkey may draw NATO or the EU into a conflict, which can easily changes the region.[218] An event on this scale constitutes a considerable danger to international security.

In the near future "belated, and to date, ineffective" U.S. support[219] for pipeline routes through Turkey may prove useless. With the growing importance of economic factors, the governments' ability to conduct oil policies might be more limited. Even if these pipelines are opened, their capacity would still be so small as to allow only a modest part of Azerbaijani production.[220] This situation could not help Azerbaijan, Kazakhstan and Turkmenistan free themselves from former hegemonies.

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216 Zbigniew Brzezinski, quoted in Philip Kurata, "Russian Offensive in Chechenya Seen to Threaten Pipelines," *USIS Washington File*, (13 December 1999) [on-line]; available from http://www.fas.org/man/dod-101/ops/war/1999/12/991213-chechen-usia1.htm; Internet; accessed 28 April 2000.

217 Ibid.

218 Zbigniew Brzezinski, drawing a similarity with the Balkans, calls this situation "Eurasian Balkans." Quoted in Amy Myers Jaffe and Robert A. Manning, "The Myth of the Caspian 'Great Game': The Real Geopolitics of Energy," *Survival* (London), Vol. 40, No. 4, (winter 1998/1999): 112-131 [on-line]; available from ABI Information Services, http://proquest.umi.com; NPS Domain; accessed 25 February 2000.

219 Frederic Starr, "Power Failure: American Policy in the Caspian." Some new progress developed on the Baku-Ceyhan route, when Turkey, Azerbaijan and Georgia reached an agreement on the legal framework of the pipelines on 28 April 2000. However, much effort is needed to achieve the goal. According to President Clinton, "The next phase would be for companies in the United States, Western Europe and Russia to work with Azerbaijan, Georgia, Kazakhstan and Turkey to transform the legal documents into a commercial reality."("Deal Reached on Oil Pipelines," *New York Times On-line*, 28 April 2000.) But as explained, the pipeline may yet not be successful.

220 S. Frederick Starr, "Power Failure: American Policy in the Caspian."

Iran's pipeline from the Caspian Port of Neka complicates the problems. Iran maneuvered for new players onto its side and made the EU countries and China oppose the United States. The influence of the U.S. and Turkey in the Caspian Basin can decline if these countries increase their presence in Iranian oil affairs. China also perceives the region as a breeding ground for political chaos. It has no desire to control the region but wants to benefit from the chronic instability.[221] The Kazak president distancing himself from the United States, his referral to Iran as an anchor of stability in the region and seeing Iran as an energy partner gives further clues for the future regional opportunities. Combined with the conflict between Armenia and Azerbaijan, Russia and Chechenya, region might prove more vulnerable to interventions and fractures in the near future.

If Washington and Ankara continue to fail in their policy objectives, their allies' (i.e. Israel) interests could also be jeopardized[222]. Because of the authoritarian regimes in Russia and the regional countries, almost every government has been struggling with numerous problems. These problems when combined with the lack of democratic opposition and discriminatory policies may form a ripe environment for the radical political Islam[223] in the Caspian region. With their compounded problems, these countries' adaptation to western standards might take longer. There is even a possibility of rejecting these adaptations.

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[221] China's interests are mostly directed to Kazakhstan and Turkmenistan (in "Central Asia Shuns U.S. hegemony"), but it is important to consider the different players' influence in the bigger picture by paying more attention to bilateral relations between these countries. According to Stratfor, China even advises the Kazak Army.

[222] According to Paul Starobin, American Jewish groups like B'nai B'rith and the American Jewish Congress seek to nourish the ancient Jewish communities in the Caspian towns including Baku, Tashkent and Bukhara. Israel and American-Jewish groups also believe that there is a real chance, with the right U.S. policy of fashioning a pan Turkic Central Asian belt that does not mistreat local Jews and is friendly to Israel. In "The New Great Game." Although the Republic of Turkey does not seek or aim to form any form of pan-Turkic alliance, an economic and cultural cooperation with these countries including other non-Turkic states also helps similar objectives.

[223] Radicalism is not a general trend in these countries, but examples of radical religious opposition elsewhere in the world show that economic and social circumstances like these can end up forming new threats in this region. The revival of Islam, which is already in progress in these countries, can change and easily become a radical movement.

Economically, the changing dynamics of energy industry can also decline both countries' efficiency in regional politics. The merger of two oil companies, BP and Amoco[224] could further wither the abilities of U.S. decision-makers to influence regional policies. Amoco was the major U.S. player in Azerbaijan. The merger of this company into BP could increase British influence in the region where the United States defines its interests as vital for the region.

Another economic aspect, low oil prices also effect Caspian politics by forcing the oil industries to budget cutbacks. Because of these cutbacks, oil investors may firstly refrain from new explorations. This trend directs them to more reliable resources with fewer risks. Consequently if conditions worsen, many companies could choose to invest in other areas rather than the Caspian region. As a result of this natural behavior, Caspian countries may suffer economically. Similarly exploration of new oil supplies elsewhere and the development of present reserves may divert the existing attention by interested parties from the Caspian and may cause a loss of interest in the region. Furthermore the region could be left to its destiny. Depending on other conditions, oil prices can fluctuate. Sudden increases or decreases in the oil prices can have serious consequences for the producers and consumers.[225]

If outside players still try to see the real circumstances through a liberal lens some of the most important issues might be undermined.

The Allies' not so calculated policies might also hamper their mutual relations. The contradictory U.S. policies in the Caucasus could injure its relationship with Turkey. Turkey depends on Washington for assistance with regard to many common interests. Weak support and tacit consent in the oil issues may create financial burdens for Ankara. For this reason, Turkey may lose some of its incentives to work together in the Caucasus. While the United States makes an advantageous economic decision, it may lose some of its assets in its crucial strategic relationship with this country.

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[224] BP and Amoco announced a merger in August 1998.

[225] According to Andrew Hamilton, oil prices are sensitive to small changes. An oversupply of less than 3 percent of world oil demand can make prices fall and a small undersupply can cause prices to soar. In "A Look at the Cost of Oil."

If proper precautions are not taken, the congestion in the Turkish straits could cause long waiting times. Because of the pollution and environmental damage, Turkey might lose enormous amounts of money and if companies and states pressure Turkey for unrestricted access, a diplomatic confrontation may take place between these countries. Furthermore an accident could cause a disaster in Turkey's biggest metropolis.

Many of these projections might not happen at the same time or might not happen at all. Considering the critical situation about Caspian pipelines, preparing for the worst consequences and taking into account the stakes the U.S. and Turkey might face, may be a good approach while formulating any new Caspian oil policies.

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VI. CONCLUSION

With its significant energy resources and promising economical opportunities the Caspian region will continue to attract attention in the near future. But in order for Caspian to be the next North Sea, existing policies should be revised and new policies should be developed.

A. JUDGMENTS AND RECOMMENDATIONS

In order for this region's natural resources to be developed successfully some of the main political and economic conditions must be met. Political stability, cost-effective lines of transport and a positive financial and investment climate[226] are core issues. Obviously, without the first and the last conditions, second condition means little. Financial institutions offer cost-effective transportation opportunities, yet the region is still politically unstable and as a consequence of this instability, investment climate is troubled. For the same reason, the decision in routing the pipelines should not rest only on commercial and financial issues but should also include regional politics.

The United States should play its role in the region as dictated by the New World Order. "The popular impression that the end of the Cold War has removed the need for U.S. leadership in [this] strategic [zone] is dangerously wrong."[227] Because of the region's volatility, currently this presence is needed much more than elsewhere.[228] With

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[226] Robert M. Cutler, "Towards Cooperative Energy Security in the South Caucasus," *Caucasian Regional Studies* (Canada), No.1, (1996) [journal on-line]; available from; http://poli.vub.ac.be/publi/crs/eng/0101-05.htm; Internet; accessed 7 February 2000.

[227] William E. Odom, "U.S. Policy toward Central Asia and the South Caucasus."

[228] According to Sherle R. Schwenninger "The Unipolar conditions of the post-Cold War world were uniquely ideal for the United States to adopt a posture of benevolent and purposeful hegemony." "It would be purposeful in the sense that Washington would have the conscious goal of building longer term institutional and alliance arrangements favorable to its interests that would outlast American dominance, which would inevitably weaken again over time." This can also be an argument on behalf of greater American and regional interests. Sherle R. Schwenninger, "World Order Lost: American Foreign Policy in the Post-Cold War World," *World Policy Journal*, Vol.16, No.2, (summer 1999): 42-71 [on-line]; available from ABI Information Services (NPS domain) http://proquest.umi.com; accessed 27 November 1999.

the proper policies, the U.S. presence in the region should block Russian neo-imperialism and avoid the Russian monopoly over the proposed pipelines. Financial opportunities are strongly related to construction of a competitive market in this region. Transportation of oil is not only related to pipelines, for that reason a regional export system should be established to permit pipeline investments.

Regional cooperation cannot be forced externally, but the outside world can and should play an important role in supporting different opportunities. The preserving the regional countries' independence and sovereignty must be the first priority. "Constant political vigilance and monitoring by the OSCE and the West is needed to prevent Moscow from adopting unilateral policies. If Western Europe and America refrain from challenging Russia on its internal and Caspian policies, it creates the impression that Russia has privileged status on violations of human rights and the use of force in the internal disputes."[229]

The United States and Turkey should evaluate this subject more carefully giving more emphasis to the pipeline politics. By this way they might have the chance to bargain for strategic nuclear balance, proliferation and oil issues on different tables. Pipeline issues need to be considered among the regional security issues.

Turkey and the United States should openly oppose Moscow's territorial claims that could interfere with the economic and security interests of these countries. Both countries need to reaffirm their commitment to good relations and peaceful coexistence in the region, but they also need to ensure that these relations are based on equal conditions of normal international relations. The new U.S. and Turkish Presidents should communicate with their Russian counterpart to make sure Russian assertiveness does not further destabilize region. Both countries should use their trade and aid agreements with Russia as a counterbalance to Russian support for conflicting struggles.

They also need to internationalize the conflicts in the region. A dialog about the future of the region and the solution of the problems must be started with the EU

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[229] Craig R. Whitney, "Why Europe is Careful Not to Scold the Bear," *New York Times*, 2 January 1995, A6. Quoted in Stephen Blank, "Russia, the OSCE and Security in the Caucasus."

countries. In this way, both fighting factions and the forces behind the policies might have less of a chance to effect pipeline policies unilaterally. This could be another opportunity to reduce the differences between European and American views. The OSCE and even the NATO Partnership Council can be good environments to discuss the future of these countries.

Turkish and American decision-makers need to communicate with the Russian decision-makers more closely to prevent misunderstandings. In order to deter any rouge movements, suitable military links and security agreements should be made with the regional countries. There is also a need to deploy some kind of international military presence in the region.[230] This would prevent the spillover of the conflict to neighboring countries.

The United States and Turkey should accelerate their efforts to construct the Baku-Ceyhan pipeline before it becomes economically more vulnerable because of the competition.

The United States and Turkey should also realize that the countries of the Caspian and Caucasus are not less important than any other country in the world. They also need to consider that these countries are no longer a part of the Russian Federation. Decision-makers elsewhere need to take the subject as a whole including these issues.

The United States and Turkey should work closer to understand each other better. They also need to minimize the differences in their cooperation by defining specific features of their state interests. A specific goal and a mobilization of efforts might compensate the time lost without significant gains.

United States and Turkey's financial aid with the investment activities must be directed to this region. If possible, export-import regulations should be eased to activate economical development. Coordination between government offices should be based on a schedule for effective cooperation.

Financial problems can only be overcome when governments contribute to investment costs. Coordination between governments and oil companies should be

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[230] Currently only outside military presence in the region belongs to Russia.

increased so that oil companies understand the risks involved. The United States and Turkish governments should offer tax reduction or exemptions for the companies that invest in the Baku-Ceyhan pipeline. If needed, legal amendments must be made and favored investor status must be given to promote the developing of pipelines. The Turkish government should continue its efforts through state-owned BOTAS and other state conglomerates. If needed more attractive deals must be offered through these companies.

Strategists claim that a sound American National Energy Strategy is not built on more regulations. A sound policy rather should remove impediments to the energy market, eliminate barriers to energy production and facilitate innovation.[231] For that reason the U.S. policy makers should take necessary measures for possible restrictions caused or regulated by third parties.

According to some analysts, U.S. policy has devoted too little attention to Turkey's importance in the region.[232] Informing congress via the State Department and the NSC could make it easier for politicians to understand the importance of Turkey in U.S. foreign policy.

The U.S. policy-makers should revise their policy of investing in the Balkans and enlarging Baku-Supsa pipeline. Because these pipelines probably will reduce the chance of Clinton administration's declared Baku-Ceyhan support.

The United States should change its position in the Armenian-Azeri conflict. A balanced approach with a neutral attitude may help both U.S. interest and regional stability. In line with this approach, the U.S. should use all possible means to remove the sanctions imposed on Azerbaijan since 1992.

U.S. security assistance should be expanded to these countries. High level delegations should be exchanged for fact-finding and economic opportunities. This could entail military and diplomatic education in the United States with technical and supply assistance in excess military material.

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[231] Milton R. Copulos, "Securing America's Energy Future: A Primer on the National Energy Strategy," *The Heritage Foundation Backgrounder*, No.846, (9 August 1991) [on-line]; available from http://www.heritage.org/library/categories/enviro/bg846.html; Internet; accessed 31 January 2000.

[232] William E. Odom.

In order for Turkey to change the negative thinking in U.S. policy circules, Turkey should launch an effective lobbying campaign in the United States and major European countries about the importance and viability of the Baku-Ceyhan pipeline. Cooperating with American Jews, Turkish Americans and the large number of Turks living in Europe can be helpful to counter the problems caused by pro-Greek, pro-Armenian, pro-Kurdish lobbies in Western security planners' calculations.

In order to prevent the rise of radical Islam, the international community should grant support for secular Turkish State Model. Cooperating closer with Turkey on these issues could benefit both regional governments and Turkey.

Turkey should use the BSEC and OSCE to initiate policies that would enhance regional stability and economic cooperation in the region. Turkey should also bargain with Armenia and try to prevent Armenia to fall further into extremist isolation.

Turkey should pay as much attention to the Caspian issues as it paid to European affairs. It also needs to see this region as the EU's potential border. It should mobilize as many supporters as possible to the Ankara's Caucasus pact and must be the initiator of peaceful activities. It also needs to develop a continuous Caspian and Caucasus policy entailed to a broader Central Asia scheme. Longer periods for governments in Turkey's political life will definitely effect its foreign policy efficiency positively.

Turkey should develop closer relations with regional countries in educational, economic and political issues. Turkey should also continue to contain the terrorism problem in order to maintain suitable investment environment.

The United States and Turkey have already lost some of their assets owing to their policies in the region. It is hoped that with the required modifications a new phase for common interests could be realized.

B. FOR BETTER REGIONAL POLICIES

The rush for oil and its benefits started decades ago. Many wars were fought for its strategic importance in economical and military means. The idea of energy security was born and flourished in this ground. During this time, the importance of politics in energy policies decreased but did not fade. Oil politics were an important issue two decades ago. Today this issue is different from previous decades but it still enriches countries when it is used suitably and harms the others when its consequences are not calculated. The Caspian region is a place where both consequences are vividly seen.

Although almost a decade has passed after Caspian littorals' independence, the situation in the Caspian has not changed much. With their many regional and external players, countries began to earn hard currencies, but they first need to pay the investment costs back in terms of their natural resources. Before they prosper, investors must make some money and guarantee their unexpected costs. In order for countries to bargain equally with other players, they need to eliminate the burden of separatist struggles. They also need to counter the moves made by the regional hegemonies. In order to be sovereign states, they need to gain the support of their own citizens, cooperate with their neighbors and adapt to the modern world. They at least must have a belief in their states' future. In order for all this to occur, they must started initiatives that will help them. But they are still struggling with the same problems they dealt in the early 1990's. They are still poor, weak and in need of outside help. The west entered the area at the end of 1980's even before their independence. Financial institutions and investors were the first ones to run to the area. The United States and Turkey also became involved in Caspian politics for different reasons. Although regional conditions improved slightly, the entrance of those many players did not solve the major problems.

Players sought different methods in the region. European countries perceived the region economically. Turkey wanted to see these countries free from any power's dominance. The United States, on the other hand, was caught between its political objectives and its economic priorities. With their continuing efforts Russia and Iran are increasing mutual interests. Pipelines are being laid according to their preferences and

regional agreements are being signed with the Caspian littorals. The Russian military is moving southward openly threatening Azerbaijan while pounding Chechenya. It is also stationing troops as peacekeepers in Armenia and Nagorna-Karabakh. Sanctions are in place and pipeline decisions are waiting on the Azeri side. The situation in Georgia has not changed greatly. After three assassination attempts, Georgia's president is still battling Russian pressure. Investors do not care much about such situations as long as they get their money and oil revenues. Countries far from the area do not have stakes in the region. Some countries see benefits in challenging Russia while others pursue loftier interests, but they do not pay enough attention to one point. "The faith of Georgia, Armenia and Azerbaijan is inseparable from the success or failure of developing this broader region both economically and politically and ensuring its stability. The current turmoil in the south Caucasus will be remembered with fond nostalgia if policy makers do not address wholly predictable demographic and geographic sources of a forthcoming conflict."[233] The situations of Turkmenistan and Kazakhstan are similar and they are prone to the same consequences.

Like other players of this oil game, the United States and Turkey are risking their higher interests by failing to produce effective policies. They have already been caught unprepared and slow to adapt to the frequently changing regional politics. If their objectives are not achieved many issues from divergence of oil resources, to the value of freedom and sovereignty of the new states will be undermined. All these problems compound with the hardships faced while predicting the future developments. A lack of concern and knowledge direct policy-makers to different objectives. This situation not only enhances the possibility of facing unpredictable situations but also weakens the future of subject countries, pipelines and oil policies. Without a revision in policies and a consciousness about the dangers inherent in the future of regional countries, it is impossible to produce effective and reliable policies in the region. After a decade of experiences, the United States and Turkey must accelerate their commitments to necessary changes. Their combined effort helps regional and global security. This

[233] Robert M.Cutler, "Toward Cooperative Energy Security in the South Caucasus."

cooperation could economically be costly in the beginning but will probably create positive investment environments in the future. The cooperation between the U.S. and Turkey could also save much money by preventing a devastating dispute.

The United States and Turkey's only economic considerations do not give desirable results in a region which mostly political activities dominate international relations. A more policy-oriented approached built on a desirable economical formula can help realize the security of all parties. Contrary to unilateral arguments this positive environment meets the needs of all regional players, including Russia and Iran. In order to have free-trade, the partners should have equal opportunities in the game. Enhancing the security, economy and sovereignty of the region's weak states supplies the necessary conditions for a free trade among equal partners. Without this structure all other initiatives including the existing ones face the serious possibility of unpredictable failure. Financial institutions and investors may not lose too much from this situation but regional countries could lose years of their futures and global energy security might be effected as a consequence.

Competition for the main oil pipelines is continuing today. It is still not definite where the main oil pipelines will pass. The political and economical environment is changing so fast that predicting the future of developments in the region is difficult. Just like the changes in the last ten years, the years ahead are prone to new policies, opportunities and new risks. The United States and Turkey cannot change the course of world politics. They may not even be able to change the course of regional politics in the Caspian region. They may, however, define their interests with a new outlook, calculate the outcome of their policies and pursue more attainable future goals. They may solve their intrinsic problems in policy-making and generate more productive outcomes. Because a realistic assessment shows that promoting the security of this region will also benefit the world at large more effective policies even if they do not succeed would benefit these allies as well as all investors and the regional states.

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