

US ENERGY DIPLOMACY IN THE CASPIAN SEA REGION

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HAPPYMON JACOB

**Centre For Studies in Diplomacy, International Law and Economics
School of International Studies
Jawaharlal Nehru University
New Delhi – 110067
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JAWAHARLAL NEHRU UNIVERSITY
SCHOOL OF INTERNATIONAL STUDIES

Centre for Studies in Diplomacy
International Law & Economics

Telegram : JAYENU
Telex : 031-73167 JNU IN
Telephones : 667676/ 418, 408
667557/
Fax : 91-11-686-5886

New Delhi-110067

CERTIFICATE

29 May, 2003

This is to certify that the dissertation titled “**US Energy Diplomacy in the Caspian Sea Region**”, submitted by **Happymon Jacob** in partial fulfillment of the requirements for the award of the degree of **Master of Philosophy**, is his own work and has not been previously submitted for degree of this or any other university.

We recommend that this dissertation be placed before the examiners for evaluation.

Prof. V. K. H. Jambholkar
(Supervisor)

PROFESSOR
CENTRE FOR STUDIES IN DIPLOMACY
INTERNATIONAL LAW AND ECONOMICS
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110067

Prof. Alokesh Barua
(Chairperson)

Chairperson
Centre for Studies in Diplomacy
International Law and Economics
School of International Studies
Jawaharlal Nehru University
New Delhi-110067

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Happymon Jacob

INTRODUCTION

For Centuries, the Caspian Sea region was the strategic crossroads for different empires of Europe, Asia, and Africa. Control of vital land and water routes, particularly for trade in spices, assured great power and wealth. As technological change diminished the importance of these routes, the control of the region's rich hydrocarbon resources has become the focus of international business and political and strategic games. During the Cold War, however, the area remained in the crossfire of different interests, as a fault line of East-West struggle for prominence. However, as most of the Caspian Sea region was under the Soviet control, there was hardly any scope for any strategic competition: the region was unilaterally managed by the Soviets.

The demise of the USSR in the late 1980s changed the regional dynamics again. A power vacuum was created, with lines of control not so clear. Notwithstanding lesser Russian hegemonic control, there has been no corresponding abatement of interest. With lot of energy resources underneath, the region has once again become a strategic frontier where energy interests are going to compete, conflict and clash. Those who sense a loss of control in the area, those who want to protect newly acquired interests and power, and those who want to gain a foothold and expand their interests in the area jostle for power and influence. The US falls in the last category where it wants to further deepen its interest and influence in the 'newly-found' region.

Any assessment of the growing American role in the Caspian basin would have to proceed from the uniqueness of the United States as the world's only

superpower. This attribute has shaped US foreign policy goals, which are textbook applications of the theories of Balance of Power, geo-political realism and neo-liberalism/globalization. In more specific terms, US interests in the Caspian basin include a strategic dimension, reinforced by economic considerations centering on energy resources, and trade and investment opportunities. In order to achieve these goals, broadly speaking, they seem to adopt two strategies, namely, containing and isolating Iran and cooperating with Russia.

The major US corporations showed interest in the vast Caspian hydrocarbon resources immediately after the collapse of the Soviet Union. In Azerbaijan, for instance, the negotiations on the 'Deal of the Century' started under former Azerbaijan President Aiaz Mutalibov, continued under Mutalibov's successor Elchibey, and were successfully completed under the present president Heydar Aliyev. Investments in the Caspian Sea countries are estimated to generate billions of dollars in oil service contracts. Having made itself the epitome of global capitalism, the US today is strongly committed to backing up the interests of its companies working in the Caspian Sea region. While the US wanted to appropriate the energy resources in the region, it also has a rather different strategic objective. It wants to create some sort of a 'neutral zone' bordering Russia, Iran, Afghanistan and China, which aims to give preeminence to none. Hence it is also necessary for the US to maintain peace and stability in the region, which is considered to be of vital importance for US short-term strategic interests.

The key hypothesis with which the study proceeds is that the US has been steadily increasing its influence in the Caspian Sea region in the post-Soviet era. Caspian Sea region has been tentatively defined as inclusive of the Sea portion and the littoral states, which include Kazakhstan, Azerbaijan, Iran and Russia. Influence is seen as mainly in terms of military and economic power. This would also include the capability of the US to make other countries to follow what it prescribes about the changes needed in their economic, political and legal systems.

Apart from the above-mentioned key hypothesis, the study also adopts a few assumptions as it proceeds. They are: 1) the influence Turkey has and the power projection it does in the Caspian Sea region is understood to have been supported by and an extension of the US strategy in the region. Though there are minor differences in the strategic partnership between the US and Turkey, they are considered to be posing no real irritants which are capable of radically rupturing the US-Turkey strategic partnership, 2) while this study makes no singular effort, as it would not be in its purview, to prove that the US power projection and strengthening of its influence in the region have been possible in the region also because of the Russian imperial, and thus imprudent attitude towards the Central Asian republics in general and the Caspian states particular, the study does proceed on such an assumption.

The first chapter aims to provide a descriptive sketch of the Caspian Sea region, its oil and gas reserves, the varying estimates about it, the legal aspects of the Caspian Sea and the stances of the different countries about the legal dispute

and brief descriptions of each of the littoral states highlighting their interests and strategies in the region. The first chapter also carries an estimate of the Caspian Sea energy resources (resources of the Sea and the littoral states) as estimated by the Energy Information Administration of the Department of Energy of the US. While there can be doubts about the reliability of the figures provided by the US administration as the study questions its truth-value elsewhere in an altogether different context, the truth-value of these figures is not a real concern for this study as this study is not about the amount of resources in the Caspian Sea region. The present study, rather, is about the strategies of the US to strengthen its influence in the region. It may be mentioned here that one of the conclusions of this study is that the chief reason why the US has always exaggerated the amount of resources in the Caspian Sea region has been due to its perceived need to attract the US companies to the region as the region was strategically important.

The second chapter deals with the interests of the US in the Caspian Sea region. In attempting to understand the US interests in the region, the study makes a distinction between the rhetoric and reality. The former is a set of reasons put forth by the US government in order to justify their thrust in to the region. The latter part, an analysis of the reality, attempts to see what are the real motives of the US government in the region.

The third chapter goes on to explain how the US has been trying to pursue its interests in the region. This chapter gives a detailed account of the diplomatic measures used by the US administration to pursue its interests in the region. The

diplomatic strategies are divided into 1) Economic diplomacy 2) Military diplomacy 3) Pipeline diplomacy, and 4) Diplomacy of conflict resolution.

Chapter 1

Introduction: Diplomatic Challenges of the Caspian Sea Region

The Caspian Sea is the world's largest inland body of water - spread over an area of 370,000 Square Kilometers.¹ Caspian Sea region bears great importance for the reasons that it is energy-rich and geographically strategic "Straddling Europe, the Nearest to Asia", as Rosemarie Forsythe says, "the Caspian region is one of the largest unexploited sources of oil in the world".² In a wider context, she argues, Caspian will affect the current and future outcome of international relations vis-à-vis the following areas:

- 1) The politics and economic future of Russia, and its behavior towards neighbors and former Soviet Republics.
- 2) The political and economic future of Turkey.
- 3) Iran's position in the region, and its relations with the west, with Russia, and with its own neighbors in the former USSR
- 4) The strategic consequences of greater dependence on Persian Gulf Oil.
- 5) Tensions between India and Pakistan;³
- 6) China's future policy towards its neighbors;⁴

¹ Cynthia M. Croissant and Michael P. Croissant, "The Legal Status of the Caspian Sea: Conflict and Compromise" in Michael P. Croissant and Bulent Aras (eds.), *Oil and Geopolitics in the Caspian Sea Region* (West Port, 1999), p. 21.

² Rosemarie, Forsythe, *The Politics of Oil in the Caucasus and Central Asia*, Adelphi Paper-300 (1155) (London, 1996), p.6.

³ There are experts who suggest that the future energy flow from the Central Asian region in general and the Caspian Sea region in particular to the South Asian region can better relations between India and Pakistan.

7) The Potential spread of Islam to the region⁵

Forsythe views the Caspian Sea region to be of great strategic significance with billions of dollars at stake; therefore “the struggle for control over the vast oil resources in the Caucasus and Central Asia is a tale of Politics of Intrigue, fierce commercial competition, geo-strategic rivalries, ethnic feuding and elusive independence”.⁶ One would say that it was natural for Forsythe to use such superlatives to magnify the importance of the Caspian Sea region in 1996 because that was the kind of euphoria doing rounds around the Caspian Sea region at that point of time.

Some experts, writing in 2000, are more careful not to indulge in such captivating talk about Caspian energy resources. He says that there is much more to the importance to the region than mere energy. For him geography also matters. “The Caspian Sea lies at the crossroads between Russia, Turkey, Iran and China. With the USSR’s collapse, the regions of Newly Independent States (NIS) find themselves dominated by none of these outside powers-but linked to them in diverse ways by geography, economics, politics and culture. The neighboring

⁴ Unlike other outside powers such as Russia and Iran who harbor political as well as economic objectives, China's main interest has been to tap into the region's energy resources and provide for an anticipated ballooning energy need in the domestic markets. China's CNPC (Chinese National Petroleum Company) signed a \$9.5 billion contract with Kazakhstan in 1997, involving investments in three oil fields and a possible pipeline from Kazakhstan to China. Western firms and experts have questioned the economic feasibility of what would be a 3000 km pipeline running from western Kazakhstan to China's Xinjiang province where it would be hooked up to an internal pipeline supplying eastern China. Its ties with the region have also been growing. China is gradually emerging as a key trading partner, particularly with Kazakhstan and Uzbekistan. There is also growing cross-border trade and new rail lines linking Xinjiang with Kazakhstan, Kyrgyzstan and Tajikistan. (Accessed in March 2003 at <http://www.treemedia.com/cfrlibrary/homepage/overview/q7.html>).

⁵ Ibid, p.7.

⁶ n.2, p.6.

countries perceive both opportunities and risks in the region, and each has come to see fundamental national interests at stake in the region. The geopolitical given that has emerged, as external states try to gain influence in the region while guarding against any possible threats from the region to their own security, has become inextricably linked with oil and gas development, and in particular with the issue of laying pipelines in the region.⁷

In fact, the recent estimates about Caspian resources have become more balanced as many realistic estimates regarding the resources in the Caspian are taken up by many scholarly studies. It is interesting to note that it is the politically interested parties rather than oil companies or local experts have created much of the euphoria about the Caspian Sea region's resources.

It is not in the purview of this study to look at the history of the development of the Caspian Sea region vis-à-vis oil and gas. In brief, however, it may be said that it is not the first time that a lot of euphoria has been generated about the Caspian Sea region's energy resources; the first wave of oil fever broke out on the Caspian shores in the 1870s, the second in the days of Khrushchev, and the third wave started with the disintegration of the USSR.⁸

In the following pages of this chapter an attempt is made to understand the politics and the diplomacy of the Caspian Sea region by analyzing the political interests and roles of different powers in the region like the Russian Federation

⁷ Laurent Ruseckas, "Caspian Oil Development: An Overview", in *Caspian Energy Resources: Implications for the Arab Gulf*, (UAE, 2000), p. 14.

⁸ Charles Van Der Leenu, *Oil and Gas in the Caucasus and Caspian: A History* (London, 2000) p. 125. The book offers a detailed history of the development of energy resources in the Caspian Sea region.

and Iran; the legal aspects of the Caspian Sea, resources and pipelines routes. It is assumed that an analysis of the above variables would set the stage and enable this study to answer its key question, i.e. what are the interests of the US in the Caspian Sea region and what are the tools by which the US is achieving them?

THE CASPIAN SEA ENERGY RESOURCES

Caspian Sea region includes Azerbaijan, Kazakhstan Turkmenistan and the regions close to the Caspian Sea of Russia and Iran. While most other oil producing regions are heavily explored, the Caspian Sea region is yet to be fully explored. According to some estimates the Caspian Sea ranks third in the world in terms of undiscovered hydrocarbon resources and second in terms of undiscovered oil.⁹ But such optimism does not exist today, as the latest estimates indicate a decline in the possible resources of the region. Certain estimates in 1998 indicate that the Caspian area ranks third in the world (after Persian Gulf and Siberia) for the volume already discovered and potential hydrocarbon resources.¹⁰

Another study in 2002 estimates that there 40 to 60 billion barrels of oil reserve base in the Caspian Sea. The study says that this is the understanding of most of the geologists familiar with the region.¹¹

⁹ Publications of the Casey Institute of the Centre for Security Policy, No. 96-C 94,1 October 1996. www.casey.org.

¹⁰ Valentine of Yakushik, "Basic Characteristics of the Caspian Sea region". In Manabu Shimizu (ed.), *The Caspian Sea Oil and its impact on Eurasian Power Games*, IDE sport Survey, Institute of Developing Economies (Tokyo, 1998) p. 12.

¹¹ Laurent Rusekas, n.5, p. 16.

Yet another expert gives a different picture of Caspian oil reserves. “Instead of the politically bloated appraisal of 200 billion barrels in ostensible reserves compared with Saudi Arabia’s 250 billions valued at US \$4 trillions, exuberantly cultivated for years by the State Department to allure US investors to the region and justify its own strategy there, we are talking today about only 20-30 billion barrels of proven resources, most of which are confirmed under the Kazakh section of the Sea”.¹²

The estimate further says that the current resources of the Caspian Sea represent 2 to 5% of world resources. Since much of the northern Caspian remains to be explored, it is more likely that estimates of the reserve base will increase rather than decrease. And yet, the argument goes on, Caspian Sea is nowhere in comparison with the Middle East, which holds over 650 billion barrels or some 65% of the world’s proven resources.¹³

However, the US official sources reported as recently as in July 2002 that the Proven Oil Reserves of the Caspian Sea region is 10 billion barrels, and the possible oil reserves are 243 billion barrels. It also mentions that there are 170.4 trillion cubic feet of proven natural gas resources and 293 tcf of possible natural gas reserves.¹⁴

¹² Alec Rasizade, “The Mythology of Munificent Caspian Bonanza and Its Concomitant Pipeline Geopolitics”, *Central Asian Survey*, Volume-21, No.11, 2002, p. 31.

¹³ Rasizade, n. 12, p. 39-40.

¹⁴ *Department of Energy*, USA, “Caspian Sea Region” (July 2002). Accessed November 2002 at www.eia.gov/cabs/caspian.html.

PIPELINES IN THE CASPIAN SEA REGION

It would not be an outright exaggeration to say that Caspian Sea region is more known to the outside world due its pipeline politics and less due to its oil and gas. The differences between MNCs coming from the same countries blur even in spite of their highly competitive negotiations for acquiring stakes in the pipeline construction and drilling of the Caspian Sea region. MNCs often act as the agents of the policies of the state and sometimes, interestingly, vice versa.

A multiplicity of factors goes into deciding pipeline routes. Some of them are:

1. The geopolitical location of the main consumers and the earliest natural transportation routes;
2. Existing physical infrastructures;
3. Geopolitical considerations of the major world powers;
4. Local Security problems
5. Availability of local legislation favorable to business, good system of Tariffs and taxation, and effective government etc.¹⁵

Hooshang Amirahmadi, one of the most acclaimed Caspian experts speaks about five pipeline options; Northern Southern, Western, Eastern, and Southeastern routes.¹⁶

¹⁵ Yakushik, Valentine, "Roots of pipelines and Emerging Regional Relations in the Caspian Sea Region", no.8 p. 23.

¹⁶ Hooshang Amirahmadi, lecture at the conference on "Energy for Europe: Perspectives and Problems of Crude Oil Exports from the Caspian Sea to Europe", Technische Universität Braunschweig, Germany, October, 19, 1999. Accessed in August on www.iranian.com/opinion/Nov98/caspian/index.html. In a later book by the same author *The Caspian Region at a Crossroad: Challenges of New Frontier of Energy and*

NORTHERN ROUTES

Supported by Russia, both Kazakhstan and Azerbaijan could join existing Russian pipelines that would take their oil to Novorossik on the Black Sea.¹⁷ The Balack – Novorossik Pipeline was completed in April 2000. The Caspian pipeline (CPC) from Kazakhstan through Novrossisk is yet to be completed.¹⁸

For its part, Russia itself has proposed multiple pipeline routes that utilize Russian export pipelines that transport oil to new export outlets being developed on the Baltic and Mediterranean Seas. Russia has completed its Baltic Sea port at Primorsk, and the country is working with Croatia to connect the Adria pipeline with the southern Druzhba pipeline. Reversing the flows in the Adria pipeline and tying it to the southern Druzhba route would allow oil exports from the Caspian to run via Russia's pipeline system, across Ukraine and Hungary, and then terminate at the Croatian deep-sea Adriatic port of Omisaj. In addition, Russia already has the most extensive natural gas network in the region, and the system's capacity could be increased to allow for additional Caspian Sea region gas exports via Russia. However, there are political and security questions as to whether the newly independent states of the former Soviet Union should rely on Russia (or any other country) as their sole export outlet, and Caspian Sea region producers have expressed their desire to diversify their export options. In addition, most of

Development (London, 2000) pp.165-67, the author speaks about all the other options except the Northern option.

¹⁷ Amirahmadi, n.16.

¹⁸ n.14.

the existing Russian oil export pipelines terminate at the Russian Black Sea port of Novorossiisk, requiring tankers to transit the Black Sea and pass through the Bosphorus Straits in order to gain access to the Mediterranean and world markets. Turkey has raised concerns about the ability of the Bosphorus Straits, already a major chokepoint for oil tankers, to handle additional tanker traffic. Already, Turkey has stated its environmental concerns about a possible collision (and ensuing oil spill) in the Straits as a result of increased tanker traffic from the launch of the Caspian Pipeline Consortium's (CPC) Tengiz-Novorossiisk pipeline in March 2001.¹⁹

WESTERN ROUTES

Advocated by the U.S. Turkey, Azerbaijan and Georgia, these routes would bypass both Russia and Iran.²⁰ The TRACECA Program (Transport System Europe-Caucasus-Asia, informally known as the Great Silk Road) was launched at a European Union (EU) conference in 1993. The EU conference brought together trade and transport ministers from the Central Asian and Caucasian republics to initiate a transport corridor and a West-East axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. The culmination of this has been the Baku-Ceyhan pipeline.²¹ The chief pipeline in this category is the Baku-Tiblisi-Ceyhan pipeline construction for which work has already begun.

¹⁹ Accessed in March 2003 at <http://www.newhumanist.com/oil.html>.

²⁰ n. 16.

²¹ n.19.

SOUTHERN ROUTES

Favored by Iran and Oil companies the southern routes make economic and commercial sense. They are cheaper to build, pass relatively safer territories, and pose no serious environment hazard. Significant pipeline and post-Soviet infrastructure also exist.²² Oil could be exported through Iran via two ways: 1) by pipelines that pass through Iran on their way to the Persian Gulf; and 2) by oil Swaps; under this arrangement Caspian oil would be shipped to Iran's Caspian Sea ports, and transported via pipeline, rail, and tanker trucks to refineries located in Northern Iran. Then there is a corresponding reduction in the amount of oil shipped to the refineries by Iran from its southern oil fields via the north-south pipeline, with the oil exported instead from Iran's Persian Gulf ports on the oil producers' behalf. The US, however, has opposed large-scale swap agreements with Iran by American Companies. US Presidential executive order signed by Bill Clinton in 1995 prohibits US companies from conducting business with Iran. Furthermore, the US Iran and Libya Sanctions Act of 1996 imposes sanctions on non-US Companies that make large investments in the Iranian oil and gas sectors.²³

EASTERN ROUTES

China is increasingly energy-hungry and needs to seek new markets. The Chinese signed a contract with Kazakhstan in September 1997 to build a 2000

²² n.16

²³ *Department of Energy, USA, "Caspian Sea oil and Natural Gas Export Routes", June 2000. Accessed on 25-11-02 at www.eia.doe.gov/emeu/cabs/casproute.html.*

mile long and extremely expensive pipeline from the fields in Kazakhstan, that China²⁴ has proposed to purchase. However, the deal is commercially unattractive. According to the US energy information administration, Tengizchevril has made test delivery to China by rail, and Kazakhstan exported 50,000 barrels per day (bbl/d) of crude oil to China via rail in 1999. The feasibility study for an oil pipeline from Kazakhstan and Turkmenistan to China was halted in September 1999 because Kazakhstan would not be able to commit the minimum flows needed (400,000 bbl/d) for the pipeline to be viable for the next 10 years. There are also difficulties because of the distances and terrain. On the other hand, Exxon, Mitsubishi, and China National petroleum also submitted a preliminary feasibility study for the construction of the world's longest gas pipeline from Turkmenistan to China, and perhaps later to Japan²⁵.

SOUTHERN EASTERN ROUTE

Favored by Pakistan and Afghanistan, UNOCAL, an American Oil Company, along with Saudi Arabia's Delta oil, has been promoting a pipeline to transport oil and gas from Turkmenistan and possibly from Kazakhstan through Afghanistan to Pakistan and eventually India.²⁶ In October 1997, a Tripartite Commission comprising Afghanistan, Turkmenistan and Pakistan was formed to start work on building this pipeline. But the war in Afghanistan has put an end to it. In July 1997, Turkmenistan signed a Memorandum of Understanding with Afghanistan,

²⁴ Amirahmadi, n.16.

²⁵ n.23

²⁶ Amirahmadi, n. 16.

Pakistan and Uzbekistan to build a Central Asia Gas (Centgas) pipeline to carry 0.7 tcf per year of natural gas to Pakistan via Afghanistan. However, the pulling out of consortium members from the project (Gazprom in June 1998 and Unocal in December 1998) left the project in uncertainty. In April 1999, Pakistan, Turkmenistan and Afghanistan agreed to reactivate the Centgas project, and to ask the Centgas consortium now led by Saudi Arabia's Delta Oil, to proceed.²⁷ As recent as in 2003, the oil and gas ministers of Turkmenistan, Pakistan and Afghanistan met in Manila to discuss an Asian Development Bank-sponsored Trans-Afghan gas pipeline from Turkmenistan to Pakistan and possibly to India. But India has not officially responded to the plan. India is likely to say no to the project, which may put the project in jeopardy.

The Caspian pipelines face a series of regional level risks arising out of different conflicts in the region. The Kurds in Turkey dominate the eastern mountains of the country and are a major source of worry for Turkey. The Abkhazia Separatist movement has destabilized the government in Georgia and continues to remain a source of threat to pipelines passing by. Chechnya and Dagestan are also areas that can cause damage to the prospects of a Russian pipeline. The conflict between Armenia and Azerbaijan over Nagorno Karabakh is still on and could lead to renewed fighting in the region. As of now, Armenians occupy some 25% of Azerbaijani territory and this makes pipelines from Baku less safe.²⁸

²⁷ n.23.

²⁸ Amirahmadi, n. 16.

LEGAL DISPUTE ON THE OWNERSHIP OF THE CASPIAN SEA

Is the Caspian Sea a sea or a lake? That seems to be the crux of the legal dispute, which has been going on for more than a decade now. If it is a sea as Russia maintains, then only a small part along its coastline will be given to each country; if it is lake, then all parts of the Caspian Sea will be divided among the littoral states.

In the Soviet period, a Soviet – Iranian treaty of 1940 gave each party “an exclusive right of fishing in its coastal waters up to a limit of 10 nautical miles” and stated that the “parties hold the Caspian to belong to Iran and to the USSR”. No third state had any rights in the sea, including the right of navigation.²⁹ In the Post Soviet Period Kazakhstan and Azerbaijan, and later Turkmenistan, began to negotiate agreements with MNCs to develop independently their offshore hydrocarbon reserves without waiting for a regional solution. Kazakhstan’s agreement with chevron on the Tengiz field was concluded by the time the USSR came to an end. Azerbaijan has also gone ahead with an international consortium to develop its resources.³⁰ Such unilateral actions were result of having no agreement about a legal framework governing the use and development of the sea’s oil and natural gas reserves.³¹

From a purely legal perspective, the key issues are: (1) Whether in the absence of a new legal convention, treaties signed between the former USSR and Iran are still in force and thereby govern current development rights. The USSR

²⁹ Paul R. Gregory, “Developing Caspian Energy Rescues: The legal Environment”, n.7, p. 30.

³⁰ Gregory, n. 7, p 34-35.

³¹ *Department of Energy*, USA, July 2002. Accessed in September 2002, n.16.

and Iran signed bilateral treaties on the Caspian Sea in 1921 (2) The Need to develop a legal framework to resolve environmental and biological issues. Several countries have opposed the laying of proposed trans-Caspian oil or gas pipelines on environmental grounds (3) Whether the Caspian is to be treated as a body of water covered by the law of the Sea convention.

If the Caspian Sea is considered as a sea, the provisions of the United Nations Convention on the Law of the Sea of 1982 (UNCLOS) will be applicable. According to the relevant UNCLOS provisions, each littoral state would have a territorial sea with the breadth not exceeding twelve miles, an exclusive economic zone not exceeding 200 miles and a continental shelf. Bearing in mind, however, that the maximum width of the Caspian Sea does not exceed 200 miles, Article 15 of UNCLOS mandates that the territorial sea of States with opposite or adjacent coasts must not extend "beyond the median line every point of which is equidistant from the nearest points on the baselines from which the breadth of the territorial seas of each of the [two] States is measured."³²

If the sea is classified as a lake, in the absence of an international convention on the subject, international customs as evidence of a general practice accepted as law will be the primary source for establishing the Caspian Sea's legal regime. The practice of delimiting lakes between/among littoral states overwhelmingly shows that lakes are divided so that each costal state has an

³² Farid Rauf oglu Shafiyev, *The Legal Regime of the Caspian Sea: Views of the Littoral States*. Accessed in March 2003 at http://www.jamestown.org/pubs/view/pri_007_006_001.htm.

exclusive sovereignty over the biological and natural resources, water surface and shipping in the national sectors, which are formed by outlining a median line and the external border of the respective sectors. For example, these principles were generally applied in the division of the Great Lakes between the United States and Canada, Lake Chad among Cameroon, Chad, Niger and Nigeria, Lake Malawi among Malawi, Mozambique and Tanzania, and Lake Geneva between Switzerland and France.³³

If the law of the sea convention were applied to the Caspian Sea, full maritime boundaries of the five littoral states bordering the Caspian would be established based upon an equidistant division of the sea and undersea resources into national sectors. However, if the law of the sea were not applied, a division referred to as condominium approach would develop the Caspian and its resources jointly.³⁴ Russia would like to have the condominium approach.

Some legal experts believe that Russia would not be able to prove in an international court of law a condominium approach for the Caspian rather than a Sectoral division as is common for such bodies of water.³⁵

On several occasions, all the littoral states except Russia agreed to a plan, put forth by Kazakhstan, to divide Caspian into individual sectors bounded by equidistant lines from the shares of the bordering states. In November 1993,

³³ Ibid.

³⁴ Ibid.

³⁵ Forsythe, n.2, p.30.

however Russian fuel and Energy Minister Yuri Shafranik signed an agreement with Azerbaijan that recognized an Azerbaijani Sector in the Caspian Sea.³⁶

The following chart³⁷ shows why countries like Kazakhstan and Azerbaijan want to have sectoral division of the Sea, and not Russia.

Trillion Cubic metros	Oil and Gas Reserves	
	Oil Billion tons Billion barrels)	Gas
Russia	1.0 (7.3)	1.0
Kazakhstan	3.0 (21.9)	1.5
Turkmenistan	0.1 (3.7)	1.0
Azerbaijan	2.5 (18.3)	1.5

The above figure shows that Russia does not have much petroleum resources at stake in the Caspian Sea region. Sectoral division of the Caspian Sea, thus, leaves Russia with not much of the black gold, so is its insistence on joint development called the condominium approach. A Working Group of representatives from each country was created to draw up a joint declaration on the new legal status of the Caspian Sea, but the Group failed to make progress on settling differences. After the Working Group's second meeting in December 1998, subsequent meetings were cancelled. Although the Working Group helped states to bring their position closer to a final agreement it is still far from any actual solution. There is now a general agreement between Russia, Azerbaijan, and Kazakhstan on both the "Principle and the method" of dividing rights of the

³⁶ Ibid. p. 29.

³⁷ Gregory, no.7, p. 34.

seabed and the wealth beneath it, but Turkmenistan only agrees on the principle of dividing the sea, and Iran disagrees with both the principle and method of dividing the sea and its resources. In fact, Iran's continued insistence on equal division of the sea resources is now the biggest obstacle to a formal agreement.³⁸

In the latter part of the 1990s, Russian position began to change in favor of Partition. At the end of 1996, Russia proposed that the coastal zone be divided should underground resources be jointly developed.³⁹

Disputes over the ownership of certain offshore oilfields between Iran, Azerbaijan and between Azerbaijan and Turkmenistan reached an unprecedented hostile stage in 2001. Iran and Turkmenistan then accused Azerbaijan of illegal development and operation of disputed oil fields to which all the three states have ownership claims. They also accused Azerbaijan of efforts to develop other disputed oilfields with the assistance of foreign oil companies. Furthermore, they accused Azerbaijan of violating their territorial waters with its military and non-military vessels, while Azerbaijan accusing them of doing the same.⁴⁰

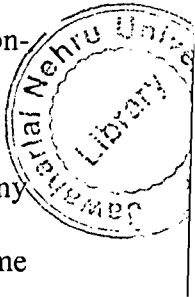
As a matter of fact International Law does not bind the Caspian to any particular solution - the bordering states are free to select their own legal regime variant. The reality, says Paul Gregory, is that most lakes and semi-enclosed seas bordered by more than one state have been partitioned. Overwhelming state practice supports partitioning of Seabed hydrocarbon and universal deposits.⁴¹

³⁸ n.31

³⁹ Paul R. Gregory, n.7, p. 36.

⁴⁰ Hooman Peimano, "Caspian Sea-Divide No Closer to Closure", accessed in August at www.aitimes.com.

⁴¹ Gregory n.7, pp 29-30.



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In sum, as Scott Horton and Natic Mamedov Suggest, it would seem that International Law does not provide a clear solution, nor do international authorities line up solidly behind any side of the controversy.⁴²

IRAN AND THE ENERGY POLITICS IN THE CASPIAN SEA REGION

Like other traditional regional players, Iran, too, has complex historical ties with the Caucasus and central Asia. Tehran has not been slow to take advantage of opportunities in the region offered by the disintegration of the USSR. Specific Iranian goals in the region include political influence, profitable economic and commercial relations, the spread of religious ideology, procurement of former soviet weaponry, and the acquisition of nuclear expertise and materials.⁴³

Iran is considered by some to be the most attractive export route for both Caspian oil and gas. It already has well-developed oil and gas transportation infrastructure, including portions of pipelines that could be used on various routes. Most companies argue that an export pipeline to the Persian Gulf could be significantly cheaper than the proposed east-west corridor. The National Petroleum Corporation of China, Total of France, and even several US firms have studied the feasibility of building a main pipeline from the Caspian to the Persian

⁴² Scott Horton and Natic Mamedov, "Legal Status of the Caspian Sea", in the Hooshang Amirahmadi (ed.); *The Caspian Region of a Crossroad; Challenges of a New Frontier of Energy and Development* (London 2000), p. 265.

⁴³ Forsythe, n.2, p. 23.

Gulf. In spite of the US sanctions on Iran, a number of companies are already involved in limited oil exchanges with Iran.⁴⁴

Small amounts of Kazakhstan oil are already entering the Iranian pipeline system in the north of the country while an equivalent opportunity is sold from the Iranian oil terminal at Kharg Island in the Persian Gulf. Turkmenistan is actively exploring its gas exporting options via Iran. In 1996, energy-starved Turkey negotiated a \$ 20 billion gas pipeline project to bring Iranian and Turkmen gas to its fast growing economy, and further to the European market.⁴⁵

According to Narsi Ghorban the factors responsible for making Iran a central actor in Caspian oil exports may be summarized as follows:

- (1) There is Iran's geographical Position between the Caucasus, the Caspian sea, central Asia, the Persian Gulf, the Gulf of Oman, Turkey Iraq, Afghanistan and Pakistan.
- (2) The northern part of Iran has a total oil refining capacity of some 650,000 barrels per day, which could be adapted with relatively low cost for oil swap arrangements with Azerbaijan, Kazakhstan and Turkmenistan.
- (3) Iran has a number of crude and product pipelines within 50 to 150 kilometers of its parts on the Caspian Sea, with a combined capacity of one million barrels per day that could be used for transportation of oil to its territories.

⁴⁴ Alec Razisade, no.12, pp. 43-44.

⁴⁵ US Policy in the Caucasus and Central Asia: Building a new "Silk Road" to Economic prosperity", Published by The Heritage Foundation, July 24. Accessed in November 2002 at www.cfrliterary.library/policy/cohen.html.

(4) Iran has extensive export facilities in the Persian Gulf, capable of exporting over 2.5 million barrels per day above its present export levels.⁴⁶

In February 1996, Iran commenced its very first exploration project in the Caspian in the oil platform "Iran Khazar" developed for the purpose. It has the capability of drilling up to 6000 meters deep. Iran is well positioned not only to exploit the Caspian's oil and gas resources; it also can assist the other littoral countries in their efforts by offering technological services.⁴⁷

RUSSIA AND THE POLITICS IN THE CASPIAN SEA REGION

Whether or not one likes it the politics in the Caspian Sea region revolves around Russia. The fundamental dilemma that the countries in the region face is whether to let Russia have its natural influence or not. If Russia is allowed to be what it is capable of, it can go on to become an unstoppable hegemon in the region, which, of course, the newly independent and militarily fragile countries of the region are scared of.

In the course of the Great Game, Russia gained control of both the Caucasus and Central Asia. This control was maintained and reinforced during the Soviet period. The breakup of the union, however, left Russia with a set of new and theoretically independent states in its backyard, forming a cordon around it, and China, Turkey and the broader Islamic world. According to Rosemarie Forsythe, two basically contradictory schools of thought characterize Russia's

⁴⁶ Narsi Ghorban, "By way of Iran; Caspian's oil and gas outlet", n. 42, p. 149.

⁴⁷ Bijaan khejehpour-knonei, "Survey of Iran's Economic interests in the Caspian" n. 42, p. 78.

current policy towards oil in the region. Yevgeny Primakov, the former Russian Prime Minister, and other officials who interpret Russian policy within the traditional balance of power framework have exposed the first. They argue that Russia should maintain its “sphere of influence” in the region. This group views oil as a central instrument in maintaining that influence. The Russian press and those substantiating to this view warn against new western joint ventures in the non-Russian parts of the former USSR. They see substantial involvement of Turkey, the US and UK. Victor Chernomyodin and other oil-industry officials have supported the second school. They welcome western participation in the development of Caspian Oil, as a means of ensuring access to capital and advanced technology.⁴⁸

Observing Russian Policies in the Caspian Sea region in particular and Central Asia in general, one would conclude that Russian policies in the region have certain basic characteristics. Russia demands of its neighbors that their oil and gas should be exported through Russian pipelines or if they are using other pipelines ensure that Russia has a stake in them. It expects to gain a place in the multinational energy consortiums of the region. Russia has also been claiming that Central Asian and Caspian States owe debts to Russia and demands paybacks in the form of shares in various oil ventures.

⁴⁸ n. 2, pp. 14-16.

Such tactics by Russia continues to be there because of the Russian fear of losing Control over the oil tap of its former subordinate states and thereby losing control over the political developments in the region.⁴⁹

Such genuine fears of losing grips with the region makes Russia demand the right to base troops and station border guards throughout the region. Moscow also expects the Caspian states to participate in a Russia-dominated commonwealth of Independent States (CIS). All this is not without a natural Russian preeminence in the region. For example, soviet central planning meant that roads, rails, electricity and pipelines ran from Russia to the outlying republics, almost all of which is still in place. This makes other republics depend on Russia even to this day. It is also alleged that Russia keeps Abkhazia's ethnic conflict burning, closed off Kazakhstan's pipeline, attempted to topple Azeri President Heidar Aliyev, and provided economic and military support for secessionist Karabakh Armenians. There are obvious signs, to show that the Central Asian and Caspian countries are trying all means at their disposal to deter Russia from becoming the regional hegemon. Their involvement with the NATO, inviting Companies to the region are clear signs of such a thinking gaining ground in the region.

Despite the rhetoric of former Russian Foreign Minister Primakov about Russia's "Multi-vectored and multi-faceted policy", it's great power status, and the "objective processes of integration" still remains in place. The southern Newly

⁴⁹ n. 8, p. 155.

Independent States are increasingly looking toward the west (and east and South) to break the tarp of post-imperial Russian dependency.⁵⁰

In fact, many experts including Alec Rasizade suggests that Russian president Vladimir Putin is pushing ahead with an aggressive policy designed to recover Moscow's regional hegemony. Soon after his election, Russia's National Security Council declared the Caspian Sea region to be one of Russia's key foreign policy interests. Former energy minister V I Kuluzhung was appointed to a newly designed deputy foreign minister's post, serving as special co-ordination for Russia's Caspian policy. The creation of the post underlined a significant shift from Moscow's ad hoc and disorganized approach during the Yeltsin era to a more efficient policy in the region.⁵¹

The appendices given at the end of the study may be referred to for information on the following:

- 1) Caspian Sea Region Oil and Natural Gas Reserves
- 2) Caspian Sea Region Oil Production and Exports
- 3) Caspian Sea Region Natural Gas Production and Exports
- 4) Natural Gas Export Routes and Options in the Caspian Sea Region
- 5) Oil Export Routes and Options in the Caspian Sea Region

⁵⁰ US Policy in the Caucasus and Central Asia: Building a New "Silk Road" to Economic Prosperity", the Heritage Foundation , July 24, 1997, Accessed in September 2002 at [www.heritage.org.library/catagories/forpu1/bg1132.html](http://www.heritage.org/library/catagories/forpu1/bg1132.html).

⁵¹ Rasizade, no. 12, p. 48.

Chapter 2

INTERESTS AND DIPLOMACY OF THE UNITED STATES IN THE CASPIAN SEA REGION

A preliminary reading of the US policy would suggest that there is a sharp difference between what the US expresses in its policy statements and the way it goes about conducting its business in the region. One would call it a difference between the rhetoric and the reality. The rhetorical part of the US policy can be deducted from the various policy statements and testimonies of the officials of the US administration; the reality part of US policy has been deducted from the actual practice of the US foreign policy in the region.

The rhetoric:

According to Ambassador Richard Morningstar the US goals in the region are to:

- 1) Strengthen the independence and prosperity of the new states in the Caspian and encourage political and economic reform;
- 2) Mitigate regional conflicts by building economic linkages between the new states of the region;
- 3) Enhance commercial opportunities for the US and other companies; and

- 4) Bolster the energy security of the US and their allies and the energy independence of the Caspian Sea region by ensuring the free flow of oil and gas to the world market place.⁵²

In its October 1997 report on the Hydrocarbon Energy resources of the Caspian Sea, the US department of energy summarized the problems involved in the development of these resources under the following five headings, which can broadly be considered as the areas of engagement by the US.

- 1) Legal issues concerning the territorial rights and the rights to develop natural resources in the Caspian sea;
- 2) Regional stability;
- 3) How to develop export routes through several countries;
- 4) Problems involved in exporting oil and gas via routes that pass through the straits of Bosphorus;
- 5) Problems related to sanctions against Iran and the development of the Iranian route.⁵³

Some consider the following to be the US objectives in the region in the immediate post-soviet years:

- 1) Consolidate the independence and the sovereignty of the republics of the Caucasus and Central Asia;

⁵² Ambassador Richard Morningstar, Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy Address to CERA Conference, Foreign Affairs Network, U.S. Department of State. 7 December 1998. Accessed in November 2002 at <http://ksgnotes1.harvard.edu/BCSIA/SDI.nsf/web/SbookCh1>.

⁵³ The Caspian Sea Oil and its impact on Eurasian Power Games, IDE Spot survey, Manabu Shimizu (ed.), Institute of Development Economics, Tokyo, June 1998.

- 2) Strengthen (regional) stability by working towards conflict resolution;
- 3) Promote democracy;
- 4) Encourage the transition to a market economy and free trade;
- 5) Achieve the de-nuclearisation of Kazakhstan;
- 6) See that the adoption and application and Human Rights principles take place;
- 7) Prevent the spread of radical Islamist tendencies, especially from Iran.⁵⁴

Yet another expert says that the US has three main policy goals in the Caspian Sea region. The first is support for the sovereignty and independence of the countries of the region. Secondly, the US supports its own commercial involvement in the region's oil production and its export, because its domestic companies' involvement, the US thinks, can help further economic reform and facilitate the region's entry into the world economic market. Such commercial involvement could also enhance the US presence in the Caucasus and Central Asia, and in developing a highly valuable resource to which private companies bring capital, management and technology. The involvement of the US companies in the thriving and rewarding oil deals of the region will bring economic profit to the US. Thirdly, US policy supports the diversification of world oil supplies to ease future dependence on the Persian Gulf Oil.⁵⁵

⁵⁴ Jim Nichol, *Central Asia's New States: Political Developments and Implications for US Interests* (Bethesda, MD: Library of Congress/Congressional Research Service, 1997) cited in *Troubled Waters: The Geopolitics of the Caspian Region*, R. Hrair Dekmejian and Hovann H. Simonian (New York, 2001), p. 132.

⁵⁵ Rosemarie Forsythe, n.2, pp.17-18.

Former US Deputy Secretary of State Strobe Talbot says, “our support (for the Caspian Sea region) has four dimensions: the promotion of democracy, the creation of free market economies, the sponsorship of peace and cooperation within and among the countries of the region, and their integration with the larger international community”.⁵⁶

In fact, all these ‘stated’ goals of the US in the region would not contribute to anything more than a peripheral understanding of the US policies in the region. It is necessary to see what lies beneath such diplomatic rhetoric.

The Reality:

J. Kemp and R. Garkavi – the authors of the book *Strategic geography and the change in the Middle East* published in 1997 – introduced the concept of “Strategic Energy Ellipse” which includes Persian Gulf and Caspian basin. The “strategic energy ellipse” is important for the US energy security. The “strategic energy ellipse” stretching along the meridian includes 16 states: almost the entire territory of Iran, some Russian, Kazakh, Turkmen, Uzbek, Oman, Saudi Arabia, Iraqi, Turkish and Georgian territories as well as the entire territory of Azerbaijan, UAE, Kuwait, Bahrain, Qatar and Armenia. The “ellipse” includes the entire water area of the Caspian Sea and about 90% of Iranian territories situated between the Caspian and the Persian Gulf and the Indian Ocean. Iran is the core of geopolitics in this region. Connecting the Caspian basin and the Indian Ocean,

⁵⁶ Strobe Talbott, “A Farewell to Flasherman: American Policy in the Caucasus and Central Asia”, address at the Johns Hopkins school of Advanced International Studies, Baltimore, Maryland, in July 1997. Accessed in member 2002 at www.treemedia.com/cfrlibrary/policy/talbott.html.

Iran divides the “Strategic Energy Ellipse” into two parts destroying the harmony of the US geopolitical Construction in the region regarded by the US as the most important source of oil import. Despite the fact that Iranian territory presents the shortest and economically the most profitable route for transportation of the Caspian oil to the world markets, the US projection stretches the main export pipeline beyond the bounds of “Strategic Energy Ellipse” to the Turkish harbor in the eastern part of the Mediterranean Sea dominated by the 6th fleet of the US naval forces.⁵⁷

Publicly, though, the US denies that they have any geopolitical motives in the region. Deputy secretary of state strobe Talbot is reported to have rejected the concept of the ‘Great Game’ and articulated an inclusive vision of cooperation and integration in the international market place and the international community.⁵⁸

Democracy, a key issue in US rhetoric and policy in the region, has often been trumped by the prioritization of stability. For example, Human rights violations committed in Uzbekistan by the government have been purposefully overshadowed with focus on regional stability. In fact, Uzbekistan, a strategic ally

⁵⁷ Maximenko V I, “Status of the Caspian Sea and geopolitics of the Caspian region: New Trends”, Institute of the Russian Academy of Sciences, posted in July 27, 2001. Accessed in November 2002 at www.transcaspian.ru.

⁵⁸ Eugene B. Rumer, Policy Planning staff, Department of State, at USA at the 113th conference of the Berger orf forum in Baku, June 1999.

in the region, has been praised by the US policy makers as “an Island of stability” and recognized for its staunch willingness to back US policy.⁵⁹

Though both Russia and the US deny that they are in competition with each other, in 1994, President Clinton declared the Caspian an area, which is of great strategic interest to the US. Washington’s tacit goals in the region are clear: make sure that Moscow no longer dominates the region and guarantee that the region’s energy resources eventually got safely to western markets, preferably with the efforts of the US oil companies. In fact, soon after the first pipeline carrying initial oil from Azerbaijan to the Russian Black sea port of Novorossisk was inaugurated, US Energy Secretary Federico Pena said that Washington will insist that the next Pipeline for Azeri oil go West via Georgia and Turkey. He even said that Azeri oil could be exported in “any direction” as long as it was through a non-Russian Pipeline.⁶⁰ It may well be that, more than any other factor, the pre-eminent aim of the US in the region is geo-strategic, that is to project power into the Caspian/central Asian arena in order to check Russian, Chinese and Islamist influences.⁶¹

The US has a major interest in the Caspian oil and gas for a number of geopolitical and economic reasons, chiefly due to its growing need for oil imports over the next decade. Thus, like all industrial powers, the US wants to guard

⁵⁹ Steven Barlow, “Pipeline Politics”, Oberlin College, Naval Academy Foreign Affairs conference, April 15-19, 2002. Accessed in December 2002 at http://www.usna.edu/NAFAC/Papers/table04/Pipeline_politics_by_Steven_Barlow.doc.

⁶⁰ Shebouti Ray Dadwal, “Politics of Oil: Caspian Imbroglia,” IDSA. Accessed in December 2002 at www.idsa-india.org/an-aug8-6.html

⁶¹ *Troubled waters*, p. 138.

against energy supply disruptions and have international cooperation on global energy issues. While the US does not want Russia to unilaterally decide on the rules of the Caspian oil and gas game, it certainly wants to exclude Iran from the game. Thus the US is pressing for an “East-west energy corridor”, i.e. a Baku-Ceyhan line with a trans-Caspian extension to Turkmenistan and Kazakhstan. Along with overwhelming political and environmental problems, the economic viability of the trans-Caspian is also in doubt. In order for the project to be successful, it has to include the majority of oil produced in Kazakhstan, Uzbekistan and Turkmenistan across into Uzbekistan. That can only happen if the northern route to Russia and Novorossisk or the southern routes through Iran or Afghanistan do not work out. Thus, the irony is that in developing a plan for a trans-Caspian pipeline, the US is essentially ruling out other routes, which is counter to its original strategy.⁶²

The US has a vested interest in Kazakhstan, though not evidently as much as it does in Azerbaijan. One interest, in this regard, is to protect the American private concerns in the region: US oil firms, especially Chevron, have invested heavily in Kazakhstan’s energy sector. In order to protect these interests, the US has been supporting the current regime although it - like many other Central Asian regimes - tends to resemble despotism more than democracy.⁶³

⁶² Geoffrey Kemp, “Iran and Caspian Energy: Prospects for Cooperation and conflict” in *Caspian Energy Resources: Implications for the Arab Gulf*, The Emirates Center for strategic Studies and Research, (UAE, 2000).

⁶³ Norman H. Fuss III, “The Geopolitics of Caspian Oil”, paper presented for Comparative Research Workshop, 2 October 2000. Accessed in November 2002 at www.yale.edu/ccr/fuss.doc.

It is also in the interests of the US to restrict future Chinese expansion into the region especially in Kazakhstan. A pipeline from the Caspian to China has been a possibility for a long time. Of late, however, China has been given rights to develop oil fields in eastern Kazakhstan. As the energy needs of the Far East grow in the future, China will continue to exert influence in the region. Oil consumption in East Asia is predicted to grow to 15% of the world's total within the next 15 years. China has publicly criticized US efforts at gaining influence in the region.⁶⁴

In short, one could say that the US aims to do the following things in the region:

- 1) Contain Russia;
- 2) Isolate Iran;
- 3) Reward allies old and new (Turkey, Georgia and Azerbaijan);
- 4) Develop alternative energy sources to reduce reliance on the Arabs and Iran; and
- 5) Project US influence into a regional Power Vacuum, ostensibly to maintain stability.⁶⁵

According to the 1999 statistical report of the British Petroleum Amoco, there is less than 3 billion tons of oil left in the US, which may last for some 8 and half years, if the current extraction level of 370 million tons a year is retained. Now the US imports more than 500 million tons of oil a year. The US has the world's

⁶⁴ Ibid.

⁶⁵ R. Hrair Dekmejian *et al*, n. 54, P. 138.

most power consuming economy; its dependence on oil imports has exceeded 50% long time ago and keeps on growing. The situation in gas is even more alarming. It extracts 550 billion cubic meters of gas a year, and it has reserves of about 3 billion cubic meters. So, already in 6 or 7 years, just to mention the energy balance at the current level (let alone economic growth), the US will have to import 1.4 billion tons of oil, which is more than the entire global supply leaving nothing for others. This explains, to some extent, why the US is so anxious to gain control over the greatest possible number of oil resources at any cost.⁶⁶

On the one hand, the US wants to ensure for itself safe access to the underwater hydrocarbon reserves and, therefore, to protect US investments in the region. On the other hand, it wants to create some sort of 'neutral zone' bordering Russia, Iran, Afghanistan and China. Hence the necessity to provide peace and stability in an area which is considered to be of vital importance for US short-term strategic interests.⁶⁷

When the countries of the Caspian Sea region began to turn their attention toward Iran as an exist route for their oil and gas, the US routed their leaders official visits to Washington. Between July 1997 and April 1998, Presidents Aliyev of Azerbaijan, Nazarbayev of Kazakhstan and Niyazov of Turkmenistan, all went to Washington to hear the US government lecture them about alternative

⁶⁶ Maximenko Vladimir, "The Battle Against Eurasia: One Century of the US Geo-Strategy in the Old World", accessed in December 2002 at www.transcaspian.ru.

⁶⁷ Jean-Christophe Peuch, "Private and National Interests in the Caspian Region", in Bulent Gokay (ed.), *The Politics of Caspian Oil* (London, 2001), P. 174.

export routes. By November 1997, East-west oil routes and the Baku-Ceyhan pipeline, bypassing Iran, had become the new religion in the Washington policy-making community. A trans-Caspian gas pipeline was touted as the solution for Turkmen gas to access Turkey, so as to avoid Iran.⁶⁸

The idea of the US policymakers is to diversify world sources of oil, not only for itself but also for other oil importers. The idea that reduced dependency on any particular region is to be preferred thus decreases the possibility that a political upheaval in one country/region will significantly affect oil supplies and possibly bring about a global economic crisis. The switch to new exporters outside the OPEC also helps keeping the oil prices down. “The addition of Caspian oil could weaken the OPEC monopoly, providing greater leverage over the pricing policies of Saudi Arabia and other OPEC countries, ultimately contributing to lower world oil prices”.⁶⁹

A persisting feature of US policy towards the Caspian was the isolation of Iran and Russia. The repeated assertion of US policy makers about the desirability of multiple pipelines represented mere rhetoric, behind which was the determination to avoid passage through Russian and Iranian territory. Preliminary indications in mid-1997 that the US would not oppose building the trans-Caspian pipeline to ship Turkmen gas to Turkey were refuted a few months later. As an

⁶⁸ Julia Nanay, “The US in the Caspian: The Divergence of Political and Commercial Interests”, *Middle East Policy*, vol-VI, n-2, October 1998. Accessed in December 2002 at www.mepec.org/public_asp/journal_vol6/nauag.html

⁶⁹ Thomas Valasek, “Terror and Oil in Central Asia”, June 13, 2002, CDI, Washington DC. Accessed in November 2002 at <http://www.cdi.org>.

alternative, the US promoted the trans-Caspian gas pipeline project, along with a promise to finance it and insure it against political risk. Furthermore, US Companies were denied authorization to report oil from their Kazakh and Turkmen operations across Iran in swap deals. As to Russia, US position pretended to show a higher degree of flexibility than with Iran. This was demonstrated by US backing for the Caspian pipeline Consortium (CPC) linking Kazakh oil fields to Novorossisk – the sole instance of American tolerance for a trans-Russian route, beyond the Baku-Novorossisk pipeline for ‘early’ Azeri oil which had come into operation in late 1997.⁷⁰

Containing Iran

After the US oil company Conoco signed an agreement with Tehran in 1995 to develop Iran’s Sirri field, then US president Bill Clinton issued three executive orders that together established a total embargo on US-Iran trade. They were intended to respond to Iran’s support of international terrorism, efforts to undermine the Middle East Peace process, and acquisition of weapons of Mass Destruction and the means to deliver them, a three fold objective that remains the rationale for US sanctions today.

The first executive Order prohibits US companies – but not their foreign subsidiaries – from supervising, managing, or financing projects relating to the development of Iran’s oil and gas resources. A second executive order, issued on

⁷⁰ R.. Hrair Dekmejian et al. n. 54, PP-136-7.

May 6 1995, established comprehensive economic sanctions on Iran, again applicable to US companies but not their foreign subsidiaries. Under this order, US citizens may not trade in Iranian Oil, finance, broker, approve or facilitate such trading, or finance or supply goods or technology that would benefit the Iranian petroleum sector.

Finally, in August 1997, President Clinton issued a third executive order that closed loopholes in the embargo because of which goods were being exported to Iran from third countries. Following Clinton's executive orders, Conoco was forced to pull out of the Sirri field, which went to France's Total FinaElf.⁷¹

Notwithstanding the comprehensive unilateral sanctions against Iran and Libya (which date back to 1986), the Congress enacted the Iran Libya Sanctions Act (ILSA) in August 1996. ILSA had many of the same objectives as the unilateral sanctions, but is different in jurisdictional scope. Unlike the embargoes against Libya and Iran, which are primarily sanctions, ILSA imposes a secondary boycott. The legislation was designed essentially to force foreign companies into choosing to do business with Iran and Libya or the US. ILSA mandates the US president to impose sanctions on any US or foreign person who, after August 5, 1997, invests \$20 million or more in an Iranian project (\$40 million for Libya: this was lowered to \$20 million in August 2001). ILSA requires that sanctions be imposed for a minimum of two years.⁷²

⁷¹ www.eia.doe.gov/emen/cabs/casplaw.html

⁷² Ibid.

These prohibitions in ILSA, as well as the executive orders, would likely Apply to any joint-use arrangements in the Caspian Sea, including the Iranian sector of the Caspian Sea. The US has opposed large-scale oil swaps with Iran by US companies. However, ILSA does not prohibit foreign companies from trading in Iranian oil and gas commodities, and in 1997, the US State department decided that proposed exports of natural gas from Turkmenistan to Turkey via Iran did not technically violate US law. Although ILSA initially may have had some effect in deterring investment by companies that did not wish to risk sanctions, the law has never been enforced. At the first test of the law, when France's total Finance, Russia's Gazporm, and Malaysian Petronas signed a \$2 billion agreement to develop Iran's South Paras field, the Clinton administration granted a waiver to the companies in order to avoid clashes with its European allies. The Clinton administration chose not to pursue several other potential violations, and in recent years ENI, Royal Dutch/shell, TotalFinaElf and BP have agreed to large projects without reprisal from the US. On August 3, 2001, George W. Bush signed legislation extending ILSA for an additional five years. In a statement issued by the White House Press office that day, Bush said that he approved of provisions added to the ILSA legislation that call for frequent review of sanctions to assess their "effectiveness and continued suitability".⁷³

One of the main driving motives behind the US policy towards Iran is the Israeli pressure on the US policy makers. But that does not fully do the explanation part. In fact, the mainstay of the US Post-cold-war national security-

⁷³ July 2002, "Caspian Sea Region: Legal Issues", *ibid.*

strategy was the assertion that “rogue states” would be dealt with properly, and its policies of containment against Iran and Iraq are of symbolic importance. It is for this reason that the US has been trying to prevent Iran’s participation in the development of the field off the coast of Baku, and has been opposed to the idea of constructing pipelines through Iran. The US strategy toward Iran are so deep-rooted that, even in the event of a rapprochement, the US may stick to its strategy of denying Iran any share in the benefits resulting from the pipelines for the Caspian oil fields. Such a strategy would be in tune with the basic strategic goal of the US in the Middle East, namely, preventing the emergence of any regional power able to exert dominance over the Persian Gulf.⁷⁴

Although Washington’s policy coincides with the interests of the major oil companies on most issues, there is still one case for disagreement: Iran. Despite growing pressure from US oil companies to lift the embargo upon Tehran, the Clinton administration was reluctant to soften its stand on the Iranian regime. Although former culture minister Sayed Mohammad Khatami, a reputed moderate, won the presidential elections in 1997, officials from the state department keep saying that the Iran Libya sanctions Act is still necessary. The real reason, as such, behind the US policy towards Tehran is perhaps that the White House is reluctant to see Iran turn into a regional power which could pose a national military threat to Israel and compete with Turkey in the middle eastern

⁷⁴ Manabu Shimizu (ed.), “The Caspian Basin oil and its impact on Eurasian Power Games, IDE spot survey, June 1998, Institute of Development Economics (Tokyo).

oil market. Another concern for Washington could be the Iranian – Chinese military and nuclear relationship.⁷⁵

The American approach to Iran has been confrontational. “We remain”, Talbot asserted, “highly suspicious of Iran’s motives”. “It is essential”, Stuart Eizenstate, Under Secretary of State for European Affairs, insisted, “that the US have a proactive policy to assure that the Caucasus and Central Asia remain free of Iranian influence. Such a view, as quoted by Bradford R. McGninn and Mohiaddiu Meshahi, is consistent with the Administration’s dual containment policy in the Persian Gulf and it represented one of the organizing themes of Clinton foreign policy.⁷⁶

The US has tried to cripple Iran economically and isolate it politically. The economic impact of the containment policy has been simply devastating for the Iranian people who continue to suffer from declining income and employment opportunities. Politically, too, the US policy has hurt Iran by making it enemies to its otherwise natural allies. At present, three sets of regional alliances are organized around and against Iran: Turkey-Azerbaijan-Israeli alliance in the north western and western borders, and Pakistan – Afghanistan - Saudi Arabia alliance in the southern and southeastern borders. These destructive attempts notwithstanding, the US has not been able and will not be able to bring Iran to its

⁷⁵ Jean – Christophe Peuch, n.67, p. 176.

⁷⁶ Bradford R. McGninn and Mohiaddin Meshahi “America’s Drive into the Caspian”, in Hooshang Amirahmadi (ed.), n.42, p. 190.

knees as the country benefits from a rich history of national dignity and regional role.⁷⁷

Given the somewhat limited American interest in the area, the US relied on its regional allies, Israel, Pakistan and especially Turkey, to counter Iranian influence. The US expected the new republics to emulate the Turkish state building model, and Turkey was regarded as a potential regional leader, in partial contradiction to America's Russo-centric policy.⁷⁸

One alternative to the Iranian route is to transport the gas produced in the East Turkmenistan gas field through a pipeline passing through Afghanistan, Pakistan and India. The second alternative is to construct an oil pipeline that will extend from Baku, Azerbaijan, pass through Georgia over Turkish territory and lead to Ceyhan on the Mediterranean coast.⁷⁹ The stated US policy is that the US will continue to maintain pressure on the Iranian regime till its unacceptable practices cease.⁸⁰

However, Washington's enthusiasm for isolating Iran is not shared by Turkey, which, despite ideological differences, remains keen to boost economic ties with Tehran. Ankara has already signed an agreement to import Iranian natural gas, although it is yet to build a pipeline to the Iranian border. Iran also

⁷⁷ Hooshang Amirahmadi, "Giving all a Piece of the Pie: The political risks of Various Pipeline routes in the Caspian Basin", Nov. 12, 1998, *The Iranian*, www.iranian.com/opinion/Nov.98/Caspian/index.html.

⁷⁸ R. Hrair Dekmejian et al, n.54, p. 132.

⁷⁹ Manabu Shibizu, "Side Stepping Iran" in *The Caspian Basin oil and its impact on Eurasian power games*, n.74, P. 138-41.

⁸⁰ Stuart Eizenstat before the US Senate Export and trade Promotion Subcommittee, 23 October 1997. Accessed in November 2002 at <http://www.usaengage.org/archives/legislative/EizenstatJun99.html>.

lies astride the main land transportation routes for Turkish trade with the republics of Central Asia. Turkey also buys a large amount of Russian natural gas each year.⁸¹

While the US does not seem to be interested in changing its mindset towards Iran, Iranians, on the other hand, are going through a change of heart. Associated Press reported in December 1999 that when Mohammed Khatami told an audience full of students and Academicians that they have no hostility toward the American nation, the audience Cheered, drowning out a small group chanting “death to America”.⁸²

Sidelining Russia:

Sheila Hestin, a former US National Security Council aide, declared during a senate hearing in September 1997, that the aim of the US administration was to promote the independence of these oil-rich republics to, in essence, break Russia’s monopoly control over the transportation of oil from that region.⁸³

During Soviet times, the major pipeline from Baku went through Chechnya, and the Russians are suspicious that the insurgency there has been in large part inspired by foreign interests that wish to make the Russian route appear less dependable. In particular, the intense American involvement in an area

⁸¹ Gareth Jenkins, “Scramble for Caspian Oil, Al-Ahram weekly. Accessed in November 2002 at <http://weekly.ahram.org.eg/1999/458/inter.htm>.

⁸² Afshin Valinejad, “Anti-US slogans prevented in Iran”, A P, Dec. 12, 1999. Accessed in November 2002 at <http://www.farsinet.com/news/dec99wk3.html#anti>

⁸³ Iran Morgan and David Ottaway, “Drilling for influence in Russia’s Backyard”, *Washington Post*, 22 September 1997.

bordering Russia has led them to question US intentions. “US national interests require that the military conflict in the North Caucasus fanned from outside, keeps constantly smoldering”, Defense Minister Igor Sergeyev of Russia claimed once. The US wants to “weaken Russia and take full control over the North Caucasus”.⁸⁴

Since the collapse of the USSR, there has been a significant change in the position of the main actors in the oil and gas market of the former soviet republics, and in the Caspian Sea region in particular. Not only Russian companies and state institutions, but also more and more by American, British and other western companies, now hold strong positions. The US has openly declared the Caspian Sea region as a zone of US strategic interest.⁸⁵

The ladders in the success list of the US Caspian Sea region diplomacy have been the inauguration of the Baku-Ceyhan pipeline. The inaugural section of the Baku-Ceyhan was built at the Sangchal terminal, near the Azeri Capital, Baku in September 2002 in the presence of the presidents of Azerbaijan, Georgia, Turkey and the US Energy Secretary Spencer Abraham. Russia complained of being sidelined, and expressed concerns that the Baku-Ceyhan pipeline will

⁸⁴ Stanley Kober, “The Great Game, Round 2: Washington’s misguided support for the Baku – Ceyhan Oil pipeline”, *Foreign Policy Briefing*, CATO Institute, No. 63, October 31, 2000. Accessed in November 2002 at <http://www.cato.org/pubs/fpbriefs/fpb-063es.html>.

⁸⁵ Valentine Yakushik, “Roots of pipelines and Emerging Regional Relations in the Caspian Sea Region”, in Shimizu (ed.), p.74.

detract from the \$2.65 billion pipeline connecting Kazakhstan's Tengiz oil field with the Russian port of Novorossisik.⁸⁶

New alliances are also springing up within the confederation, notably the Central Asian Alliance (CAA) between Kazakhstan, Khrghyzstan, Tajikistan and Uzbekistan. This alliance's purpose remains mainly undefined, but it does signal a movement away from Russian influence.⁸⁷

Baku and Tbilisi have formed a loose association, if not a bloc, with Ukraine, Moldova, Uzbekistan, and even Kazakhstan within the CIS. This formation includes increased defense cooperation and has multiple objectives. It aims to alleviate Ukraine's energy shortage, reduce Kiev's dependence upon Russia for energy, and give the other 3 states non-Russian options for pipelines, Commercial routes, industrial goods, and political support. In general, this bloc aims to shield them from Russian efforts to make the CIS a vehicle for reunification of the former union, the fundamental objectives of Russian policy.⁸⁸

The Clinton administration has generally viewed Turkey as able to foster pro-western policies and discourage Iranian interference in the trans-Caucasus states, though concerns have been raised about a Turkish tilt to Azerbaijan in the Nagorno-Karabakh conflict. Turkey seeks good relations with Azerbaijan and Georgia and some diplomatic and other conflicts with Armenia, while trying to

⁸⁶ "Work began on the \$3 billion Caspian Oil Pipeline", Associated Press, September 18, 2002.

⁸⁷ Erin Sullivan, "Oil, Trade, and the US foreign Policy in Central Asia", University of the Pacific's School of International Studies. Accessed in November 2002 at http://www.usna.edu/NAFAC/Papers/table07/Oil_Trade_and_US_Foreign_Policy_in_Central_Asia_by_Erin_Sullivan.doc.

⁸⁸ US Military Engagement with Trans-Caucasus and Central Asia. Accessed in November 2002 at <http://www.milnet.com/milnet/pentagon/Russia-2000-assessment-SSI.pdf>.

limit Russian and Iranian influence in the region.⁸⁹ Washington has strongly promoted Turkey throughout the Caspian Sea region as the ideal outlet for foreign trade, portraying the NATO ally as a secular model for Islamic nations and as a gateway to the West. It has also encouraged Turkey to establish closer relations to the Southern tier. Clearly, Washington wishes Caspian oil to pass through Turkey.⁹⁰

East-west pipelines linking Caspian oil and gas to Turkish parts and markets were seen as a way to support Turkish ambitions while also blocking Iranian influence and preventing Russia from reasserting hegemony over the region. Support for east-west pipeline routes leading to Turkey became the centerpiece of US diplomacy in the Caspian – thus furthering the politicization of energy development that Aliyev had inaugurated. As the US engagement in the Caspian Sea region has grown, Turkey has increasingly been cast in the role of junior partner, albeit in a context of largely shared interests, in particular with regard to support for Turkish pipeline routes.⁹¹

While the US may be shy about using political clout to further its goals in the region, its partner Turkey is not. Any other pipeline options that terminate at the Black sea necessitate the shipping of oil by Tanker Traffic through the Turkish Straits. Once Azerbaijan reaches its full export potential, it will be able to

⁸⁹ Trans-Caucasus Newly Independent States: Political Developments and implications for US interests. Jim Nichol, Foreign Affairs and National Defense Division, December 20, 1996. Accessed in November 2002 at <http://www.fas.org/man/crs/95-024.htm>.

⁹⁰ Ian Bremmer, "Oil Politics: America and the riches of the Caspian Basin", *World Policy Journal*, Vol. 15, No. 1, spring – 1998. Accessed in November 2002 at <http://www.chass.utoronto.ca/~rdeibert/teaching/pol108y/schedule/lecture09-1.html>

⁹¹ *Journal of Foreign Affairs*, vol. 54, no. 1, Fall – 2000, p. 225.

pump up to 1.5 or 2 million barrels a day with Kazakhstan reaching a similar amount. If all of this oil is pumped to the black Sea and shipped from Supsa or Novorossisk in Russia, it would have to pass through the Turkish straits in order to reach the Mediterranean. The Turkish government does not want to allow that. In fact, since 1994, Turkey has placed restrictions on oil tanker access to the straits – a move, claim the Russians, to reduce the appeal of Russia's proposal to export the hydrocarbon resources of the Caspian countries through its territory and eventually through the straits. In addition, the Bosphorus must be closed for four hours to allow a 100,000-ton tanker through. In order to accommodate the extra oil flow, it is estimated that the straits would have to be closed for up to 10 hours a day just for tanker traffic.⁹²

⁹² Norman H Fuss III, n. 12.

Chapter 3

DIPLOMATIC STRATEGIES OF ENGAGEMENT OF THE US IN THE CASPIAN SEA REGION

In order to understand the US engagement in the region it is important to understand the different and well-planned diplomatic strategies the Americans are using in the region. They could be called diplomatic strategies because they are connected to the diplomatic behavior of the countries involved and the US in many ways, be they pure bilateral or multilateral negotiations, coercive diplomacy or diplomacy at a group level. The diplomatic strategies are divided into economic diplomacy, military diplomacy that also includes NATO's intrusion into the region, the diplomacy of conflict resolution, which has given it a prominent role in the region's local politics, and the diplomacy of Pipeline negotiations.

Economic Diplomacy

One of the most effective tools of engagement that the US has been using to strengthen its foothold in the Caspian Sea region is economic diplomacy. The US economic diplomacy has so far been multi-pronged: it has been providing these countries with economic aid ever since these countries became independent in the early 1990s. The US has also been steadily increasing its trade relations with these states. Thirdly and most importantly, the US has been actively

promoting its multinational oil companies to invest in the region and grab the critical shares and important energy ventures.

The US is the largest bilateral aid donor by far to Armenia and Georgia. Most US aid to the trans-Caucasus addresses urgent needs for food, shelter, medicine, and energy, including urgent winter needs. US aid to Armenia also focuses on lessening the impact of the blockades, and includes food and heating oil aid, health care aid, programs in energy conservation, and research on oil, gas, and coal potential.⁹³

The development of expertise for economic stabilization and reform in Armenia has been fostered through the Center for Economic Policy, Research and Analysis (CEPRA), set up in 1994. For Georgia, US aid has included setting up a business service center in Tbilisi to encourage small business development and Technical aid for monetary and fiscal reform, including through the planned creation of CEPRA. In 1996, the US congress had earmarked \$ 15 million for the creation of a Trans-Caucasus Enterprises Fund, emphasizing its interest in providing capital resources and technical assistance to both privatized and new enterprises in the regions. President Clinton and others maintained that US support for privatization and the creation of free markets directly serve US national interests by opening new markets for US goods and services, and sources of energy and minerals. Among the many US trade links in the region, important trade links have been signed with Armenia, Georgia and Azerbaijan. Bilateral

⁹³ Jim Nichol, Newly independent States: Political Developments and Implications for US interests, CRS issue brief, accessed December 2002, at <http://www.fas.org/man/crs/95-024.htm>.

investment treaties providing national treatment guarantees have been signed with Armenia and Georgia. In February 1995, the US granted Armenia General system of preferences (GSP) status, allowing it to export many goods to the US without incurring tariffs and custom duties. The Overseas Private Investment Corporation (OPIC) has signed agreements with all three states on financing and insuring US private investment overseas.⁹⁴

According to one Caspian expert, till recently the US administration has obligated more than \$22 billion in overall assistance to the eight states of Trans-Caucasus and Central Asia.⁹⁵ In July 1996, the visiting US Assistant Secretary of State Lynn Davis announced a US grant of \$ 500,000 to support Georgia's August 1996 participation in NATO's partnership for peace land-sea amphibious operation in North Carolina.⁹⁶ Azerbaijan's President Aliyev asserted in August 1997 that the US alone had invested \$ 25 billion in the Azerbaijani Economy.⁹⁷

At a conference in Istanbul in May 1998, US Energy Secretary Pena announced a new Caspian Sea initiative, an unprecedented effort by the three US finance and investment agencies, the Trade and Development Agency (TDA), the Overseas Private Investment Corporation (OPIC) and EX-IM Bank that would coordinate the efforts and the Export – Import Bank, the overseas Private Investment Corporations and the Trade Development Agency which were expected to commit \$ 6 billion to Caspian projects. To implement this initiative

⁹⁴ Ibid.

⁹⁵ Jean Christophe Peuch, n.67, p. 175.

⁹⁶ n.l.

⁹⁷ Bradford R. McGuinn and Mohiaddin Mesbahi , n.42, pp. 188-9.

the US established the Caspian Finance Center in Ankara, under the umbrella of the US embassy, to channel funding to energy and non-energy projects.⁹⁸

According to a testimony given by Richard C. Morningstar in March 1999, the US role with respect to Caspian pipelines works as a catalyst for financing through trade, finance and investment agencies. Last May, Energy Secretary Alexander Pena announced US Caspian Sea initiative, an unprecedented effort by three US finance and investment agencies. The Trade and Development Agency (TDA), the overseas Private Investment Corporation (OPIC) and EX-IM Bank, to coordinate their efforts to promote investment in Energy Projects throughout the Caspian Sea region. The first major step in this effort was TDA's launching of a feasibility study last April for the trans-Caspian gas pipeline. In 2000, TDA announced a new grant of \$ 823,000 to BOTAS, the Turkish pipeline company, for technical assistance. This grant is allowing BOTAS to access technical, financial, environmental and legal expertise for negotiations and the Baku-Ceyhan MEP and TCP. TDA, OPIC and EX-IM Bank have also opened the Caspian Finance Center in Ankara. The finance center, staffed by the representatives of the three trade and finance agencies, will spearhead US efforts to mobilize financing for projects in the region.⁹⁹

⁹⁸ n.54, p.136.

⁹⁹ Testimony by Ambassador Richard L. Morningstar, Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy, Before the Senate Subcommittee on International Economic Policy, Exports and Trade Promotion, accessed in November 2002, at <http://www.treemedia.com/cfrlibrary/library/policy/morningstar.html>.

With respect to American Oil Companies, US policies at home and abroad have historically been supportive, in view of the strategic and economic importance of oil and the immense political clout of oil companies. Indeed, the relationship between the US government and the oil companies can best be described as one of interdependence or even symbiosis, a situation that also applies to the Caspian context. Soon after Bill Clinton's re-election in 1996, the White House adopted a proactive policy toward the Caspian rim, characterized by a greater degree of involvement in the region's political and economic affairs. Driven by its own calculations of US strategic and economic interests and pressures from Turkey, the White House took the lead in pushing for greater MNC investment and activity, instead of reacting to the needs of US companies.¹⁰⁰

In August 1995, Azerbaijan President Aliyev and the US President Bill Clinton met in US and initiated a \$10 billion exploration and development contract with Exxon, Chevron, Amoco, and Mobil. Additionally, Aliyev entered into a military cooperation agreement with the US and held talks with several major companies.¹⁰¹

The American Oil Companies working in Central Asia and Trans-Caucasus include Chevron, Pennzoil, Exxon, Mobil, Texaco, Amoco, Unocal, Enron, Schlumberger and Atlantic Richfield Company. The US is today strongly committed to backing up the interests of its companies working in the Caspian basin, as long as this support does not interfere with its domestic and international

¹⁰⁰ Dekmejian and Simonian, n.6, p. 161.

¹⁰¹ Amirahmadi, n.42, p.195.

constraints. The presidents of Georgia, Kazakhstan and Turkmenistan were invited to Washington during the years 1997-98. Those visits occasioned the signing of new oil deals with US Companies.¹⁰²

Until the BP-Amoco merger, US Companies dominated in the Caspian Sea region. The US was the outside player with the most commercial stake, which the US government has been translating into political clout. The balance in the Caspian as a whole (Azerbaijan, Kazakhstan, Turkmenistan) is now more evenly divided between the US and the UK.¹⁰³

US Military diplomacy in the region

Washington's burgeoning military-political economic involvement seeks to demonstrate the US ability to project military power even into this region or for that matter, into Ukraine where NATO recently held exercises that clearly originated as an anti-Russian scenario. Secretary of Defense William Cohen has discussed strengthening US-Azerbaijani military cooperation and even giving training to the Azerbaijani Army.¹⁰⁴

There have been reports of the US' Willingness to entertain the requests for sending peacekeeping troops should the OSCE Minsk process lead to a

¹⁰² Peuch, n. 67, p. 173.

¹⁰³ Julia Nanay, "The Industry's Race for Caspian Oil Reserves", in *Caspian Energy Resources: Implications for the Arab Gulf*, Published by the Emirates Center for Strategic Studies and Research, (UAE, 2000), p. 114.

¹⁰⁴ US Military Engagement with Transcaucasia and Central Asia. Accessed in November 2002, at <http://www.milnet.com/milnet/pentagon/Russia-2000-assessment-SSI.pdf>.

solution in the Armenian-Azerbaijani Conflict over Nagorno-Karabakh. And, clearly, US military involvement in the region as detailed below is growing. General John Sheehan (USMC), Commander-in-Chief of the US Atlantic Command (ACOM) and NATO's Supreme Allied Commander Atlantic (SACLANT) announced in 1997 US' willingness to take part in regional peace supporting operations involving Central Asian Forces under UN authorization, further extending the US stated willingness to offer Security cooperation to those states.¹⁰⁵

The US Defense Department, according to Stephan Blank, has discussed strengthening military cooperation with Uzbekistan and Azerbaijan and even training Azerbaijan's army, thereby alarming Armenia and Russia. The Pentagon also recently allocated areas of responsibility to US commands for the trans-Caspian; the US European Command (USEUCOM) got the Caucasus, and the Central Command (USCENTCOM) received Central Asia. Although this is as much an administrative drive to supervise the ongoing programs of military cooperation that are now underway bilaterally and through NATO, it also represents a major step for contingency planning.¹⁰⁶

In 1997 September, 5000 paratroopers from the 82nd Airborne Division of the US Army joined small contingents of Kazakh, Kirghiz and Uzbek troops for peacekeeping exercises with soldiers from Russian, Turkey, Latvia and

¹⁰⁵ Stephan J. Blank, "The United States: Washington's New Frontier in the Trans-Caspian" in Michael P. Croissant and Bulent Aras (eds.) n.1, p. 253.

¹⁰⁶ Ibid, p.255.

Georgia.¹⁰⁷ US military relation with Uzbekistan has a strategic angle, too. During the US campaign in Afghanistan, Uzbekistan allowed US troops to carry out important missions from within its borders. In 2002, Uzbekistan had also received \$ 160 millions in aid from the US.¹⁰⁸

While US military relations with Armenia have been steadily growing since 9/11,¹⁰⁹ US-Armenia relations were credibly strong even prior to that. In February 2002, a delegation of US military experts discussed in Yerevan Plans to upgrade the Armenian armed forces communication system, to set up a military training complex, and to train and equip an Armenian peacekeeping force.¹¹⁰

US-Georgia military relations have also been strong. Georgia and USA enjoy a close relationship largely due to the popularity of Georgian president Edward Shevarnadze. The US government has supported his government with political, economic and military support. US recently sent military advisors to Georgia, as it has been in the bad book of the Russians. The US instructors were officially asked to train the Georgian army in anti-terrorism operations, but the decision is generally seen as being part of broader US geopolitical plans.¹¹¹

The Georgian Train-and-equip program was launched on April 29th, 2002, in which the US offered military assistance in counter-terrorism to Georgia in

¹⁰⁷ Dekmejian and Simonian, n. 6, p. 136.

¹⁰⁸ Steven Barlow, "Pipeline Politics", Naval Academy Foreign Affairs Conference, April 15-19, 2002. Accessed in November 2002, at http://www.usna.edu/NAFAC/Papers/table04/Pipeline_politics_by_Steven_Barlow.doc.

¹⁰⁹ *The Dawn*, 16 December 2001.

¹¹⁰ Vladimir Radyuhin, "Russia resigned to US Presence in Caucasus", *The Hindu*, Chennai, March 3, 2002.

¹¹¹ Jean Christophe Peuch, "Caspian: Militarisation of the Sea – Myth or Reality?" Accessed in November 2002, at www.rferl.org.

response to the growing instability of the Pankisi valley, a region bordering Chechnya on Georgian territory. In a statement on September 14, 2002, President George Bush affirmed his full support for the Georgian government's security Cooperation in the Pankisi gorge and appealed to Russian President Vladimir Putin to allow the Georgian government to fulfill this task. On September 26th 2002, the US mission to the OSCE outlined in a statement the opposition of US any unilateral Russian military action inside Georgian territory.¹¹² Georgia has increased its importance in the post-9/11 Geo-strategic calculus and the United States in the region.¹¹³

NATO'S Expansion into the Caspian Sea Region

In September 1995, US Experts on Central Asia met at NATO headquarters and cited the extensive US interests in the Caspian Energy deposits as a reason why Washington might have to extend its Persian Gulf Security guarantees in this region. US policies are also closely tied to NATO's enlargement and the dual containment of Iran and Iraq. US analysts increasingly call this area, and the "greater middle East", which it is deemed to be a part of, the "strategic fulcrum of the future" or the "strategic high ground", due to its energy resources.¹¹⁴

¹¹² "Russia and Caucasus" The NATO-Russia Archive. Accessed January 2003 at www.bits.de/NRANEU/Russiancaucasus.html.

¹¹³ *The Dawn*, 16 December 2001.

¹¹⁴ Stephan J. Blank, "US Military Engagement with Trans-Caucasia and Central Asia", June 2000, published by the Strategic Studies Institute. Accessed in November 2002, at <http://www.carlisle.army.mil/ssi/pubs/2000/milengag/milengag.htm>.

US Ambassador Mathew Nimetz postulates the entire Mediterranean region's rising importance. To maintain regional security, according to him, NATO must not only integrate the whole region into the western economy and foster the development of "pluralistic institutions"; it must also grasp the military nettle.¹¹⁵

The signing of the partnership for peace framework by Azerbaijan on May 4th, 1994, by Georgia on May 23rd, 1994 and by Armenia on October 5th, 1994 and by Armenia on October 5th, 1994 institutionalized the cooperation of the Southern Caucasus states with NATO. This strategy of cooperation had first been developed within the Euro-Atlantic Partnership joint Council (EAPC). The southern Caucasus has recently begun to participate in the peacekeeping operations in KOSOVO (KFOR), Azerbaijan having troops within the Turkish Battalion. On September 13, 2002, the Georgian Parliament adopted a resolution urging the Georgian government to take necessary steps to start the accession process to NATO. On October 1st, a memorandum of Understanding on logistic cooperation was signed between Georgia and NATO Maintenance and supply Organization (NAMSO), opening the way for the implementation of a PFP Trust Fund Project for the demilitarization and disposal of missile stockpiles and the remediation of Georgian military sites. Georgia and Azerbaijan officially applied for joining NATO at the NATO Prague Summit of November 21-22, 2002 as

¹¹⁵ Ibid.

declared by Georgian President Shevarnadze and by the Azerbaijani president Aliyev.¹¹⁶

NATO's and EU's increasing interest in a Southern Mediterranean exposure can only lead them to assume a more prominent institutional role in the fields of conflict prevention, Security Assistance, and military-political integration. Accordingly, the increasing interest of the US in preserving the area as "a zone of free competition" and denying Russian or Iranian influence in the region makes Washington the arbitrator or leader on virtually every interstate and international issue in the area. These include everything from the Minsk process, to the opening of a "New Silk Road" and/or East-West trade corridor apart from energy and pipeline routes for gas and oil.¹¹⁷

According to Ambassador Mathew Nimetz "the Pax-NATO is the only logical regime to maintain security in the traditional sense. As NATO maintains its dominant role in the Mediterranean, it must recognize a need for the expansion of its stabilizing influence in adjacent areas, particularly in southeastern Europe, the Black Sea region (in concert, of course, with the regional powers) and in the Arabian Persian Gulf."¹¹⁸

He is of the opinion that to maintain regional Security, NATO must not only integrate the entire region into the western economy and foster the development of "pluralistic institutions", but also grasp the military nettle.¹¹⁹

¹¹⁶ n.112.

¹¹⁷ n. 16,

¹¹⁸ Stephen J. Blank, "The United States: Washington's New Frontier in the Transcaspian". In Michael P. Croissant and Bulent Aras, n.1, P. 251.

¹¹⁹ Ibid.

NATO Secretary General Javier Solana once made it clear that Europe cannot be fully secure if the Caucasus remains outside European Security.¹²⁰

As far as NATO is concerned, this is not just a question of conducting PfP programs with local states and holding military exercises in the region; NATO's increasing interest in a southern Mediterranean exposure can only lead it to assume a more prominent institutional role in the fields of conflict prevention, Security assistance, and military-Political integration.¹²¹ In fact, NATO's regional involvement, especially PfP, is intensifying on a yearly basis. 1997's exercises showed -or were intended to show- that US and NATO forces could be deployed anywhere.¹²²

Among the countries in the region Azerbaijan's association with NATO has become increasingly explicit. Azerbaijan joined the "partnership for Peace" program and has received visits from NATO officials. For his part, Aliyev argued, that Azerbaijan is situated in the east of Europe, thereby eliminating geographical objections to Baku's incorporation in Euro-Atlantic Security Structures. Other Azeri officials have suggested that NATO forces be used to protect Azerbaijan's oil facilities and pipelines. Bilateral American-Azerbaijani Security talks have involved US assurance to Azerbaijan that the so-called flank agreement regarding conventional forces in Europe (CFE) would not compromise Azeri Security.¹²³

¹²⁰ Ibid p. 250.

¹²¹ Ibid, p. 253.

¹²² Ibid, p. 266.

¹²³ Bradford R. McGuinn and Mohiaddin Mesbadi, in Hooshang Anirahmadi (ed.), "America's Drive to the Caspian," n.42, p. 195.

Turkey plays a very important role in the region. As a critical regional ally of the US and a member of the NATO, Turkey provides a mechanism for Azerbaijan and other pro-western CIS states to integrate into Euro-Atlantic Structures.¹²⁴ More is a general convergence of interests between Turkey and Azerbaijan, bilaterally, in terms of direct Turkish economic investment, cultural influences, and security cooperation, and multilaterally, in terms of threat assessment and operational convergence with Euro-Atlantic structures. Azerbaijan's involvement in NATO's military exercises, held in Turkey, constitutes a tangible expression of this cooperation.¹²⁵

Ukraine, too, has been closely associating with NATO's designs in the region. In July 1997, Ukraine signed an agreement linking itself to NATO's multilateral security framework and has emerged as an informal leader of a pro-NATO subsystem in the Caucasus/Black sea region.¹²⁶

President Edward Shevardnadze of Georgia has frequently proclaimed his intentions to pursue a "Bosnia" or "Dayton" type solution to the conflict with Abkhaz nationalist movement and to take Georgia into the NATO by 2005. Shevardnadze evidently seeks a commitment of the US military power in order to impose peace and supplant the Russian forces that are maintaining a truce on the Abkhaz-Georgia border. Similarly, Azerbaijan is constantly urging NATO to provide F-16 planes from Turkey and "operational security" for pipelines going

¹²⁴ Ibid, p. 195.

¹²⁵ Ibid, p. 196.

¹²⁶ Ibid. p. 196.

through its territory. Georgia also recently approached NATO members for weapons systems.¹²⁷

Washington, reportedly, is willing to send peacekeeping troops should the OSCE Minsk process lead to a solution in the Armenian-Azerbaijani war over Nagorno-Karabakh. General John Sheehan, former CINC of the US Atlantic Command and NATO's supreme allied Commander for Atlantic announced America's willingness to take part in regional peace support operations involving Central Asian forces under UN authorization, further extending the willingness of the US to offer security cooperation to those states. NATO's expanding interest in the region reflects the broader process by which the entire area has entered into the European Security agenda after the USSR. This is not just a question of conducting PfP programs and exercises with local states in the region. Turkey's provision of military training to central Asian states and Azerbaijan, and its intention to organize a Caucasian peacekeeping force and to play a much larger and more visible role as a regional gendarme are only the most prominent of such examples.¹²⁸

Georgia Train and Equip Program (GTEP) is to respond to Georgia's request for assistance to enhance its counter-terrorism Capabilities and address the situation in the Pankisi village. A flexible time-phased training initiative, GTEP builds upon the strong military-to-military relationship developed between the

¹²⁷ n.2.

¹²⁸ n.2.

two countries since the end of the cold war, and further underscores US support for Georgia's sovereignty, independence and territorial integrity.¹²⁹

For all good intentions, years of effort to bring Russia closer to a strategic partnership with NATO have delivered surprisingly little. The Partnership for Peace (PfP) served as a basis for cooperation on defense planning and budgeting, military exercises and civil emergency operations, but no role in NATO military planning or operations. The 1971 agreement offered arrangements for Russia to cooperate with NATO as long as no NATO member-state dissents. The NATO-Russia council provides further structure, but NATO reserves the right to act unilaterally on any issue, at anytime.¹³⁰

NATO holds joint civil-military exercises even with Russia. The Associated Press reported in February 2002 that some 1,200 fire and rescue workers from Russia, several NATO countries and former soviet republic took part in exercises at the training ground of the emergency situations Ministry in Noginsk, located 42 miles east of Moscow. While Russia provided the bulk of the emergency crews and equipment, the event was organized by NATO under the PfP programme.¹³¹

¹²⁹ "Georgia's "Train and Equip" program Begins", news release of the US Department of Defence, April 29, 2002. Accessed in January 2003 at www.defencelin.mil/news/apr2002/boy4292002-bt 217-02.html.

¹³⁰ "Russia and NATO in Search Common Ground", Ian Bremmer. Accessed in September 2002, at www.enraianet.org/index.html.

¹³¹ "Russia NATO hold joint exercises", Associated Press, 27 September, 2002.

Diplomacy of Conflict Resolution.

Yet another important way in which the US makes its presence felt in the region is by acting as an arbitrator in the local conflicts of the region. There have been separatist struggles in Abkhazia (North west Georgia) and Ossetia (North Central Georgia). Abkhazia fought a civil war with Georgia and has minimal ties to Georgia. Georgia has expressed willingness to grant Abkhazia some autonomy. In December 1998, representatives from the GUUAM Group (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) held talks about setting up a special peacekeeping force of protect the oil export pipelines, which pass through the conflict-ridden areas. Proposals were made to work with NATO to set up this force within the framework of the PfP program, which was established by NATO to strengthen ties with former eastern Bloc and former Soviet States.¹³²

As part of the US-led war on terrorism, US military advisors have been working with the Georgian military to counter threats emanating from the Pankisi Gorge. The Islamic Movement Uzbekistan, led by Juma Namangani, has been a great cause of concern especially in the populous Fergana valley. Uzbekistan is receiving support from the US in anti-terrorists counter measures after Uzbekistan lent its airspace and military bases for the campaign against the Taliban in Afghanistan.¹³³

Although the fighting between Armenia and Azerbaijan over the Azerbaijani province of Nagorno-Karabakh ceased in 1994, it has proven

¹³² "Caspian Sea Region: Regional Conflicts",
<http://www.eia.doe.gov/emeu/cabs/casconf.html>. Accessed in July 2002.

¹³³ Ibid.

impossible to negotiate and strike a permanent peace deal between the conflicting parties. The OSCE Minsk group was established and put in charge of peace negotiations in 1992. Since 1997 Russia, US and France are the group's co-chairs.¹³⁴ A US presidential nominee was appointed to the OSCE led Minsk group talks highlighting the US interest in the conflict.¹³⁵

The US diplomacy has been active in attempting to mediate the dispute between Azerbaijan and Turkmenistan whose president Saparmurat Niyazov, was received in Washington in 1998 with a lower level of enthusiasm than was displayed during his neighbor's earlier visit.¹³⁶ The US has also been involved in the resolution of the conflict between Abkhazia and Georgia since 1993.¹³⁷ While the Americans seem to be trying their best to bring peace to conflict zones like Karabakh and Abkhazia, it is common knowledge that this 'peace initiative' is to discourage instability, which could disrupt oil exports.

Even on the issue of legal status of the Caspian Sea, the US has time and again expressed its support for Azerbaijani position, arguing that the sea had to be divided into national sectors.¹³⁸

¹³⁴ "The OSCE Minsk Group: Is there space for improvement?" Fariz Ismailzade, June 19, 2002. Accessed in January 2003 at www.caciananalyst.org/2002-06-19/20020619_MINSK-Group.htm

¹³⁵ n.1

¹³⁶ n.8, p. 136.

¹³⁷ n.20.

¹³⁸ n.8, p.134.

Pipeline Negotiations

The Clinton Administration had actively supported the development of oil and gas resources of the Caspian basin since 1994, when the US government established a special inter-agency working group to focus on the president's Caspian Sea energy policy. This working group ensures incorporation of commercial, technical, diplomatic and other perspectives in forming US policy on Caspian Energy development. Starting in 1995, the US has specifically advocated the establishment of multiple energy export pipelines, traveling along an "east-west" axis from the Caspian Sea region. The Clinton administration's multiple pipelines policy has achieved the following milestones:

- In 1995, International energy companies decided to build two 'early oil' pipelines from Azerbaijan, a northern one and a western one. The former opened in November 1997 and the latter in 1999.
- In 1996, Vice President Al Gore reached an agreement with Russian Premier Viktor Chernomyrdin that broke a longstanding logjam barring construction of the Caspian pipeline consortium line, which is to run from North-Eastern Kazakhstan to the Black sea port and Novorossiysk.
- In May 1998, the US Trade and Development Agency, the US Export-Import Bank and the Overseas Private Investment Corporation announced the establishment of the Caspian Finance Center, in Ankara. The Center's mission is to facilitate the development of energy and other infrastructure projects in the

Caspian Sea region by combining the forces of the US government's three export credit agencies.

- In July 1998, the US President appointed Ambassador Richard Morningstar to the new position of special Advisor to the President and the secretary of state for Caspian Basin Energy diplomacy. John wolf replaced him in 1997.
- In 1998 the presidents of Turkey, Georgia Azerbaijan, Kazakhstan and Uzbekistan signed the Ankara declaration, in which the countries for the first time formally expressed support for the Baku-Ceyhan main export pipeline and announced the intention to initiate an intensive dialogue with energy producers across the Caspian Sea region¹³⁹
- In February 1999, the government of Turkmenistan selected PSG Inc. as the lead sponsor to develop the trans-Caspian gas pipeline. In August 1999, PSG and Royal Dutch shell concluded a MoU in which they formed a partnership to develop the Trans-Caspian Gas pipeline.¹⁴⁰
- The biggest diplomatic achievement of the US in the Caspian Sea region has been the signing of the BTC pipeline accord. The governments of Azerbaijan, Georgia, and Turkey also favour this pipeline. BTC is a 1,750 km in length of new pipe construction,

¹³⁹ See also n.8, p 136.

¹⁴⁰ Background on US Caspian Energy Policy, November 17, 1999, The White House Office of the press Secretary (Turkey). Accessed in November 2002, at <http://www.irvl.net/background-Caspian.htm>.

estimated cost \$ 2.4 billion. BTC will traverse 3 countries (465 km in Azerbaijan, 235 km in Georgia and 1010 km in Turkey) and cross a mountain range in Turkey that is up to 2500 meters high.¹⁴¹

In fact, Bill Clinton was particularly interested in the Caspian Sea energy. The US Caspian diplomacy was given a shot in the arm when the contract of the century was signed in September 1994 in Azerbaijan. After the signing of the contract Clinton set up a Caspian task force headed by deputy secretary of State Strobe Talbot and also comprising officials from the Energy and commercial departments; the National Security Council and the CIA.

¹⁴¹ J. Robinson West and Julia Nanny, Caspian Sea Infrastructure Projects, Middle East Policy Council, Vol.-VII, June –2000. Accessed in October 2002, at www.mepc.org/public_asp/journal_vol7/0006_westandnanny.asp.

CONCLUSION

The disintegration of the Soviet Union had come as a god-sent opportunity to the US and its western allies to set their foothold in the Caspian Sea region in particular and Central Asia in general where the US had virtually no chance of intervention or commercial promotion although the area was commercially quite underdeveloped under Soviet Union. The US government, since then, has been systematically promoting its oil companies and financial institutions in the Caspian Sea region claiming that the region contains about 200 billion barrels of oil.

The US had a set of clear objectives in projecting the Oil reserve figure close to 200 billion barrels. However, over the years studies have confirmed that Caspian Sea's oil resources would not cross 40 billion barrels. As many experts have pointed out, at times it looked as if the US intelligence agencies and the Federal Administration were more in the know of the amount of oil locked in the Caspian Sea region than the oil companies operating in the region. That is probably a misperception. The US government was perhaps aware of the actual amount of oil in the Caspian Sea region; the talk about Caspian Sea region being the next Gulf was intended to a) focus the global attention on the Caspian Sea region so that it is not unjustifiably dominated by the Russians as they have always done; (b) to prompt the US oil companies to set up pipelines and business enterprises in the region so that the region close to Russia and Iran are absorbed into the global Capitalist Economy, (c) to take Central Asia out of the zones of

influence of Russia and Iran, and d) to get the Caspian energy flowing into the western markets.

The US Caspian policy gained momentum and reduced its diplomatic heights during the tenure of president Bill Clinton. The international system devised by his administration for and in and around the Caucasus and Caspian Sea region was said to be informed by liberal principles. State Talbot has more than once claimed that the era of the Great Game was over and what is needed is cooperation. The US state department has also clarified on more than one occasion in connection with the politics of the Caspian Sea region that the US does not believe in spheres of influence. Yet, a closer look reveals that the US policy towards the Caspian Sea region, while perhaps motivated by liberal principles, has a traditional hegemonic aspect. The hegemonic posture of the US stems from the realization that the country that controls the oil resources of the world controls the world.

One of the issues that the US raises as part of its foreign policy rhetoric is that of promotion of democracy, human rights and peace. According to this theory, the US is mainly interested in the protection of and setting up democratic governments, protecting the human rights and maintaining peace in the region. Why is the US interested in these issues? Just for the sake of those very virtues? Not so. The US would like to intervene and be a 'protector' a democracy, human rights and peace in the region because a) only in a peaceful environment can the US business thrive in the region; b) only democratic governments can be responsible governments who can assure the promotion US MNCs in the region

and the repatriation of wealth. However, there are others who argue that such a concept of US' love for democracy and peace due to commercial reasons would not stand theoretical debate. For instance, it would be easier for the US to deal with and negotiate treaties with dictators who do not have to worry about the people or the parliament, than with democratically elected governments. It is also easier for the US, according to this school of thought, to gain better access to the region if the region is in a state of chaos.

In fact, an important aspect of US' hegemonic posture becomes clearer when we analyze the systematic projection of NATO in to the region by the US. Some Caspian watchers would argue that it is off the mark to equate US intrusion into the area with NATO's getting involved with the countries in the region. Such reasoning is based on the argument that NATO, apparently, does not share the hegemonic posture nor the commercial intention of the US, and, on the other hand, US itself would not like to give a chance for any kind of inter-imperialistic rivalry in the region. It may, however, be argued in response to such a critical view of NATO's expansion being considered as part of US intervention in the region that while the US may like to unilaterally control the sources and energy in the region, the western powers want to use it too, thus their interest in the region. The US is conscious of this fact which makes it the US strategy to use other 'alliances partners' to strengthen its own foothold in the region. Secondly, US has been the leader of almost all of the western powers in the Caspian Sea region which makes it possible for the US to make strategic decisions and for others to follow them.

While one would agree to the proposition that US has been promoting its MNCs in the region through adequate policy decisions and subsequent administrative implementation, it should not blind us from viewing the facts a bit more dispassionately. While the above proposition holds true to a great extent, there are exceptions to the rule. If the US administration were always to listen and heed to the profit-oriented demands of its petroleum firms, it would have had different policies than what it has been adapting of late. For instance, the consistent US diplomacy has succeeded in constructing the almost commercially unviable Baku-Ceyhan (BTC) pipeline, which is primarily intended to transfer oil from Baku in Azerbaijan to Ceyhan in Turkey through Tibilisi in Georgia. Pure commercial calculations would draw blank in the case of the BTC project. It would indubitably be much cheaper to transfer energy from Azerbaijan either through Iran or Russia. But the US has been averse about opting for either of them due to less commercial but strategic reasons. The oil firms have always been urging the US to forgo the BTC project and opt for either the Iranian or the Russian route, but to no avail. To illustrate another example, one would wonder why the consistent demands and the US firms have not been heeded to by the administration to ease the provisions of the Iran Libya Sanctions Act (ILSA) so that the firms can do meaningful business with Iran in exploration, development and export of natural gas.

Many writings specially the journalistic kind on Caspian Sea region diplomacy also seem to suggest that Turkey has no independent desires or voice as far as the politics and policies of the Caspian Sea region are concerned.

Observers tend to exaggerate about US-Turkish strategic relations. There is no considerable dispute about the fact that the US considers Turkey to be of great importance in order to base itself in the region, show Turkey as an example as it is a modern democratic liberal Muslim country, use Turkey to pursue its own regional strategic interests in the region so that the US can eventually make use of that leverage which Turkey will gain in the region through its own engagements. History shows that Turkey is not greatly averse to such US intentions either. And yet equating US and Turkish interests in the region and considering Turkish Caspian policy as a mere extension of US foreign policy would certainly be off the mark. Turkey, for instance, is keen on commercially dealing with both Iran and Russia. Data show that Turkey imports petroleum products from both Iran and Russia. On the other hand, there are also US policies which may not, quite gel with Turkish strategies like US forcing a particular country in the Caspian Sea region which is not in the good books of Turkey. While the US would like to engage Russia politically and not commercially, Turkey would like to go the other way round. One may also have to think a bit more deeply about the willingness and capability of the grand western alliance to sustain their strategies in the Caspian Sea region. It is not clear that the US or NATO is prepared to engage in a long-term "hegemonic management" in the Caspian Sea region. The dynamics of local conflicts, the proximity of Russia and Iran, as well as the projects for a Moscow-Teheran counter-systematic trend, combined with the minimal assets deployed thus far by the west in this region, make such a project more an aspiration than a reality. It is also unclear as to the effectiveness of a Turkish

Security role given the demand placed on its forces by unresolved indigenous conflicts. Not the least of these is the Islamist assertion, which threatens, in Turkey and throughout the Caspian Sea region, to overturn the existing, narrowly based, and often-corrupt secular order. That is about the capability of the US-NATO alliance. What about their willingness? From the point of view of the concept of 'spheres of influence' the alliance would want to continue exert influence in the region. But then every strategic decision has some tangible profit motive behind it. In the case of the Caspian Sea region it is hydrocarbon resources. With the reports of new studies indicating that much of what used to be believed about the Caspian sea resources is nothing more than well written fiction, one may have to rethink about the entire gamut of strategic decision making currently done by the interested parties in the region. Why would any commercial firm or even a country with normal profit motives want to go on spending in a far off region? The Americans, for their own valid or invalid strategic reasons, might want to continue to have influence in the Caspian Sea region. However, that may not be the case with the NATO alliance countries. It is necessary to keep in mind that extensive confusions at very basic level of the Russian foreign policy making have contributed to its costly miscalculations and in consistent misadventures in the Caspian and Central Asian region. Inheriting the imperial legacy from the Tsarist and Soviet rulers, post disintegration rulers in Russia always wanted to turn their likings to laws in their near abroad. But whereas Tsarist Russia had the privilege of using brute force in an undemocratic era to control its near abroad, the USSR had the superpower status and the

economic pies to allure its non-Russian constituents. However, today's Russia has none of these practically, making its strategies for regional dominance fail miserably. Added to Russia's inability to dominate has been the key factor of its neighbors' refusal to give into such supremacy. It would not be an exaggeration to say that it was the imperial attitudes of the Russian Federation which made its neighbors look for alternatives making it easier for the US to set of foothold in the Caspian and Central Asian region.

Another factor that needs to be seriously taken into consideration with regard to the pipeline politics in the region is that there is a mounting amount of possibilities of an Iranian rapprochement with the west in general and US in particular. Increasing instances of reduced rigidity in the Iranian foreign policy making and President Khatami's cozying up with the west and sending feelers to the US are indications of such a possibility. Considering that the BTC pipeline is not a commercial pipeline for the US but only a strategic one, and, as mentioned above, there is a prospect of a de-ideologization and even normalization of American Iranian relations, the viability of Baku-Ceyhan pipeline may be compromised. Such instances can also throw into question the architecture of the anti-Iranian "strategic consensus" from which Turkey has immensely benefited. An additional factor that may be considered in conjunction with the preceding strand of thinking is that the physical security of the BTC has been under threat from various dissatisfied groups. Reports coming from the region seem to confirm this. That will contribute the undermining and BTC route in the wake of a US-Iranian rapprochement.

One concluding remark may be useful here. The proclaimed policy goal of the US in the initial phases of its involvement in the Caspian Sea region was to adopt a multiple pipeline strategy. This policy stemmed from the desire to deter the Russians and Iranians from having all stakes in the Caspian oil. However, over the years the tenor of the rhetoric of pipeline cooperation underwent a gradual yet systematic change with the US policy makers phasing out plans of cooperation (multiple pipelines) and adopting aggressive policies for a main export pipeline i.e. the BTC project. It would be analytically incoherent to say that the transition from the multiple pipeline option to the main exporting pipeline option, with declared aims for scuttling any plans of building any new pipelines through other Iran or Russia, is merely coincidental. It ought to be seen as part of a larger strategy.

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Appendices

Table 1. Caspian Sea Region Oil and Natural Gas Reserves

Country	Proven* Oil Reserves	Possible** Oil Reserves	Total Oil Reserves	Proven* Natural Gas Reserves	Possible** Natural Gas Reserves	Total Natural Gas Reserves
<u>Azerbaijan</u>	1.2 BBL	32 BBL	33.2 BBL	4.4 Tcf	35 Tcf	39.4 Tcf
<u>Iran***</u>	0.1 BBL	15 BBL	15.1 BBL	0 Tcf	11 Tcf	11 Tcf
<u>Kazakhstan</u>	5.4 BBL	92 BBL	97.4 BBL	65 Tcf	88 Tcf	153 Tcf
<u>Russia***</u>	2.7 BBL	14 BBL	16.7 BBL	N/A	N/A	N/A
<u>Turkmenistan</u>	0.6 BBL	80 BBL	80.6 BBL	101 Tcf	159 Tcf	260 Tcf
Total	10 BBL	233 BBL	243 BBL	170.4 Tcf	293 Tcf	463.4 Tcf

Sources: Oil and Gas Journal, Energy Information Administration

* proven reserves are defined as oil and natural gas deposits that are considered 90% probable

** possible reserves are defined as oil and natural gas deposits that are considered 50% probable

*** only the regions near the Caspian are included

BBL = billion barrels, Tcf = trillion cubic feet

Accessed in July 2002 at <http://www.eia.doe.gov/emeu/cabs/caspgrph.html>

**Table 2. Caspian Sea Region Oil Production and Exports
(thousand barrels per day)**

Country	Production (1990)	Est. Production (2001)	Possible Production (2010)	Net Exports (1990)	Est. Net Exports (2001)	Possible Net Exports (2010)
Azerbaijan	259	311.2	1,200	77	175.2	1,000
Kazakhstan	602	811	2,000	109	631	1,700
Iran*	0	0	0	0	0	0
Russia**	144	11	300	0	7	300
Turkmenistan	125	159	200	69	107	150
Total	1,130	1,292.2	3,700	255	920.2	3,150

Source: Energy Information Administration

* only the regions near the Caspian are included

** includes Astrakhan, Dagestan, and the North Caucasus region bordering the Caspian Sea

Accessed in July 2002 at <http://www.eia.doe.gov/emeu/cabs/caspgrph.html>

**Table 3. Caspian Sea Region Natural Gas Production and Exports
(billion cubic feet per year)**

Country	Production (1990)	Est. Production (2000)	Possible Production (2010)	Net Exports (1990)	Est. Net Exports (2000)	Possible Net Exports (2010)
Azerbaijan	350	200	1,100	-272	0	500
Kazakhstan	251	314.3	1,100	-257	-176.6	350
Iran*	0	0	0	0	0	0
Russia**	219	30	N/A	N/A	N/A	N/A
Turkmenistan	3,100	1,642	3,900	2,539	1,381	3,300
Total	3,920	2,072	6,100	2,010	1,204.4	4,150

Source: Energy Information Administration

* only the regions near the Caspian are included

** includes Astrakhan, Dagestan, and the North Caucasus region bordering the Caspian Sea

Accessed in July 2002 at <http://www.eia.doe.gov/emeu/cabs/caspgrph.html>

Table 4. Natural Gas Export Routes and Options in the Caspian Sea Region

Name/Location	Route	Capacity	Length	Estimated Cost/Investment	Status
Baku-Erzurum	Baku (Azerbaijan) via Tbilisi (Georgia) to Erzurum (Turkey), linking with Turkish natural gas pipeline system	Planned 254 Bcf capacity	540 miles	\$1 billion (includes up to \$500 million to construct new Azeri section)	Financing being arranged, construction originally scheduled to start in summer 2002.
"Centgas" (Central Asia Gas)	Daulatabad (Turkmenistan) via Herat (Afghanistan) to Multan (Pakistan). Could extend to India.	700 Bcf/year	870 miles to Multan (additional 400 miles to India)	\$2 billion to Pakistan (additional \$500 million to India)	Memorandum of Understanding signed by Turkmenistan, Pakistan, Afghanistan, and Uzbekistan. Presidents of Pakistan, Afghanistan, and Turkmenistan met in May 2002 to discuss reviving this pipeline idea.
Central Asia-Center Pipeline	Turkmenistan and Uzbekistan via Kazakhstan to Saratov (Russia), linking to Russian natural gas pipeline system	3.5 Tcf/year	Existing route	N/A	Operational. Turkmenistan is using this pipeline to export a total of 8.83 Tcf to Ukraine (via Russia) from 2002 to 2006, as well as smaller amounts to Russia.
China Gas Pipeline	Turkmenistan to Xinjiang (China). Could extend to Japan.	1 Tcf/year	4,161 miles; more if to Japan	\$10 billion to China; more if to Japan	Preliminary feasibility study done by ExxonMobil, Mitsubishi.

					and CNPC
Trans-Caspian Gas Pipeline (TCGP)	Turkmenbashy (Turkmenistan) via Baku and Tbilisi to Erzurum, linking with Turkish natural gas pipeline system	565 Bcf in first stage, eventually rising to 1.1 Tcf/year	1,020 miles	\$2 billion to \$3 billion	Project stalled; negotiations between Turkmenistan and Azerbaijan over pipeline volumes restarted in October 2001.
Korpezhe-Kurt-Kui	Korpezhe (Turkmenistan) to Kurt-Kui (Iran)	283-350 Bcf/year; expansion proposed to 459 Bcf/year by 2005	124 miles	\$190 million; 2005 expansion: \$300 million to \$400 million	Operational since December 1997.

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Accessed in July 2002 at <http://www.eia.doe.gov/emeu/cabs/caspgrph.html>

Table 5. Oil Export Routes and Options in the Caspian Sea Region

Name/Location	Route	Crude Capacity	Length	Estimated Cost/Investment	Status
Atyrau-Samara Pipeline	Atyrau (Kazakhstan) to Samara (Russia), linking to Russian pipeline system	Recently increased to 310,000 bbl/d	432 miles	Increase in capacity cost approximately \$37.5 million	Existing pipeline recently upgraded by adding pumping and heating stations to increase capacity.
<u>Baku-Ceyhan ("Main Export Pipeline")</u>	Baku (Azerbaijan) via Tbilisi (Georgia) to Ceyhan (Turkey), terminating at the Ceyhan Mediterranean Sea port	Planned: 1 million bbl/d	Approximately 1,038 miles	\$2.9 billion	One-year detailed engineering study completed in June 2002. Construction on Turkish section of pipeline began in June 2002. Completion of entire pipeline targeted for 2004, exports by Feb. 2005.
Baku-Supsa Pipeline (AIOC "Early Oil" Western Route)	Baku to Supsa (Georgia), terminating at Supsa Black Sea port	Recently upgraded from 115,000 to 145,000 bbl/d; proposed upgrades to between 300,000 bbl/d to 600,000 bbl/d	515 miles	\$600 million	Exports began in April 1999; approximately 115,000 bbl/d exported via this route in 2001.
Baku-Novorossiisk Pipeline (Northern Route)	Baku via Chechnya (Russia) to Novorossiisk (Russia), terminating at Novorossiisk Black Sea oil terminal	100,000 bbl/d capacity; possible upgrade to 300,000 bbl/d	868 miles; 90 miles are in Chechnya	\$600 million to upgrade to 300,000 bbl/d	Exports began late 1997; exports in 2001 averaged 50,000 bbl/d.
Baku-Novorossiisk Pipeline (Chechnya bypass. with link to	Baku via Dagestan to Tikhoretsk (Russia) and terminating	Currently: 120,000 bbl/d (rail and pipeline: 160,000 bbl/d); Planned: 360,000 bbl/d (by 2005)	204 miles	\$140 million	Completed April 2000. Eleven-mile spur connects bypass with Russia's Caspian

Makhachkala)	Novorossiisk Black Sea oil terminal				Sea port of Makhachkala.
<u>Caspian Pipeline Consortium (CPC) Pipeline</u>	Tengiz oil field (Kazakhstan) to Novorossiisk Black Sea oil terminal	Currently: 565,000-bbl/d; Planned: 1.34-million bbl/d (by 2015)	990 miles	\$2.5 billion for Phase 1 capacity; \$4.2 billion total when completed	First tanker loaded in Novorossiisk (10/01); exports rising to 400,000 bbl/d by end-2002
Central Asia Oil Pipeline	Kazakhstan via Turkmenistan and Afghanistan to Gwadar (Pakistan)	Proposed 1 million bbl/d	1,040 miles	\$2.5 billion	Memorandum of Understanding signed by the countries; project stalled by regional instability and lack of financing.
Iran-Azerbaijan Pipeline	Baku to Tabriz (Iran)	Proposed 200,000 bbl/d to 400,000 bbl/d	N/A	\$500 million	Proposed by TotalFinaElf.
Iran Oil Swap Pipeline	Neka (Iran) to Tehran (Iran)	175,000 bbl/d, rising to 370,000 bbl/d	208 miles	\$400 million to \$500 million	Under construction; oil will be delivered to Neka and swapped for an equivalent amount at the Iranian Persian Gulf coast.
Kazakhstan-China Pipeline	Aktyubinsk (Kazakhstan) to Xinjiang (China)	Proposed 400,000 bbl/d to 800,000 bbl/d	1,800 miles	\$3 billion to \$3.5 billion	Agreement 1997; feasibility study halted in September 1999 because Kazakhstan could not commit sufficient oil flows for the next 10 years.
Kazakhstan-Turkmenistan-Iran Pipeline	Kazakhstan via Turkmenistan to Kharg Island (Iran) on Persian Gulf	Proposed 1 million bbl/d	930 miles	\$1.2 billion	Feasibility study by TotalFinaElf; proposed completion date by 2005.
Khashuri-Batumi Pipeline	Dubendi (Azerbaijan) via	Initial 70,000 bbl/d, rising to 140,000 bbl/d-160,000 bbl/d	Rail system from Dubendi to	\$70 million for pipeline renovation	ChevronTexaco has canceled plans to rebuild and expand

	Khashuri (Georgia) to Batumi		Khashuri, then 105-mile pipeline from Khashuri to Batumi		the existing pipeline.
Trans-Caspian (Kazakhstan Twin Pipelines)	Aqtau (western Kazakhstan, on Caspian coast) to Baku; could extend to Ceyhan	N/A	370 miles to Baku	\$2 billion to \$4 billion (if to Ceyhan)	Feasibility study agreement signed in December 1998 by Royal/Dutch Shell, ChevronTexaco, ExxonMobil, and Kazakhstan; project stalled by lack of Caspian Sea legal agreement.

Caspian Sea Region

The following is an official document of the Department of Energy, USA, on the Caspian Sea Region.

The Caspian Sea region, including the Sea and the littoral states surrounding it, is important to world energy markets because it holds large reserves of undeveloped oil and natural gas. The Caspian Sea's mineral wealth has resulted in disagreements between the five countries over ownership of the resources, and the region's huge energy potential has sparked fierce competition--between producers as well as consumers--over the final export routes for this oil and natural gas.

Note: Information contained in this report is the best available as of July 2002 and is subject to change.

GENERAL BACKGROUND

The Caspian Sea is located in northwest Asia, landlocked between Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan. Since the breakup of the Soviet Union in 1991, the Caspian Sea--as well as the region surrounding it--has become the focus of much international attention due to its huge oil and natural gas reserves. The Sea, which is 700 miles long, contains six separate identified hydrocarbon basins, although most of its oil and natural gas reserves have not been developed yet. Although the littoral states of the Caspian Sea already are major energy producers, many areas of the Sea and the surrounding area remain unexplored.

The prospect of potentially enormous hydrocarbon reserves is part of the allure of the Caspian Sea region (which is defined here to include Azerbaijan, Kazakhstan, Turkmenistan, and the regions of Iran and Russia that are near the Caspian Sea). The Caspian region contains 10 billion barrels of proven oil reserves (defined as oil and natural gas liquids deposits that are considered 90% probable). In addition, despite a string of disappointing recent drilling results, mostly in Azerbaijan, the region's possible oil reserves (defined as 50% probable) could yield another 233 billion barrels of oil.

Overall, proven natural gas reserves in the Caspian region are estimated at around 170 Tcf. Possible natural gas reserves in the Caspian region are even larger, and could yield another 293 trillion cubic feet (Tcf) of natural gas. Turkmenistan (101 Tcf) and Kazakhstan (65 Tcf) are among the top 20 countries in the world in terms of proven natural gas reserves. Although it is not technically part of the Caspian Sea region, nearby Uzbekistan (66.2 Tcf in proven natural gas reserves) also holds significant natural gas deposits.

Since they became independent in 1991, Azerbaijan, Kazakhstan, and Turkmenistan have sought to develop their national oil and natural gas industries. Although the Soviet Union attempted to exploit each of the republic's energy resources, a lack of investment, deteriorating infrastructure, and out-dated technology resulted in declining rates of production in each of the countries at the time of the Soviet Union's collapse in 1991. Over the last 11 years, however, Azerbaijan and Kazakhstan, in particular, have received large amounts of foreign

investment in their oil and natural gas sectors. With additional investment, the application of Western technology, and the development of new export outlets, oil and natural gas production in the Caspian region could grow rapidly.

Caspian Legal Status Unresolved

In order for the Caspian Sea region to realize its full energy potential, however, the littoral states must first agree on the legal status of the Sea. Prior to 1991, only two countries--the Soviet Union and Iran--bordered the Caspian Sea, and the legal status of the Sea was governed by 1921 and 1940 bilateral treaties. With the collapse of the Soviet Union and the emergence of Kazakhstan, Turkmenistan, and Azerbaijan as independent states, ownership and development rights in the Sea have been called into question.

Most of Azerbaijan's oil resources (proven as well as possible reserves) are located offshore, and perhaps 30% to 40% of the total oil resources of Kazakhstan and Turkmenistan are offshore as well. Currently, there is no agreed-upon convention that delineates the littoral states' ownership of the Sea's resources or their development rights. The potential oil and natural gas wealth, along with the corresponding environmental risks of resource development in the Caspian, have heightened the stakes for each country.

As a result, several conflicts have arisen over mutual claims to different regions of the Sea, especially in its southern waters. In July 2001, Iranian military gunboats confronted a British Petroleum (BP) Azeri research vessel exploring the Araz-Alov-Sharg structure, ordering the ship out of waters Iran claims as its own. Azerbaijan, for its part, has objected to Iran's decision to award Royal Dutch/Shell and Lasmco a license to conduct seismic surveys in a region that Azerbaijan considers to fall in its territory. In addition, Turkmenistan and Azerbaijan remain locked in a dispute over the Serdar/Kyapaz field, while Turkmenistan claims that portions of Azerbaijan's Azeri and Chirag fields--which Turkmen officials call Khazar and Osman, respectively--lie within its territorial waters.

Thus, the unresolved status of the Caspian Sea has hindered further development of the Sea's oil and natural gas resources, as well as the construction of potential export pipelines from the region. Negotiations between the littoral states have made slow progress in ironing out differences between the countries: while Russia, Azerbaijan, and Kazakhstan have agreed on dividing the Sea by a "modified median" principle, Iran insists on an equal division of the Sea, and Turkmenistan agrees on the principle of dividing the Sea, but not the method. In April 2002, a long-delayed summit of the Caspian littoral heads of state failed to produce a multilateral agreement on the sea's legal status, prompting several states to sign bilateral agreements in an effort to solve the problem.

OIL

Despite the lack of a multilateral agreement on the Sea, several countries are undertaking active exploration and development programs in what is generally considered to be their sector of the Caspian Sea. In particular, Azerbaijan and Kazakhstan have made substantial progress in developing their offshore oil reserves.

Azerbaijan has signed a number of production-sharing agreements--both onshore and offshore--in order to develop its oil and natural gas industries. A significant

percentage of Azerbaijan's oil production comes from the shallow-water section of the Gunashli field, located 60 miles off the Azeri coast. Although the country's oil production fell after 1991 to just 180,000 barrels per day (bbl/d) in 1997, Azerbaijan's oil production rebounded to 311,200 bbl/d in 2001 with the help of international investment in its oil sector.

Kazakhstan also has opened its resources to development by foreign companies. International oil projects in Kazakhstan have taken the form of joint ventures, production-sharing agreements, and exploration/field concessions. After Russia, Kazakhstan was the largest oil-producing republic in the Soviet Union, but after independence, Kazakhstan's oil production dropped more than 115,000 bbl/d, to 414,000 bbl/d, in 1995. Boosted by foreign investment in its oil sector, Kazakhstan's oil production has increased steadily since then, with output of 811,000 bbl/d in 2001, most of which came from three large onshore fields (Tengiz, Uzen, and Karachaganak). In addition, preliminary drilling in Kazakhstan's offshore sector of the Caspian has revealed bountiful oil deposits, especially in the Kashagan field, raising hopes that Kazakhstan may become one of the world's largest oil producers.

Overall, oil production in the Caspian Sea region reached approximately 1.3 million bbl/d in 2001. Production in the region is projected to increase severalfold, led by three major projects currently under development in Azerbaijan and Kazakhstan:

- In April 1993, Chevron concluded a historic \$20 billion deal with Kazakhstan to create the Tengizchevroil joint venture to develop the Tengiz oil field, estimated to contain recoverable oil reserves of six to nine billion barrels. Tengizchevroil was producing approximately 250,000 bbl/d in June 2002, and the consortium is planning to invest \$3 billion over the next three years to boost production capacity at the field now that Caspian Pipeline Consortium's Tengiz-Novorosiisk export pipeline is operational. Given adequate export outlets, the Tengizchevroil joint venture could reach peak production of 750,000 bbl/d by 2010.
- In what was described as "the deal of the century," in September 1994 the Azerbaijan International Operating Company (AIOC) signed an \$8 billion, 30-year contract to develop three Caspian Sea fields--Azeri, Chirag, and the deepwater portions of Gunashli--with proven reserves estimated at three to five billion barrels. Almost all of Azerbaijan's production increases since 1997 have come from AIOC, which produced an average of 120,000 bbl/d of oil in the first four months of 2002. In August 2001, AIOC and Azeri government officials signed an agreement to carry out an expansion, with oil production at ACG expected to reach 800,000 bbl/d by the end of the decade. The planned Baku-Ceyhan Main Export Pipeline will be the main vehicle for ACG oil exports.
- Although signed with less fanfare in 1997, the offshore Kashagan block being developed by the Agip Kazakhstan North Caspian Operating Company (Agip KCO, formerly OKIOC) may turn out to be more lucrative than both the Tengiz and the ACG group of deposits combined. Exploration and preliminary drilling in the Kashagan block has produced

spectacular results, with analysts hailing the field as the largest oil discovery in the last 30 years. Although Agip KCO released estimates in June 2002 that the Kashagan field holds between seven and nine billion barrels of crude in proven reserves, as well as 38 billion barrels in probable reserves, both Kazakh officials and energy analysts have called that estimate "conservative."

These projects, along with others currently underway, could help boost Caspian Sea region production to around 3.7 million bbl/d by 2010. EIA expects production capacity from the Caspian basin to exceed 6.5 million barrels per day by 2020. Although not "another Middle East," as some analysts believed in the early 1990s, the Caspian Sea region is comparable to the North Sea in its hydrocarbon potential.

NATURAL GAS

Unlike with oil, the Caspian region's natural gas resources were extensively developed during the Soviet era. Caspian Sea region natural gas production, not including major Central Asian natural gas producer Uzbekistan, was 3.9 Tcf in 1990, but the collapse of the Soviet Union led to downturns across the region. After 1991, Caspian region natural gas, mostly from Turkmenistan, became a competitor with Gazprom, the Russian state natural gas company. Since Gazprom owned all the pipelines, and since export routes for Caspian natural gas--such as the Central Asia-Center pipeline--were routed through Russia, Caspian natural gas was squeezed out of the hard currency market.

As a result, Turkmenistan's incentives for increasing its production of natural gas disappeared. The country's output dropped throughout the 1990s, plummeting from 2.02 Tcf in 1992 to just 466 billion cubic feet (Bcf) in 1998, when the country was locked in a pricing dispute with Russia over the export of Turkmen natural gas. With high world natural gas prices and a Turkmen-Russian agreement on Turkmen exports in place, the country's natural gas production rebounded to 788 Bcf in 1999, then skyrocketed to 1.64 Tcf in 2000. Turkmenistan has plans to boost natural gas output substantially over the next decade, contingent on securing adequate export routes, such as the proposed Trans-Caspian Gas Pipeline.

Uzbekistan is the third largest natural gas producer in the Commonwealth of Independent States and one of the top ten natural gas-producing countries in the world. Since becoming independent, Uzbekistan has ramped up its natural gas production nearly 32%, from 1.51 Tcf in 1992 to 1.99 Tcf in 2000. In order to offset declining production at some older fields such as Uchkir and Yangikazen, Uzbekistan is speeding up development at existing fields such as the Kandym and Garbi fields, as well as planning to explore for new reserves. However, since Uzbekistan is landlocked and its natural gas competes with Russian and Turkmen natural gas, Uzbekistan is limited in its ability to export. Instead, Uzbekistan has concentrated on supplying the Central Asian natural gas market, mainly through the Tashkent-Bishkek-Almaty pipeline.

With the emphasis on Azerbaijan's oil potential, the country's natural gas sector often has been overlooked. In the past, Azerbaijan has imported natural gas from

Russia, Turkmenistan, and Iran to meet domestic needs, but consumption has been on the wane since the collapse of the Soviet Union, and in 2000, Azerbaijan's natural gas consumption and production were roughly equivalent at 200 Bcf. Azerbaijan is continuing to import natural gas, but the 1999 discovery of the Shah Deniz field will soon change that.

The Shah Deniz field, which is thought to be the world's largest natural gas discovery since 1978, is estimated to contain between 25 Tcf and 39 Tcf of possible (not proven) natural gas. Development of the field, which will cost upwards of \$2.5 billion including related infrastructure, should produce the first natural gas by 2004, making Azerbaijan a significant net natural gas exporter. Already, Azerbaijan has secured an agreement with Turkey to export Azeri natural gas via a planned Baku-Erzurum pipeline.

As investment continues to pour into the Kazakh natural gas sector, the country's natural gas production is set to increase dramatically. In August 2001, the Kazakh Ministry for Energy and Mineral Resources approved a 15-year strategy for developing the country's natural gas sector that would increase natural gas production fivefold. According to the strategy, which the Kazakh government approved, Kazakhstan is aiming to increase its natural gas production to 1.2 Tcf by 2005, to 1.66 Tcf by 2010, and to 1.84 Tcf by 2015. Key to this strategy is the development of natural gas reserves at Kashagan, Karachagañak, and Tengiz. Provided that the necessary infrastructure is built, Kazakhstan soon could become a major natural gas exporter as well.

Overall, natural gas production in the Caspian Sea region reached nearly 2.1 Tcf in 2000. Projects currently underway could help boost Caspian Sea region natural gas production to over 6 Tcf by 2010, and the enactment of laws barring the flaring of associated natural gas may increase the region's total production. In 1999, Azerbaijan enacted a law requiring that each oil production project in the country include a plan to develop its natural gas potential, while Kazakhstan is requiring Agip KCO to capture and use all the associated natural gas from the Kashagan block. Previously, natural gas had been flared off in both countries instead of being piped to consumers because of a lack of a developed infrastructure to deliver natural gas from offshore fields.

EXPORT ISSUES

As increasing exploration and development in the Caspian Sea region leads to increased production, the countries of the region will have additional oil and natural gas supplies available for export. Already, in 2001, Kazakhstan's net oil exports were 631,000 bbl/d, while Azerbaijan's were 175,200 bbl/d. Overall, Caspian Sea region oil exports in 2001 amounted to about 920,000 bbl/d (of the 1.3 million bbl/d produced). With numerous oil projects in the region slated to boost production in the coming years, the region's net exports could increase to over 3 million bbl/d in 2010, and possibly another 2 million bbl/d on top of that by 2020.

With regards to natural gas, Turkmenistan led the way among Caspian Sea region producers with net exports of 1.38 Tcf in 2000. Overall, Caspian Sea region

natural gas exports totaled just 1.2 Tcf in 2000, since both Azerbaijan and Kazakhstan have yet to tap their full natural gas production potential (and Kazakhstan is currently a net natural gas importer). With Azerbaijan's Shah Deniz field in development, along with increased investment to develop infrastructure and markets for the region's natural gas, Caspian natural gas exports could increase by another 2-3 Tcf by 2020.

Existing Export Options

In order to boost oil and natural gas exports from the Caspian Sea region, a number of issues will need to be addressed. During the Soviet era, all of the oil and natural gas pipelines in the Caspian Sea region (aside from those in northern Iran) were designed to link the Soviet Union internally and were routed through Russia.

Prior to 1997, exporters of Caspian region oil had only one major pipeline option available to them, the 240,000-bbl/d Atyrau-Samara pipeline from Kazakhstan to Russia. Smaller amounts of oil were exported by barge and by rail through Russia, as well as by a second, smaller pipeline from Kazakhstan to Russia. In the decade since the collapse of the Soviet Union, several new oil export pipelines, such as the Baku-Novorossiisk, the Tengiz-Novorossiisk, and the Baku-Supsa pipelines, have been constructed, and the Atyrau-Samara pipeline recently was upgraded to increase its capacity to 300,000 bbl/d.

Nevertheless, the Caspian region's relative isolation from world markets, as well as the relative lack of export options, continues to hinder exports outside of the former Soviet republics. Of the 920,000 bbl/d exported from the region in 2001, only about 400,000 was exported to consumers outside of the former Soviet Union.

Natural gas exports from the Caspian region have been even more limited. All of the export pipelines from the region pass through Russia, requiring Caspian region natural gas exporters to make agreements with Gazprom, the Russian monopoly that owns the pipelines, in order to export their natural gas. Since Gazprom is also a competitor with the Caspian region for hard currency natural gas markets, the company has used its position to negotiate better deals and to limit pipeline access for Caspian region natural gas. Turkmenistan's economy, which is concentrated mainly in oil and natural gas, experienced a huge 25.9% decrease in its gross domestic product (GDP) in 1997 when Gazprom denied Turkmenistan access to its pipeline network over a payment dispute.

Since Gazprom has reserved the hard currency markets of Europe for itself by limiting pipeline access for Caspian region natural gas producers, most exports from the region have remained in the Newly Independent States (NIS). Due to the ongoing transition process to a market economic system in much of the NIS, the majority of these former Soviet republics have been unable to pay existing world prices for natural gas supplies. Thus, in order to export their natural gas at all, the Caspian region's producers have had two options: either sell their natural gas to Russia at below-market prices or pay Gazprom a transit fee, then export those

supplies via the Russian pipeline system to ex-Soviet states that cannot pay fully in cash or are tardy with payments for supplies already received.

In 1997, Turkmenistan and Iran completed the \$190 million Korpezhe-Kurt Kui pipeline linking the two countries, thereby becoming the first (and so far, only) natural gas export pipeline from Central Asia to bypass Russia. Although Gazprom and Turkmenistan resolved their pricing dispute in 1998, in order to reach its full natural gas export potential, Turkmenistan and other Caspian region natural gas producers must solve the problem of how to pipe their natural gas to consumers and receive hard currency at market prices in return.

New Export Options

In order to bring much-needed hard currency into their economies, Caspian region oil and natural gas producers are seeking to diversify their export options to reach new markets. With new production coming online as well, new-transportation routes will be necessary to carry Caspian oil and natural gas to world markets. To handle all the region's oil that is slated for export, a number of Caspian region oil export pipelines are being developed or are under consideration. Likewise, there are several Caspian region natural gas export pipelines that have been proposed. Although there is no lack of export option proposals, questions remain as to *where* all these exports should go.

West?

The TRACECA Program (Transport System Europe-Caucasus-Asia, informally known as the Great Silk Road) was launched at a European Union (EU) conference in 1993. The EU conference brought together trade and transport ministers from the Central Asian and Caucasian republics to initiate a transport corridor on an West-East axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia.

In September 1998, twelve countries (including Azerbaijan, Bulgaria, Kazakhstan, Romania, Turkey, and Uzbekistan) signed a multilateral agreement known as the Baku Declaration to develop the transport corridor through closer economic integration of member countries, rehabilitation and development of new transportation infrastructure, and by fostering stability and trust in the region. The planned Baku-Ceyhan Main Export Pipeline to transport oil from Azerbaijan to Turkey and then to European consumers is the main component of this cooperation.

In addition, the EU has sponsored the Interstate Oil and Gas Transport to Europe (INOGATE) program, which appraises oil and natural gas exports routes from Central Asia and the Caspian, and routes for shipping energy to Europe. INOGATE is run through the EU's Technical Assistance to the Commonwealth of Independent States (TACIS) program.

East?

However, there is some question as to whether Europe is the right destination for Caspian oil and natural gas. Oil demand over the next 10 to 15 years in Europe is expected to grow by little more than 1 million bbl/d. Oil exports eastward, on the other hand, could serve Asian markets, where demand for oil is expected to grow

by 10 million bbl/d over the next 10 to 15 years. In particular, Chinese oil consumption is projected to rise dramatically.

To supply this Asian demand, though, would necessitate building some of the world's longest pipelines. Geographical considerations would force any pipelines to head north of the impassable mountains of Kyrgyzstan and Tajikistan across the vast, desolate Kazakh steppe, thereby adding even more length (and cost) to any eastward pipelines.

South?

An additional way for Caspian region exporters to supply Asian demand would be to pipe oil and natural gas south. This would mean sending oil and natural gas through either Afghanistan or Iran. The Afghanistan option, which Turkmenistan has been promoting, would entail building pipelines across war-ravaged Afghan territory to reach markets in Pakistan and possibly India. With the ouster of the Taliban in Afghanistan in December 2001, proposals to build a Trans-Afghan natural gas pipeline and the Central Asian Oil Pipeline have re-emerged, but neither pipeline is realistic in the short-term.

The Iranian route for natural gas would pipe Caspian region natural gas (from Azerbaijan, Uzbekistan, and Turkmenistan) to Iran's southern coast, then eastward to Pakistan, while the oil route would take oil to the Persian Gulf, then load it onto tankers for further trans-shipment. Turkmenistan and Kazakhstan also have initiated low-volume oil "swap" deals with Iran, delivering oil in tankers to refineries in Iran's northern regions in exchange for similar volumes of crude at Iranian ports in the Persian Gulf. However, any significant investment in Iran would be problematic under the Iran and Libya Sanctions Act, which imposes sanctions on non-U.S. companies investing in the Iranian oil and natural gas sectors. U.S. companies already are prohibited from conducting business with Iran under U.S. law.

North or Northwest?

For its part, Russia itself has proposed multiple pipeline routes that utilize Russian oil pipelines to transport oil to new outlets being developed on the Baltic and Black Seas. In addition to the Caspian Pipeline Consortium's Tengiz-Novorossiisk pipeline, Russia's Baltic Pipeline System became operational in December 2001, and the country is working with Croatia to connect the Adria pipeline with the southern Druzhba pipeline. Reversing the flows in the Adria pipeline and tying it to the southern Druzhba route will allow oil exports from the Caspian to run via Russia's pipeline system, across Ukraine and Hungary, and then terminate at the Croatian deep-sea Adriatic port of Omisalj.

In addition, Russia already has the most extensive natural gas network in the region, and the system's capacity could be increased to allow for additional Caspian region natural gas exports via Russia. However, there are political and security questions as to whether the newly independent states of the former Soviet Union should rely on Russia (or any other country) as their sole export outlet, and Caspian region producers already have expressed their desire to diversify their export options.

Bosporus/Black Sea Issues

A major problem with additional Caspian oil exports heading west is the increasing congestion in the Bosphorus Straits. Turkey has raised concerns about the ability of the Bosphorus Straits, already a major chokepoint for oil tankers, to handle additional tanker traffic. Most of the existing Russian oil export pipelines terminate at the Russian Black Sea port of Novorossiisk, requiring tankers to transit the Black Sea and pass through the Bosphorus Straits in order to gain access to the Mediterranean and world markets.

Already, Turkey has stated its environmental concerns about a possible collision (and ensuing oil spill) in the Straits as a result of increased tanker traffic from the launch of the Caspian Pipeline Consortium's Tengiz-Novorossiisk pipeline in March 2001. The first tanker with CPC oil was loaded at Novorossiisk in October 2001, and exports are expected to increase to 400,000 bbl/d by the end of 2002. As a result, there already are a number of options under consideration for oil transiting the Black Sea to bypass the Bosphorus Straits.

Regional Conflicts

In almost any direction, Caspian region export pipelines may be subject to regional conflicts, an additional complication in determining final routes. Despite the ouster of the Taliban government in December 2001, Afghanistan remains scarred and unstable after 23 years of war. The Azerbaijan-Armenia war over the Armenian-populated Nagorno-Karabakh enclave in Azerbaijan has yet to be resolved. Separatist conflicts in Abkhazia and Ossetia in Georgia flared in the mid-1990's. Russia's war with Chechnya has devastated the region around Grozny in southern Russia. In addition, the Uzbek government has been cracking down on Islamic fundamentalism in Uzbekistan, tensions between rivals Pakistan and India remain high, and the Caspian littoral states themselves have taken to bickering over territorial claims in the Sea.

Nevertheless, several export pipelines from the Caspian region already are completed or under construction, and Caspian region exports are already transiting the Caucasus. While the hope is that export pipelines will provide an economic boost to the region, thereby bringing peace and prosperity to the troubled Caucasus and Caspian regions in the long run, the fear is that in the short-term, the fierce competition over pipeline routes and export options will lead to greater instability.

Environmental Issues

The spotlight on the Caspian region's oil and gas reserves also highlighted the appalling state of the environment in and around the sea. Years of neglect have left the sea and the surrounding region in a precarious position environmentally. Petrochemical and refining complexes on the Absheron peninsula in Azerbaijan are major sources of land-based pollution, and discharges and spills from oil and gas drilling--both onshore and in the sea itself--have had serious impacts on the environment. Untreated waste from the Volga River--into which half the

population of Russia and most of its heavy industry drains its sewage--empties directly into the Caspian Sea, while pesticides and chemicals from agricultural run-off are threats to the sea's flora and fauna. Thousands of seals that live in the Caspian Sea have died since 2000 due to pollution that weakened their immune systems, and overfishing, especially of the prized sturgeon, has caused a dramatic decline in fish stocks.

In addition to the existing problems, several other issues could compound the Caspian region's environmental difficulties. Oil and gas production in the sea inevitably will result in the construction of pipelines and infrastructure to export these resources to consumers, raising the possibility of loss of habitats for marine life as well as the specter of accidental spills. The mysterious rise of the Caspian Sea could flood oil wells, rigs, and earth-walled reservoirs on the coastline, spilling into water tables and contaminating drinking water supplies. A lack of regional cooperation, highlighted by the still unresolved legal status of the Caspian Sea, as well as weak environmental laws and regulations and the inability to enforce them, already is affecting efforts to protect the Caspian's environment. Continued economic development, improved regional cooperation, and the implementation of modern technology will be required in order to improve the state of the environment in and around the Caspian Sea in coming years.

Source: Department of Energy, USA, "Caspian Sea Region" (July 2002)
<http://www.eia.doe.gov/emeu/cabs/caspian.html>

**THE WHITE HOUSE Office of the Press Secretary
(Istanbul, Turkey)**

**For Immediate Release
November 17, 1999
FACT SHEET**

Background on U.S. Caspian Energy Policy Caspian energy policy:

The Clinton Administration has actively supported the development of oil and gas resources of the Caspian Basin since 1994, when the U.S. Government established a special inter-agency working group to focus on the President's Caspian energy policy. This working group ensures incorporation of commercial, technical, diplomatic, and other perspectives in forming U.S. policy on Caspian energy development.

Starting in 1995, the United States has specifically advocated the establishment of multiple energy export pipelines, traveling along an "east-west" axis from the Caspian region. This policy is intended to:

- underscore our commitment to the sovereignty and independence of the new states of the Caspian region and enhance their economic prospects;
- improve the energy security of the U.S., Turkey, and other allies by ensuring the free flow of Caspian energy to the world market, without interference from Iran or dependence on any single route;
- enhance commercial opportunities for U.S. and other companies;
- create incentives to resolve regional conflicts by re-establishing economic linkages among the new Caspian states; and
- promote and protect the environmental safety of the Bosphorus Strait.

Milestones:

The Clinton Administration's multiple pipelines policy has achieved the following milestones:

- In 1995, international energy companies decided to build two "early oil" pipelines from Azerbaijan, a northern line to Novorossisysk in Russia and a western line to Supsa, on the Black Sea coast of Georgia. The western line opened in April 1999 and is operating at its capacity of 115,000 barrels per day. The northern line opened in November 1997, with a capacity of 130,000 barrels per day, although it has since been periodically out of service due to the instability in Dagestan and Chechnya.

- In 1996, Vice President Gore reached agreement with Russian Prime Minister Chernomyrdin that broke a longstanding logjam barring construction of the Caspian Pipeline Consortium line, which is to run from northwestern Kazakhstan to the Black Sea port of Novorossysk across southern Russia. Construction of the CPC line is now underway, and the project is already bringing far-reaching benefits to Russia and Kazakhstan in terms of expanded employment, manufacturing, and governmental revenues. The line will principally serve the Tengizchevroil project and is expected to be operational in 2001.

- In May 1998, the U.S. Trade and Development Agency, the U.S. Export-Import Bank, and the Overseas Private Investment Corporation announce the establishment of the Caspian Finance Center, in Ankara. The Center's mission is to facilitate the development energy and other infrastructure projects in the Caspian region by combining the forces of the U.S. Government's three export credit agencies.

- In July 1998, the President appointed Ambassador Richard Morningstar to the new position of Special Advisor to the President and the Secretary of State for Caspian Basin Energy Diplomacy. In July 1999, Ambassador Morningstar was succeeded by Ambassador John Wolf.

- In October 1998, the Presidents of Turkey, Georgia, Azerbaijan, Kazakhstan, and Uzbekistan signed the Ankara Declaration, in which the countries for the first time formally expressed support for the Baku-Ceyhan main export pipeline and announced the intention to initiate an intensive dialogue with energy producers across the Caspian region.

- In February 1999, the Government of Turkmenistan selected PSG Inc. as the lead sponsor to develop the Trans-Caspian Gas Pipeline. In August 1999, PSG and Royal Dutch Shell concluded a memorandum of understanding in which they formed a partnership to develop the Trans-Caspian Gas Pipeline.

Source: <http://www.irvl.net/background-Caspian.htm>

Farewell to Flashman: American policy in the Caucasus and Central Asia

-By Strobe Talbott

Address at the Johns Hopkins School of Advanced International Studies,
Baltimore, Maryland

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Thank you very much, Fred (Starr), and thanks to you, too, Paul (Wolfowitz). I've followed the institute's work since it opened up shop 10 months ago. In that short time, it has become a major source of scholarship and public education. You have already made an important contribution to the American national interest in the Caucasus and Central Asia.

That region is opening up and reaching out to us and to the other established democracies. Let me illustrate that point with an image from a scene I witnessed almost exactly two weeks ago. It was in Madrid, at a meeting of the 44 countries that make up the new Euro-Atlantic Partnership Council. President Clinton found himself seated between the Prime Minister of the United Kingdom and the Foreign Minister of Uzbekistan, and directly across from the Foreign Minister of Armenia and the President of Azerbaijan. The protocol may have been an accident of the alphabet, but it was symbolically appropriate, nonetheless.

The Euro-Atlantic community is evolving and expanding. It stretches to the west side of the Atlantic and to the east side of the Urals. The emergence of such a community represents a profound break with the past for all the people involved, but for none more than those of the Caucasus and Central Asia, who have, for so much of their history, been subjected to foreign domination.

Today, they have the chance to put behind them forever the experience of being pawns on a chess board as big powers vie for wealth and influence at their expense. For them, genuine independence, prosperity, and security are mutually reinforcing goals.

The United States has a stake in their success. If reform in the nations of the Caucasus and Central Asia continues and ultimately succeeds, it will encourage similar progress in the other New Independent States of the former Soviet Union, including in Russia and Ukraine. It will contribute to stability in a strategically vital region that borders China, Turkey, Iran, and Afghanistan and that has growing economic and social ties with Pakistan and India. The consolidation of free societies, at peace with themselves and with each other, stretching from the

Black Sea to the Pamir mountains, will open up a valuable trade and transport corridor along the old Silk Road between Europe with Asia.

The ominous converse is also true. If economic and political reform in the countries of the Caucasus and Central Asia does not succeed--if internal and cross-border conflicts simmer and flare--the region could become a breeding ground of terrorism, a hotbed of religious and political extremism, and a battleground for outright war.

It would matter profoundly to the United States if that were to happen in an area that sits on as much as 200 billion barrels of oil. That is yet another reason why conflict resolution must be job one for U.S. policy in the region: It is both the prerequisite for and an accompaniment to energy development.

Let me review very briefly what has happened in the 5 1/2 years since the hammer-and-sickle flag was lowered for the last time over the Kremlin--and over government buildings throughout the former U.S.S.R. Thanks to the prompt and farsighted response of the Bush Administration, we were the first country to open embassies in every capital. We airlifted essential humanitarian assistance to these countries in their first winters of independence.

By the way, it was at Paul Wolfowitz's insistence, when he was at the Pentagon, that the U.S. established Defense Attache offices at these embassies. And it was at his behest that the first military-to-military contacts took place.

In the 4 1/2 years since the Clinton Administration came into office, our message to the states of the region has been simple: As long as they move in the direction of political and economic freedom, of national and international reconciliation, we will be with them. That is what President Clinton told Eduard Shevardnadze of Georgia last Friday. It is what Vice President Gore told Askar Akayev of Kyrgyzstan earlier in the week. It is what President Clinton will tell President Aliyev next week. And it is the message that the First Lady will carry directly to the people and governments of Kazakstan, Kyrgyzstan, and Uzbekistan this fall.

Our support has four dimensions: the promotion of democracy, the creation of free market economies, the sponsorship of peace and cooperation within and among the countries of the region, and their integration with the larger international community. Over the course of the past year, we have broadened and deepened our engagement with the region in each of these areas. Let me take them one at a time.

First, is democracy: The requisite institutions and attitudes--rule of law, civilian control and parliamentary oversight of the military, and respect for human rights--are not, to put it mildly, deeply rooted in the region. The very newness of democracy is itself a major obstacle to the process of democratization. After at least seven decades of being ruled from Russia--and in some cases much longer

than that--these states were, when they gained their independence overnight on Christmas Day 1991, ill-prepared for the challenge of modern statehood. Many observers asserted that of the 12 New Independent States that emerged from the U.S.S.R., the eight of Central Asia and the Caucasus would be the least likely to survive.

President Shevardnadze has been particularly courageous in proving that pessimism wrong and in warning us--during his two visits to Washington--to make sure it is not self-fulfilling. The Georgian elections in 1995 were the first in the region that international observers judged to be free and fair.

Elsewhere, the picture is mixed. Kyrgyzstan is the only Central Asian state to have held an open, multi-candidate presidential election, but the government has launched criminal proceedings against some of its critics. Other states have committed serious violations of their citizens' human rights.

For our part, the United States has worked with international organizations like the OSCE, as well as with non-governmental organizations like the National Democratic Institute and the International Republican Institute to provide training and assistance to nascent political parties. We have also supported a wide range of home-grown NGOs, such as an association for the defense of women's rights in Azerbaijan, a Young Lawyers' Association in Georgia, and the Association of Youth Leaders in Kazakstan. All the while, we have spoken out publicly about human rights abuses and flaws in the democratic process, such as the shortcomings in the elections in Azerbaijan two years ago and in Armenia last fall.

In promoting democracy, we make the case that it is a condition for lasting economic progress. Only if the citizenry and the growing private sectors in these states have a say in the policies of the government will reform have the necessary backing; and only if these countries develop the rule of law will they attract the foreign investment they so desperately need.

As in politics, some states have proceeded more rapidly than others in the economic realm. Armenia and Georgia deserve a lot of credit, literally and figuratively. Both lack mineral wealth and have been caught up in serious regional conflicts. Yet they have been pace-setters in fiscal stabilization, privatization, and progress toward real growth.

In Central Asia, Kyrgyzstan and Kazakstan reached that last milestone--real growth--in 1996. Other countries, however, have yet to take the most difficult steps toward building a market economy. Our goal is to help them in that direction. Since 1992, the U.S. has obligated more than \$2.2 billion in overall assistance to the eight states of the Caucasus and Central Asian region. Initially, much of this aid was directed at pressing humanitarian needs. We have also been a major donor to refugee programs throughout the area.

But we are now shifting our focus in the region from humanitarian to development assistance. That is the priority in the plan we have submitted to Congress for expanded assistance programs within the NIS in FY 1998. We are asking Congress to increase our assistance by 34%, to \$900 million. These additional resources will allow us to increase our support for democratic and economic reform in Central Asia and the Caucasus by more than 40%. Even in straightened budgetary times, that is a prudent investment in our nation's future.

But there are obviously limits to what we can do ourselves. That is why, in our support for reform in the Caucasus and Central Asia, we have been close partners with the major international financial institutions (IFIs). Working through the IFIs allows us to leverage our scarce aid dollars with those of the international community.

American assistance has helped Kazakstan and Kyrgyzstan implement one of the most modern and transparent tax reform laws in the NIS, and we have helped Kazakstan and Armenia with ambitious privatization programs. We have also aided Kyrgyzstan in establishing a stock market. Throughout the region, we're encouraging the states there to establish ties with the World Bank, International Monetary Fund, the Council of Europe, the European Union, and other international financial and political institutions. We hope to welcome Armenia, Georgia, Kyrgyzstan, and Kazakstan into the World Trade Organization--on the commercial terms generally applied to new members--before the end of 1998. We have supported the efforts by states in the region to develop a Eurasian transportation corridor, to eliminate trade barriers among them, and to create a region-wide market through the Central Asian Free Economic Zone.

Meanwhile, we are also providing funding and technical advice to help the nations of the Caucasus and Central Asia overcome another grim legacy of Soviet rule--environmental degradation, such as the disaster that has befallen the Aral Sea. This summer, we will open a regional environmental office in Tashkent to coordinate our environmental efforts in Central Asia. We are advocating similar regional approaches to transnational issues like weapons proliferation, drug trafficking, and organized crime.

Let me turn now to the security dimension of our engagement in the Caucasus and Central Asia. This September, the Central Asian Peacekeeping Battalion--made up of armed forces from Kazakstan, Uzbekistan, and Kyrgyzstan--will host troops from the United States, Russia, Turkey, and other nations in a joint peacekeeping exercise. These units will practice together their skills in minesweeping and distributing humanitarian aid. The image of American, Russian, and Turkish troops participating together--very much on the same side--in combating threats to the stability and security of the region is worth keeping in mind when listening to conventional wisdom about how the region is heading back to the future.

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

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

An essential step in that direction is the resolution of conflicts within and between countries and people in the region. In the last century, internal instability and division provided a pretext for foreign intervention and adventurism. In the last decade, since the breakup of the U.S.S.R., several such conflicts have erupted again. Let me touch on three and on what the United States and the international community are doing to help resolve them.

The first is the war over Nagorno-Karabakh. Even though the guns are, for the moment, silent, the fighting of the past decade has displaced nearly 800,000 Azeris. That's over 10% of the population of Azerbaijan. While the cease-fire is welcome, it is also precarious, and the absence of real peace has hurt both Azerbaijan and Armenia.

The United States, through its involvement in the OSCE, is determined to help find a solution in Nagorno-Karabakh--a solution that, by definition, will require difficult compromises on all sides. This is an effort in which I've been personally involved for over four years, particularly in recent months.

Along with Russia and France, the United States is conducting an OSCE initiative under the auspices of the so-called Minsk Conference. I traveled to the region at the end of May, and Lynn Pascoe, our special envoy, has been back there in the last several days. The U.S., Russian, and French co-chairs have achieved an extraordinary degree of harmony. That solidarity seems to have induced some flexibility among the three parties to the conflict.

But there are still plenty of obstacles to further progress. One of those is domestic--we have inflicted it on ourselves. I am referring to Section 907 of the FREEDOM Support Act, which limits our ability to provide assistance to the Government of Azerbaijan. This legislation, written in 1992, was intended to help Armenia overcome an Azerbaijani embargo. But it has had the negative effect of limiting our leverage with Baku and complicating our ability to be as effective as

we could otherwise be as an honest broker. It has also made it impossible for us to provide the Azerbaijanis with assistance on elections, economic reform, energy development, and in other areas where it is in our national interest to do so--hence our opposition to Section 907. I suspect you'll be hearing more on the subject when President Aliyev arrives here next week.

There is, of course, another conflict in the Caucasus, about which we heard a great deal from President Shevardnadze last week. This is the one in Abkhazia. President Clinton told President Shevardnadze that the United States is prepared to intensify its diplomatic efforts on behalf of a United Nations-backed settlement.

As for the five-year-old civil war in Tajikistan, that situation remains fragile and dangerous. We have provided funding for the UN-brokered peace process, and we welcomed the signing last month of a comprehensive peace accord in Moscow. We are prepared to provide aid for demobilization, start-up assistance for political parties, and preparation for new elections. The difficulties in implementation are sobering, but the recent accord offers a real opportunity for reconciliation not only within Tajikistan but with benefits for the surrounding countries as well.

That is the more general point to which I would like now to turn: The big states that border the eight nations of the Caucasus and Central Asia have much to gain from regional peace and much to lose from regional conflict. Some would say that is self-evident, but others would say it is "ahistorical" in that it disregards the inevitable and irresistible temptation of the Great Powers to replay the great game for the prize of oil and gas from the Caspian Basin.

Overcoming old prejudices and predispositions from the era of Lt. Harry Flashman needs to be a constant theme in our own diplomacy in the region, and we are using our good offices to that end. On all my trips to or from the Caucasus, I've made a point of stopping in Ankara. The Turks are making major investments in Turkmenistan and Azerbaijan and are developing trading relationships with the entire region.

Turkey's increased attention and activism has been a source of solace and support to those who rightly worry about the projection of Iranian influence. But many Russians see the Turkish role differently. They worry that Turkey's growing involvement in the region might cut them off from the former Soviet republics.

Russia, of course, is the target of concern itself for reasons rooted in history, including very recent history. Under Czars and commissars alike, Russia's leaders in the past seemed capable of feeling strong, secure, and proud only if others felt weak, insecure, and humiliated.

Today there are still plenty of questions--and, among Russia's neighbors, plenty of anxieties--about how Moscow will handle its relations with the other members of the CIS. Whether that grouping of states survives will depend in large measure on

whether it evolves in a way that vindicates its name; that is, whether it develops as a genuine common-wealth of genuinely independent states. If it goes in another direction--if its largest member tries to make "commonwealth" into a euphemism for domination of its neighbors--then the CIS will deserve to join that other set of initials, U.S.S.R., on the ash heap of history.

President Clinton has addressed this question frequently over the past four years: "How will Russia define its role as a great power?" He asks: "In yesterday's terms, or tomorrow's?" Russia, he has said, has "...a chance to show that a great power can promote patriotism without expansionism; that a great power can promote national pride without national prejudice ... the measure of Russia's greatness in the future will be whether the big neighbor can be the good neighbor."

One of the watchwords of our dialogue with Russia is integration--the right kind of integration. Integration means that the doors--and benefits--of international institutions will be open to Russia as long as Russia stays on a path of reform, including in the way it conducts its relations with its neighbors, and that means the way it defines integration in the context of the CIS.

As I indicated at the outset, that is consonant with the message we are conveying to all the New Independent States, notably including those of the Caucasus and Central Asia. We believe that our presence and influence in the region can itself be a force for the right kind of integration.

Let me close by stressing that support for reform, democracy, economic development, and integration in that vitally important region is not just a task for the U.S. Government or even for governments in general. Ultimate success will also depend upon the efforts of non-governmental organizations and businesses like those represented by many of you here today. And it will require the kind of clear thinking, new ideas, and constructive criticism that this institute has generated in its first year of existence--some of which I look forward to hearing from you right now. Thank you very much.



Source: www.treemedia.com/cfrlibrary/policy/talbott.html.