

## **Russian Interests in the Caspian Region and Turkey**

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### **ABSTRACT**

*This paper primarily aims to investigate interests and policies of Russia in the Caspian Region and Turkey's position in the area following the dissolution of the Soviet Union. The focus is given to energy in the Caspian.*

*Russia's policy pertaining to the Caspian region can be divided into two periods. In the first period, Russia was quite reactive to any self-assertion of the newly independent states. Moscow has extensively used energy as a policy instrument to compel these republics into adopting pro-Russian approach by shutting off pipelines to the region on which it has a monopoly. Beginning with Putin's coming into power, the second period signalled a change in Moscow's perception of interests in the region leading the Kremlin to have a more realistic and assertive stance. The September 11 was also an important turning point in Moscow's policy in the Caspian, since which it has been more cooperative in its relations with the USA.*

*Dissolution of the Soviet Empire has brought threats as well as opportunities for Ankara. On the one hand Turkey has sought to cope with the newly arised threats to its security such as in the Nagorno-Karabakh and Chechnya, which has sometimes brought it to the verge of confrontation with Moscow. On the other hand Ankara has sought to pursue its economic and political interests such as in the laying of the Baku-Ceyhan pipeline as an alternative route to the Novorossiisk route of Russia. Nevertheless, the competition between Moscow and Ankara was not an obstacle to development of cooperation between the two countries as in the case of the Blue Stream Project envisaging transportation of Russian gas to the Turkish market.*

*This paper proposes that Russia has begun to pursue a more realistic policy in the region towards the end of 2000, especially after Putin came into power. Moreover, it is underlined that Turkey was able to adopt a cooperative approach in its relations with Moscow in the Caspian despite rivalry between them in the Caucasia.*

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## **I. Introduction**

Energy, particularly oil has been very critical substance for the global economy in the 20<sup>th</sup> century. As we have experienced in the two oil-shocks at the end of the 70s and at the beginning of the 80s, it might have destructive impact on the economic stability as well. While the only motivation behind the US' latest intervention in Iraq is not only related to oil, it is obvious that this is the main driving force of this war.

The EU, the USA and other western countries want to reduce dependency on just a few oil resources and thus diversify the energy suppliers. Through the war in Iraq Washington aimed at replacing Saudia Arabia, which is the biggest producer of OPEC through Iraq, once the war is over. Because, Iraq possesses the world's second-largest proven oil reserve, estimated at 112.5 billion barrels, or 11% of the world's total. In addition, many experts believe that Iraq has massive untapped reserves, putting it nearly on par with Saudi Arabia. Iraq's oil is also high quality and very inexpensive to produce, making it an extraordinarily profitable source.

Therefore every new resource of energy would help diversify energy supply for the West. The newly discovered energy reserves of the Caspian basin present new opportunities for oil markets, the region, neighbouring powers, the USA and the EU. Above all, new energy supplies' entering into the market would diversify world oil supplies and help reduce oil prices to meet rapidly growing global demand for oil. Important quantities of Caspian oil exports would decrease dependency on the oil in the Persian Gulf. By some calculations the potential oil reserves of the Caspian basin is estimated at \$2-\$4 trillion at present market prices.

Increasing global oil demand in the long-term underlines the future importance of the Caspian energy. The U.S. Energy Information Administration (EIA) anticipated that while current global oil demand is around 72 million barrels per day (mb/d), it will increase to about 102 mb/d by the year 2015.(1) Total natural gas consumption is currently around 78 trillion cubic feet (TCF) a year and natural gas could be used more heavily in the future instead of oil to meet new energy requirements in Europe and Asia, especially since there is a worldwide surplus of gas production capacity.

Despite the increasing importance of the energy in the Caspian region, the Persian Gulf will still be the main oil supplier. However, oil in the Caspian region could help meet the increasing oil needs.

According to the U.S. government, the Caspian region has proven reserves of roughly 16 billion (bn) barrels of oil, which puts it roughly on a par with North Sea oil. Some estimates of the region's potential reserves range from 70 to 200 bn barrels, although most internal estimates of oil and gas industry analysts put the figure at 40 to 75 bn barrels, roughly comparable to North Sea reserves or, at best, Iraq's potential. The region's proven and probable gas reserves range from 230-360 trillion TCF-as much as the combined reserves of the United States and Mexico, or about 7 percent of total world proven gas reserves. The International Energy Agency forecasted that oil exports from the Caspian Basin could reach 1.5 mb/d by early in the next century; under optimistic circumstances the region could export to 2.3 mb/d by 2010, and thus meet about 7 percent of growth in global oil during this time. (2)

The EU would like to implement the KYOTO protocol and aims at increasing the place of natural gas in overall energy consumption. At the time, the countries of the European Union have two conventional sources of natural gas, which are the Northern Sea and Russia. The EU would welcome the Caspian oil and gas through a pipeline over Turkey. Since a few years Turkey and the EU have been working on the possibility of transporting the Caspian energy to the countries of the European Union. Therefore Turkey's energy relations with the Caspian countries and Russia are important for the EU. Such projects also coverge with the object of Turkey to become an energy corridor between the east and the west.

With the dismantlement of the Soviet Union, the US, Europe and regional powers such Iran, Turkey, Pakistan and China have focused their attention on the newly emerged Central Asian and the Caucasian republics. Russia has vyied for influence with the external powers in the region. Centuries-old political, commercial and cultural legacies form relations between Russia and the states in the Caspian region. Russia is still an important trading partner and a geographical connection to the outside world for these republics. Moscow does not want any rivals to enter into the Caspian region, which it considers its sphere of influence. On the other hand, these states, exposed to Russian culture and a Moscow-centric view of the world for decades, have been seeking to establish a balance between their new orientation with the USA, Europe and regional powers and their old-brother in the Kremlin.

Since Putin came into power, Moscow has been pursuing a more aggressive policy, especially in Chechnya and seeking to make Russia once again a center of international dominance. Moscow has also been more active in the competition over the Caspian energy. But the shock caused by the terror attacks of September 11 eased relations between Washington and Moscow urging Russia to adopt a cooperative approach with the USA in the Caspian.

On the other hand, the emergence of new states in Central Asia and the Caucasus has encouraged Turkey to establish closer ties with its relatives. Turkey has pursued policies to benefit from economic and political opportunities in these republics in the region. However opportunities had brought with it threats too. Due to ethnic conflicts in the volatile Caucasus, Ankara had to concentrate on security concerns at the beginning. The tensions in Chechnya, Abkhazia, South Ossetia, and Nagorno-Karabakh, for example could influence Turkey's stability negatively and would make the rival Russia exploit the instability in these areas. Gas in Turkmenistan, Azerbaijan, Iran, and Russia and oil in Azerbaijan and Kazakhstan are important for Turkey, because Turkey could meet its increasing energy demand through import from these countries. Thus Turkey has made agreements with Russia to import natural gas via the so-called Blue Stream project. Moreover Ankara has sought to be the main transit route for the export of Azerbaijani oil to the west, which would enhance Turkey's geopolitical significance. Therefore, with regard to Turkey's approach regarding energy in the Caspian basin, and Russia, geopolitical considerations, as well as economic, political and environmental factors should be taken into account.

## **II. Russian Policy In The Caspian Region In The Early Years After The Dissolution Of The Soviet Union**

Russia reacted hyper-sensitively to any sign of Central Asian self-assertion and saw foreign threats everywhere in the early period following the dissolution of the Soviet Union. Moscow has sought to control energy since its pipelines and refinery capabilities enable it to shut off energy to and from Central Asia. Moscow used energy to compel Ukraine, the Baltic states and Belarus into submission when Gorbachev tried to hold the USSR together.(3) In 1989-91 he threatened to interrupt energy supplies to these rebellious states. Though some anticipated that the Soviet Union's collapse would also trigger Russia's and Central Asia's collapse, Russia intended to reintegrate the Soviet economic area on a Russia-centric basis using energy coercion as a key lever.

Russia also wanted the lucrative benefits accruing to key players in the world energy business. Thus it tried to restrict Central Asian states' exports, and redirect energy trade flows to it and its transport network.

In 1994 regarding Russian National Security Concept, the journal *Obozrevatel'*-Observer said that the whole current security agenda are dependent on two linked issues: supplying Russian fuel and raw materials to other members of the CIS, and Russian troops' combat role in conflicts within the former Soviet

borders. This fact underlines the importance of Russia's control over Central Asian energy by linking it to Russia's military operations in the CIS. This report (for that is the form this "Concept" took) also thereby highlighted the centrality of energy issues for Moscow vis-a-vis Central Asia. The concept statement also indicated CIS members' increasing dependence on restoring foreign trade with Russia, especially in energy. This dependence would enable Moscow to regain its influence over Central Asia through further integration with the world economy. Russia had subsidized CIS energy use for years and diverted its vital foreign trade away from customers paying market prices. Obozrevatel'-Observer argued that Russia had to charge world market prices and end the subsidies.(4)

Moreover, Russia impelled Baku into granting Lukoil, Russia's oil company, a 10 percent stake of revenues from future Caspian Sea oil finds without Lukoil's any financial contribution. Moscow also tried to prevent Western investors, led by a British Petroleum consortium, from operating there.(5)

On April 28, 1994, the Russian government sent London a demarche claiming a right to veto any exploration in the Caspian Sea, and that oil projects in the Caspian Sea "cannot be recognized" without Russian approval. It thus threatened Azerbaijan's oil projects and the Chevron-Tengiz and Caspishelf projects in Kazakhstan (led by Mobil, BP, British Gas, Agip, Statoil, Total, and Shell). The letter stated, "The Caspian Sea is an enclosed water reservoir and an object of joint use within whose boundaries all issues or activities including resource development must be resolved by all the Caspian countries. Any unilateral actions lack a legal basis."(6) This letter can be read in several aspects. It claims Russia's preemptive rights over Caspian energy endeavours. Thus the letter highlights Russia's belief in its proprietary and imperial rights across the CIS over energy. Its timing and address to London also indicated Moscow's desire to extrude Western investment and influence from CIS oil producing countries. The demarche's blunt style, and address to London, not Baku, also shows that Russia regarded this as an East-West issue. The destination shows Moscow's disdain for Azerbaidzhan's or other littoral states' sovereignty. Thus this letter displays a continuing Brezhnev-like doctrine of diminished sovereignty for other CIS members.

Russia aimed at driving Central Asian states to reintegrate with Moscow. Although the Russian forces deployed in Tadzhikistan's civil war provided Moscow with a military leverage into the region, Russians have preferred to use economic and political tools effectively. Russian elites hoped that economic factors would facilitate the reintegration of the CIS. President Yeltsin and Premier Viktor Chernomyrdin have stated that economic unity is a preliminary to military and political reunion of the CIS.(7)

They regarded the ex-Soviet republics as their area of influence, and thus they were furious about any other state's endeavor to be influential on these republics. On the other hand, Vice Premier Sergei Shakhrai said that Russia bears international legal responsibility for the Russians in the newly independent states.<sup>(8)</sup> The notion that Russia, or other states, have a unique international legal responsibility for their citizens abroad above that of the state where they reside is another example of the doctrine of extraterritoriality (that citizens abroad are not subject to the host country's laws but only to those of the country from which they are claimed--in this case--to have come). Such reasoning and political claims help us explain Moscow's look at the newly independent countries of the Soviet Union which Foreign Minister Kozyrev called as the "near abroad." And the possibility to achieve these aims depend on relative economic power vis-a-vis these states. This power vis-a-vis Central Asia is therefore consciously deployed to ensure preferential treatment for Russia's state interests and for ethnic Russians there. Ex-Vice Premier Aleksandr' Shokhin stated in November 1993 that Russia would deploy every instrument of economic policy to advance the causes of reintegration and of the Russian diaspora. He stated that the issue of Russian-speakers abroad would appear and be tied to all economic negotiations with Central Asia and CIS members. <sup>(9)</sup>

Moscow has sought to maintain ethnic Russians' leading role in Central Asia's economy, prevent Islamic or Turkish revolution from spreading, and establish inflationary balances in the economy, pursue a policy and strategy whose objective was reintegration and strategic denial of these areas to neighboring states has emerged. Accordingly, Moscow's policy in Central Asia has been to minimize and exclude any Turkish, Western, and Iranian foreign investment or political presence in the region. Turkey's initial efforts to invest in Central Asia, control the pipelines, and bypass Russia in that domain brought about an intense military and political rivalry with Ankara. Russia has also sought to pacify Iran by keeping foreign trade and energy routes under control, by providing Tehran's dependency on Russian arms sales, and by suppressing Baku's interest in reuniting with Iran's Azeri population in return for not an assertive policy in Central Asia.

Russia wanted for the West to continue to see the region through Moscow's eyes and accept this situation. The campaign against Azerbaidzhan's contract with the British-led consortium showed that. For realizing this strategy Moscow used the specter of Islamic fundamentalism at every opportunity, even if it is irrelevant to actual regional conditions, in order to persuade other states that its hegemony there is legitimate. For instance, well aware of Chinese concerns about rising Islamic or Turkic solidarity in neighboring Xinjiang, Moscow

partly based its entente with China on a common interest in silencing the area.(10)

Moscow made systematic pressure on Kazakhstan and Turkmenistan by exploiting Central Asian dependence on Russian pipelines, In November 1993, Gazprom, Russia's natural gas company, interrupted Turkmen gas exports to Europe, their main source of profits.(11) Gazprom also made major demands on both states concerning oil exports. Regarding oil debts as a way to foster integration, Russia promoted debt for equity swaps where the equity was shares in state oil and gas firms. Russia also coerced Kazakhstan for preference in granting exploration licenses and for participation in the massive Chevron-Tengiz project.(12) As in Azerbaijan, Russia then required large share of Kazakhstan's oil and gas revenues in return for use of its pipelines.

Moscow also blocked almost all Kazakhstan's oil exports from May-August 1994. This deprived Kazakhstan of foreign energy sales, hard currency, and of means for developing economic ties with the West, and impelled its refineries to stop production. Kazakh energy officials believed that the pressure was connected to Russian demands for a share in Kazakhstan's oil projects.(13) Here Russia sent the message to Kazakhstan and its potential Western partners that unless they accepted Moscow's interest, it would not be easy for them to market the oil in the region. Russian coercion also slowed the start of Chevron's Tengiz project and increased its costs. This resulted in Chevron's reducing its investment in May 1994. Since the project is a litmus test for foreign ventures, cancellation would be a catastrophe for Kazakhstan leaving it no option but Russia. Russia's pressure worked. By August 1994, Kazakhstan was permitted to export twice the previous amount of petroleum products through Russian pipelines and waterways. Kazakhstanmunaigaz, an oil and gas producer, handed over its export transit volume of one million tons of oil to Russia's oil company, Rosneft, for reexport.(14) These actions had significant economic and, ultimately, political results. Kazakhstan's oil producers, bereft of currency income, had to assume high-interest bank loans. Industry experts said Kazakhstan must export at least 250,000 tons of oil to pay off the loans.

At the same time, Russia pressured Turkmenistan to grant the Russians there dual citizenship. Its pressure on Turkmenistan's energy programs was leverage to obtain this outcome. But Turkmenistan expects to gain from having Russian troops defend it against military threats or pressure on existing energy programs as it seeks pipelines with its neighbor, Iran. President Sapurmurad said, "We have gained something by joining the CIS. We understand that. The only thing we don't want is to have the decisions that it adopts be binding on our country." (15)

### **III. The Division of the Caspian and Pipelines**

#### **i. Getting Oil and Gas to Market**

Moscow has several times showed that it would use its monopoly position by controlling existing pipelines. Moscow coerced Kazakhstan and Turkmenistan into reducing the price of oil and gas. The Russian gas monopoly Gazprom refused to allow Turkmenistan use of Gazprom pipelines to supply profitable East European markets; instead limiting Ashgabat to the Commonwealth of Independent States (CIS) market until December 1999. This is another example showing the importance of energy transportation routes. But many of the CIS countries have not been able to pay for the gas. It is obvious that Turkmenistan is considered a rival by Moscow and Gazprom particularly in the natural gas market and it is believed that if Ashgabat were able to find alternative routes for its gas, it would be an important rival to Gazprom. Moscow sought to display that an alternate export infrastructure was not needed by increasing pipeline quotas for Kazakhstani and Azerbaijani oil from 6.4 million tons in 1998 to 11 million in 1999. (16)

Also in Kazakhstan Moscow has resorted to similar methods. It has interrupted the flow of export pipelines for acquiring stakes in the energy projects in Kazakhstan. In turn Russian firm Gazprom won 15 percent share in the Karachaganak field. But Kazakhstan's gas production fell from 4.2 billion cubic meters in 1991 to 2.5 billion in 1995 due to Moscow's blocking.

Baku has managed to follow a relatively independent path from Moscow, although it needed to cooperate more closely with the Russians after the fall of nationalist, and pro-Turkey president Abulfaz Elchibey in 1993. Haydar Aliyev, the successor to Elchibey sought to use diplomatic leverage by bringing as many companies as possible from different countries to increase the likelihood of a solution to the Nagorno-Karabakh conflict. (17)

#### **ii. Division of the Caspian**

The legal status of the Caspian Sea needs to be solved to fully exploit its oil and gas potential. Before the dissolution of the Soviet Union, there were only two states claiming sovereignty on the Caspian, which are Iran and the Soviet Union. The collapse of the Soviet Union led to the creation of the new states: Kazakhstan, Turkmenistan and Azerbaijan. These states demanded ownership and development rights in the Sea. The littoral states have not agreed on any convention arranging the legal status of the sea.



Therefore several disputes have arisen pertaining different areas of the Sea. The major difference of opinions among the littoral states is about the unequal distribution of potential oil and natural gas reserves in the region. The Soviet Union and Iran signed bilateral treaties on the Caspian Sea in 1921 and 1940 which regarded the sea as lake from international law perspective. By these agreements the Caspian should be exploited jointly by all the littoral states. Russia and Iran continued advocating the old arrangement after the fall of the Soviet Union. Azerbaijan's and Turkmenistan's arguments are that the sea should be divided among the littoral states by extending the sovereign territory outwards until it meets the others in the middle, as under the 1982 UN Convention on the Law of the Sea. Kazakhstan's last position leans towards the Russian approach.

Azerbaijan signed the "Contract of the century in September 1994 with a Western energy consortium including Russia's LUKoil. Moscow expressed its opposition to the deal and threatened sanctions to Baku. It was argued by the Russian Ministry of Foreign Affairs (MID) that because oil and gas fields in the Caspian have already been exploited by the Soviet Union, these resources belong to Russia. Later it was stated by Prime Minister Viktor Chernomyrdin that Moscow would not be against the agreement, as long as Baku coordinate its policy with Moscow on the issues of fishing and ecology. LUKoil was supported by the Prime Ministry in its attempt to take part in the consortia. It is said that Prime Minister Chernomyrdin himself was active in securing the 1994 contract of Azerbaijan as well as later deals of Kazakhstan. (18)

After 1997 Russia began to revise its approach pertaining to the Caspian Sea and suggested a limited sectoral division of the sea. Though it was not agreed on by the coastal states, it can be seen as a significant development to the recognition of several Caspian consortia on the part of Moscow. After the end of the negotiations with Kazakhstan, the Moscow government recognized officially the sectoral division of the Caspian Sea. Kazakhstan President Nursultan Nazarbaev traveled to Moscow in July 1998 to meet with Boris Yeltsin to end the dispute in a site in the north of the Caspian. The agreement signed suggested that not the waters of the Caspian but the sea bottom was to be divided. The agreement provided Moscow with the possibility of opposing suggestions for trans-Caspian pipelines on ecological grounds despite its recognition of the division of the seabed. This arrangement can be seen as a compromise between Russia and the energy firms.(19)

With regard to Azerbaijan, when Baku agreed to giving stakes to Russian oil firms in the oil development projects in its zone, Moscow changed its stance on the issue. In April 1998, Russia has agreed to a national subdivision of the seabed but maintained its position on joint management of the waters and

fisheries. In return, Russia has, for instance, acquired 33 percent in the Karabakh field and 10 percent shares in the AIOC and in the consortium operating in the Shah Deniz fields.

In January 2001, Azerbaijan President Heydar Aliyev and Russian President Vladimir Putin issued a joint communiqué agreeing to divide the Caspian Sea on the seabed, but keeping navigation on the entire water surface free. By this approach, the sealer could be "divided into sectors/zones among corresponding neighboring and oppositely-located states, on the principle of a median line drawn at equal distance from the sides and modified at their mutual consent."(20)

There are still some disputes to be solved. Baku and Ashgabat issued a statement in February 1998 saying that they agreed that the Caspian Sea between Azerbaijan and Turkmenistan would be divided along a median line, but disagreements over where to draw that line caused a dispute over a field called Kyapaz by Azerbaijan and Serdar by Turkmenistan. Despite Moscow's efforts, they could not agree on a solution yet.

No final agreement has been reached yet despite significant progress achieved by the littoral states. Azerbaijan, Russian and Kazakhstan reached a general understanding on both the principle and the method of dividing rights to the seabed and the mineral wealth beneath it. While only the principle of dividing the Sea is agreed on by Ashgabat administration, Tehran is against both the principle and method of dividing the Sea and its resources.

### **iii. Pipelines**

There are four alternative routes for Caspian oil and gas beside the Russian route: southern route across Iran, the western route across the Caucasus mountains to the Black Sea, the eastern route across China, and the southeastern route across Afghanistan. The Russian route is said to be the most economical and the most advantageous option for oil producers.(21) The US administration backs both the already existing Russian route and the construction of the western route across the southern Caucasus to Turkey. Washington and Ankara are against the carrying of oil from the Georgian port on the Black Sea Supsa through the Bosphorus Strait to the Mediterranean on environmental grounds. Ankara rearranged the passage of tankers putting new limits on them in 1995. Moscow protested Turkey claiming that unilateral action of Ankara is a violation of the Montroeux convention securing free passage through the Straits. Instead of carrying oil by ships, Ankara wants to build a 1,800 km long, \$2.7

billion worth pipeline south from Supsa, across Anatolia, to Ceyhan on Turkey's Mediterranean coast.

It is believed that the political dimension of the proposed Supsa-Ceyhan pipeline has more importance in its construction than its economic feasibility. From the US perspective, it would facilitate the newly-emerged republics of Central Asia and the Caucasia to gain their independence. For President Aliyev of Azerbaijan, the project is a good opportunity for involving the powers such as Turkey and Washington into solving the Nagorno-Karabakh conflict with Armenia. On the part of Turkey this is a project which would enhance Ankara's strategic importance as an energy corridor between the east and the west. On the other hand it is thought that making the Turkish route commercially viable might only be possible by carrying oil from the fields on the eastern coast of the Caspian. This connection can be provided by building a new undersea trans-Caspian pipeline. Moscow has the possibility of opposing the construction of a trans-Caspian pipeline on ecological grounds. In such a case it would be much easier for Russia to export oil through Novorossiisk route as long as possible.(22)

Early oil began to flow via Novorossiisk in November 1997 and additional volumes of oil have been exported to the Georgian port of Supsa starting in April 1999. Due to two wars in Chechnya, Moscow built the Chechen by-pass. Nevertheless, Russia was concerned about the Baku-Ceyhan route because this Washington-backed pipeline alternative was very expensive and necessitated difficult technology. And a final decision was several times postponed by the Azerbaijani consortium about its being main export pipeline. There were concerns about the costs on the part of the oil companies during 1999 and 2000 due to decrease in oil price. For oil companies whether or not the volumes of oil necessary was to make Baku-Ceyhan feasible was also another question mark. Despite Moscow's blocking efforts Baku-Ceyhan was agreed to by the Azerbaijan consortium in October 1999. But finally the presidents of Turkey, Azerbaijan, Georgia, and Turkmenistan signed a formal agreement on the occasion of the Istanbul OSCE summit in November 1999. This means that the sectoral division of the Caspian Sea was agreed to by all of the littoral states except Iran before the end of the millenium. (23)

Kazakhstan, Russia, and Oman established the international Caspian Pipeline Consortium (CPC) in January 1992 to construct a new 1,500 km long, \$2 billion pipeline from Tengiz to Astrakhan in Russia and on to the Russian Black Sea port of Novorossiisk. Its capacity was projected as 70 million tons a year. CPC is the main export route from the vast Tengiz field in Kazakhstan, through Russia to Novorossiisk. The Chevron Oil Corporation signed an original agreement in 1993. Because later Chevron regarded the project unfeasible,

Chevron's share was reduced after a reshuffling of the stakes in 1996. The Kazakh government sold a twenty five percent stake in Tengiz to the Mobil Oil Corporation. Chevron and Mobil finally managed to start the new CPC by bringing in the Russian company to the deal on April 27, 1997. By this new agreement, Moscow would have a 24 percent share in the pipeline, LUKoil and Rosneft 20 percent. Additionally private-sector oil firms assumed the financing of the pipeline's building.(24)

Without pipeline links carrying large volumes of Kazakhstani oil between the east and west coasts of the Caspian Sea, the Baku-Ceyhan route was seen as less feasible. Some even suggested that the success of the Baku-Ceyhan line-or even whether or not it is finally built-thus depends on Russia's ability to block proposals for trans-Caspian pipelines.

The arrangement in CPC is quite lucrative for Moscow and Russian oil companies. Yevgeny Primakov, stated explicitly that "Russia viewed the construction through Russian territory as an important state task, the solution of which would both give certain economic benefits and serve for consolidation of relations with CIS countries, first of all with Kazakhstan."(25)

Finally Turkmenistan and Gazprom compromised and signed agreement by which Turkmenistan would sell Russia 20 billion cubic meters of gas at a price of \$36 per 1000 cubic meters in late December. Forty percent of the revenue was to be in cash, with the rest in barter.(26) But later Moscow coerced Niyazov into agreeing a price which was lower than Turkmenistan's expectations.

The agreement displays the increasing rivalry in the gas sector created by the discovery of vast gas reserves at Azerbaijan's Shah Deniz field. Ashgabat, Baku and Russia's Gazprom compete for the profitable Turkish market. Turkmenistan secured its access to the Turkish market via a Washington backed trans-Caspian pipeline from Turkmen gas fields to Azerbaijan and then on to Turkey. Gazprom made the Blue Stream agreement with Ankara in 1997 to sell gas through a pipeline that would go under the Black Sea. Though technologically difficult, this route has the advantage of not crossing many international borders. After the discoveries at Shah Deniz, Baku emerged as a serious competitor to both Gazprom and Ashgabat. Thank to its proximity, Azerbaijan will be able to sell gas cheaper to Turkey. Although Ashgabat needs Azerbaijan's cooperation on the trans-Caspian pipeline, they have been disputing over the share capacity given to Azerbaijani gas.

The route is technologically difficult, but enjoys the obvious advantage of not crossing multiple international borders. With the discoveries at Shah Deniz, Azerbaijan emerges as a formidable rival to both Gazprom and Turkmenistan:

Azerbaijan's gas will be cheaper to export because of its proximity to Turkey. Turkmenistan needs Azerbaijan's cooperation on the trans-Caspian pipeline, but the two are wrangling over the percentage of throughput capacity dedicated to Azerbaijani gas. Meanwhile Gazprom has been trying to conclude the Blue Stream project. It is said that Gazprom would use Turkmen gas to make the Blue Stream viable by creating enough volume.(27)

#### **IV. Moscow's Policy Under Putin**

Putin has been pursuing a more aggressive foreign policy and seeking to make Moscow once again a center of international dominance. Moscow has also been more active in the competition over the Caspian energy. A number of factors influenced Putin's policy over the Caspian. Russia perceived that it has lost in the Caspian energy game when ties between NATO under the leadership of USA, the promoter of Baku-Ceyhan route and the Caspian littoral countries increased. This has, additionally, coincided with the entry of the Czech Republic, Poland, and Hungary into NATO. This event has contributed more to Moscow's feeling of loss. This incident was later followed by NATO's activity in Kosovo.(28)

Russian press reported Putin's statement in the Russian Security Council meeting on April 21, 2000 : "We must understand that the interest of our partners in other countries--Turkey, Great Britain, and the USA--toward the Caspian Sea is not accidental. This is because we are not active. We must not turn the Caspian Sea into yet another area of confrontation, no way. We just have to understand that nothing will fall into our lap out of the blue, like manna from heaven. This is a matter of competition and we must be competitive." The meeting also created a new post of special presidential representative for the Caspian. Viktor Kaluzhny, the former minister of energy, was appointed to the position and charged with enhancing Russia's presence in the Caspian.(29)

Moscow has pursued a coercive policy in order to attain its goals in the Caspian region. In 2000 it charged Baku with backing the secessionist war in Chechnya and threatened to impose visa for many Azeris working there. In turn such a move has impelled Baku to return to the Russian-dominated Commonwealth of Independent States (CIS) by signing a declaration in early 2001. This can be interpreted as an important victory for Putin because that declaration means that Azerbaijan officially accepts Moscow's dominance on important foreign policy matters including the Caspian.

Kazakhstan is the most strategic country in the Caspian in terms of oil capacity, which is anticipated to reach 8 million barrels per day within ten years. With regard to Kazakhstan, Moscow has coerced it into pursuing a more cooperative

approach in transit policy and a common energy balance with Russia. This, Moscow believes, would prevent Kazakhstan from participating in regional projects of the USA. The Kremlin has also pressured Kazakhstan to leave the Baku-Ceyhan project.

Also with regard to Tbilisi, Moscow has not hesitated to resort to similar policy. Russia threatened to interrupt energy supply to this republic in winter 2000, because it has failed to pay its debt. Also on this front was Moscow successful. The Kremlin's move has resulted in Georgia's disassociation with the West on security policies and important diplomatic issues. Russia has also been able to acquire a significant share of the Armenian and Georgian energy infrastructures through Gazprom.

With regard to the legal status of the Caspian, Putin has adopted a confusing approach by backing the sectoral division of the sea bed but not the surface waters. Putin has also sought to obviate several US proposals for trans-Caspian pipelines. Moscow has employed some tools to increase its control in the Caspian. It wanted to establish a Center for Strategic Economic Planning for the Caspian, to ease joint exploitation of the sea's energy resources. The other plan is joint development of disputed fields. Such mechanism would necessitate approval of all the littoral states to any deals. However neither state has accepted these initiatives. No state has given an open consent to the idea of joint exploitation of disputed fields and every state has rejected the idea of the establishment of Economic Planning Center.(30)

On the other hand, urged by Moscow, the Russian oil companies LUKoil, Yukos and Gazprom have established a joint venture called Caspian Oil Company in an effort to promote Russia's position in the Caspian region.(31) According to Ilan Berman, Moscow has been seeking to be a major player in the world energy market. So, the Caspian is just an important part of the Kremlin's global vision. Russia has taken significant steps in the Persian Gulf in attaining its aim by signing energy development and purchasing contracts in Iran and Iraq worth billions of dollars. Moreover, Russia has given these states, Libya and Syria diplomatic support and sold them arms to increase its influence there.(32)

The shock caused by the terror attacks of September 11 led Washington to revise U.S. foreign policy priorities. The USA cooperated with Moscow for its immediate needs in the war in Afghanistan and Russia's capacity to serve them. But the Russian military bureaucracy was anxious that American troops are on the ground at former Soviet army bases in Central Asia. Additionally Washington's emerging strategic initiative in Uzbekistan was also disturbing. On the US's desire for the construction of the Baku-Ceyhan pipeline as an alternative to the Russian route, it is claimed by the Russian officials that the

USA has been seeking to gain geopolitical benefits on the pretext of war against terrorism.(33)

## **V. Turkey`s Energy Needs**

Before the latest two economic crisis,with its emerging and rapidly expanding economy, Turkey`s energy demand increased by 8 % per year, while the world average is 1.8 %. In other words gap in Turkey`s energy supply and demand was one of the key elements which determines its policy.Turkey's energy consumption in 2000 was 82,2 million tonnes of oil equivalent (mtoe). It was estimated to reach 179 mtoe by 2010, and 319 mtoe by 2020. Turkey's demand for natural gas is expected to rise to 52 billion cubic meters (bcm) by 2010 and 83 bcm by 2020. Turkey will use cleaner forms of energy including gas and oil will be consumed less in time. By 2010 Turkey plans to import 49 million tons of oil, which 20 mt may come from the Caspian region and Russia according to Turkish Energy Ministry.(34)

As for gas need of Turkey, it was agreed with Russia that 30 bcm/yr-14 bcm/yr via the Western route and 16 bcm/yr via the Blue Stream would be imported. Turkey also agreed to import 10 bcm/year from Iran, 16 bcm/yr from Turkmenistan, and 6.6 bcm/yr from Azerbaijan. Deals have been made to procure LNG- 4 bcm/yr from Algeria and 1.2 bcm/yr from Nigeria. It seems that if most of these agreements were realized, Turkey would possess an excessive amount of energy supply.(35)

It is expected that demand for gas in western Europe will increase by 50 percent, from 350 bcm/yr to 525 bcm/yr in the period 1995-2010. So, excessive amount of gas may also be exported to Europe. But until at least 2005 deliveries to western Europe are fully contracted, because gas is a network-bound product. Gas requirements is also expected to increase in central and eastern Europe. A tentative agreement for developing a gas pipeline system in southern Europe to connect gas from Turkey was signed by the European Commission, Greece and Turkey in Brussels in July 2000. By this agreement it was aimed that gas would be piped from the Caspian basin to Turkey, Greece and Italy.(36) If this project were realized, Turkey`s geopolitical importance would increase.

One of the reasons why Ankara attaches so much importance to energy lies in its desire to enhance its geostrategic importance by becoming an energy corridor between East and West. The Turkish administration's enthusiasm is partly related to its experience of energy shortages in the 1970s. After the world oil crisis in 1973, Turkey' annual oil consumption tripled in four years to \$6 billion, nearly 60 percent of the country's total currency earnings in 1977.(37) Faced with a severe financial crisis, energy consumption was reduced. This

decision of Ankara resulted in power cuts in major cities that lasted several hours. Industrial production was disrupted. People waited for hours in the gargantuan queues for petrol. This experience has had a lasting impact on the memory of Turkish policymakers.

## **VI. Turkey: European Energy Corridor (EEC) and its Contradictions**

In June 2002, Turkish Energy and Natural Sources Minister Zeki Cakan stated that Turkey supported the transportation of Caspian oil and natural gas to Western markets and added that Turkey's goal was to complete the East-West energy corridor as soon as possible and help to bring stability and prosperity to the Caucasian region.(38) Backed by Washington, Turkey assumed its role in the EEC, which had been in development since 1994. Both Democrat and Republican administrations in the USA regarded the EEC as significant in the development and export of the region's oil and gas resources to world markets and in promoting the economic relationship between Turkey and the Caspian oil and gas producers. However, it should be noted that the USA's support for the EEC did not involve direct financial support. In attaining this aim, preventing Russian monopoly in transportation and isolating Iran were other goals. The U.S. support, which was also designed to promote U.S.-Turkish cooperation in the post-Soviet era, was first announced by then U.S. Ambassador to Turkey, Marc Grossman, in January 1995, and sustained and developed by his successors in Ankara, as well as by four Senior Advisers for Caspian Basin Energy Diplomacy in Washington. US backing today still continues in the Bush administration. Ambassador Steven Mann, senior advisor to the secretary of state on Caspian energy diplomacy, spoke to members of the Cambridge Energy Research Associates (CERA) at their fourth annual conference in Istanbul on June 19, 2001, reaffirming that Bush administration support for the East-West energy corridor "remains full and firm."(39)

The EEC might risk to realize, in case due to excessive promises in existing gas purchase agreements and difficulty in re-exporting the surplus gas to the saturated West European market, Turkey is unable to comply with "take or pay agreement" on Shah Deniz which requires that Turkey buy Azeri gas from the Shah Deniz field, in which BP Amoco is also a major shareholder and operator.

The fundamental contradiction in Turkish energy policy and the Turkish campaign for the EEC is that while promoting the benefits of a non-Russian route for Caspian oil and gas and vehemently seeking to exclude Iran from Caspian oil project for fear of losing volumes from the BTC, Turkey had in fact signed bilateral gas agreements with Tehran as well as Moscow. Ankara had made an agreement in August 1996 for 10 bcm of Iranian gas, even before the Blue Stream deal in December 1997 projected a 16-billion-cubic-meters (bcm)



commitment to the existing commitments for 14 bcm of Russian gas through Thrace. Apart from long-term deals on liquefied natural gas (LNG) from Algeria and Nigeria, these agreements, which were announced necessary not to experience a new period of energy shortage as has been the case in the 1970s, made commitments far beyond the need of the Turkish market.(40)

## **VII. Turkmen Gas, Azeri and Kazakh Oil, and Turkey**

Ankara also attaches importance to importing Turkmen gas to Turkey. But Azeri oil has more significance for Turkey. Aiming to diversify its gas suppliers, Turkey wants to bring Turkmen and Iranian gas to the Turkish market, in addition to the principal gas supplier of Turkey, Russia.

The State Oil Company of the Azerbaijan Republic (SOCAR) signed an agreement with a number of foreign oil firms at the beginning of independence on 4 June 1994, which has been called "the Contract of the Century," worth around \$8 billion. The deal was officially named "Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Deep Water Portion of the Gunashli Field in the Azerbaijan Sector of the Caspian Sea". By the contract a business entity known as the Azerbaijan International Operating Company was established to exploit the oil reserves Azerbaijan possesses. At beginning, SOCAR was to have 20 percent stake, which would have provided it with the majority interest, but later transferred 5 percent of the total shares to Turkish Petroleum, Turkey's state oil company, and an extra 5 percent to Exxon when SOCAR could not provide the necessary capital. In the consortium developing the Shah-Deniz field, Turkey also has 9 percent share.(41)

A project was supported by Ashgabat to lay a Turkmenistan-Turkey-Europe gas pipeline via Iran. This pipeline project was coordinated in 1994 by the interstate council consisting Turkmenistan, Iran, Russia, Turkey, and Kazakhstan. Simultaneously, international firms including the BOTAS of Turkey prepared several routes for establishing a pipeline to Turkey.

The representatives of BOTAS and Turkmen Oil and Gas Ministry convened to evaluate options and to reach a decision in February 1996. According to memorandum of understanding signed between Ankara and Ashgabat on 14 February, "Turkey will buy 2 billion cubic meters of natural gas in 1998, 5 billion cubic meters between 1999-2004, 10 billion cubic meters between 2005-2009 and 15 billion between 2010-2020."(42) In December 1996, the Iranian, Turkish, and Turkmen oil ministers met in Tehran to review the routes of bringing Iranian and Turkmen gas to Turkey. In this meeting a letter of understanding was signed to meet Turkey's gas needs and transfer of Iranian and

Turkmen natural gas to Europe via Turkey.(43) On 14 May, a memorandum in Ashgabat on the construction of a gas pipeline from Turkmenistan to Europe was signed by Niyazov, Rafsanjani, and Demirel, the leaders of Turkmenistan, Iran, and Turkey, respectively. On Turkish Prime Minister Mesut Yilmaz's visit to Turkmenistan President Saparmurad Niyazov in December 1997, a memorandum on mutual understanding to build a Turkmenistan-Turkey-Europe gas pipeline was signed by the energy ministers of the two countries, which formalized for the first time, at the intergovernmental level, a project of Transcaspian way to pipe Turkmen gas to Turkish and European markets.(44)

With regard to Kazakstan, Turkey hopes to extend the Baku-Ceyhan pipeline to carry Kazakh oil. Back in the fall of 1995, an agreement had been signed between Ankara and Almaata on the transit of Kazakh oil through the Turkish Mediterranean port of Ceyhan. The first stage of this plan is via the Mangyshlak-Baku undersea Transcaspian oil pipeline and the second stage is by the Azerbaijan-Georgia-Turkey route.(45) Kazakstan considers the Turkish option in the long run, given the fact that by the year 2005 Kazakhstan will need to sell up to 25 million tons of oil. Moreover, it would not be easy to lay a Transcaspian oil pipeline before determining the legal status of the Caspian Sea.

### **VIII. Turkey's Position in the Debate over Pipeline Routes**

One of the important issues having an influence on the building of the BTC has been the decision on the selection of the transport route for the relatively small quantity of the crude (around 5 m tons a year maximum and totaling 20 m tons ten year period) the so called 'early oil' to be produced by the AIOC consortium from the Azeri, Günesli and Chirag off-shore fields. The selection of the already existing northern route for the early oil would have jeopardized the BTC project, risking to delay it for an indeterminate time. Given the already existing capacity of the Russian system, the 'early oil' route might have become easily the main export route. In that case Russia would continue to maintain its monopoly over the transportation possibilities and the pressure over the already overloaded the Turkish Straits would increase. The decision by the AIOC on the 'early oil' transportation routes has not been taken easily due to months of hard negotiations. Finally on 9 October 1995, the Consortium selected both the northern and western routes to export 'early oil' .(46) However, despite Turkey's wish to have control over flow of early Azeri oil, the AIOC refused a proposal of Turkey in February 1996 to assume the construction of the Baku-Batumi pipeline with very advantageous conditions but under Turkey's control. In November 1997, the 'early oil' from Chirag offshore field in Azerbaijan began to stream to a terminal near Baku, and then through a pipeline crossing southern Russia to the Black Sea port of Novorossiisk.(47)

At first the AIOC consortium decided to transport its oil to Western markets through an existing pipeline to the Russian port of Novorossiisk, then by tanker through the Black Sea and into Mediterranean by Turkey's Bosphorus Straits. Nevertheless, this plan was objected by Turkey on the grounds that increasing shipping volume would pose environmental threat to the Bosphorous Straits . Regarding a Vessel Tracking System to facilitate safe passage through the straits a tender was intended, but no technology can totally eliminate the potential for oil spill. Some 19 miles long and a mere 700 meters wide at its most narrow point, the Bosphorus is one of the most difficult waterways in the world to navigate.(48) And it has abrupt turns that require ships to change course at least twelve times. There are powerful currents capable of driving ships off course. This has brought about many collisions and groundings. Two major bridges span the Bosphorous, creating additional hazards.(49)

The passage of cargo ships through the Bosphorus is still regulated by the Convention of Montreux, adopted in 1936. By the Convention the straits are to be kept open to merchant ships of all nations, regardless of the nature of their cargoes. This is a very restrictive agreement for Turkey intending to adopt the regulations necessary to ensure safety of passage through the Bosphorus. But the Turkish government issued a new set of regulations designed to promote safer traffic.(50)

The AIOC began to consider new routes due to Ankara's objection to the Black Sea route for Azerbaijani oil. One of the alternative routes is from Baku to the Turkish port of Ceyhan on the Mediterranean near the Syrian border. Another options have also been proposed. One alternative is shipping oil from Azerbaijan to the Black Sea port of Poti in Georgia, then on to Odessa in Ukraine, where the oil would be brought to the Druyhba pipeline extending across Russia and the Ukraine and on to Europe. The Turkish government has put forward the Novorossiisk-Samsun route as an alternative, which would involve shipping oil by tankers to Turkey's Black Sea port of Samsun and then transporting it south across the Anatolian Peninsula to Ceyhan by a new pipeline. Among the choices, the most serious consideration has been given to the Baku-Ceyhan route and the northern alternatives going through Russia.

The backing of Azerbaijan and Georgia as well as the even more significant support of BPAmoco, the biggest shareholder and operator of the Azerbaijan International Operating Company (AIOC) were largely obtained through U.S.-Turkish cooperation. Hesitant at first, BPAmoco gave full support for the BTC in 1999 and helped sustain the momentum that eventually led to the establishment of the BTC Pipeline Company in August 2002 under its leadership. Despite disputes over volumes and cost as well as the burden Turkey - which is having problems with existing energy project guarantees - may have

to assume, the foundation of the new firm meant that the project was to move into the construction phase, although ExxonMobil and Lukoil, two major AIOC shareholders, have not participated. For their part, Turkish, American, and BPAmoco officials remain confident that the BTC is on track for completion by the end of 2004. David Woodward, the AIOC president, recently argued that the AIOC would have enough oil to fill the 50-million-ton capacity of the pipeline and that additional volumes might be needed only after 2015, when AIOC production is expected to decline. It is important to note that the capacity of BTC will be underutilized for a few years after its projected completion if Kazakh oil is not included.(51)

The benefits for the countries on the route have remained largely unchanged, although the BTC plan has already brought about many disputes and political calculations. Baku has viewed the pipeline as a path to independence, export exit, economic development, and closer links with Turkey. For Georgia the BTC was an opportunity to increase the revenues and strategic value as a crossroads for Western markets. Turkey has also promoted the project to enhance its geostrategic significance as an Eurasian energy corridor while avoiding an increase of oil traffic through the Bosphorus. However many circumstances surrounding the pipeline have changed. For years, BTC was regarded as a political project because of the US policy of containing Iran and promoting the BTC as an alternative to Russian routes. But politics appeared to diminish as the most important motivator after 1999, when Britain's BP oil company decided to support BTC. From then on, commercial factors have been of primary importance in the implementation of the project.(52)

Years ago, the rivalry of routes through Russia and Iran dominated the debate over BTC. But no appreciable progress in relations with Iran have been reached. Russia's positive approach has also helped to remove disputes over the plan. Moscow has improved its relations with both Baku and Ankara, ending the friction over their national ambitions for the project. President Vladimir Putin's decision to welcome a cooperative U.S. military presence in the region since the terrorist attacks of 11 September 2001 may be one reason, making BTC a more minor issue between the two countries. Another reason might be that there is a growing cooperation between Moscow and Washington on energy. During a speech in Washington last week, U.S. Senator Conrad Burns (Republican, Montana) promoted the idea of relying on both Russia and the Caspian for energy resources instead of the Middle East. The only remaining source of concern is the disputes with Georgia over alleged Chechen operations on its territory.(53)

## **IX. Moscow-Ankara Competition in the Caucasus**

Turkey has been worried about the impact of ethnic conflicts in the neighbouring areas, in Georgia, Nagorno-Karabakh, and Chechnya on regional stability and energy security during the 1990s. Because ethnic fighting took place near Turkish borders and Turkey has historic and cultural affinities with Turkic and/or Muslim sides of the conflict, it had a realistic perception that the fighting might spill over into Turkey. Moreover, inside the Turkish borders there were considerable groups of Azeris, Chechens, and Abkhazians sympathizing with their ethnic relatives beyond the Turkish border in the Caucasia. Turkey was also concerned that secessionist conflict in the Caucasus would cause security problems for itself. The secessionism in Abkazia, South Ossetia, and Chechnya could have a demonstration effect on its own Kurdish problem leading to disintegration of the country.

The Turkish government was worried about Moscow's efforts to exploit the conflicts in Georgia and Nagorno-Karabkh to gain strategic advantage in these areas. It was also feared that the ethno-nationalism and conflicts in the region would pose instability and in turn undermine Turkey's energy imports from the Caspian basin and building of the Baku-Ceyhan pipeline.

Turkey has pursued consistently a policy of non-interference in the Nagorno-Karabakh conflict and refrained from sending troops and large-scale military support to Azerbaijan despite the public pressure and favorable conditions for Ankara. Instead Turkey has chosen to officially protest Armenia in a strong manner and moved its troops on the Armenian border. The Turkish government also imposed an embargo on Armenia in 1993 and supported the Azeri view strongly in international diplomatic and political forums.<sup>(54)</sup> On the other hand, Turkey was aware of the potential problems in its relations with the West and Russia that an intervention in the Nagorno-Karabakh conflict could cause. A point which might have influenced the Turkish approach is the international reaction which Ankara faced after its invasion of Northern Cyprus in 1974. Turkey is a guarantor both in Cyprus and Karabakh by international treaties. However the memory of the response Turkey faced over the Cyprus issue might have helped to soften any radical move to support the Azeris against the Armenians.<sup>(55)</sup>

Turkey's interest lies in the peaceful resolution of the conflict between Yerevan and Baku rather than escalation for Caspian gas and oil production and the construction of the Baku-Ceyhan pipeline. Thus, Turkey has tried to play a mediating role between Armenia and Azerbaijan. Subsequently Ankara has opted for supporting multilateral peace initiatives due to Russian and Armenian opposition to unilateral Turkish mediation efforts. In 1992 Turkey has been part of the Minsk Group of countries which was formed to find a peaceful resolution to the Nagorno-Karabakh conflict under the auspices of the OSCE.

Turkey also had similar worries and policy regarding the conflicts in Georgia and Chechnya. These conflicts also might have ramifications on Moscow-Ankara relations and the Kurdish issue in Turkey. So, Ankara has preferred to stay out of the conflict despite the appeals of the Abkhazians and the Chechens for military intervention. Whereas Turkey adopted a neutral approach in the conflicts that emerged in Georgia at the beginning of the 1990s, its support to the Chechens in the first Chechen-Russian has relatively been strong. Russia protested the presence of volunteers from Turkey in the conflict, the smuggling of armaments and weapons from Turkey and Turkey's political support to the Chechens and threatened to play the "Kurdish card" against Turkey by supporting the PKK. As a response, Russia gave permission to PKK to open an office in Moscow and to organize meetings in the Russian parliament building.(56) Several weeks after the Turkic summit in October 1994 in Istanbul, it was stated that Moscow hosted a Kurdish conference with the participation of the guerrilla Kurdish Workers Party (PKK). This was interpreted by Ankara that Russia was not hesitant in using the "Kurdish card".(57)

Turkish backing for the Chechen cause during the second war has declined dramatically compared with the support in the first Chechen war. Ankara has restricted, and at times banned, pro-Chechen rallies, limited the ability of pro-Chechen organizations to operate and raise funds, and drove a few Chechen activists out of Turkey. General public opinion in Turkey is not far from indifferent to the Chechen cause. In addition, the kidnapping of Turkish citizens in Chechnya following the first war, the fundamental Islamic image of Basaev and Khattab, and the initial attack on Dagestan also led to alienate most of Turkey's North Caucasian Diaspora, which during the first war, had supported the Chechens eagerly. Neither Moscow nor the Turkish government view Chechnya as an impediment to building closer ties any more.(58)

#### **X. The Blue Stream: The Stream of Cooperation between Turkey and Russia**

In the Blue Stream project, it has been planned that Russian gas would be transported to Turkey in a period of 25 years in volumes reaching 16 billion cubic meters per year by a pipeline crossing the Black Sea from Russia to Samsun and reaching Ankara. The project has attracted much critic as well as praising from the Turkish public. Generally, pro-Islamists, and nationalists have opposed the project. It was claimed by the critics of the project that laying of the Blue Stream pipeline between Russia and Turkey would make Ankara dependent on Russia's energy.

In fact, the charges made by the critics of the project regarding increasing dependency on Russian energy have a basis. Because Turkey already receives almost 70 percent of its gas from Russia. If the Blue Stream is implemented, Russia would actually have a real monopoly on Turkey's gas consumption. Foreign ministry officials as well as the military have made some reservations warning that the arrangement might have implications on Turkey's national security. Washington has also seemed opposed to the deal, since it would increase energy dependency of a NATO partner on Moscow.(59)

The Central Asian republics have also raised criticism on the arrangement. The Turkmenistan President Saparmurad Niyayov has expressed his unhappiness about the project on his official visit to Turkey's energy minister.(60) President of Azerbaijan Haydar Aliyev has also said that Turkey did not need the Blue Stream.(61) Nevertheless, the possible Turkmen alternative to the Blue Stream, the Trans-Caspian Gas Pipeline Project (TCGP) is problematic in several aspects. The most important issue is the dispute among Iran, Azerbaijan and Turkmenistan over the ownership of the Caspian Sea resources in which Asghabat's position favored the Iranian approach and opposed Turkey's stance. An additional difficulty of this project related financing the TCG Pproject.

Since energy investments in Turkey are a state monopoly, and the Blue Stream Project has been perceived as the work of a small group of supporters, it was claimed that such individuals might have a personal interest vested in the project's implementation. The Blue Stream project has also been related to a corruption affair, called "White Energy" investigation in which several high-ranking Energy Ministry officials were jailed.(62)

The construction of the second line of the Russian-Turkish gas pipeline 'Blue Stream' on the bottom of the Black Sea has been finished, the press service of Gazprom reported. The sea part of 'Blue Stream' consists of two pipelines of 61 centimeters in diameter each. As it was earlier reported, the construction of the first line was started in September 2001 and was completed on March 31, 2002. The construction of the second line was started in February 2002.(63)

On October 20, 2002, Turkey's Energy Minister Zeki Cakan participated in the final two sections of the 1,400-kilometer Blue Stream pipeline across the Black Sea from Russia, in a "golden welding" ceremony at Turkey's port of Samsun. A joint work of Italy's ENI oil company and Russia's Gazprom, the project is the deepest underwater line on the earth reaching depths of 2,150 meters. Turkey celebrated the event as a breakthrough marking the second subsea link of the Blue Stream Project.

The Anatolia News Agency quoted Cakan as saying: "Many had doubts about this project and claimed it was a dream. But it has been realized, and it will serve the socioeconomic development of both countries and open up new fields of cooperation." Minister Cakan has been able to solve problems arising in the last minutes over terms of the Blue Stream deal, even as the last few kilometers were being built.(64)

Russia's state gas monopoly Gazprom announced at the beginning of December that it would officially open the "Blue Stream" pipeline across the Black Sea within days. Nevertheless it was claimed by critics that the project might not actually be ready to deliver gas to Turkey, where the market has raised doubts over the need of the \$3.4 billion pipeline.

The 1,240-kilometer project, including the world's deepest underwater gas line, is regarded as a technological marvel, allowing Gazprom and its partner, Italy's ENI oil company, to reach the Turkish market without crossing any third country. Two subsea lines from the Russian port of Dzhubga were designed to carry 16 billion cubic meters of gas annually to Turkey's growing economy by 2008.

However, the reports in the Turkish press suggested that the Project would not be completed. It was claimed in the "Turkish Daily News" that although the laying of pipe has been completed in Russia, the welding may not be finished until March. The Daily has also stated that Turkey is seeking Russian financing for its terminal at the port of Samsun to regulate pressure from the pipeline. Russia has reportedly agreed, but the request may give little confidence that supplies are about to start.(65) But Moscow and Ankara were able to transport the Russian gas to Turkey through the Blue Stream pipeline, and gas started to flow into Samsun on December 30, 2002 after pumping started in Russia on 29 December.(66)

Whether Turkish gas market will be able to absorb the gas poured from the Blue Stream is another part of the confusing matter. Just starting to recover from the latest economic crisis, Turkey has sought cuts in supply contracts with exporter countries, including Russia and Iran.

How much gas Turkey really needs is ambiguous. Initially it was projected by the Turkish state pipeline company Botas that a 22 percent increase in growth is expected in 2002 at the start of the year, and thus consumption is likely to rise little if at all. Botas stopped posting monthly usage rates at the end of October and is still calling for improbable growth of over 50 percent in 2003. Turkish officials seek to solve the problem of too much gas through a combination of contract revisions and delay. The outlook seems just as uncertain for Iran,



which has a 25-year contract with Turkey, once valued at over \$20 billion. Ankara shut off gas from Iran on quality grounds, but it then negotiated for cheaper prices, forcing Iran to match a 9 percent reduction in rates reportedly granted by Russia.(67)

Now it is not clear yet, whether Azerbaijan and other Caspian countries will supply gas to Turkey. Baku had planned to lay a pipeline from its giant Shah Deniz gas field to Turkey in 2003, but it is highly probable that it will be postponed.

## **XI. Conclusion**

Russia was reactive in its policies on the region and was quite sensitive to any sign of independent policy of the newly emerged republics in the Caspian region in the early period following the dissolution of the Soviet Union. The Kremlin has sought to control energy since its pipelines and refinery capabilities enable it to shut off energy to and from Central Asia. Moscow used energy to compel Ukraine, the Baltic states and Belarus into submission when Gorbachev tried to hold the USSR together. Though some anticipated that the Soviet Union's collapse would also lead to Russia's and Central Asia's collapse, Russia aimed to reintegrate the Soviet economic area on a Russia-centric basis using energy coercion as a key lever.

Under Putin's administration Moscow has adopted a more assertive and realist foreign policy and sought to make Russia once again a center of global dominance. He has adopted more hardline approach in the security issues, such as in Chechnya. Moscow has also been more active in the competition over the Caspian energy and pursued its interests on the division of the Caspian and the issue of pipelines more effectively and realistically.

The new global political atmosphere following the September 11, 2001 has led the Kremlin to have, in general, a more cooperative stance in its relations with Washington. This has increased Moscow's capacity to involve in the Western projects, such as the Baku-Ceyhan project.

The dissolution of the Soviet Empire has brought opportunities as well as threats for Turkey. Initially, Ankara government had to deal with security issues in the region, such as the conflicts in the Nagorno-Karabakh, and Chechnya. Turkey's policy regarding these issues have sometimes brought Turkey to the verge of confrontation with Moscow, which considered ex-Soviet areas its sphere of influence. Also Turkey has pursued economic and political interests. Ankara has sought to implement the Baku-Ceyhan project backed by the USA, as an alternative to the Northern Russian route for the transportation

of the Caspian oil to the World market. On the other hand, this has not prevented Ankara from cooperating with Moscow in laying the Blue Stream pipeline under the Black Sea for transporting Russian gas to Turkey.

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