

PERCEPTIONS
JOURNAL OF INTERNATIONAL AFFAIRS

December 2001- February 2002 / Vol. - VI Num.4

**THE POLITICS OF CASPIAN REGION ENERGY RESOURCES: A CHALLENGE FOR
TURKISH FOREIGN POLICY**

ŞEBNEM UDUM

*Şebnem Udum is a MAIPS candidate 2001 at Graduate School of International Policy Studies,
Monterey Institute of International Studies, Monterey, CA.*

EXECUTIVE SUMMARY

Following the break-up of the Soviet Union in 1991, the Caspian region, with its rich hydrocarbon reserves, assumed great significance in the energy politics of the regional states and the global actors. Coupled with the landlocked nature of the Caspian region, the development of trans-national export pipelines to transport oil and gas from the Caspian caused competition both between companies over the contracts and between states over the final export routes. The high stakes led to the struggle being labeled the 'New Great Game', the main actors of which are the newly independent states of the Caucasus and Central Asia (Azerbaijan, Georgia, Armenia, Kazakhstan and Turkmenistan), Russia, the United States, Iran, Turkey and some international oil firms.

The politics of Caspian energy is highly complex due to the intermingled legal, political, economic and strategic concerns and issues. Pipelines are not only significant economically, but they also confer degrees of control, dictating dependency and influence. The pipeline options were evaluated according to criteria determined by the interests of the main actors in the 'New Great Game' and the technical requirements of the oil business. Among the proposed transportation alternatives, the current competition is between the routes to carry the Caspian reserves north and the route that heads west then south. The northern route, through Russia, carries the current oil output. However, it is not the ideal option for long-term transportation due to its unsustainable shortcomings. The western route, the Baku-Tblisi-Ceyhan pipeline project, is both economically and strategically significant, but its strategic importance has fallen short of justifying its commercial viability.

Turkey has the status of a potential consumer and a transit state in the region. When Turkey's energy needs, security and stability concerns in its immediate region are considered, the materialization of the Baku-Tblisi-Ceyhan project requires new strategies and decisions in Turkish foreign policy regarding the pipelines that would transport the Caspian reserves to world markets. Rational policies, which are an offspring of these strategies and decisions, would foster Turkey's influence in the region, maintain energy security and would enhance Turkey's effectiveness as a regional player.

INTRODUCTION

The politics of the Caspian region's energy resources took on a new dimension after the dissolution of the Soviet Union and the subsequent independence of 15 new states. Currently and in the foreseeable future, oil and gas, since they occupy a significant part of world energy consumption, should be supplied from reliable and diversified sources, and they should flow unabated. Therefore,

the Caspian region, which was within the borders of the Soviet Union during the Cold War, became a new energy basin with importance for resource diversification and for strategy in the context of the new world order.

While the oil and gas reserves in the Caspian region bear importance with respect to the diversification of world energy supply, in this article the main issue is the determination of the export pipelines that would carry this oil and gas. For the oil producers and states, the significance of pipelines is not only economic, but also political and strategic. Thus, in the Caspian region, where pipelines denote degrees of control, dependency and influence, the determination of export routes yielded a struggle between the oil companies to get the contracts and between states to determine the final export routes. Due to the high stakes in the region, this struggle was labeled the 'New Great Game'. The main actors in this game are the newly independent states of the Caspian region (i.e. Azerbaijan, Georgia, Armenia, Kazakhstan and Turkmenistan), Russia, the United States, Iran, Turkey and the international oil firms.

The final stage of the 'New Great Game' would be to agree on the pipelines that would carry the Caspian basin energy resources to world markets, but the energy politics of the Caspian region are very complex due to intermingled legal, political, economic and strategic concerns and issues. These concerns and issues form the criteria that would be taken as the basis while evaluating the various pipeline alternatives.

Of the possible routes for carrying Caspian oil and gas to world markets, the strategically significant 'East-West corridor', i.e. the path of the Western route, passes through Turkey. Since these pipelines would cross Turkey, Turkey's energy needs and its security and stability concerns in its immediate neighborhood necessitate the formulation of new strategies and decisions in Turkish foreign policy. In this context, the Baku-Tblisi-Ceyhan pipeline project and Turkey's natural gas policies have critical importance.

This paper seeks to provide an analysis of the energy politics of the Caspian region and to analyze its impacts on Turkey. To that end, in the first section, the general political situation in the Caspian Sea region will be tackled and the outlook for regional energy resources will be provided. The pipeline struggle in the region will be analyzed by looking at the politics in the Caspian region and the concerns of the main actors, hence the criteria determining the final export routes will be obtained. In the second section, the pipeline alternatives will be presented. Next, the pipelines of relevance to Turkey and accompanying issues will be discussed. The last section is devoted to recommendations regarding energy issues, to be applied to Turkey's political, strategic and economic decision-making mechanisms. The point of departure of this section is that rational and realistic policies that would foster Turkey's effectiveness and influence in the 'New Great Game' would not only be conducive to sustaining Turkey's energy security but would also contribute to Turkey's status as an influential regional power in the foreseeable future.

HISTORY AND BACKGROUND

If military security is of primary importance in maintaining the survival of states, economic security comes a close second. In terms of economic security, energy security is of critical importance because energy accelerates development, which is essential to industrialized and developing countries alike. Therefore, it is a goal of states, so far as they are able, to secure uninterrupted and cheap energy from diversified sources. Oil and gas accounts for 60 percent of world energy

consumption and, in 2020, their share will increase to 66 percent.² In this context, the Caspian Sea region is significant for world markets because of its vast explored oil and gas reserves.

As seen from the Table 1, while the proven reserves of the Caspian region correspond to 3-4 percent of world reserves, the total reserves of the region are a massive 20 percent of world reserves. Moreover, though it can never rival the Persian Gulf, the total proven reserves of the Caspian, which is 18-35 billion barrels, is comparable to the oil deposits in the United States (22 billion barrels) and in the North Sea (17 billion barrels).³

Oil and gas reserves are valuable only so long as they can reach their markets. The Caspian region is thus disadvantaged because it has no direct outlet to the high seas except the Volga-Don channel, which is frozen for six months a year. This necessitates pipelines to carry the region's oil to market. These pipelines must transit third states after they pass through the territories of the Caspian littorals, which means economic benefits for the transit states. Also, for the producers and the transit states, pipelines have a decisive effect on degrees of control, dependency and influence. These features of pipelines are vital for the Caspian region because the possible pipelines not only cross the politically unstable Caucasus and Central Asia but also states such as the United States, Russia and Iran, which pursue an active foreign policy, have a vested interest in the final choice of route. This has transformed the issue of determining the export routes into an immense struggle. Hence, the high economic, political and strategic stakes and the label, the 'New Great Game'.

There are many issues ahead for the transportation of Caspian oil and gas, such as trans-boundary pipelines, political instability, economic imbalance and legal and political problems. Hence, it would not be appropriate to arrive at a conclusion about the possible final routes of the pipelines before examining the interests of the main actors in the 'New Great Game'. The next section provides a brief background, and these facts form the criteria determining the final export routes.

The Pipeline Struggle

The determination of the pipeline routes to carry the Caspian oil and gas depends on various factors. Among them, are the geopolitical concerns of world powers, regional security issues, financial estimates, geographic status of major producers and the existing infrastructure. Unsurprisingly, regional conflicts, political instability and the lack of regional co-operation slowed the development of Caspian oil and gas reserves hence the deliberations on export routes.⁴

1. The Political Outlook of the Caspian Region

Before the end of the Cold War, the Caspian region, since it was within the frontiers of the Soviet Union, was not the focus of the active policies of the external powers. With the dissolution of the Soviet Union, the newly independent states of Central Asia and the Caucasus became subject to geopolitical calculations because some of these states sat on vast oil and gas reserves and some of them were engulfed by ethnic conflicts.⁵

The northern Caucasus is within the borders of Russia, while the south is in the Caspian region. The newly independent states of the Southern Caucasus are Georgia, Azerbaijan and Armenia. Ethnic conflicts challenge political stability in all three countries. Armenia is ethnically the most homogenous state of the Caucasus, but the other states in the region are not as advantaged as Armenia. Abkhazia and South Ossetia, which are in northern Georgia, voice their demand for independence. The Armenian enclave of Nagorno-Karabagh, which is within the borders of

Azerbaijan, has been the cause of war and a comprehensive settlement of this dispute has proved elusive for more than ten years. This war has corroded relations between Armenia and Azerbaijan. The Armenian minority in Georgia's Samtskhe-Javakhetia administrative region and the Meskhet Turks of Central Asia, who can migrate to that region, threaten political stability in the Caucasus.⁶ Moreover, the Azeri Turks in Iran express their hope to unite with Azerbaijan, thereby directing Iran's regional policies. Russia, because of the conflict in Chechnya since 1994, has sought to be the leading actor in the oil issue, hence it decided to pursue an active foreign policy. Discussions over the legal status of the Caspian 'body of water' give another dimension to the politics of the region.

The states in the Caucasus and Central Asia are not the full cast of the 'New Great Game'. The power vacuum in the region attracted most of the regional states and some foreign powers. The principal external actors that play a significant role in the region are the Russian Federation, Iran, the United States, Turkey, Saudi Arabia, China, Japan, Pakistan and Israel. The parties which have economic, political and strategic interest in pipelines, are firstly, the littoral states of the Caspian (Russia, Iran, Azerbaijan and Turkmenistan) and neighboring Georgia, secondly the possible transit countries (Turkey, Pakistan and China) and finally the international oil firms that have investments in the region. Additionally, the United States, which has upheld democracy and the market economy in the restructuring of the region since the end of the Cold War, wants oil and gas transportation from the newly independent states to be fully independent of Russia. The next section scrutinizes the concerns of the main actors.

2. What do the Actors in the 'New Great Game' Want?

The initially proposed oil pipeline routes pass roughly northwest, west, south and east from the Caspian. Since the international oil firms would finance the construction costs of these pipelines which would pass through Russia, Iran, Turkey, Pakistan and China, the states with shareholdings in these oil firms are equally interested in this business. The demands of these interest groups, which overlap from time to time, but which are in conflict most of the time, have transformed pipeline politics into an intense struggle. Below is a brief look at the interests of the main actors.

Russia: In terms of current geopolitical calculations, Russia seeks to regain its political influence to become the dominant power in the region. During the original 'Great Game', Russia controlled the entire Caucasus and Central Asia. The Soviet Union maintained and reinforced this control, hence the ties between Moscow and the regional states were strong. However, the dissolution of the Soviet Union left Russia with theoretically self-determining states, which actually cordoned it off from China, Turkey and the Islamic world in its backyard, and this required the formation of a new strategic regional policy.⁷ This policy in general, was and still is related to Russia's stance regarding oil. It emanates from a type of old Soviet inertia and seeks to form a counter force to growing American influence in the region and to Turkey. Within the context of its policy towards the United States, Russia has developed its relations with Iran. The regional policy of the new Putin Administration is to encourage stable regimes on Russia's southern flank, i.e. while Russia recognizes and accepts the independence of the states in the Caucasus, it seeks commercial benefits in the region.⁸ Thus, Russia supports the pipeline plans that start from the Azerbaijani capital, Baku, and Kazakhstan's Tengiz field and which terminate at the Russian Black Sea port of Novorossiysk.

The United States: The US has three essential political aims in the region:

1. To support the sovereignty and independence of the regional states.
2. Regarding exploration and export the region's oil, to uphold its own commercial presence, which would in turn bring economic benefits to its domestic market. The US also wants to see economic restructuring and the entrance of regional states to world markets. This would enhance American influence in the Caucasus and Central Asia.
3. To diversify oil supply and so reduce dependency on Persian Gulf oil.

US Caspian oil policy is to encourage the participation of US firms in regional projects, to support the independence and sovereignty of the regional states and to contribute to the development of the internationally endorsed business principles. Certain parameters surfaced as a result of this policy. First, since 1994, the United States supported multiple, short- and long-term pipeline routes because multiple pipelines boost competition, hold transit fees low and prevent dependency on a single pipeline. Second, the United States, especially during the Clinton Administration, supported the East-West corridor, i.e. the Baku-Tblisi-Ceyhan pipeline (passing through Georgia for political reasons) which would terminate at the Turkish Mediterranean port of Ceyhan, hence bypassing the Turkish Straits. The underlying reasons behind American support for the East-West corridor are:

1. To ease pressure on the current Russian pipeline system;
2. To reduce the Caspian states' dependency on a single pipeline passing through Russia;
3. To allow exporters to avoid unfavorable weather conditions and capacity problems at the Russian Black Sea port of Novorossiysk;
4. To minimize the potential for oil spills and tanker accidents in the Black Sea and Turkish Straits; and
5. To reduce pressure for a pipeline that would go through Iran to the Persian Gulf.⁹

That Dick Cheney, the Vice President in the George W. Bush Administration, is a Chevron ex-president and that Chevron has investments in Iran led to impressions that the chances of routes passing through Iran would increase. However, changes in American foreign policy towards Iran depends on changes in the Iran-Libya Sanctions Act (ILSA) and on improvements in Iran's record on those issues that the United States is sensitive about. Stephen Mann, US special envoy to the Caspian region, in his first visit to Kazakhstan in June 2001, announced that it was American policy that Kazakh oil would flow through Turkey and not through Russia or Iran.¹⁰ A detailed analysis of pipeline alternatives that pass through Turkey will be provided later.

Iran: Iran's main goals in the region include political influence, profitable economic and commercial relations, the spread of religious ideology, procurement of Soviet weaponry and the acquisition of nuclear material and expertise.¹¹ A critical point regarding energy is that while Iran's own oil resources are depleted, its geographic location presents ample opportunity for influence over the region's new resources. In this context, after the collapse of the Soviet Union, Iran, with Russia, started a new debate for re-determining the legal status of the Caspian. Whether the Caspian 'body of water' is a sea or a lake would yield different results in terms of international law and would

determine the economic benefits to the littoral states.

Iran has complex ties with the Caucasus and Central Asia. For example, around 16 million Azeris live in northern Iran (almost twice as much as Azerbaijan's population). Besides, Iran has signed a number of co-operation agreements with regional states (for example, the proposal for a pipeline to carry Turkmen gas to Turkey and Europe via Iran). In this context, Iran seeks to revive the historic 'Silk Road'.¹²

Turkey: Turkey is a net importer in terms of its energy needs. It is 87 percent dependent on oil and gas for its total energy demand and it imports 82 percent of the oil and all the gas that it consumes. Within the context of its overall energy needs, Turkey quickly needs to secure reliable and diverse sources for its gas supplies. Turkey has strong ties with the Caspian region and the Turkic groups there. Though these ties were weak in the Soviet period, the collapse of the USSR has provided Turkey with the opportunity to revitalize old ties in this region. Turkey, in an attempt to benefit from the new investment opportunities, has presented itself as a model for the newly independent states of this region, and extended its commercial relations from 1991 onwards. However, some habits retained from the Soviet period have slowed Turkey's enthusiastic program. However, for economic reasons, Turkey remains committed to its close relationship with the Caspian states. Turkey firmly backs the Caspian-Mediterranean pipeline route with all the economic support it can muster, thereby endeavoring to increase its regional influence, prevent unsustainable tanker traffic in the Straits and gain the economic benefits of a pipeline.

China: China became a net importer of oil in 1993, for the first time in its history. Thus, it needs to find new oil resources to maintain its economic development. In the long-term, if Kazakh oil projects continue to develop and the political and economic circumstances are favorable, China, with the co-operation of Korea and Japan, may seek to transport Kazakh and Chinese oil from the Tarim basin by pipeline to the Far East.¹³

Pakistan: Pakistan also seeks to revitalize the 'Silk Road' but it faces political turmoil in Afghanistan, which stands between it and the Caspian region. It would be too risky to finance a pipeline project in a region where there is political instability. Moreover, Pakistan has a number of domestic issues to deal with.

International Oil Firms: Since the exploration, development and transportation of oil require costly investments, consortiums with big oil firms as shareholders, were formed in the Caspian region. These companies include Exxon, Mobil and Chevron from the United States, the British-US company BP-Amoco, Total, Fina and Elf from France, Italy's ENI, the Netherlands-British Royal Dutch Shell and Norway's Statoil. For these big oil firms, the translation of their investments into profits is important, therefore, before constructing long oil and gas pipelines, they must get a 'throughput guarantee', i.e. the country of production and exploration should guarantee that oil will flow through these pipelines. Moreover, since these firms take decisions according to economic parameters, they are interested in the technical details of the pipelines in terms of cost-benefit analysis, rather than political considerations. However, the oil sector provided substantial support for the election of President Bush and oil company ex-boss Vice President Cheney, thereby playing an important role in high politics, incomparable with the other states.

Azerbaijan, Kazakhstan, Turkmenistan and Georgia: The three states with oil (Azerbaijan,

Kazakhstan and Turkmenistan) want to transport their oil to market straight away. However, the regimes in these countries do not have firmly established democracies. Domestic politics in these countries have an equally determining effect on pipeline decisions as does economic necessity. Though Georgia is not a Caspian littoral, it is in the Caucasus and sits on possible pipeline routes. Hence, its essential role has been recently recognized.

3. The Criteria to Determine Pipelines

The above points are the main criteria to determine the Caspian oil and gas pipelines and their routes. To summarize, these criteria are:

- The need to get energy from cheap, reliable and diversified sources with an uninterrupted flow;¹⁴
- The world price of oil;
- The cost of the pipeline against net returns;¹⁵
- A throughput guarantee;
- The need for these vulnerable pipelines to pass through politically stable regions;
- The principle of multiple pipelines;
- The minimization of environmental hazards (oil tanker traffic threatens the Black Sea and the Turkish Straits);
- The Caspian states seek to sell their oil on the international market.

THE PIPELINE OPTIONS

The initially proposed oil pipeline options were routed in almost all directions, however, the focus is now on the northern (Russia and Black Sea) and western (Caspian-Mediterranean) routes. Despite appearances to the contrary, for political reasons, the options to the south (Iranian route) maintain their status in the pipeline struggle. The most important problem facing the northern route is that oil tankers will carry the oil terminating at the Russian Black Sea ports and these must navigate the Turkish Straits. This hazardous maritime transit led to proposals for options that bypass the Turkish Straits, but which still pass through Russia. The first tier pipelines are as follows:

- Atyrau (Kazakhstan) - Samara (Russia);
- Baku (Azerbaijan) - Supsa (Georgia);
- Baku - Novorossiysk (Russia);
- Tengiz (Kazakhstan) - Novorossiysk;
- Baku - Tblisi (Georgia) - Ceyhan (Turkey);

- Baku - Neka (Iran);
- Neka - Rey (Iran), also oil swaps between Iran's north and south;
- Aktyubinsk (Kazakhstan) - Xingjiang (China);
- Tengiz - Kharg Island (Iran);
- Kazakhstan – Turkmenistan – Afghanistan - Gwadar (Pakistan).

The second-tier alternatives are:

- Odessa (Ukraine) - Brodi (Ukraine) - Gdansk (Poland);
- Burgas (Bulgaria) - Vlore (Albania);
- Costanza (Romania) - Trieste (Italy);
- Burgas - Alexandropolis (Greece);
- Thrace - Saros Bay (Turkey);
- Black Sea shore - İzmit refinery (Turkey);
- Samsun - Ceyhan (Turkey).

The southern and eastern pipeline options remain at proposal level for political reasons. The American administration vehemently opposes the Iranian routes because of the sanctions act. Of the eastern alternatives, the Chinese route could not be materialized as a result of the slowing pace of co-operation between China and Kazakhstan. Political instability has quashed interest in the proposal for a pipeline through Afghanistan to Pakistan.¹⁶ The second-tier alternatives require that the oil should be reloaded after a process of loading and unloading, thus, the transportation of oil from these routes would be too costly, time-consuming and cumbersome.

Though Western oil firms and Caspian states proposed many pipeline options, the main rivalry is between the northern and western options because not only are the benefits to the transit countries from the transit fees at stake but also influence in Central Asia.¹⁷ The next section will provide a detailed analysis of the northern and western routed alternatives.

Determining the Main Pipeline

Azerbaijan, Kazakhstan and Turkmenistan have exploration and development projects for hydrocarbon reserves and the oil and gas that they will produce exceed the capacity of the present export systems. The Soviet authorities designed these systems to link Soviet domestic pipelines, railways and maritime transport. In the short-term, as an alternative to building new pipelines, upgrading existing ones increased chances of the northern options. However, carrying the main oil from the Caspian region along this route is not ideal for either political or technical reasons. The Caspian-Mediterranean route challenges the long-term viability of the northern routes in terms of the

problems that it would avoid in the long-run. Also, when the construction costs of the pipelines are compared on the basis of net returns against costs, the Baku-Tblisi-Ceyhan pipeline turns out to be more promising.

1. The Northern Route: Principal among the options that would carry the oil to the north of Caspian are the Baku-Supsa pipeline of the Azerbaijan International Operating Company (AIOC), the Baku-Novorossiysk pipeline and the recently completed Tengiz-Novorossiysk pipeline of the Caspian Pipeline Consortium (CPC). Overall, these pipelines carry approximately one million barrels a day of oil from the Caspian, and this amount is expected to increase with upgrades in capacity. However, the northern alternatives have unsustainable shortcomings in the long-term. For example, Russia's Black Sea port of Novorossiysk operates seasonally because of climatic conditions. Therefore, shipment and unloading facilities are limited. Moreover, the oil from the Caspian is not sent out in its pure form because at Novorossiysk it is traditionally mixed with lower-quality Russian oil.¹⁸

Currently, the AIOC pipelines and the recently completed CPC pipeline carries Caspian oil to the Black Sea, and from there the oil reaches world markets through the Turkish Straits. However, the Straits, particularly the Bosphorus portion of it, is already unable to handle the heavy flow of tanker traffic because of its geophysical restrictions and this traffic would increase as more Caspian oil comes on line. Moreover, since the passage from the Straits is two-directional, the oil tankers first pass under ballast from the Aegean and Marmara Seas into the Black Sea, before loading the oil on the Russian Black Sea coast and navigating back through the Straits loaded. The ballast they use to enable steering of an otherwise empty vessel is seawater and this contains some micro-organisms which pose an environmental danger to the Black Sea and to the waters they navigate through because of the discharge of contaminated water when it is replaced by oil and oil spills. This threat is relatively modest compared with a fully laden tanker accident close to an urban area (such as in the Bosphorus, which narrows to less than one mile and around which 12 million people live). To reduce these risks, Turkey could introduce rigid traffic regulations, stipulate double-hulled tankers and demand high insurance premiums.¹⁹ Also, the tankers that would pass through the Turkish Straits are subject to size and width limitations. Under these circumstances, transporting substantial amounts of oil on tankers via the Straits could lose its economic attractiveness.

2. The Baku-Tblisi-Ceyhan Project: The biggest challenge to the northern options is the strategically significant East-West corridor, i.e. the Caspian-Mediterranean Crude Oil Pipeline Project. This pipeline option, which the AIOC has decided on as the main export pipeline, starts from Baku (Azerbaijan), passes through Tblisi (Georgia) and terminates in the Turkish Mediterranean port of Ceyhan.²⁰ The planned capacity if the project is 45 million tons of oil annually (25 million tons Azeri and 20 million tons Kazakh oil).

One factor that takes the shine off this project is its construction cost. The 1730 km pipeline (468 km in Azerbaijan, 225 km in Georgia and 1037 km in Turkey) would, by AIOC estimates, cost \$2.4 billion. Actually, a direct line from Baku to Ceyhan would be quite short, however, the proposed line bypasses the hotspot of Nagorno-Karabagh and Armenia. The conflict in Nagorno-Karabagh and the lack of diplomatic relations between Turkey and Armenia left Georgia as the only viable option. The vulnerability of pipelines brought into discussion the terror-related risks in eastern and southeastern Turkey, but Turkey has given a guarantee against political risks, i.e. would cover any losses from an interruption in flow resulting from terrorist activities. What is more, Turkey has agreed to finance the

expense, i.e. over \$1.4 billion, of the portion of the Baku-Tblisi-Ceyhan pipeline that would be built in Turkey.

The Baku-Tblisi-Ceyhan pipeline project is technically, economically and in terms of environmental security more favorable than the northern options. The pipeline would bypass the Black Sea and the Straits and so reduce the risks of environmental disaster there. This pipeline does not suffer the technical inefficiencies of the Black Sea ports in that the Ceyhan terminal is operational 365 days of a year. Moreover, the tankers that would use the Ceyhan terminal would not be limited by the physical restrictions imposed on vessels passing through the Straits, nor would they face the transit fees. The political and strategic significance of the Baku-Tblisi-Ceyhan line is that it would provide an option for the continuous flow of oil and gas independently of Russia. Hence, it would bring complete economic independence to the newly independent states of the region.²¹

The United States, whose strategic interests overlap with those of Turkey concerning the Baku-Tblisi-Ceyhan project, began pursuing an active policy in the Caspian region from the mid-1990s. The East-West corridor became a strategic priority for the US, particularly during the Clinton Administration. The American administration played a central role in laying the groundwork for the Ankara Agreement dated 29 October 1998.²² This was followed in November 1999, by the signing of the Istanbul Protocols on the sidelines of the Istanbul Summit of the Organisation of Security and Co-operation in Europe (OSCE), in the presence of President Clinton. Azerbaijan, Georgia and Turkey signed the Istanbul Declaration for the construction of the Caspian-Mediterranean pipeline and all three governments have ratified this agreement. Despite these developments, the establishment of the Eurasian Energy Corridor by the declared target of 2004 depends on the volume of oil, private sector financing and security guarantees for pipelines transiting the turbulent Caucasus region.

When it became clear that the Azeri oil would not be enough to fill the Baku-Tblisi-Ceyhan pipeline (providing the Guneshli oilfield is not developed further and no more oil comes from other Azeri oilfields that do not belong to the AIOC), the international oil firms that were supposed to finance its construction became cool toward the project. Fortunately, in summer 2000, oil was discovered in the Kazakh sector of the Caspian Sea, in Kashagan, where the Offshore Kazakhstan International Oil Company (OKIOC) was conducting exploration. If this Kazakh oil is added to the Azeri oil, the venture becomes lucrative again. Thus, in November 2000, the shareholders of the AIOC decided to lend support to the Baku-Tblisi-Ceyhan project again and they started a six-month engineering study. "The cost of B-T-C project was officially been estimated at \$2.4bn. Following the completion of basic and detailed engineering, a decision on whether to proceed with construction will go ahead."²³ If the financial prospects look suitable at the end of this engineering study, work will begin on a 12-month detailed study and arranging financing. Construction would begin in 2002 and it would take 32 months.²⁴

The main stumbling block for the Baku-Tblisi-Ceyhan project is the lack of a throughput guarantee. The rhetorical support which is given to the Baku-Tblisi-Ceyhan project on international platforms come with conditions attached: in the declarations of premiers and the oil companies' top officials, we find statements like, "if economically viable..." and "if the amount of oil is sufficient...". For example, the declarations of Kazakhstan's President, Nursultan Nazarbaev, do not commit Kazakh oil to the Baku-Tblisi-Ceyhan pipeline.

Turkey's Baku-Tblisi-Ceyhan Policy

For Turkey, the Baku-Tblisi-Ceyhan project is economically, politically and strategically significant. First and foremost, Turkey desires close co-operation with the newly independent states of the Caucasus and Central Asia. However, these states should stand on their own feet with multidimensional commercial and economic relations. To that end, they should have genuine economic independence. Therefore, the Baku-Tblisi-Ceyhan pipeline, which bypasses Russia, is a cornerstone of Turkey's policy.

Turkey has given all the economic support it can from when the project was proposed and successive Turkish governments have acknowledged the benefits that this pipeline would bring to the country. However, the status of this project as a foreign policy goal is unclear when we look at the practices that may have an impact on the future of this project. For instance, the Turkish Petroleum Company (TPAO), a shareholder in AIOC, lacks the preconditions of success in terms of its organizational structure for domestic and foreign investments.²⁵ Also, the strongest arguments against the Baku-Tblisi-Ceyhan project are its length and the political risks along its path. Another pipeline could be endorsed and built along this route, which would contribute to the feasibility of the project. The most obvious undertaking would be to transport gas from Azerbaijan's Shahdeniz field to Turkey. If gas policy is pursued separately from that of oil, this will reduce the opportunities to utilize one's capabilities.

Another important point is the way the declarations, political discourses and the news in the media are evaluated. Since the project was proposed, several statements declaring support to the Baku-Tblisi-Ceyhan pipeline appeared in the media.²⁶ At the same time, in their statements, the heads of state and government and those of high-ranking directors of the oil firms convey their interests regarding the transportation of the Caspian oil. These declarations are usually taken as important inputs in the policy making process. However, in the media these remarks are interpreted without an analysis of the main reasons underlying them. So, when the comments and interpretations fail to grasp these reasons, they impact policymaking by creating false impressions. Thus, it is critical to elicit the message underlying these statements.

CONCLUSION

The multidimensional and competitive pipeline politics in the Caspian region present a challenge to Turkish foreign policy, and the Baku-Tblisi-Ceyhan project is at the center of this challenge. Signatures under the international agreements and the steps taken to materialize the Baku-Tblisi-Ceyhan project are evidence of the prime importance assigned to it. Despite its wide political support, it is not very likely that the project will be completed at the envisioned date due to technical and economic reasons. In this context, the project can only proceed with effective policies and decision-making addressing these difficulties.

When the energy policies are framed, we need to look at which institutions would be included within the decisions, i.e. the technical, economic and political aspects of the issue should be considered altogether. When Turkey's energy policy is determined, the following question should be asked: If the East-West corridor is a major foreign policy goal, what should Turkey do to render the Baku-Tblisi-Ceyhan project viable and attractive? Here, the underlying method is that instead of putting forward the disadvantages of the other options, the positive aspects of the

Baku-Tblisi-Ceyhan project should be presented so as to foster the viability of the project. To follow this path, there are some steps to be taken:

As the first step, Turkey's energy needs should be viewed from a broad perspective. In this context, the policy should take as a basis the principle of obtaining energy from reliable and varied sources. Hence, Caspian gas should be considered as another source of gas supply for Turkey.

Second, the decisions with respect to the transportation of Caspian gas can enhance the viability of the Baku-Tblisi-Ceyhan project. In terms of Turkey's energy needs,²⁷ meeting the gas needs of the domestic market is more urgent than the transportation of Caspian oil. In this context, a pipeline to carry Shahdeniz gas from Azerbaijan to Turkey should be proposed as it would meet Turkey's gas needs and prove the Baku-Tblisi-Ceyhan project's viability. If the decision to get it started is taken soon, the pipeline can be completed in 2003. Moreover, the construction costs of the pipeline would be diminished as a result of charges already paid for the Baku-Tblisi-Ceyhan route. Thus, Azerbaijan, with which Turkey has close relations, should be declared a strategic partner in terms of the strategic and economic dimensions of the energy issue. On the other hand, the other legitimate actors in the 'New Great Game' should not be alienated.

The first step to materialize the Baku-Tblisi-Ceyhan project is to have the guarantee of the oil that will flow through the pipeline, i.e. the oil producers should provide the throughput guarantee. Firms emphasize their commercial interests and the insufficient amount of oil for the Baku-Tblisi-Ceyhan project. The oil developed in the Tengiz field, which is the biggest project in Kazakhstan, is already committed to the CPC pipeline. The declarations of Kazakhstan's President Nursultan Nazarbaev regarding when and to which pipeline the oil would be committed, are at times contradictory. Therefore, with an active foreign policy in the Caspian region, Turkey would engage in closer relations with the producer countries and that would have a positive impact on the commitment of oil, i.e. obtaining the throughput guarantee.

This active foreign policy would also be beneficial in terms of the political circumstances of the Caspian region. The regional conflicts increase the political costs of the pipelines. Turkey can pursue an effective policy on international platforms for a comprehensive and peaceful settlement of the conflicts in the Caucasus.

Moreover, Turkey needs to be equipped efficiently, since its energy needs keep their salience. The structure of the oil sector in Turkey is just the opposite of what is practiced internationally. This, in turn, puts Turkey at a disadvantage in international undertakings. TPAO, a national institution, lost its initial vertically-integrated structure²⁸ after the 1980s, and became a company of oil exploration and development. In order to pursue an effective energy policy, Turkey should restructure its energy sector to achieve vertical integration.²⁹

The support that is given to the Caspian pipeline projects by heads of state and government and by top management officials of international oil firms, as well as conferences about the issue receive wide media attention. Unfortunately, these declarations are interpreted superficially and the underlying details are usually ignored. Thus, the international support that is behind the Baku-Tblisi-Ceyhan project should be assessed rationally and practically. To that end, policymakers should watch and analyze events, derive the underlying implications, and on this basis, they should arrive at a conclusion.

For Turkey, Caspian energy politics is a challenge, but not a cul-de-sac. Rational and appropriate policies which foster Turkey's effectiveness and influence in the 'New Great Game' of the Caspian region, would not only maintain Turkey's energy security, but also render Turkey an effective regional power.

BIBLIOGRAPHY

Aydın, Mustafa, *New Geopolitics of Central Asia and the Caucasus: Causes of Instability and Predicament*, SAM Papers No. 2/2000.

Forsythe, Rosemarie, 'The Politics of Oil in the Caucasus and Central Asia', Adelphi Paper 300, IISS, 1996.

Joseph, Jofi, 'Pipeline Diplomacy: the Clinton Administration's Fight for Baku-Ceyhan', WWS Case Study, January 1999.

Pala, Christopher, 'US Urges Kazakhstan to Bypass Russia's pipes', *Moscow Times*, 14 June 2001, p. 5.

Pamir, Necdet, *Bakü-Ceyhan Boruhattı: Orta Asya ve Kafkasya'da Bitmeyen Oyun (The Baku-Ceyhan Pipeline: the Endless Game in Central Asia and the Caucasus)*, ASAM, 1999.

_____, *Dünyada ve Türkiye'de Enerji Güvenliği (Energy Security in the World and in Turkey)*, ASAM Papers, 19 March 2001.

Ruseckas, Laurent, 'Turkey and Eurasia: Opportunities and Risks in the Caspian Pipeline Derby', *Journal of International Affairs*, Vol. 54, No. 1, Fall 2000.

Sesley, Brent, 'Turkey's Energy Policy in the Post-Cold War Era', *Middle East Review of International Affairs*, Vol. 2, No. 4, December 1998.

Winrow, Gareth, *Turkey and the Caucasus: Domestic Interests and Security Concerns, Central Asian and Caucasian Prospects*, The Royal Institute of International Affairs, 2000.

OTHER SOURCES

Alırıza, Bülent, 'After the OSCE Summit: Caucasian Strife and Caspian Oil', *CSIS-Caspian Energy Update*, 24 November 1999. See; <http://www.csis.org/turkey/CEU991124.html>.

_____, 'The Clear and Present Danger in the Turkish Straits', *CSIS-Caspian Energy Update*, 3 February 2000. See; <http://www.csis.org/turkey/CEU000115.html>.

_____, 'The Eurasian Energy Corridor: Turning into a Cul-de-sac?', *CSIS-Caspian Energy Update*, 25 February 2000. See; <http://www.csis.org/turkey/CEU000116.html>.

_____, 'US Caspian Pipeline Policy: Substance or Spin?', *CSIS-Caspian Energy Update*, 24 August 2000. See; <http://www.csis.org/turkey/CEU000117.html>.

'Blow to Baku-Ceyhan', *NTV-MSNBC*, 24 March 2001.

'Chevron Confirms Interest in Financing Study for Baku-Ceyhan Pipeline', *Oil and Gas Journal Exchange*, 18 April 2001. See;

http://auction.ogjpropertyexchange.com/p.../displayNews.jsp?NEWS_ID=1265.

Caspian Sea Region, *Energy Information Administration*, June 2000. See; <http://www.eia.doe.gov/emeu/cabs/caspian.html>.

'Export Route Progress', *Petroleum Economist*, Vol. 68, No. 5, May 2001, pp. 39-40.

Frantz, Douglas, 'Chevron Talks to Azerbaijanis about the Pipeline', *New York Times*, 10 February 2001, p. 5.

Ignatius, David, 'Dick Cheney and the 'Great Game'', *Washington Post*, 27 August 2000, p. B07.

Lelyveld, Michael, 'Azerbaijan: Plans for Baku-Ceyhan Pipeline Moving Ahead Despite Iranian Alternative', *RFE/RL*, Boston, 28 July 2000.

Recent Developments in the Caspian Sea, *CSIS-Energy and National Security Program*.

See; <http://www.csis.org/energy/Caspiandevs.html>.

Transcript: Briefing with John Wolf, Special Advisor on Caspian Energy, 25 August 2000, Press Conference in Ankara, Washington File-Press and Culture Section, US Embassy, Romania. See; <http://www.usembassy.ro/USIS/Washington-File/500/00-08-25/eur503.htm>.

Yıldızcan, Güzin, 'Baku-Ceyhan Project Linked to US Presidential Election', Turkish Daily News, 10 August 2000. See; <http://www.uzbekistanerk.org/7engl100800.html>.

US Energy Information Administration, International Energy Outlook 2000.

1 See Table 1.

2 US Energy Information Administration, International Energy Outlook 2000.

3 Caspian Sea Region, Energy Information Administration, June 2000. See; <http://www.eia.doe.gov/emeu/cabs/caspian.html>.

4 Mustafa Aydın, New Geopolitics of Central Asia and the Caucasus: Causes of Instability and Predicament, SAM Papers No: 2/2000, p. 61.

5 Ibid., p. 7.

6 Gareth Winrow, Turkey and the Caucasus: Domestic Interests and Security Concerns, Central Asian and Caucasian Prospects, Royal Institute of International Affairs, 2000, pp. 46-47.

7 Rosemarie Forsythe, 'The Politics of Oil in the Caucasus and Central Asia', Adelphi Paper 300, IISS, 1996, pp. 13-14.

8 'Export Route Progress', Petroleum Economist, Vol. 68, No. 5, May 2001, p. 40.

9 R. Forsythe, op. cit., pp. 17-20.

10 Christopher Pala, 'US Urges Kazakhstan to Bypass Russia's Pipes', Moscow Times, 14 June 2001, p. 5.

11 R. Forsythe, op. cit., p. 23.

12 Ibid., pp. 23-25.

13 Ibid., pp. 26-27.

14 Necdet Pamir, Dünyada ve Türkiye'de Enerji Güvenliği (Energy Security in the World and in Turkey), ASAM Papers, 19 March 2001, p. 1.

15 All costs - (the cost of transportation + insurance + freight + losses + ...) = the net return (net profit).

16 M. Aydın, op. cit., pp. 81-84.

17 Ibid., pp. 58-59.

18 G. Winrow, op. cit., p. 44.

19 G. Winrow, ibid., p.45; Turkey brought new regulations to the traffic in the Turkish Straits in 1994, and the International Maritime Organisation (IMO) recognized Turkey's concerns.

20 This pipeline which will pass through the eastern Anatolia region will be linked to the existing Kerkuk-Yumurtalık pipeline.

21 Necdet Pamir, Bakü-Ceyhan Boruhattı: Orta Asya ve Kafkasya'da Bitmeyen Oyun (The Baku-Ceyhan Pipeline: the Endless Game in Central Asia and the Caucasus), ASAM, 1999, pp. 20-21.

22 The Ankara Agreement was signed by Azerbaijan, Kazakhstan, Turkey and Uzbekistan with Turkmenistan in abstention. Turkmenistan signed a bilateral agreement with Turkey afterwards.

23 Charles Coe, 'Baku-Ceyhan Pipeline Project Moves Forward as SOCAR, BP-Amoco Reach Agreement', Alexander's Gas and Oil Connections, Company News: Central Asia, Vol. 5, No. 20, 1

November 2000. See; <http://www.gasandoil.com/goc/company/cnc04439.htm>.

24 'Chevron Confirms Interest in Financing Study for Baku-Ceyhan Pipeline', Oil and Gas Journal Exchange, 18 April 2001. See;

http://auction.ogjpropertyexchange.com/p.../displayNews.jsp?NEWS_ID=1265.

25 N. Pamir, 2001, op. cit., p. 5.

26 Such as the support given by Chevron: 'Chevron Confirms Interest in Financing Study for Baku-Ceyhan Pipeline', Oil and Gas Journal Exchange, 18 April 2001.

See; http://auction.ogjpropertyexchange.com/p.../displayNews.jsp?NEWS_ID=1265.

Experts confirm that the underlying reason behind such support relates to the corporate interests of Chevron for a gas deal with Turkey, which has a considerable domestic demand for gas.

27 In terms of its domestic energy needs, Turkey needs to import gas 45bn cm in 2005, 55bn cm in 2010 and 82bn cm in 2020.

28 Exploration-development-transportation-distribution-marketing.

29 N. Pamir, 2001, op. cit., p. 5.
