

PIPELINE POLITICS, RUSSO-TURKISH COMPETITION AND GEOPOLITICS IN THE EASTERN MEDITERRANEAN

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Abstract

This paper deals with the interrelationship between the strategic and political interests in the exploitation of oil in the Caspian Sea vis-a-vis the Eastern Mediterranean as an important balancing factor. This paper examines the role of the Great Powers in this geopolitical game, their interests and their stakes, as well as the present and future developments related to oil politics, defence strategy and economics in the Caspian - Black Sea - Mediterranean triangle.

Introduction : The New Great Game in Asia

The Eastern Mediterranean is at the apex of a geopolitical triangle formed with the Caspian and Black Seas. Since 1991, the most important strategic issue in this triangle has been oil in the Caspian and the competition between the littoral states of these three seas over its exploitation and transportation to markets in Europe.

The importance of this issue is illustrated by the fact that in 1994, having largely ignored the Caspian-Black Sea Axis since the dissolution of the USSR in 1991, the US and the West suddenly found a new interest in the region. This interest has manifested itself in the editorial pages of major newspapers, journals and academic conferences. The phrase, the "Great Game", has also been coined to characterize the growing inter-state competition over oil, borrowing the expression from Rudyard Kipling's description of Russian-British and Turkish competition in Central Asia for control of the trade routes to India in the 19th century. Indeed, there is now a competition among analysts to see who can be the most inventive in their descriptions of the region, with various competitors evoking a new "Black" Silk Road from the Caspian to the Mediterranean to bring out the oil, and others designating the triangle as the Persian Gulf of the 21st century.¹

With the oil now the main focus of the geopolitical agenda in the region and the Soviet Union dissolved, old familiar questions, such as who controls the Bosphorus Straits and can restrict shipping between the Black Sea and the Mediterranean, and which major power can wield political and economic influence over the minor states in the region have re-emerged.

In short, if we take the "Great Game" as our analogy, an old geopolitical competition has been revived in the Caspian-Black Sea-Mediterranean triangle. But the Game is no longer simply among the regional Great Powers: there are now a host of players at the table.

The main questions that I would like to address in this paper are: What are the stakes in the Game? Who are the players, and what are their interests? How is the Game being played? And, what factors will determine the outcome?

The Stakes-How significant is Caspian Sea Oil?

The Caspian has been a major oil producing area since the early 19th century, when primitive pits were dug by hand to extract oil near the surface of onshore fields in Azerbaijan. Large-scale commercial exploitation commenced in 1871, and from the first was heavily dependent on foreign capital and technology. Azerbaijan and the Caspian became the arena where the Swedish Nobels and the French branch of the Rothschilds built great fortunes, drilling wells and constructing rail roads to carry oil from the Azeri capital, Baku, to Georgian ports on the Black Sea. Until World War I, Baku was a boom town, and was the object of fierce military competition among German, Turkish and British forces after the collapse of the Russian Empire in 1917. Again, in World War II, Hitler devised elaborate plans to capture Baku and the Caucasian oil fields as part of his campaign against Russia. After the war, however, the Caspian fields went into decline as the Soviet Union began to exploit new oilfields in Siberia and the Russian Far East.²

In the late 1980s and early 1990s, expert estimates, based on Soviet figures, suggested that the Caspian still holds somewhere in the range of 16-19 billion barrels of oil and 139-324 tcf of natural gas.³ Only the reserves in the Persian Gulf are larger. Oilfields off Azerbaijan are estimated to have 3-4 billion barrels of recoverable oil reserves. The Tengiz field in Kazakhstan is the largest discovery of crude oil since Prudhoe Bay in Alaska with proven crude reserves of 6 billion barrels, and a possible additional recoverable reserve of 3 billion barrels (9 billion barrels in total). Actual resources in both regions could be even greater than the estimates, and even the most conservative experts project prime production of oil from the Caspian of 750,000 barrels a day early in the 21st century.⁴

As far as natural gas is concerned, the Central Asian state of Turkmenistan is already the world's 4th largest natural gas producer, producing 120 billion cubic meters per year. This is sufficient to meet fully one half of Europe's energy needs which should reach approximately 240 billion cubic meters by 2005⁵ and, therefore, the stakes in the Caspian are high.

The Players

The players in the Game for the oil consist of a principal player, a group of major competitors, and a second group of would-be players who have the potential to become major competitors.

The principal player

Russia, as the former hegemon of the Eurasian space and the Caspian, Black Sea, Mediterranean triangle.

The competitors

1. Turkey, as the successor state to Russia's 19th century imperial rival, the Ottoman Empire.
11. The US, in the role formerly played by Great Britain in Eurasia before WWI, representing a large number of US oil companies: most notably the *Chevron Corporation* in Kazakhstan, and *Pennzoil, Amoco, Occidental, Unocal, and Mobil* in Azerbaijan.
111. Iran, as the other major power controlling the Caspian Sea and its resources prior to the collapse of the USSR, and another former imperial rival to Russia.
- iv. A range of Western and other oil companies as part of various Caspian oil *consortia*, including *Oman Oil*, which is a major player in Kazakhstan, and a rival of the US firm, *Chevron*; *British Petroleum*, France's *Total*, and Italy's **Agip**.

The would-be players

1. The Central Asian states, in particular Kazakhstan and Turkmenistan.
11. The Caucasus states, in particular Azerbaijan and Georgia, with a supporting role played by the secessionist republic of Chechnya in the Russian North Caucasus.
111. Greece, as Turkey's rival in the Balkans and the Mediterranean.
- iv. China, as a distant power at the end of the original silk road and Central Asia's most powerful neighbor.
- v. Bulgaria, as a traditional Slavic ally of Russia and a rival of Turkey.
- vi. Ukraine, as a new player in the arena and a route for pipelines from Russia and the Black Sea to Europe.

The Game

The purpose of the Game is, first, to gain control over the oil and gas reserves and their exploitation; and, second, to reorient the flow of oil from the Caspian through a player's state or the territory of its proxies. The prizes are the revenues from the sale of crude and refined oil and transit fees, and political and economic influence over neighboring oil-poor countries that form the market for the oil and its products.

There are, therefore, four elements in the Game:

First, physical possession of the oil and gas reserves, with all the revenues that this implies.

Second, control of the overland routes for pipelines, which offers the possibility of levying transit fees, controlling of the flow of oil and obtaining a share in production.

Third, control of access to the sea, which has similar benefits to control of the pipelines.

Fourth, financing for both the exploitation and the transportation of the commodity, which brings a share in production and thus in revenues.

So, who has possession or controls over these elements?

Oil and gas

Kazakhstan and Azerbaijan would appear to have the physical possession of the oil in onshore and offshore Caspian fields; while, Kazakhstan and Turkmenistan have physical possession of the gas reserves.

Overland pipeline routes

There are three existing pipeline routes in the former Soviet Union, all of which extend from Central Asia and the Caucasus across Russian territory, either to major coastal *termini* or to recipient countries:

- I. A route from Central Asia terminating at the Latvian port of Ventspils on the Baltic Sea.
- II. The "Friendship Pipeline," which extends from Russia to Eastern Europe, with a northern branch to Poland and Germany, and a southern branch to Hungary, the Czech Republic and Slovakia.
- III. A route through Russia to the Black Sea, with a branch extending to the

Ukrainian port of Odessa, and another to the Russian ports of Novorossiisk and Tuapse in the North Caucasus.

The routes at the heart of the current Game run across the Caucasus Mountain range, which forms the land bridge between the Caspian and the Black Seas and is the crossroads for transportation and communications between east and west, north and south. Before the collapse of the USSR, Russian control of the Caucasus was secure. Since 1991, however, Azerbaijan, Armenia and Georgia have asserted their independence in the southern reaches of the mountains, while in the northern reaches the declared secession of Chechnya and a morass of violent ethno-political conflicts have challenged Russia's hold.⁶ For the first time since the Russian Civil War, when the region last asserted its independence first under Turkish and then under British sponsorship, it would seem that the Caucasus region is open for the incursion of other major powers.

Asserting control over the Caucasus is, however, no easy task. By virtue of topography and history, the Caucasus is the most ethnically diverse region of the former Soviet Union and, as such, is the most volatile. A long history of invasions, incursions and waves of settlement have combined with the isolation of mountain valleys to produce an overwhelming mix of peoples in a complex mosaic. Since the dissolution of the USSR, the region has been the scene of the most violent of the post-Soviet ethno-political conflicts and civil wars, including the undeclared war between Armenia and Azerbaijan over the political jurisdiction of Nagorno-Karabakh, the war between Georgia and Abkhazia, and the war between Russia and Chechnya.

Access to the sea

As the Caspian is landlocked, the shortest route to the world's major seaways is by tanker through the Black Sea and from there to the Mediterranean. On the Black Sea, the Russian ports of Novorossiisk and Tuapse, and the Georgian ports of Batumi and Poti are the main existing and potential *termini* for the oil pipelines. As the result of a March 1995 security agreement with Georgia, Russia controls all of these ports either directly or indirectly, having a naval presence in Poti and a planned military presence in Batumi.

Turkey, however, dominates access to the Mediterranean and thus all the sea routes from the Black Sea through the physical control of the Bosphorus Straits. It has exerted this control by imposing shipping restrictions in the Straits, on environmental grounds, that will limit bulk exports of oil from Novorossiisk⁷.

The only alternative to the Turkish controlled passage to the Mediterranean, is an overland route across the Balkans, from the Bulgarian Black Sea port of Burgas to the Greek port of Alexandroupolis on the Aegean.

Financing

None of the states that have physical possession of the oil reserves or control of the principal pipeline routes have sufficient financial resources to meet the task of either exploiting or transporting the oil to full capacity. In this respect, Western oil companies and financial institutions, such as the European Bank for Reconstruction and Development (**EBRD**), and the International Finance Corporation (IFC), play the major role. US companies, for example, have a 44% stake in investment in the Azerbaijan oil consortium, and the US company *Chevron* is the primary investor in Kazakhstan's Tengiz oilfield.

The First Round in the Game-Control of the Exploitation Rights

Given the individual pieces, the first round of the Game has focused on the control of the Caspian Sea oilfields. The oilfields are claimed by Azerbaijan and Kazakhstan on the basis that, under the provisions of the 1982 Law of the Sea, the Caspian is divided into national sectors. Russia, however, has vehemently rejected this division since 1991, asserting that the Caspian is not a "sea" but an inland lake and therefore not subject to the Law of the Sea.

In this, Russia, has found an ally with Iran, as it has insisted on retaining the Soviet-era legal regimes that govern the Caspian. These consist of treaties signed by pre-Revolutionary Russia and Persia in 1921, and by the USSR and Iran in 1940, in which the Caspian was recognized as a condominium. Although these two treaties dealt specifically with freedom of navigation and fishing rights, and not specifically with resource exploitation, Russia and Iran now claim the privilege of rejecting any off-shore development deals in which their interests are not taken into account.⁸

On October 5, 1994, the Russian Foreign Ministry sent a letter to the United Nations General Secretary stressing that a new legal status for the Caspian has not been determined since the dissolution of the USSR, and therefore no single country bordering the Caspian may make unilateral claims to its resources. In the letter, Russia rejected Azerbaijan's and Kazakhstan's claims as illegitimate and issued a threat to the two countries that it would take all necessary measures against other states to enforce its view.

This assertive stance on the Caspian was combined with political and economic pressure on the Central Asian republics and Azerbaijan to remind the new states of Russia's influence in the region. In Kazakhstan, Moscow demanded the protection of the rights of ethnic Russians in northern Kazakhstan and hinted at the possible secession of that region should relations with Almaty worsen. In Azerbaijan, covert assistance was given to a well-timed coup that ousted Abulfaz Elchibey, the pro-Turkish, anti-Russian President, two weeks before he was due to fly to London to sign a contract with the international oil consortium for the exploitation of the Caspian oilfields. Russian intransigence and manipulation has also kept Armenia and Azerbaijan at loggerheads and Moscow as the sole arbitrator of their conflict

over Nagorno-Karabakh which has had the effect of limiting Azerbaijan's scope for independent action.⁹

In spite of Moscow's efforts and the protests of the Russian Foreign Ministry, however, both Kazakhstan and Azerbaijan have signed deals with international oil companies for the exploration and the exploitation of the Caspian oil reserves. In April 1993, the Kazakhstan Government signed a \$20 billion 40-year agreement with *Chevron* to develop the Tengiz oil fields in return for the US company gaining a 50% stake in the oil production. In September 1994, Azerbaijan's state oil company SOCAR and a consortium of major international companies, as the Azerbaijan International Operating Company (**AIOC**) signed a \$7.5 billion agreement to exploit offshore oilfields the so-called "Contract of the Century." And, in August 1994, Turkmenistan and Iran concluded a deal, the Ashkhabad Agreement, to construct a pipeline for the transport of gas that would link Turkmenistan, Iran and Turkey.

Pressure from Moscow has, however, succeeded in inserting the Russian oil company, *Lukoil*, into both agreements. In April 1994, *Lukoil* was offered a 10% stake in the Azerbaijani oil consortium by the Azerbaijani government, and, in November 1994, a new Azerbaijani deal was signed to exploit an additional oilfield with estimated recoverable deposits of 100 million tons with *Lukoil* as one of the major players.¹⁰ *Lukoil* is also now being courted by both *Chevron* and the Kazakhstan government to take part in a new pipeline consortium in the Tengiz field. However, it must be noted that *Lukoil* is now an independent player in the Game and not controlled directly by either the Russian Government or the Foreign Ministry. The latter, in fact, protested *Lukoil's* signature of the "Contract of the Century" with Azerbaijan at a time when it was still pressing Moscow's case for the Caspian to be recognized as a condominium and rejecting Azerbaijan's claims to the Sea's resources.

The Second Round in the Game-Pipeline Politics

With the deals to exploit the oil reserves signed, all of the players now faced the problems of how to transport the oil and how to either secure access to the existing pipelines or find routes for the construction of new pipelines. The Second Round of the Game has, therefore, focused on this issue. In the case of the Azerbaijan oilfields, two decisions had to be made: first, how to transport the batches of "early oil" from the region, and second how to transport the bulk of the oil production in the long-term. The first decision was scheduled for the Fall of 1995 and the second for early in 1997.

At the beginning of this round, there were only two existing pipeline routes for oil from Azerbaijan and Kazakhstan to the Black Sea, both of which ran through Russia and Chechnya to Novorossiisk. There were also several potential combined land and sea routes dominated by Russia, including: transportation by ship to Volgograd, then through the Volga-Don canal and the Don River; and

transportation by rail from Baku to Tbilisi and then by pipeline from Tbilisi to Batumi. All of these gave Russia a considerable advantage over the other players. An advantage that it used with some success to limit *Chevron's* activities in Central Asia.

Following the initial signing of the 1993 contract between *Chevron* and Kazakhstan, Moscow refused to allow the US company to transport Tengiz crude oil through its pipeline system citing the corrosive effects of a mercaptan contaminant (a derivative of hydrogen sulfur) present at high-levels in the oil. Although Tengiz oil had formerly been transported through the Soviet pipeline system in spite of this contaminant, *Chevron* was forced to build an expensive decontamination plant which did not come into operation until early 1995. Russia then placed restrictions on the amount of oil that could be transported through its pipelines and imposed a series of high tariffs. All of these maneuvers had the effect of encouraging *Chevron* to cut back on both its investment in the area and on the production of oil in Tengiz.

In June 1992, Russia also inserted itself into a Caspian Pipeline Consortium with Kazakhstan and Oman to construct a new \$1.2 billion pipeline from Tengiz. Yuri Shafranik, the Russian Minister of Fuel and Energy was appointed head of the Board of Directors, and the Russian oil pipeline company, *Transneft*, became the prime candidate to carry out the construction of the new route. *Chevron*, which was asked to put up \$280 million in cash for the pipeline costs and to supply half of the crude oil for the pipeline in return for a 25% stake in contrast with only a \$120 million investment from Oman for the same stake refused to take part.¹¹ In January 1995, Kazakhstan, Russia and Oman concluded the deal to build the new pipeline without *Chevron*. With the outbreak of war in Chechnya, at this juncture, the three partners also began to look for alternative routes from Tengiz to Novorossiisk, that would avoid the Chechen capital Grozny, while still traversing the Caucasus.

Chevron's difficulties in Kazakhstan lent some urgency to the search for routes in Azerbaijan. A number of proposals were put forward by members of the international consortium for the transport of both the "early oil" and the long-term production, which would move beyond reliance on the existing Russian pipeline through Grozny. These involved the construction of alternative pipelines from Baku to the Georgian ports of Batumi and Poti, and branch lines through Georgia into Turkey that would terminate at the Turkish port of Ceyhan on the Mediterranean. The Iranian Government also proposed the construction of a shorter southern route that would avoid the Caucasus altogether and run across the border with Azerbaijan linking into the existing Iranian pipeline network terminating in the Gulf. This was in fact judged to be the most cost effective and geographically feasible route, but was vetoed by the US Government as part of its embargo on trade with Iran.

Another option for a pipeline route emerged in June 1995 as an alternative to using the Bosphorus Straits once the oil reached Novorossiisk from Central Asia or

the Caucasus. On the initiative of the Russian Government, a \$1 billion agreement was concluded with Bulgaria and Greece to build a pipeline from the Bulgarian port of Burgas to the Greek port of Alexandroupolis. The Russians and their partners created the *Trans-Balkan Company* owned by the Russian energy company *Gazprom* (formerly headed by Russian Prime Minister Viktor Chernomyrdin) and two Greek companies, the *Latsis* and *Kopelouzos Groups*. The Russian oil company, *Rosneft* was also directly requested to join the Company by Russia's Fuel and Energy Ministry.¹²

The Results of the First Two Rounds of the Game

These first two rounds of the Game are still underway. There has been no firm decision on the status of the Caspian Sea and its resources, and this issue is still in dispute. In the latest *moves*, in November 1995, representatives of the Russian and Iranian Foreign Ministries held consultations in Moscow on the jurisdiction of the Sea. At the conclusion of these meetings, the two states declared that only littoral countries would be allowed to determine the Caspian's status and that a summit of all the coastal states would be convened under the joint auspices of Moscow and Tehran to resolve the issue.¹³ In the wake of these meetings the Russian Government also issued diplomatic notes to the Azerbaijani Government, reaffirming Moscow's rejection of Baku's claim on its sector of the Caspian Sea as "an unlawful unilateral seizure" and again threatening measures against Azerbaijan.¹⁴

As far as the pipeline issue is concerned, on October 9, 1995, the international consortium controlling the exploitation and transportation of the oil from the Azeri oilfields announced its decision on the transport of the "early oil" from Baku, which will begin in late 1996 or early 1997. A compromise dual route was chosen: the first through the North Caucasus and Chechnya to the Russian Black Sea port of Novorossiisk, and the second through Georgia to the Georgian Black Sea port of Supsa near Poti. The option was also left open to construct an additional branch through Turkey to Ceyhan. The plan is to transport the "early oil" simultaneously through these two pipelines. The decision thus utilizes the existing Russian route and, at the same time, cuts into Russia's monopoly of the pipelines.

In Kazakhstan, *Chevron* and the Kazakhstan Government are trying to create a new pipeline consortium of western firms including *Mobil*, *Agip* and *British Gas*, with EBRO and IFC funding. In late October 1995, following the announcement of the routes from Azerbaijan, the Kazakhstan government announced that it had suspended Oman's operations in the original consortium as Oman had reneged on its commitment to provide financing for the pipeline. Kazakhstan is now concerned that Azerbaijan will have a head start on oil production and transportation and will corner the European oil market before the Tengiz field comes into full production. Both *Chevron* and Kazakhstan hope to engage Russia's *Lukoil* in the venture, offering a share of the production in return for assistance in breaking the impasse with the Russian government over routing rights for the new pipeline.¹⁵

The Interests, Strategies and Alignment of the Players after these First Two Rounds

How have the interests and the strategies of the major players manifested themselves in these first two rounds and what is the current alignment of players in the Game?

As has become apparent from the first two rounds, the Game for control of the Caspian oil is being played primarily by Russia against Turkey, the Western oil companies backed by the United States, Kazakhstan and Azerbaijan. Russia seeks to retain its dominant position in the region, while Russia's competitors are attempting to curb its political and economic monopoly to further their own political and economic interests.

Turkey is playing for high stakes in the Caspian-Black Sea-Mediterranean triangle economic prosperity, through the affirmation of its role as the cultural and political model for the Turkish world of the Caucasus and Central Asia. Recent developments in Turkey, including the exacerbation of the internal conflict with the Kurds, continued economic problems, and the rise of Islamic forces in the December 1995 elections, have all posed serious challenges to the current political system. Foreign policy success and Turkey's establishment as the major transit and refining center for Caspian oil seems to hold out the promise of internal stability.

Turkey's strategy toward the region has involved a mixture of diplomacy, investment, and technical assistance. Echoing the goals of its major Western allies, Turkey has also presented itself as promoting the independent development of the region and free interaction with the outside world. Until the Fall of 1994, Turkey had in fact become the proxy for the United States in Central Asia and the Caucasus.

Since 1991, there have been a host of top-level political visits to both Central Asia and the Caucasus focusing on the expansion of bilateral economic, cultural and consular relations, the most recent in July and August of 1995, by Turkish Prime Minister, Tansu Giller and Turkish Foreign Minister, Erdal Inonu. Two major visits in two months stress the priority of the region for Turkey.¹⁶

In terms of concrete activity and investment, the Turkish private sector alone has \$5 billion worth of investments in Central Asia and Azerbaijan, while the Turkish Government has provided credits of \$1 billion for expanded trade and the work of Turkish contractors. The Government has also financed satellite communications projects to broadcast Turkish TV to the region, and built small modern telephone exchanges. Turkish airlines now have direct flights to all the regional capitals and 10,000 scholarships have been made available for university study in Turkey, in addition to financial assistance to Turkish language institutes and religious schools in the region.

With regard to individual countries, those with oil and gas have received most attention. Turkey has made major credits available to Azerbaijan, including \$250 million for vital imports and joint Turkish-Azeri ventures. A special Turkish

commission has been set up to identify and assist Turkish investors in joint projects and a joint "*Azerturkbank*" created to handle the financing. Relief aid has been given to Nakhichevan, the Azeri enclave cut off by Armenia that borders Turkey, and Azeri interests in the Nagorno-Karabakh conflict have been promoted, including some technical training for the Azeri military. As a result of its efforts Turkey now has a 5% share in the Azerbaijan Caspian oil consortium.

In Kazakhstan, Turkey's overall investment is estimated to be in the range of \$2 billion mostly in the form construction projects. In August, during the visit of Prime Minister Ciller to Almaty, Turkey signed a protocol with Kazakhstan to build a pipeline to transport oil from Georgia to the port of Ceyhan on the Mediterranean, beginning in 1997. In Turkmenistan, Turkish investments are around \$1.5 billion, again mostly in construction, and negotiations are underway to transport Turkmenistan gas directly through Turkey to international markets.

Since 1991, Turkey has also drawn close to Ukraine, which has its own interests in expanding links with Turkey to receive oil for both domestic and export purposes from Iraq and the Middle East which is transported through Turkish pipelines to the Black Sea. The Ukrainian Government has begun the construction of a new oil refinery at Odessa which could become an alternative Black Sea refinery for Caspian oil.¹⁷

In all of this activity in the region, however, Turkey has to pay particular attention to its relations with Russia. Russia and Turkey have been major trading partners since the collapse of the USSR. Turkish firms dominate the construction industry in Russia, and even won the contract to restore the White House after its destruction during Yeltsin's confrontation with the Parliament in October 1993.

Having initially relied on Turkey to further Western interests in the region, the United States announced itself as an independent player when President Bill Clinton made a special trip to the Caucasus and Azerbaijan in September 1994, and when William White, the American Deputy Secretary of Energy, attended the signing ceremony for the Azerbaijan oil consortium deal in Baku on September 20, 1994. US interests here are very straight forward. Removing the stranglehold of the Middle East over the world's oil supplies through the exploitation of Caspian resources will have a positive effect on the global energy balance, and bring long-term commercial benefits for the United States if US oil companies are directly involved.

In a speech in March 1995 at a conference on the Caspian Sea in London, Glen Rase, the director of international energy policy at the US State Department spelled out the United States approach region: "each of the countries ... has the right to develop its own economic resources according to its own best interests," and while the US recognizes "legitimate security concerns ... [it does] not recognize spheres of influence," with regard to Russia.¹⁸ The United States does not want to see a Russian monopoly on the Caspian's and will resist it wherever possible. However, like Turkey, the United States must engage in a very delicate balancing act when exerting pressure on Russia or thwarting its designs. The US-Russian relationship

is an extremely important one in the post-Cold War environment, and Washington can not afford to alienate Moscow.

Among the other players, Iran has similar interests to Turkey in increasing its political, economic and cultural influence in the Caucasus and Central Asia, and has also adopted a strategy of state visits, and economic assistance. Iran has signed bilateral economic agreements with a number of the states, including a deal in April 1995 with Georgia to export and import 2 million tons of goods annually through the strategic ports of Batumi and Poti, which Iran now sees as a major transportation route to Europe.¹⁹ Iranian government funds have also been used to build mosques and religious schools in the region. Iran's main goal is to capitalize on its location on the Caspian Sea to become the hub of the region's energy supplies. The Institute for Political and International Studies in the Iranian capital, Tehran, for example, has launched a major study of the Caspian littoral states of the Caucasus and Central Asia and has drawn up ambitious plans for energy distribution systems linking the Arabian peninsula, the Caspian Basin, Central Asia, and Pakistan and Turkey, all utilizing existing Iranian pipelines and Iran's major ports with oil refining capacity. Iran, however, has the distinct disadvantage of its enmity with the US, which has so far thwarted its grander regional designs. In April 1995, for example, Iran was shut out of the Caspian Sea oil consortium by direct US pressure on Baku.²⁰

US animosity, and a shared interest in maintaining the existing legal regime in the Caspian has, however, brought Iran and Russia together in a nominal strategic alliance. In December 1995, the two countries signed a ten-year cooperation agreement in military, energy, and oil. After the signing the Russian Minister of Foreign Trade called Iran "a friendly state and a partner in a strategic cooperation with Russia."²¹

The Central Asian states at the heart of the Game, Kazakhstan and Turkmenistan, are forced by proximity and long-established political and economic ties to remain dependent on Russia; But, they are also anxious to become independent players and decrease their reliance on the Russian pipeline system for the transportation of their oil and gas. Their strategy has, therefore, been to forge as many new alliances as possible to keep their options open. This has even extended to a new arrangement with China and the Japanese giant, *Mitsubishi*, to construct an oil and gas pipeline from Central Asia across China to the Pacific at a cost of some \$12 billion.²²

Out of all Russia's competitors, Azerbaijan is perhaps playing for the highest stakes. It has been devastated by the war with Armenia, and suffered a precipitous economic decline and a chronic internal instability with the collapse of USSR. The revenues from its share of the oil production, and bonuses from Western investors, promise to boost economic reform and enrich the new state. Azerbaijan is also the only former Soviet republic (with the exception of the Baltic States) that has no Russian forces on its soil. It has so far resisted Russian pressure to establish

military bases, joint naval patrolling of the Azeri sector of the Caspian Sea, and joint control of the border with Iran and Turkey and strategic airspace. Alliances with the West and the political influence that the exploitation of its considerable oil resources would bring would greatly facilitate that resistance. Azerbaijan has thus done its utmost to forge ties with Turkey and the United States, and to offer generous terms to Western oil companies while attempting to maintain an equilibrium in its relations with Russia.

In sum, as a result of the first two rounds of the Game, we can see a nominal Turkish, US, Central Asian and Azerbaijani alliance on the basis of a shared interest in limiting Russia's political and economic influence in the Caspian-Black Sea-Mediterranean triangle.

How has Russia reacted to this set of challenges to its position and the emerging alliance against it?

In addition to being concerned about the attempts to oust it from its traditional sphere of influence, Russia is also worried that investment in the Caspian Sea oilfields will divert Western financial backing and interest from its oilfields in Siberia and the Far East and capture some of its market. The Siberian fields are more difficult to exploit than those in the Caspian by virtue of harsh climatic conditions and distance from population centers, these factors coupled with high tariffs and Russian export quotas have driven investors away and led to severe declines in production since 1991.²³ Russia, therefore, sees both the erosion of its geopolitical position and the loss of control over key economic resources and their potential revenues in the competition over Caspian Sea oil.

There is now a general consensus in Russian politics that the only way for Russia to prevent the further erosion of its geopolitical position and to safeguard its economy is to pursue the re-integration of the USSR in some form. This was very clearly spelled out in a September 1995 decree by President Boris Yeltsin on Russia's strategy toward the CIS.²⁴ Reintegration would rein the Caucasian and Central Asian states back in and reassert Russian control over oil and gas. Since 1993, Russia's links with the former Soviet republics, have become the top foreign policy priority, with the Caucasus, in particular, being described as Russia's primary security concern for the 21st century.

The main question for Russia is whether the other former Soviet states and the international players will let Russia rein them back in. So far, Moscow's efforts to strengthen the framework of the Commonwealth of Independent States have not met with significant success, and although Russian pressure has succeeded in limiting the activities of the other players in the region it has not entirely prevented their incursion. Even Moscow's political incentives, such as preferential tariffs for Azerbaijan if all Caspian oil from Baku is routed through Russia rather than Georgia, have not achieved total success as is demonstrated by the October 1995 agreement on oil pipeline routes from Azerbaijan.²⁵

Russia is now combining its carrot and stick approach toward Central Asia and

the Caucasus with the creation of new alliances to combat its major competitors, such as the emerging Slavic and Orthodox alliance with Greece and Bulgaria in the Balkans to bypass the Bosphorus Straits, and the alliance with Iran in the Caspian to challenge Kazakhstan's and Azerbaijan's claims. It can also take advantage of the Armenian and Greek lobbies in the United States that impose limits both on the US-Turkish partnership, and on US political and economic support for Azerbaijan. In general, however, Russia is in an increasingly difficult position as we approach the next rounds of the Game.

Future Rounds of the Game

In Azerbaijan, the next stages of the Game are first to secure the international financing necessary to upgrade the existing Russian pipeline and to construct the infrastructure for the Georgian pipeline, and, second, to decide on the route or routes for the long-term oil production once the early batches have been exploited. Turkish territory is the prime contender for the long-term route owing to concerns among major international investors over the possibility of accidents in the over-utilized Bosphorus Straits.²⁶

So far, there has been very little financing committed to pipeline construction, with the exception of the Tengiz project, and all of the existing pipelines are in disrepair. Recent reports suggest that the \$2 billion necessary to build a pipeline from the Caspian to the port of Ceyhan in Turkey has been raised by a consortium headed by the New York-based *Oil Capital*²⁷ part through an offer from China to invest \$1.5 billion through the *China National Petroleum Corporation*.²⁸ In October 1995, however, Russia invited investors to participate in the construction of the Balkan pipeline across Bulgaria and Greece, indicating that there were insufficient funds to begin construction of this route as planned in 1996.²⁹ All the financing will ultimately depend on guarantees of security for the pipeline routes, and a number of key factors effect the provision of these guarantees.

Factors Effecting the Outcome of Future Rounds

Internal developments in all the states will ultimately determine the outcome of the Game by limiting or increasing the individual player's room for external action. Turkey's internal political and religious divisions are now serious and threaten both its continued development and its ability to project itself abroad. In Russia, executive power is becoming increasingly fragmented and its Oil and Gas sectors are emerging as a formidable political force in the state with a different set of goals and strategies from the Foreign Ministry and other branches of government. This makes Russia an unpredictable member of the game with a number of sub-players that complicate its hand and often put it at odds with itself as well as its competitors.

Perhaps the greatest problem in the region is the chronic instability in the Caucasus, now the major route for both the early oil and the long-term production

from the Azerbaijani oilfields. The complexity of the ethnic mosaic in the Caucasus has led to considerable interaction between conflicts. Every state structure in the region, including Turkey and Iran, has significant diasporas of Caucasian peoples and a single conflict can not be easily contained politically or militarily. In the Chechen conflict, the North Caucasian Diaspora in Turkey is heavily involved in fund-raising and procuring weapons, and volunteers from Iran have come to the Caucasus to fight for the Chechens in a similar manner to the mercenary support for the Bosnian Muslims. The conflict in Nagorno-Karabakh has frequently elicited protests and threats of a military response from Turkey and Iran particularly after a massive Armenian offensive on Azeri territory in the summer of 1993 which sent waves of refugees across international borders.

A US state department official I interviewed in early 1995 for a recent report on the region, noted that, as a result of its multiplicity of conflicts, their inter-action, and their seeming lack of resolution, the Caucasus now has the potential to displace the Middle East as a center of political violence and exporter of terrorism. Obviously, no major investors will want to invest in pipelines that traverse a zone where Chechens, Abkhazians, Armenians or any of region's disaffected groups would have ample opportunity to launch terrorist attacks as many of them have threatened.

The war in Chechnya has also had a catastrophic effect on the region and its oil industry in the devastated capital of Grozny. Prior to the collapse of the USSR, Chechnya and Grozny was a major refining center for the Caucasus region and the nexus of pipelines from both the Tengiz field in Kazakhstan and from the Caspian fields in Azerbaijan. In the offensive on the region, Russian troops were ordered to avoid disrupting the industry, but disruption has been inevitable. It will now be required to restore the industry and oil refining and production capabilities. According to experts from *Rosneft*, one of Russia's major oil producers, as much as 743 billion rubles (approximately \$160 million) will now be needed to restore the industry and its oil refining and production capacities. The existing Russian pipeline route from Baku through Grozny does not, therefore, seem so promising.

Another major problem in the region raised by the secession of Chechnya is not simply terrorism but the siphoning off of high-grade oil or "pirating oil" from the trunk lines along the pipeline routes. Before the invasion of Chechnya in December 1994, Russian estimates suggested that as much as 22 million tons of oil were siphoned from the Baku-Grozny pipeline between 1991-1994.³⁰ The complicity of local governments in ensuring the security of the pipelines, and creating an incentive structure for impoverished local governments along the pipeline routes that will dissuade them from aiding "pipeline pirates" will have to be an essential element of any final deal on pipeline routes between the major players.

The Effect of the Game on Geopolitics in the Eastern Mediterranean

In conclusion, oil is reshaping the geopolitical map in the Caspian-Black

Sea-Mediterranean triangle. The Eastern Mediterranean is already the nexus of oil flows from the Middle East, and the exit point of existing major pipelines from Russia, Iraq and the Red Sea, as well as a major market for oil and crude products. Oil experts suggest that, in net terms, Caspian Sea oil production could eliminate the Mediterranean region's need for crude imports from more distant regions, and together with increases in production in Iraq and the Red Sea region, will enhance the status of the region as a major crude oil trading center.³¹ For the state that becomes the major refining center for the region, there will be significant economic and political benefits. Two states, Turkey and Greece, could conceivably contend for this role.

Turkey already has most of the strategic advantages in the Eastern Mediterranean section of the Game: proximity to the Caucasus and Central Asia, control of the Bosphorus Straits, a long Black Sea and Mediterranean coastline, an extensive existing pipeline network, a major refining center and port at Ceyhan and the political backing of the United States. With the construction of the Balkan pipeline, refineries in Alexandroupolis, and the political support of Russia, however, Greece can also lay claim to a share of the Caspian Oil. This issue now threatens to feed into the broader Greek-Turkish geopolitical competition in the Balkans, the Aegean and the Eastern Mediterranean, including Cyprus.

Notes

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2. See Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power*(New York: Simon & Schuster, 1991).
3. Cited in "Development of Caspian Region Oil. & Gas Resources Highlight Importance of Pipeline Routes," *Turkey Today*, January/February, 1995.
4. See Mark Lewis, "The implications of the Development of Caspian Sea Oil on the International Crude Oil Market," Presentation at *Conference Oil and Caviar in the Caspian*, School of Oriental and African Studies, London University, February 24, 1995.
5. See Presentation by Boris Shikhmuradov, Deputy Prime Minister and Foreign Minister of Turkmenistan, "Geopolitics of the Caspian Sea Region," *Nixon Center for Peace and Freedom Program Brief*, November 1995.
6. See Fiona Hill, *Russia's Tinderbox: Conflict in the North Caucasus and the Implications for the Future of the Russian Federation* (John F. Kennedy School of Government: Strengthening Democratic Institutions Project, October 1995).
7. See, for example, John Pomfret, "Political Shoals Imperil Role of Turkish Strait," *The Washington Post*, April 27, 1995.
8. See Steve LeVine, "Iran Backs Russia on Caspian Sea Claim," *Financial Times*, May 17, 1995_
9. See Fiona Hill and Pamela Jewett, *Back in the USSR: Russia's Intention in the Internal Affairs of the Former Soviet Republics and the Implications for United States Policy Toward Russia* (John F. Kennedy School of Government: Strengthening Democratic Institutions Project, January 1994).
10. See, "Azerbaijan," *Monitor*, November 9, 1995 (Jamestown Foundation).
11. See Michael Comerford, "Intrigue, Not Oil, Flows From Tenghiz," *Moscow Times*, December 3, 1995.
12. See Beth Heinsohn and Michael Gulyayev, "Experts: Pipeline No Lock on Profits," *Moscow Times*, July 2, 1995.
13. See "Moscow and Tehran Consort on Caspian Dispute," *Monitor*, November 29, 1995 (Jamestown Foundation).
14. See Vladimir Abarinov, "Russia Will Take Measures Against Unilateral Seizures on the Caspian," *Segodnya*, November 24, 1995.

15. See John Thornhill and Anthony Robinson, "Kazakhs Play high-Stakes Game on Oil," *Financial Times*, November 25-26, 1995.
16. See Vladimir Socor, "Turkey Asserts Role in Ex-Soviet Orbit," *Prism*, Part 2, August 4, 1995, and "A Higher Turkish Profile in Central Asia," *Prism*, Part 2, August 25, 1995; and "Turkey's Relations with the Turkic Republics of the former Soviet Union," *Oxford Analytica*, August 10, 1995.
17. See Sergei Tikhy, "Ukraine Gives OK to Oil Project," *Moscow News*, no.7, February 17-23, 1995.
18. See John Lloyd, "Battle Lines Drawn Over Caspian Oil and Gas," *Financial Times*, March 3, 1995.
19. See Akaky Mikadze, "Oil Is the Price of Peace," *Moscow News*, no. 16, April 28-May 4, 1995.
20. See "Azeris Cut Iran Out of Caspian Sea Oil Accord," *Moscow Times*, April 16, 1995.
21. See report by J. Michael Waller in *Russia Reform Monitor*, 86, January 8, 1995.
22. See, for example, David Nissman, "Ethnopolitics and Pipeline Security," *Prism*, October 6, 1995 (Jamestown Foundation).
23. See, Marya Fogel and Anne Reifenberg, "Russia May Face an Oil Rush in Reverse," *Wall Street Journal*, February 14, 1995.
24. Decree N. 940 of the President of the Russian Federation, September 14, 1995, "Strategicheskii Kyrs Rossii s Gosudarstvami-Uchastnikami Sodruzhestva Nezavisimyykh Gosudarstv," printed in *Dipkur'er*, N. 16 (ITAR-TASS, August 1995)
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26. See Daniel Southerland, "Companies Offer Azerbaijan Oil Compromise," *Washington Post*, October 10, 1995.
27. See "Azeri Pipeline Raises \$2 billion," *Monitor*, December 1, 1995 (Jamestown Foundation).
28. "China Said to Enter Pipeline Contest," *Monitor*, December 4, 1995 (Jamestown Foundation).
29. See "Balkan Pipeline for Caspian Oil," *Monitor*, October 20, 1995 (Jamestown Foundation).
30. See Elaine Holoboff, "Oil and the Burning of Grozny," *Jane's Intelligence Review*, volume 7, number 6.
31. See Mark Lewis, Managing Director of Energy Market Consultants Ltd., presentation on "The implications of the Development of Caspian Sea Oil on the International Crude Oil Market," at *Conference Oil and Caviar in the Caspian*, School of Oriental and African Studies, London University, February 24, 1995.