

defensive non-involvement *realpolitik* was moderated by the adoption of liberal economic policies and an activist multilateralism in foreign policy in the 1990s.

During the last centuries of the Ottoman state, the imperial elite initiated the process of Westernization and adopted their state's formal integration with the European state system as a major foreign policy goal. The military played, and continues to play, a leading role in this process. Atatürk's Republican and secular reforms constituted a breakthrough in the Westernization process. They set Turkey on a course of no return by anchoring it in the realm of Western values. The military continues to regard itself as the guardian of the nation's vital interests, defined in terms of territorial integrity, national unity and secularism. It enjoys considerable public and media support in carrying out its mission in this restricted area. After the Second World War, Turkey accepted democratization within a multi-party system as an indispensable component of Westernization. Turkey's polity has yet to get over the paradox between the military's relative autonomy in politics on the one hand, and the consolidation of the democratic regime as an integral part of Westernization and a fundamental condition of being a full member of the European Union on the other.

Nevertheless, the present trend reflects that the military is gradually withdrawing from the political scene. There are several reasons for this process of disengagement: First, in the contemporary era, democratization cannot be disintegrated from Westernization. As the prime agent of Westernization, the military has been increasingly mindful of this historical development since the end of the Second World War. Second, the Turkish armed forces are proud of being a highly professional institution. The military knows quite well that its involvement in politics leads to an erosion of its professionalism as well as to a loss of their prestige, particularly among their colleagues abroad. Third, there is growing pressure for further democratization coming from public opinion and the liberal media. Fourth, a process of institutional integration with the West began after the Second World War by Turkey's membership in the Council of Europe and NATO. It was finally consolidated by its EU candidacy at the EU's Helsinki Summit in December 1999. The EU membership process is expected to promote further democratization and to gradually reduce the role of the military in politics. ▣

## Turkey and Eurasia: Opportunities and Risks in the Caspian Pipeline Derby

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*"In the decade ahead, Turkey will continue to face geo-political uncertainty in its relations with Russia and the Caspian Sea region, driven until now by the contentious interaction between Russian and US policies in the Caspian region."*

Turkey's international relations have gone through many dramatic changes in the past decade, but none so striking as the transformation of its relationship with the former Soviet Union. The collapse of the USSR and the independence of its 15 successor states have brought Turkey both opportunities and risks to its North and East. Thus far, Turkish engagement in post-Soviet Eurasia has brought substantial benefit to the Turkish economy as well as something of a boost to Turkey's geo-political significance and prestige.

However, the transformation of the former Soviet space has not yet run its course, and the balance of power in Eurasia remains fundamentally unsettled. In the decade ahead, Turkey will continue to face geo-political uncertainty in its relations with Russia and the Caspian Sea region, driven until now by the contentious interaction between Russian and US policies in the Caspian region. At the same time, a rise in Turkey's economic links with both Russia and the Caspian states seems likely. If Turkey is able to pursue a balanced and moderate policy in Eurasia, it should be able to realize further economic benefits through trade and investment—while also helping to reduce the chances of a deterioration in the region's geo-political climate.

The specific geo-political danger for Turkey is the growing strategic competition between two emerging blocs centered on

the Caucasus. Azerbaijan and Georgia, still feeling threatened by their large, unsteady and assertive neighbor to the North, have sought to guarantee their independence from Russia by aligning themselves with Turkey and the US. In an effort to stem this decline in its influence over the South Caucasus, Russia has deepened its informal partnership with Iran and Armenia, each of which has its own reasons for cooperating with Moscow. The situation has not yet reached the point where it poses an imminent threat to security and stability in the region. However, the coalescence of these states into two blocs has prevented the emergence of anything resembling a geo-political equilibrium in and around the Caucasus. Today's trends could hold the seeds of confrontation in the region—one in which Turkey would be centrally and unavoidably involved.

Ironically (though perhaps inevitably), the chief area of geo-political contention is also the one which holds the greatest prospect for regional economic gain—the energy sector. Russia and the Caspian region will be crucial in providing the natural gas that Turkey needs to support rapid economic growth. The participation of Turkish companies in the Caspian oil and gas boom also offers tremendous opportunities for the Turkish private sector as well as the state oil company, Turkish Petroleum (TPAO).

At the same time, the debate over new pipeline routes for the export of oil and gas from the Caspian has become a focal point for the strategic competition mentioned above. The politicization of the pipeline issue has helped to create and solidify the two opposing blocs, and it has contributed to tensions in Turkish-Russian relations—while also increasing uncertainty and political risk in the Caucasus. In the next 12 months, commercial factors resulting from the ongoing push of the Caspian states and their foreign partners to develop and export oil and gas should go a long way toward clarifying the pipeline situation in the Caspian. For Turkey, the challenge during this period will be to keep the focus on economics and environmental concerns without allowing itself to be drawn toward incautious rhetoric and political confrontation.

This paper surveys Turkey's relationships with the Caspian region and Russia and, in particular, its role in the politics and economics of regional energy development. It begins by explaining how today's situation came to pass, focusing on the evolution of Turkish policy and its interaction with the diverging interests of the US and Russia in the Caspian. It then highlights the key issues

for the medium term and their impact on Turkey. The conclusion suggests a few guiding principles for future Turkish policy.

#### THE EARLY 1990S: ÖZAL'S ACTIVIST FOREIGN POLICY

The breakup of the Soviet Union in 1991 came on the heels of a series of events that transformed the context for Turkey's international relations. The end of the Cold War in 1989 began the process. For nearly 40 years, Turkey's place in the world had been defined primarily by its membership in NATO and its crucial geographic position on the USSR's southwestern flank. Suddenly, the Soviet threat had receded, and the future of the NATO alliance and Turkey's role within it became uncertain. This sense of insecurity was compounded by the decision of the European Community to reject flatly Turkey's application for membership in 1989. Although this decision did not come as a great surprise to the Turkish political elite, it did seem to confirm their fears that Europe was closing the door on Turkey now that its Cold War security contribution was no longer needed.<sup>1</sup>

Turkey's president at the time, Turgut Özal, reacted by pursuing an activist foreign policy that was intended to demonstrate Turkey's continuing importance to the West. He was presented with a golden opportunity to do this in August 1990 with Iraq's invasion of Kuwait. Despite serious opposition from public opinion as well as much of his own government, Özal gave strong rhetorical and practical support to the US-led response against Iraq.<sup>2</sup> Meanwhile, President Özal's sight also turned to the former Eastern Bloc. In 1990, he proposed the establishment of the Black Sea Economic Cooperation (BSEC), a multilateral organization which had the goal of encouraging trade and investment among the five states of the Black Sea littoral—the Soviet Union included.<sup>3</sup>

The breakup of the USSR at the end of 1991 added a complex new twist. Suddenly, the southern tier of the former Soviet space

<sup>1</sup> Sabri Sayari, "Turkey: The Changing European Security Environment and the Gulf Crisis," *Middle East Journal*, 46, no. 1 (Winter 1992) p. 11.

<sup>2</sup> Alan Makovsky, "The New Activism in Turkish Foreign Policy," *SAIS Review* (Winter-Spring 1999).

<sup>3</sup> Romania, Bulgaria, Greece and the USSR were the original members; following the Soviet breakup, the membership was expanded to include Azerbaijan, Armenia, Georgia, Moldova, Russia and Ukraine.

was home to five newly independent states with cultural and linguistic links to Turkey: Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan and Kyrgyzstan. Again, Özal's impulse was to move quickly and assertively—this time with the strong support of the Turkish public, which had greeted the emergence of these new Turkic states with emotion and optimism. Turkey became the first country to recognize their independence formally, and in October 1992 Özal hosted their presidents in Istanbul for an inaugural Turkic Summit. Air routes and a satellite broadcast link were established, and a new agency (the Turkish International Cooperation Agency, or TICA) was set up to oversee the transfer of billions of dollars in Turkish aid and investment promised to the region. TICA's first director went so far as to proclaim the Turkic states of the former Soviet Union to be Turkey's "near abroad"<sup>4</sup>—a direct challenge to Russian policymakers who had coined this term to emphasize the predominant role that Russia intended to play within the former Soviet Union.

Among Özal's various foreign policy initiatives in the post-Cold-War period, his pursuit of partnership with the Turkic states of Central Asia and the Caucasus represented the most radical departure from traditional Turkish policy. The quixotic (and ultimately doomed) efforts of Enver Pasha to unite the world's Turkic nations during the dying years of the Ottoman Empire had helped convince Mustafa Kemal Atatürk, the founder of the Turkish Republic, that pan-Turkic adventurism would be a counter-productive and even dangerous policy for the new Turkish state. This was particularly true given the high priority that Atatürk placed on enhancing Turkish security by building a stable working relationship with the Soviet Union. Explicit disinterest in the affairs of the Turkic peoples of the USSR became one of the core principles of the Kemalist philosophy that guided policy for Atatürk's successors. President Özal had already challenged the Kemalist orthodoxy in a number of other spheres. Now, with his activism in the Turkic world, Özal again charted a new post-Kemalist course for Turkey—one which raised the possibility of strategic competition in the region with a weak and disoriented Russia.

<sup>4</sup> Nicole and Hugh Pope, *Turkey Unveiled: Atatürk and After* (John Murray, London, 1997) p. 288.

#### AMBITIONS VS. REALITY

The high point of Özal's Turkic policy came in May-June 1992 with the rise to power in Azerbaijan of the Azerbaijani Popular Front (APF) under the leadership of Abulfaz Elchibey. The APF was the focal point for anti-Russian sentiment in Azerbaijan, and it professed a strongly pro-Turkish ideology.<sup>5</sup> Elchibey's election as president thus seemed to confirm Özal's vision. But quickly—even before Özal's sudden death in April 1993—it became clear that Turkey's aspirations in the region would need to be scaled back significantly. Azerbaijan's overriding concern at this time was the conflict in its Armenian-majority Autonomous Region of Nagorno-Karabakh, which was going badly. Starting in 1988, Nagorno-Karabakh's Armenian majority began to agitate for separation from Azerbaijan and union with next-door Armenia. A low-level conflict that began during the final years of the USSR became a full-fledged war by 1991, with Armenia fully engaged in support of its co-ethnics within Azerbaijan. Russia continued to play a significant background role in the conflict after 1991, largely through military support for the Armenian side.<sup>6</sup>

The new APF government had high hopes that Turkey could provide serious support for its war effort. But once Russia made it clear that any hint of Turkish intervention would open the door to direct Russian-Turkish confrontation, Ankara backed off, restraining its role to one of diplomatic and limited economic support for Azerbaijan coupled with economic pressure on Armenia. By June 1993, the failure of the Elchibey government to mount an effective military effort in Karabakh (among other things) had swept it from power. Meanwhile, none of the Central Asian states were eager to antagonize Russia by aligning themselves too closely with Turkey.

Turkey's economic ambitions in the new Turkic states did not live up to early expectations. Turkish aid did not materialize in the large amounts that had been promised. While the Turkish private sector was active in Central Asia and the Caucasus, most of the commercial opportunities for Turkish firms that emerged from the USSR's collapse were in Russia—perhaps unsurprising,

<sup>5</sup> Edmund Herzig, *The New Caucasus: Armenia, Azerbaijan, and Georgia* (London: Royal Institute of International Affairs, 1999).

<sup>6</sup> Thomas Goltz, "Letter from Eurasia: The Hidden Russian Hand," *Foreign Policy*, no. 92 (Fall 1993) pp. 92-116.

given that Russia has twice the population of the two southern regions combined, as well as a significantly higher GDP per capita. Both official and unofficial "suitcase" trade<sup>1</sup> across the Black Sea burgeoned throughout the 1990s, making Russia Turkey's fastest growing trading partner and contributing generally to strong growth in the Turkish economy.

Even if Özal's initial vision proved somewhat unrealistic, his policy and the effects it generated did set the tone for Turkish policy for the rest of the 1990s. By 1993, it was generally established and assumed that Turkey had a significant role to play in the southern tier of the former Soviet space. While Turkey has not necessarily become the model to which the new states of the Caucasus and Central Asia aspire, its thriving private sector, its secular approach toward Islam and its (usually) well-functioning democracy continue to have their appeal in the region. Despite the fall of the Popular Front in Azerbaijan, something of a Turkish-Azerbaijani "special relationship" has been rekindled over the course of Azerbaijani President Heidar Aliyev's seven years in office. Meanwhile Turkey had learned two important lessons vis-à-vis its relationship with Russia. The first was the understanding that Russia was as important or more important than its southern neighbors as an economic partner for Turkey. The second was that an overly aggressive foreign policy in Central Asia and the Caucasus was no more advisable in the 1990s than it had been for Atatürk in the 1920s, given the risk of escalation into direct confrontation with Russia.

#### GEO-POLITICS AND CASPIAN ENERGY DEVELOPMENT

The second half of the 1990s began with oil development (and later, gas development) taking center stage in the Caspian region as the international oil and gas industry became increasingly aware of the region's geological potential. While it is not on par with the Persian Gulf, the Caspian region has clearly emerged as a new major hydrocarbon province. Certainly this has been the judgement of the international oil industry. Kazakhstan had already begun to see significant foreign investment in its oil sector as early as 1993; in 1995, Azerbaijan also began to see large inflows of capital related to the large contract it signed with a

<sup>1</sup> "Suitcase trade" refers to small-scale trade in consumer goods.

consortium of foreign companies in September 1994. By the end of 1999, cumulative foreign investment into the energy sectors of Azerbaijan, Kazakhstan and Turkmenistan had reached a total of about US\$8 billion.<sup>8</sup> Commitments for further capital spending guarantee sizeable further investments for at least the next decade.

For the companies making these investments, the Caspian energy boom has always been about the bottom line. But for almost everyone else—such as governments both within and outside of the region, encouraged by the media—oil development quickly acquired a profound political significance. The Caspian hydrocarbon states viewed energy development as a shortcut to prosperity and stability, and as the key to building the economic strength necessary to assure their security and independence. Oil was viewed as a diplomatic lever, particularly in Azerbaijan, where President Heidar Aliyev sought Western engagement in his country in order to balance against Russian influence as well as to counter the perceived Armenian advantage in public relations on the issue of Nagorno-Karabakh. By bringing in mainly Western companies as partners, Aliyev hoped to give Western countries—the US in particular—a tangible interest in the continued independence and stability of Azerbaijan.

#### *Pipeline Determinism*

The question of pipelines for Caspian oil has proven particularly susceptible to politicization. It was clear from the start that the development of Caspian oil would require the construction of new export pipelines; given that the region's hydrocarbon states have no direct access to the open sea, these pipelines will necessarily pass through neighboring countries. Broadly speaking, Caspian oil can flow either north, through Russia; south, through Iran; or west, through Georgia and Turkey.<sup>9</sup>

From the perspective of interested governments, this question—Which way will the oil flow?—came to be seen as a crucial and even decisive determinant for the long-term geo-political orientation of the region. Northern routes would indicate a

<sup>8</sup> Laurent Ruseckas, "Between Euphoria and Despair: New Realism in the Caspian Upstream," *CERA Decision Brief* (Cambridge, MA: Cambridge Energy Research Associates, 1999).

<sup>9</sup> Rajan Menon, "Treacherous Terrain: The Political and Security Dimensions of Energy Development in the Caspian Sea Zone," *NBR Analysis*, 9, no. 1 (1998).

reassertion of Russian hegemony along its southern tier. Western routes to Turkey would lead (depending on one's perspective) either to a new American hegemony in the Caspian region or to the integration of the region into the global economy and the international system. Southern routes would cause the region to be oriented toward the Middle East, while also representing a fatal blow to the long-standing American policy of containment and isolation of Iran.<sup>10</sup>

This view of the political importance of pipelines dramatically oversimplifies the region's strategic situation. Furthermore, it fails to acknowledge two basic realities: that pipeline routes will ultimately be driven by economics and geography more than politics; and that in the foreseeable future, developments are likely to belie the notion that Caspian pipelines are a zero-sum game. There will be at least four small and two large pipelines bringing Caspian crude to market along various routes, and through various transit countries. Yet the fact remains that pipeline determinism has to a large extent been the lens through which external governments have formulated their policies in the Caspian region.

#### *Turkey and the US-Russian Rivalry*

Aliiev's Western-leaning oil strategy was shaped by the widespread perception in Azerbaijan that Russia posed a clear threat to Azerbaijan's stability and independence—a view that most outside observers would consider justified based on evidence of Russian meddling in Azerbaijan's domestic affairs during the period 1992 to 1994. The view from Baku also argues (less persuasively on this point) that the Nagorno-Karabakh conflict should be understood primarily as an indirect manifestation of Russian hostility toward Azerbaijani independence. Indeed, Russia does consider the Caucasus and Central Asia its backyard, and from the start of the post-Soviet era it has sought to re-establish itself as the predominant power in the region. But this goal has been pursued in an incoherent and distracted fashion, with counter-productive consequences: Russia's heavy-handed rhetoric and behavior—and its chronic tendency to emphasize force rather than incentives in its dealings with the Caucasus—have alienated much of its southern tier and Azerbaijan and Georgia in

<sup>10</sup> John Roberts, *Caspian Pipelines* (London: Royal Institute of International Affairs, 1996).

particular.

During the Özal period, Turkey was the external country (apart from Russia) most actively engaged in the Caucasus and Central Asia. European countries and the European Union kept their distance, while the US at this stage was holding back as well. But even as Turkey's regional profile was starting to decline, for reasons already discussed, the US began to see its interests more actively engaged in the region.<sup>11</sup> Whether this was a vindication of Aliiev's oil strategy is not clear. The reality is that the global importance of Caspian energy is moderate; even under the most optimistic scenarios, the region's oil reserves will amount to 10 to 15 percent of those in the Persian Gulf. Indeed, despite rhetoric that has suggested otherwise, oil and gas in themselves have never been the chief motivation behind US policy in the Caspian. Rather, the behavior of the US in the region can be better understood in terms of the normal motivations of international politics: power, prestige and influence.

Yet, even if energy was not necessarily the end of US policy, it became the means. By late 1997, Washington began to see pipelines as the key to achieving its strategic goals in the Caspian region. East-west pipelines linking Caspian oil and gas to Turkish ports and markets were seen as a way to support Turkish ambitions while also blocking Iranian influence and preventing Russia from re-asserting hegemony over the region. At the same time, it represented a relatively safe and low-cost channel for US involvement in 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 Aliiev had inaugurated.

As US engagement in the Caspian 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. Although this seems on the surface to represent a partial return to the certainty and stability of the Cold War era—with Turkey as a regional bulwark for US policy—the reality is that Turkey's position is precarious in important ways. Many observers have seen in the more activist

<sup>11</sup> Strobe Talbott, "A Farewell to Flashman: American Policy in the Caucasus and Central Asia," transcribed remarks, Central Asia Institute, Johns Hopkins University, 21 July 1997.

policy pursued by the US since 1997, an attempt to move into the strategic vacuum left behind by Russia's decline. This is certainly how Russia and the Caspian states perceive the issue. The result has been a clear clash of interests between the US and Russia, fueled by the political hype surrounding energy development. This rivalry, superimposed on the region's other cleavages—Azerbaijan vs. Armenia and the US vs. Iran—has produced a situation which some overly dramatic commentators have compared to “a new Cold War.”

While this is an absurd exaggeration, the comparison is revealing. For, while the balance of power was remarkably stable during the four decades of the Cold War, it is highly uncertain today. American rhetoric has not been backed by a serious commitment of resources to the Caspian, and the scale and scope of its long-term engagement are uncertain. There are some hints that the European Union might begin to step up its involvement in the region, a development which would have significant consequences. Most important of all, Russian policy is displaying a new vigor and coherence in the wake of its brutal (and unfinished) victory in Chechnya and the election of Vladimir Putin to the presidency. Sitting near the center of all this activity, Turkey no longer has the initiative, and its policy today largely consists of reacting to the actions of Russia, the US, the three Caucasian states and—most significantly for the pipeline issue—the companies whose investments are driving Caspian energy development.

#### TURKEY'S INTERESTS IN CASPIAN ENERGY

Turkey's interest in the Caspian pipeline issue began as just one of the many strands of Özal's broad policy of engagement with the new Turkic states. The concept of making Turkey the main export corridor for oil from Azerbaijan and perhaps Central Asia as well—by means of a pipeline linking Baku to the Turkish port of Ceyhan on the Mediterranean Sea—was first discussed at a political level by Presidents Özal and Elçibey in 1992.<sup>12</sup> As Turkey's grander ambitions in the region began to fade and the Caspian oil boom picked up steam, the Baku-Ceyhan pipeline

<sup>12</sup> Temel İskit, “Turkey: A New Actor in the Field of Energy?” *Perceptions*, 1, no. 3 (March-May 1996).

project increasingly became the core of Turkish policy toward the Caspian region and indeed an important priority of Turkish foreign policy overall.

The justification for the Turkish emphasis on the Baku-Ceyhan pipeline has three components. First, Turkey has bought into the prevailing fashion of pipeline determinism, coming to see the pipeline derby as a proxy for strategic competition in the region and ultimately the main determinant of Turkish political influence in the Caspian. For the Baku-Ceyhan pipeline to be built would at very least represent the symbolic fulfillment of the activist policies pursued by Özal; at most it could create a long-term economic and political bond between Turkey and the Turkic hydrocarbon states. Economic interests are the second factor driving Turkey's support for Baku-Ceyhan. The pipeline's construction would generate a great deal of business for Turkey's dynamic construction and engineering sector. Meanwhile the state budget would receive transit fees from users of the pipeline. “Access to oil supply” is sometimes cited as another reason for Turkish interest in the Baku-Ceyhan project, but this is a less important driver as Turkey has ready and secure access to Middle Eastern oil supplies.

#### *Oil Tankers and the Turkish Straits*

The third and most complex reason for Turkey's support of the Baku-Ceyhan pipeline is related to its deeply felt environmental concerns regarding the passage of oil tankers through the Turkish Straits. To pass from the Black Sea into the Aegean Sea and the Mediterranean beyond, ships must pass through two narrow straits, the Bosphorus and the Dardanelles, as well as the small Sea of Marmara. Should pipelines for Caspian oil terminate on the Black Sea rather than the Mediterranean, the number of oil tankers transiting the Straits and particularly the Bosphorus—that is, the heart of Istanbul—would grow significantly. While the very largest supertankers do not attempt this passage, there is currently considerable traffic in somewhat smaller (though still large) tankers, with a capacity up to about 120,000 dead weight tons. Ten to fifteen fully loaded tankers of this size or smaller transit the Bosphorus each week.<sup>13</sup> Occasional accidents have

<sup>13</sup> This estimate is based on statistics found in the industry weekly *Neftte Compass*, 9, no. 4, 27 January 2000.

served to emphasize the ongoing environmental risks of the passage, most disastrously in 1979 when a tanker ran aground and spilled nearly 100,000 tons of oil—more than twice the volume spilled by the Exxon Valdez ten years later in Alaska.<sup>14</sup>

The linkage between the Turkish Straits and the Caspian pipeline question works both ways. On the one hand, Turkish concerns about the potential for new volumes of Caspian oil to flow to ports on the Black Sea represent part of the reason for Turkey's support of the Baku-Ceyhan route, which would provide direct access to the Mediterranean. At the same time, it is not lost on the Turkish government that the Bosphorus issue represents one of its most potent levers in the push for Baku-Ceyhan. Indeed, some critics have suggested that Turkey has delayed measures that would improve safety in the Straits because they would also serve to undercut its leverage with regard to Baku-Ceyhan. A contract of approximately US\$40 million for the construction of a state-of-the-art traffic management system was finally awarded in October 1999, eight years after the initial tender for the project had been issued.

Another complicating factor which adds to Turkey's sense of insecurity regarding the Bosphorus is the fact that it does not have full and unambiguous sovereignty over the Straits. The Montreux Convention of 1936 gives the Turkish Straits the status of an international waterway, guaranteeing free passage to all commercial traffic while imposing certain restrictions on military vessels.<sup>15</sup> From the standpoint of environmental safety, the treaty is clearly showing its age, since it makes no reference whatsoever to environmental regulation. Turkey's right to regulate the Straits on grounds of safety has been generally acknowledged. In the wake of another serious tanker accident in the Bosphorus in May 1994, Turkey announced a new, more rigorous regulatory regime for passage through the Straits, and took the step of submitting it to the International Maritime Organization (IMO) for review. While the IMO gave its approval to most of the new regulations, Russia accused Turkey of unilaterally violating the Montreux Convention. In the end, Turkey followed through with its moderate regulatory changes with the support of the IMO and

<sup>14</sup> John Daly, "Oil, Guns, and Empire: Turkey, Russia, Caspian 'New Oil' and the Montreux Convention," *Caspian Crossroads*, 5, no. 2 (1998).

<sup>15</sup> *ibid.*

the international community. Russia grudgingly accepted the new safety regime, and the diplomatic skirmish remained minor; but the incident underlined the continuing uncertainty regarding the Straits.

#### THE FUNDAMENTAL IMPORTANCE OF GAS SUPPLY

While access to oil supply is not a pressing issue for Turkey, the question of access to new supplies of natural gas certainly is. The gas business differs significantly from the oil business, and access to supply is a far more vexing problem for gas than it is for oil. For the most part, sources of supply and areas of demand need to be connected directly by pipelines, since shipping gas by tanker is a technically complex and expensive process. Pipelines for gas are typically much more difficult to finance than oil pipelines, since they require credible guarantees of payment from solvent end-users. Turkey is the fastest growing gas market in Europe, and in recent years it has had difficulty in obtaining enough gas to meet its burgeoning near-term demand. Turkish gas consumption—and therefore economic growth—already is being artificially constrained by a shortage of supply. Meanwhile several consortia are proceeding with plans to build new gas-fired power plants in order to meet Turkey's rapidly growing demand for electric power. Should gas not be available to supply these plants in the next few years, it could trigger a serious economic crisis.

The importance of gas supply for Turkey has caused it to pursue a policy toward gas pipelines that is driven far more by economics than by politics (in contrast to its approach toward oil pipelines). Working on the assumption that there is no such thing as too much gas, Turkey has signed agreements with varying degrees of firmness to purchase new gas supplies from Russia (currently its primary supplier), Turkmenistan, Azerbaijan, Iran and even Iraq—all of which would be delivered primarily through new pipeline infrastructure. In contrast to the oil pipeline situation, Turkey does not need to worry about being bypassed by gas pipelines; it represents the most promising target market for gas in southwestern Asia, and its potential suppliers are just as eager to supply their gas to Turkey as Turkey is to receive it. Indeed, since Turkish demand cannot accommodate gas from all of these sources—for suppliers, if not consumers, there most certainly is such a thing as too much gas—the past two years have seen the

development of a race between suppliers to build their pipelines and stake early claims to the market. However, these various projects remain uncertain, and each one faces unique challenges; it remains conceivable that none will proceed rapidly enough to prevent Turkey's gas shortage from growing significantly worse in the near term.

#### IMPORTANT DEVELOPMENTS AHEAD

The next 12 to 18 months are likely to bring about substantive changes in the situation Turkey faces in Eurasia. In the energy sector, strong forces are pushing toward resolutions of some of the major pipeline uncertainties. Meanwhile, a modest shift in the geo-political balance of power in the Caucasus may also lie ahead, driven mainly by evolving Russian and American approaches to the region and the reactions they draw from the three Caucasian states. In both the geo-political and the energy spheres, the process of change is propelled by forces that are beyond Turkey's control: the balance-of-power logic of international relations and the market logic that is driving Caspian energy development. While Turkey cannot decisively influence these broader trends in the region, it has an opportunity through its policies to put itself in a position to benefit from change rather than be injured by it.

#### *Pipelines: Multiple Moments of Truth Approach*

The Baku-Ceyhan oil pipeline project, central to Turkish policy toward the Caspian region for much of the 1990s, made real progress in 1999 and the first half of 2000. Years of discussions backed by political determination culminated in the set of regulatory and commercial agreements for the project which were initialed in Istanbul in November 1999 by the participating governments of Azerbaijan, Georgia and Turkey in the presence of US President Bill Clinton. These agreements have now been finalized and ratified and ongoing negotiations involving these states as well as some of Azerbaijan's partners from the international energy industry are now working toward the shared goal of shaping a financially feasible project that meets the requirements of all relevant parties. But the economics of the project remain fundamentally difficult, and time is running out. Azerbaijan's strategy for expanding its export capacity is today

focused solely on Baku-Ceyhan; however, as long as that project's fate remains uncertain, Azerbaijan and its partners cannot proceed with the next major tranche of investment that is required to continue development of Azerbaijan's offshore oil resources.

By late 2000 or early 2001, the pressure to end the current delay in Azerbaijani oil development is likely to drive a resolution of the Baku-Ceyhan question. If negotiations bring real progress toward a financeable project—perhaps bolstered by new offshore oil discoveries in the Caspian during the year—then major investments in oilfield development in Azerbaijan could resume. But if the negotiations do not make progress, Azerbaijan might feel obliged to pursue other, smaller-scale pipeline alternatives that would enable upstream investment to proceed, thus postponing Baku-Ceyhan. In this scenario the Turkish route would remain very much on the agenda for the longer term. In either scenario for Baku-Ceyhan—success or postponement—by mid-2001 Ankara will face the prospect of a major shift of its diplomatic priorities in the Caspian region.

Regardless of the outcome of the Baku-Ceyhan negotiations, the issue of the Turkish Straits is also likely to come to a head by late 2001. Even as Turkey has used its legitimate concerns over the Bosphorus as an argument in favor of the Baku-Ceyhan route, another pipeline project which promises increased tanker traffic from the Black Sea has been steadily moving forward since late 1998: that of the Caspian Pipeline Consortium (CPC). The CPC pipeline, currently under construction and scheduled to begin operations in the autumn of 2001, will bring new volumes of oil from Kazakhstan and Russia to a Russian port on the Black Sea; within a year or two, it should be shipping more than 500,000 barrels of crude oil per day—increasing the oil volumes passing through the Bosphorus by as much as 50 percent. Pipelines through the Balkans or Ukraine which would allow Black Sea oil to bypass the Straits have been discussed, but none have yet attracted finance. If CPC construction stays on schedule, Turkey will be faced with a choice of either seeking to prevent the new oil volumes from passing the Straits—an unlikely prospect, given the Montreux Convention as well as strong Russian, Kazakhstani and American support for the CPC project, not to mention the fact that this new oil will be carried in tankers that are notably safer than most of those currently transiting the Straits—or working with Black Sea shippers to accommodate the new volumes as safely as possible.

The competition among the various pipeline projects intended to supply gas to Turkey should also see a solution in the year ahead. Azerbaijan's aggressive play for the Turkish gas market in the wake of its spring 1999 discovery of a major gas field has caused a variety of problems, which have called into question the US-backed plan to build a pipeline to supply Turkmenistan's gas to Turkey via the Caspian Sea shelf, Azerbaijan and Georgia. With financing arrangements basically completed for Russia's competing "Blue Stream" pipeline, which would bring gas to Turkey across the Black Sea shelf, this project also appears to be nearing the moment of truth when construction begins in earnest. Meanwhile the completion of the infrastructure required to bring gas into Turkey from Iran appears within reach. By mid-2001, barring the unlikely scenario in which all of these pipeline projects run into serious trouble, Turkey will be on course to supplement its current supply with new gas from Iran, probably Russia, perhaps Turkmenistan (albeit via Iran or Russia) and Azerbaijan as well.

#### **GEO-POLITICS: TOWARD A NEW BALANCE?**

A number of signs point toward the possibility that the regional political context in Eurasia, and particularly in the Caucasus, may undergo some subtle but significant changes over the course of the next year or two. The most significant developments of the past year concern Russia, and specifically its changing position in the region in the wake of its military success in Chechnya and the accession to the presidency of Vladimir Putin. It is still too early to predict a resurgence of Russian power in the South Caucasus. Russia succeeded in defeating a weak and divided Chechen rebellion, but it required a massive military effort and a level of indiscriminate brutality that failed to provoke a more serious Western response only because it took place within Russia's borders. And while Putin's presidency promises more active and coherent political leadership than was seen in the late years of Boris Yeltsin's rule, the weakness of the Russian state has deep structural causes that will not disappear with a change at the top.

Yet, it is undeniable that Moscow's show of force in Chechnya and the image of vitality and effectiveness presented by Putin have affected the way that Russia is perceived by the Caucasian states. Azerbaijan has taken a few subtle steps away from the unrestrained anti-Russia and pro-US (and pro-NATO) stance it

had previously displayed, and the same is arguably true to a limited extent in Georgia as well. These two states continue to see Russia as a threat to their independence—but as a threat that must be dealt with subtly rather than flatly dismissed. Their partnership with Turkey and the US in what might be called the "Baku-Ceyhan bloc" is not immediately threatened, but both Azerbaijan and Georgia are recognizing that more flexibility and balance will be required in their relations with the new Russia. If Putin and his team manage to offer not only threats but also the possibility of tangible benefits to these two states, then they have a fair chance of at least limited success as they seek to rebuild Russia's influence and stature in the Caucasus.

Meanwhile, a new administration will be taking office in the US at the start of 2001, and with the change-over there is likely to come a review of US policy toward the Caucasus and toward Caspian energy development. A consensus is beginning to take shape in Washington that it is a propitious time for such a review. If the US-backed trans-Caspian gas pipeline project does indeed falter, followed in early 2001 by either victory or postponement for the longstanding American campaign in favor of the Baku-Ceyhan oil pipeline, circumstances will dictate that US policy in the region no longer be focused so heavily on pipeline routes. Ultimately, the Caucasus are not nearly as important for American interests as it is for Turkey, and this reality—which does not fit with the perception in the region, where it is often taken for granted that the US is committed to an active and assertive long-term policy—will undoubtedly be reflected in any reformulation of policy.

Finally, the year ahead could bring the first signs of a more active approach toward the southern tier of Eurasia on the part of the European Union. This has special consequence for Turkey now that it has been put back in the queue for EU membership. The foreign policy apparatus of the EU is immature, and while the Caspian region is recognized as an area where EU interests are engaged, it is far from being a top priority. Still, over time the EU can be expected to play an increasing role in the region, and to pursue a policy that blurs regional divisions rather than reinforces them. Today, Turkey still sees the US, rather than the EU, as its chief partner in the region; but as the EU engages, the US re-focuses, and Turkey grows ever-closer to the EU, this will slowly change.

**SOME GUIDING PRINCIPLES FOR SENSIBLE TURKISH POLICY IN EURASIA**

Turkey's activist policies toward Eurasia's southern tier in the immediate aftermath of the USSR's collapse fell short of achieving their goals. Certainly Turgut Özal did not manage to usher in a new "Turkic age." Özal's initiative did, however, establish Turkey as an important player in the region and provide it with a foundation for gaining both economic and political benefits through its ongoing relationships with the Caucasus, Central Asia and Russia. Today, events in this region are being driven largely by other players. Competition between Russia and the US is shaping the geo-political environment, while energy development is proceeding primarily on the basis of the market realities reflected in the investment decisions being made by the international oil and gas industry. Turkey's most sensible approach as politics and pipelines sort themselves out would be caution and moderation coupled with a focus on market-based economic cooperation rather than power politics. A policy along these lines would help to maximize the economic opportunities that Eurasia offers to Turkey while minimizing the risks of instability and geo-political confrontation.

As noted earlier, the current geo-political situation in and around the Caucasus has seen the region's polarization into two groups, with the "Baku-Ceyhan bloc"—Azerbaijan, Georgia and Turkey, supported by the US—competing for power and influence with Russia, Iran and Armenia. This state of play presents Turkey with two separate challenges. In the near term, the polarization of regional politics does hold some danger that competition could turn into direct confrontation. If Moscow's policies in the South Caucasus turn more aggressive without becoming any more subtle or constructive, then Russian actions could prompt a serious increase in regional tensions. Similarly, the presidential succession which lies in Azerbaijan's future is not likely to go smoothly, and the potential succession crisis could conceivably draw in neighboring powers, mainly Russia, Turkey and Iran. Turkey has demonstrated its capacity for restraint and composure during times of international crisis, and these qualities will be important in the Caucasus. Meanwhile, Turkey should try to reach an understanding with Russia, Iran, the US and other external powers that explicitly rules out any direct intervention in the internal politics of the Caucasian states. The "Caucasus Stability Pact"

that was proposed by former Turkish President Süleyman Demirel in late 1999 could be an important step toward this sort of regional cooperation.<sup>16</sup>

While it is possible that competition in the Caucasus will escalate into confrontation, it is not probable. Over time, a wide range of forces and cross-cutting relationships will work to counteract today's polarization and weaken the current regional blocs. Falling into this category is a long list of potential sea changes, none of which are guaranteed but all of which will become increasingly possible over time: a more constructive and less threatening Russian policy in the Caucasus; US-Iranian rapprochement; a warming of relations between Turkey and Russia driven by further growth in economic ties; a growth in Armenia's sense of unease over its political dependence on Russia coupled with the possibility of Turkish-Armenian rapprochement; a lower level of US engagement in the region; and greater involvement by the European Union coupled with the EU's growing pull on Turkey. These are significant changes, and some of them might be unsettling to Turkey at first. But in the long run, it is in Turkey's interest to see a multilateral geo-political balance in the Caucasus take the place of today's blocs and a playing field where Turkish cooperation with Iran, Armenia and especially Russia can be freed from any political constraints.

In terms of its policies toward Caspian energy, Turkey already has a good model to follow: the approach it has taken thus far (for the most part) toward the question of natural gas. Given the great significance of new gas supplies to the Turkish economy, policymakers recognized early that they could not afford to politicize the issue. The same approach should now be adopted for Caspian oil. Turkey has done all it can to support the Baku-Ceyhan project, and its efforts have given the project a very solid chance at viability despite a number of geographic, geological and economic obstacles. Now the focus is where it should be: on the daunting commercial challenges that are inherent in the financing and construction of expensive, trans-border pipeline infrastructure. But the political pressure that has excluded the consideration of any alternative pipeline solutions has already delayed Azerbaijani oil development for more than two years—a

<sup>16</sup> See Centre for European Studies, "A Stability Pact for the Caucasus," *CEPS Working Document No. 45* (May 2000) at <http://www.ceps.be>.

bad outcome for Turkey and a potentially disastrous one for Azerbaijan. With negotiations on financing now underway, Turkey, on a political level, must be willing to let the chips fall where they may. While Ankara's high expectations mean that a temporary postponement of Baku-Ceyhan would be seen as a great political defeat, it would certainly not mean the project's demise. Indeed, assuming that oil exploration in the Caspian Sea over the next five years meets with even mediocre success—and recent news from the Kazakhstani sector is very positive—the chances of Baku-Ceyhan being built before the end of the decade are very high, political vagaries notwithstanding.

Finally there is the troubling issue of the Turkish Straits. Turkey unquestionably has been very effective in raising international awareness of the threats to the safety of the Bosphorus Straits. Turkish environmental concerns regarding the Straits are viewed as legitimate, and Turkish measures to regulate tanker traffic have been accepted despite the constraints of the Montreux Convention. However, by focusing almost exclusively on future flows of Azerbaijani oil—in order to push them toward Ceyhan—Turkey has missed the boat (or, missed the tankers) that will be shipping Kazakhstani and Russian crude from the CPC pipeline and through the Bosphorus starting late next year. It is probably too late for Turkey to prevent CPC volumes from increasing the level of tanker traffic significantly, and any radical steps it might take to change this would be counter-productive and perhaps dangerous. But it is not too late for Turkey to begin working with all interested parties—including Russia, the Caspian states, the international oil industry, the IMO and multilateral lenders like the World Bank—to make sure that steps are taken to make the Bosphorus passage as safe as possible through more stringent regulation and new investment in safety infrastructure. If Turkey is successful diplomatically, the Bosphorus passage could be made considerably safer in the medium term without cost to Turkey, even with higher volumes of oil. In the long term, Turkey could justifiably insist on either bypass pipelines or the use of double-hulled tankers, either of which would go most of the way toward mitigating the environmental risks. ♣