

Institut Européen des Hautes Etudes Internationales

TURKEY'S PLACE IN ENERGY GEOPOLITICS IN ITS REGION

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INTRODUCTION

The story of energy started with the history of humanity. Since their first day on earth, people needed different means of energy to cook, to get warm or just for protection. Although the shape and means of energy have changed drastically since then, the need for energy never lost its importance.

The turn of the 19th century with industrial revolution gave a new character to this vital need. The shift from steam power to petroleum started a new era; which nobody realized how far it would reach at that time. Oil resources were vast and there was no concern for scarcity.

However the speed of industrial and technical development didn't go hand in hand with oil exploration. The high increase in oil- intensive industrialization and increased mobility of people based on petroleum brought a serious concern of continuous availability of oil.

The geological distribution of oil on earth already brings inequality. The countries who intensively need oil and the ones who have oil are mostly mutually exclusive. Additionally, these two sides have big geographical distances to cover. This requires a full-fledged technological development to secure continuous access to oil resources as well as the political means and policies to secure availability. The trade of oil, at the last analysis, can't be realized in a free market, where all interested suppliers and demanders meet. Political preferences play a strategic role in calculation of how, when, how much and to whom to sell it.

However the strategic advantage of holding this "black gold" reserves are sometimes overshadowed by being landlocked, which mostly means having no direct access to markets. In such a case, possible transit countries gain also a strategic importance, because a reserve without a way out to market, has its alternative costs to both importer and exporters. In this case, stability and good-neighbourhood relations in oil related regions are vital to reduce this alternative cost. The political and economical standards in transit countries determine the viability or even possibility of any transfer.

Turkey is an example of this case. As standing between the concentration of richest hydrocarbon resources of the world and European market with growing energy needs, Turkey is claiming to be the “energy bridge” for few decades. What I would like to analyze in this paper is to evaluate the rationality of this claim through various criteria.

In order to understand Turkey’s position, one must understand the difference between two main types of accessible hydrocarbons in the region; petroleum and natural gas. This division is required because of the different necessities, techniques and policies used regarding these two resources’ transfer.

A second line of division is external and internal, economic and political factors which are shaped by both given economic and political situation in the world for last few decades and also Turkey’s own efforts and decisiveness to realize her aims in energy market.

Following such a model will be helpful to understand and compare the weight of the different factors which shape Turkey’s position. I will then be able to evaluate Turkish claim of being an energy bridge, depending also on the comparison of opportunities and challenges for Turkey in energy markets. Such an understanding can also open the way for possible future questions, such as how to transfer this situation to a kind of realpolitik for Turkish politics. But for the first step, the recent energy outlook of the world will give an impression about the importance of the geopolitics of energy.

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CHAPTER 1 – GENERAL ENERGY OUTLOOK

1.1 WORLD ENERGY SUPPLY

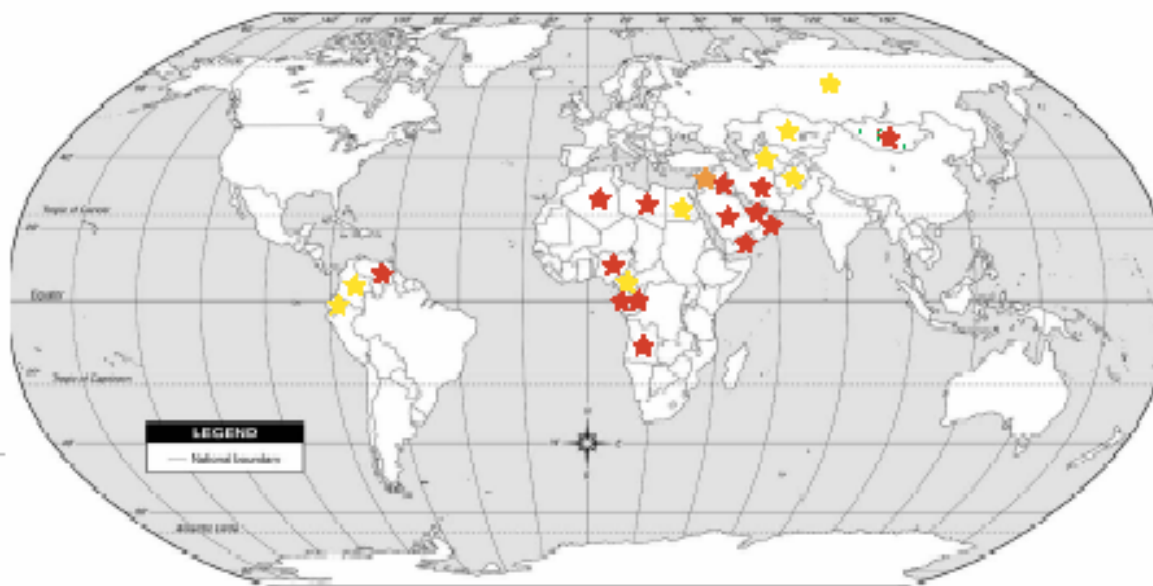


Table 1 : *Oxford Atlas of the World*, 10th Ed. 2002

The unequal distribution of petroleum and natural gas resources on the earth is the most drastic feature of energy geopolitics. The areas, which are the greatest subject of debate, are the Middle Eastern countries and the Caucasus, which together have 41, 6 % of the world's proven oil reserves. For natural gas, the percentage is 37.9 % of the world reserves.¹

¹ International Energy Agency, *Key World Energy Statistics*, 2003

1973 and 2002 Regional Shares of Crude Oil Production

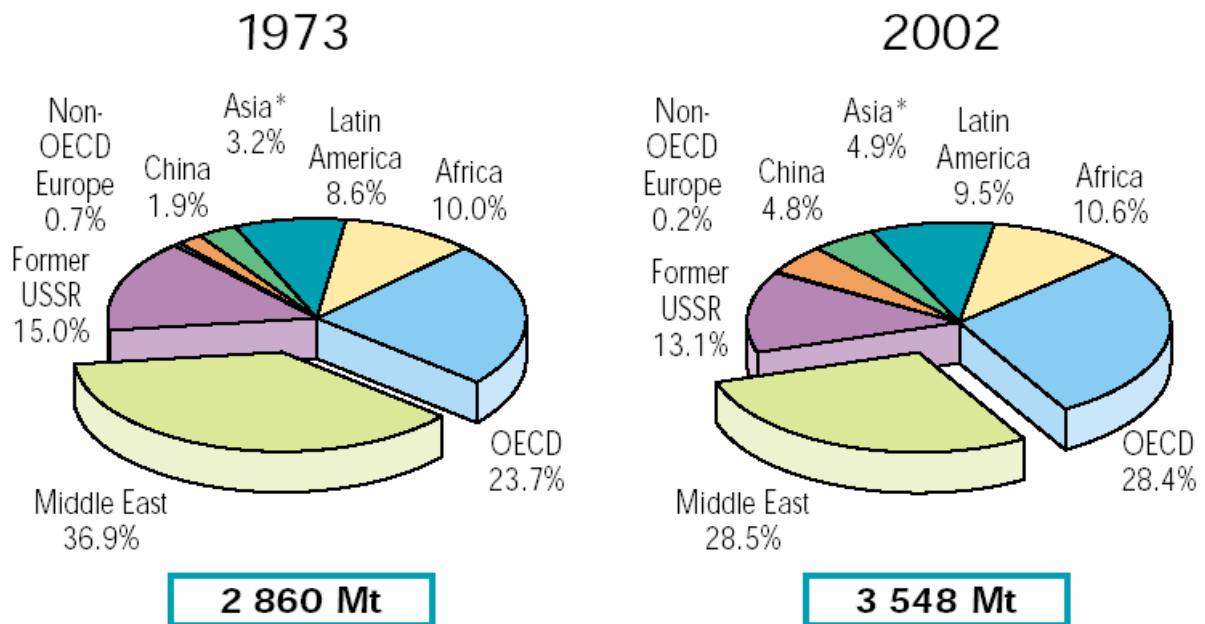


Table 1: International Energy Agency, *Key World Energy Statistics*, 2003

The Middle East and Gulf region is traditionally the energy source of the modern world. Saudi Arabia is the largest oil producer of the world, which holding 11.5 % of the total oil reserves of the world. Similarly, Iran and United Arab Emirates have the other two biggest reserves of the region.

Producers	Mt	% of World total
Saudi Arabia	409	11.5
Russia	378	10.7
United States	350	9.9
Mexico	178	5.0
Islamic Rep. of Iran	176	5.0
People's Rep. of China	169	4.8
Norway	156	4.4
Venezuela	153	4.3
Canada	133	3.7
United Kingdom	115	3.2
Rest of the World	1 331	37.5
World	3 548	100.0

Table 2: International Energy Agency, *Key World Energy Statistics*, 2003

When we make another calculation about Caucasian reserves, however, the real figures can be bigger than what's seen in the table. The reserves in Caspian basin, except the rich

sources in Baku, started exclusively to be explored after the dissolution of The Soviet Union, with the independence of the new republics in the region. The new Caucasian states became the favourite focus points of Western energy companies very quickly.²

The volume of the new reserves is not yet such that it can be alternative to Middle Eastern reserves but it can be seen as comparable to North Sea reserves.³ Because of problematic legal situation of the Caspian Sea, the real volume of reserves isn't immediately accessible.

1973 and 2002 Regional Shares of Natural Gas Production

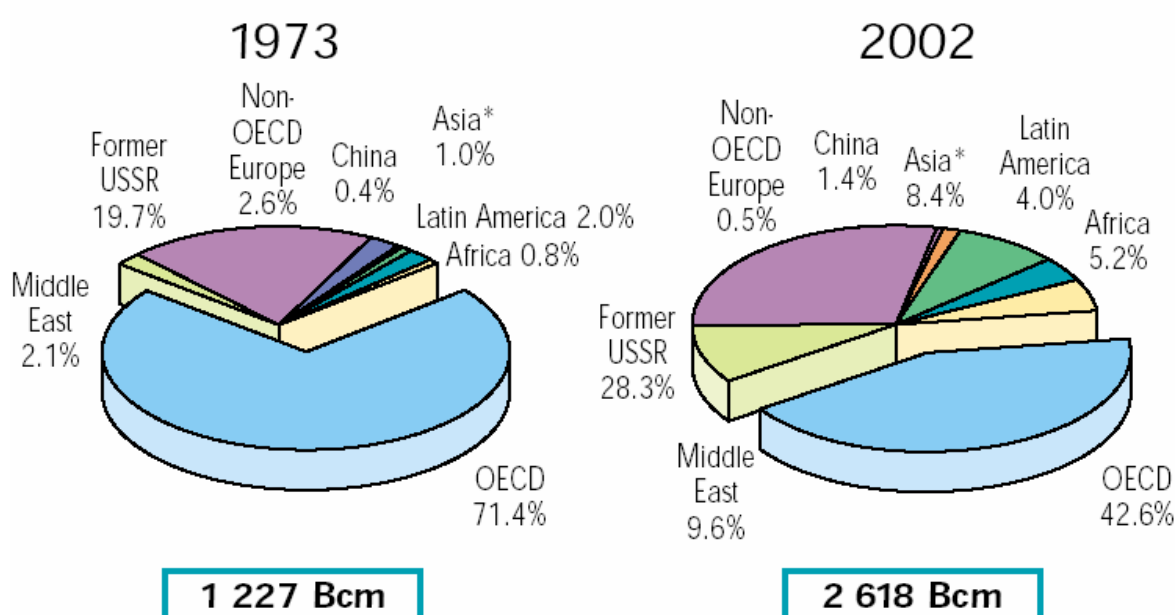


Table 3: International Energy Agency, *Key World Energy Statistics*, 2003

In terms of unequal distribution, the picture is similar in case of natural gas. The Russian Federation replaces the Saudi Arabia in these tables with 22, 7% of the total natural gas reserves on earth. North America (The United States and Canada) follow the Russian Federation with its 20, 6 % of the world natural gas reserves. The two biggest natural gas producers at the global level from the Middle East are Iran with 2,5% and Saudi Arabia with 2,3%.⁴

² Rosemary Forthysye, *The Politics of Oil in the Caucasus and the Central Asia*. Adelphi Papers. International Institution for Strategic Studies, 1996

³ Mehmet Ogutcu, *The Changing Role of « Economic Giant and Political Dwarf in the Global System and Turkey*, 2003

⁴ International Energy Agency, *Key World Energy Statistics*, 2003

Producers	Mm ³	% of World total
Russia	595 000	22.7
United States	539 349	20.6
Canada	182 075	7.0
United Kingdom	108 204	4.1
Algeria	82 554	3.2
Netherlands	75 315	2.9
Indonesia	70 816	2.7
Norway	67 627	2.6
Islamic Rep. of Iran	66 320	2.5
Saudi Arabia	60 570	2.3
Rest of the World	770 023	29.4
World	2 617 853	100.0

Table 4: International Energy Agency, *Key World Energy Statistics*, 2003

1.2 WORLD ENERGY DEMAND

The need for hydrocarbons in a given country correlates with its level of development of a given country.⁵ This phenomenon can be seen in the statistics showing that the OECD countries are the ones who are in need of a high amount of energy.

1973 and 2001 Regional Shares of Total Final Consumption*

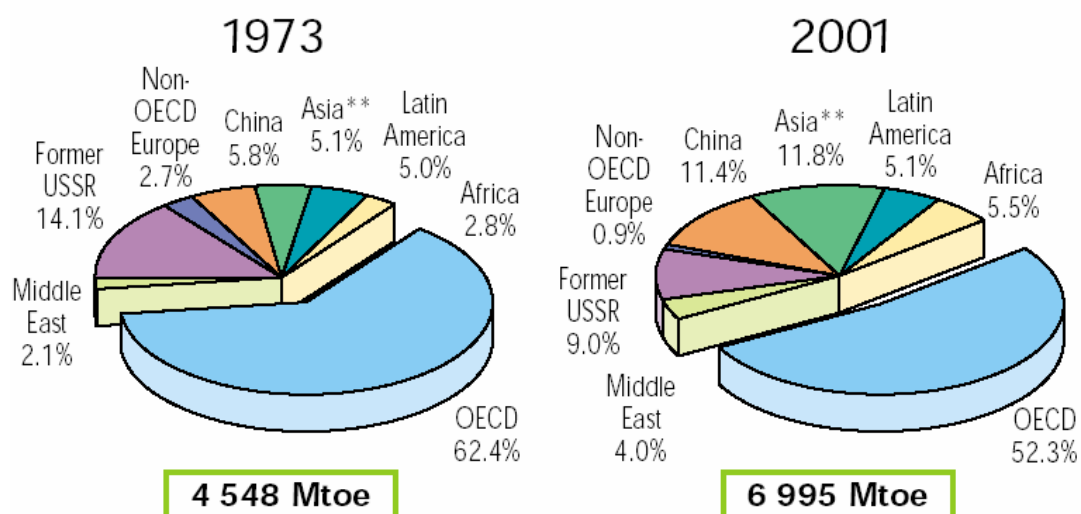


Table 4: International Energy Agency, *Key World Energy Statistics*, 2003

⁵ CSIRO, *Energy and Transport Sector, Outlook to 2020*, 2002

A striking point in two graphics of supply and demand is the geographical distance between sources, in other words the Middle East and Caspian Sea basin countries in intensive need, basically OECD member European countries and the United States.

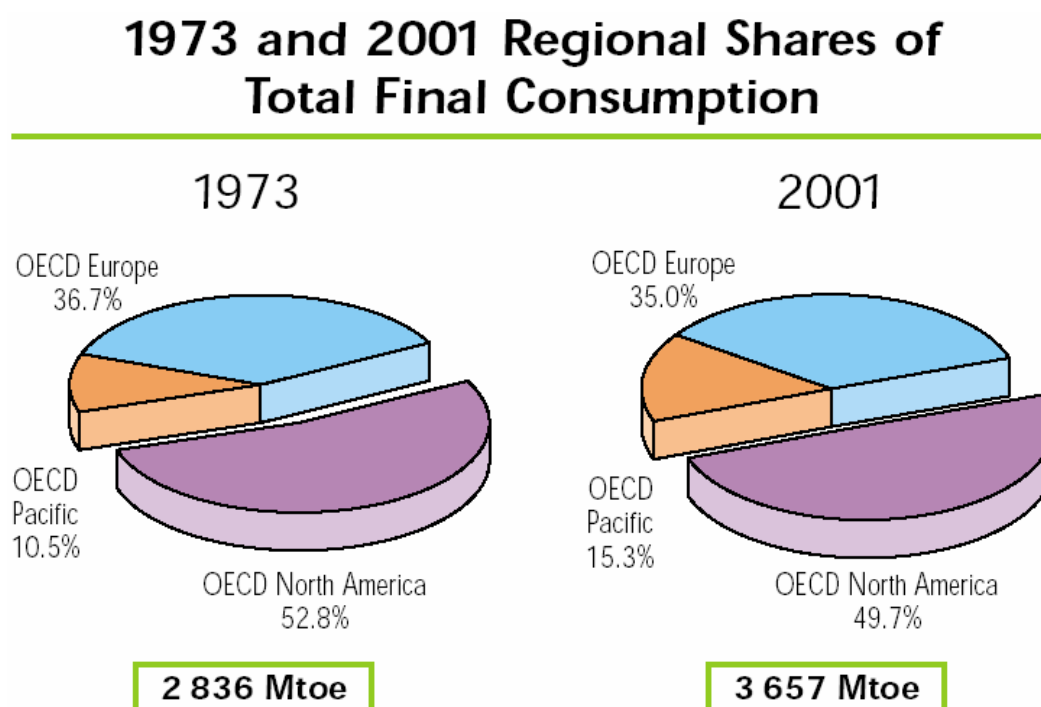


Table 5: *International Energy Agency, Key World Energy Statistics, 2003*

An important aspect of energy usage is the expected increase in needs on the next 20 – 30 years. As seen in the EIA's graphic, the case is more drastic for natural gas, than for oil. With the transformation of industries to gas based systems, there is a rapid increase in the percentage of natural gas usage all over the world. ⁶ Being one of biggest economic players in international arena, for the European Union, the “danger” is more urgent. The European Commission prepared a Green Paper in 2000, to analyze and to point out the EU's priorities in upcoming energy challenges.

⁶ Pierre- René Bauquis, *Un Point de Vue sur les Besoins et les Approvisionnement en Energie l'horizon 2050*. Energie Francophonie, No 52.

Rising World Energy Demand By Type of Primary Fuel: 1970-2020

(Quadrillion BTU)

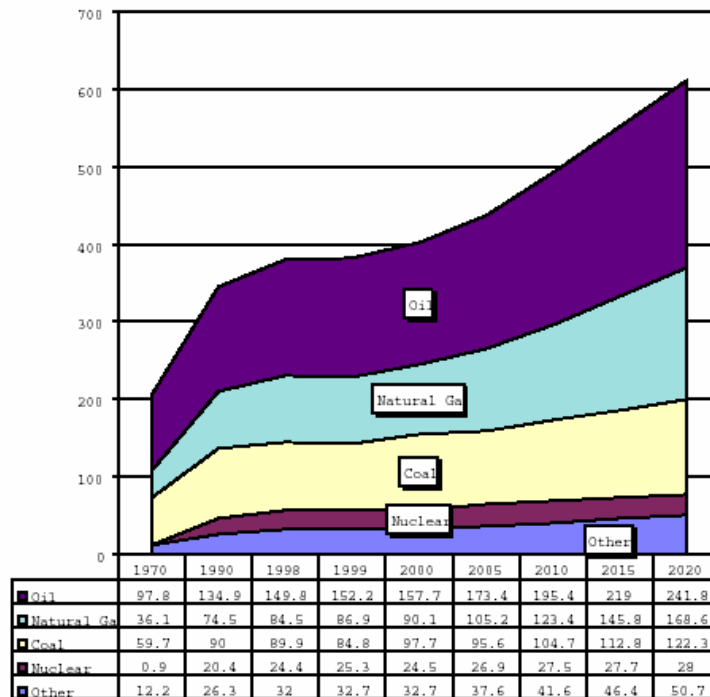


Table 6: Energy Information Administration (EIA), *International Energy Outlook*, 1999

It's useful to firstly point out about the Green Paper is the considerable increase in European needs for energy in next 30 years. Considering the continuation of the enlargement process of the European Union, a union with 30 members, will face a drastic increase in energy consumption. The European Union's energy production is expected to decrease in the next decades. Increasing demand and decreasing production will definitely lead to increase in import dependency in terms of energy sources.

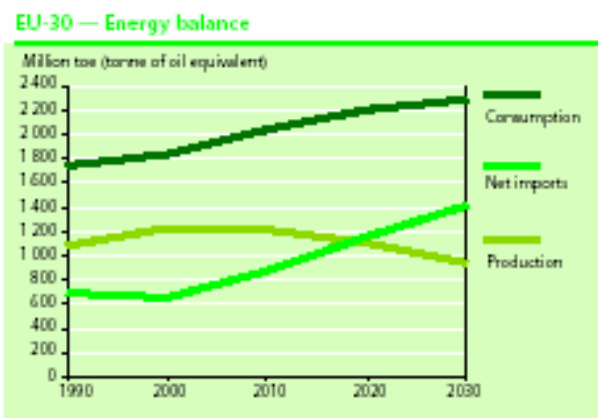


Table 7: EU - 30 – Energy Balance, *Energy: Let's Reduce Our Dependency Balance*,

European Commission, 2000.

From the year 2000 to 2020, the EU is expected to have a rise in external dependency on oil from 80 % to 85%. For the natural gas, the increase is even higher, from 45% to 75%.

EU 30: external dependence per energy product

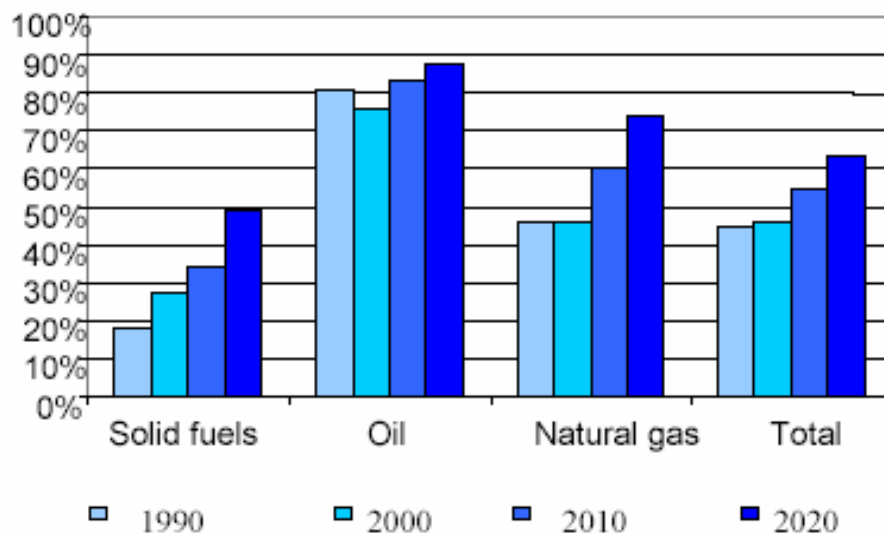


Table 8: EU – 30: external dependency per energy product, *Green Paper: Towards a European Strategy for the Security of Energy Supply*, 2000

The most significant result of this increasing dependency on external sources is the growing role of Russian natural gas on the European market.⁷ But dependency on one single source is not a favourable policy for any government. It is a factor which limits manoeuvring rooms and reduces chances for negotiations. Benefiting its monopoly in the market, a single seller has the chance to exploit the market for its own interests. This over – hand can also be used in the political arena, shaping foreign relations between seller and buyer countries.

Depending on this concern, diversification of sources appears as an important factor in energy policies. Again in the case of the European Union, diversifying sources is put as priority in several EU documents. To realize this priority, the first solution is foreseen as creating new networks to reach new sources. In this manner, political and economic relations with alternative sources are needed to be developed as well as the relations with transit countries.

⁷ Energy: Let's Reduce Our Dependency Balance, European Commission, 2000

In order to base relations on a new network, one will definitely need good relations between different members of the network. In this respect, Turkey, as a member of an alternative energy network, it needs to be analyzed in terms of its relations with other members of the network, meaning its neighbours, especially the neighbours who are energy producers. Two main producer areas next to Turkey, the Middle East and the Caspian Sea basin countries require separate readings, because Turkey has political and economic relations with these two regions, based on totally different historical and cultural heritages.

CHAPTER 2 – MIDDLE EAST AND THE CASPIAN SEA BASIN

COUNTRIES AND THEIR RELATIONS WITH TURKEY



2.1 TURKISH RELATIONS WITH THE MIDDLE EAST

The nature of the relations between Turkey and the Middle East countries is heavily influenced by its historical context.⁸ The Middle East, for almost four centuries, have been under Ottoman rule. The region has always been controlled by local and religious leaders, rather than by a strict central rule. The distance from the palace in empire's capital, Istanbul, gave local characteristics and identities elsewhere the chance to be preserved. The Gulf region had a religious importance for the Ottoman Empire, as the center of Islam. However, Ottoman rule in Arab dominated Middle Eastern countries has caused a sense of hatred in the region, despite the long practice of co-habitation.⁹

During the First World War, this phenomenon was strengthened by Arabic cooperation with the Western occupation against the Ottoman Empire.¹⁰ This betrayal has kept its place in Turkish public opinion since the establishment of the new Turkish Republic in 1923.

Despite this negative historical sentimental package, Turkey has a big population which shares the same strong religious sentiments with Middle Eastern populations. Their Islamic inclination has been generally felt as shared religious ties with the Muslim world and have consequently been forthcoming in their attitudes and policies. As seen in speeches of Necmettin Erbakan, chief of the (closed – down) Islamic oriented Welfare Party in the 1990s, the party's policies have been towards the Arab world, with a criticism of ongoing Western oriented official Turkish discourse.¹¹

But two other important events in last century have left more remarkable effects on Turkish – Middle Eastern relations. The first one is Turkish recognition of Israel. As a state which directly felt the Soviet threat in the Cold War, Turkey had chosen to position itself in the Western bloc. Due to its direct proximity to the Soviet Union, Turkey shaped its foreign policy by complying with the necessities of being an American ally in the region. In this manner, Turkey is the first Muslim country which recognized the establishment of Israeli state.

⁸ For the purposes of this work, I use the term « the Middle East » for the eastern neighbours of Republic of Turkey; namely, Syria, Iran and Iraq.

⁹ Graham E. Fuller, *Turkey's New Eastern Orientation*, in *New Geopolitics – From the Balkans to Western China*, 1993, p 49.

¹⁰ Ibid : p 50.

¹¹ Ibid : p 51.

Turkey had no problems with the Jewish population in the region. The Israeli state also immediately developed good relations with Turkey, based on the peaceful Jewish existence in Ottoman Empire. However, this choice of Turkey has negatively affected Arab states' attitude towards Turkey.

This negative atmosphere has worsened during Turkish operations in Cyprus. During the hostilities in Cyprus, Turkey made a military intervention and took control of half of the island to protect the security of the Turkish Cypriot population. This move was not appreciated, neither in the Western bloc, nor in the Arab world. The United States openly showed its opposition to this operation. In search of a support from Muslim countries, Turkey faced a pro - Greek attitude in Middle Eastern countries, except Iraq.¹²

The second important factor which shaped Turkish- Middle Eastern relations is the Arab states' pro – Soviet position.¹³ But with the end of the Cold War, like political relationships, Turkish - Middle Eastern relations also entered a new phase.

In the 1980s, Turkey passed through a new political and economic transformation. Right after the coup d'état of 1980, Prime Minister Turgut Ozal and his government started a new set of relations with the world. With Muslim world, Ozal chose to develop closer ties based on common religious affinity and realized through economic cooperation and trade. At the time, Turkish contractors in Middle Eastern countries enjoyed big successes, such as in Libya and Saudi Arabia. Total contract values were US \$ 3, 5 million in 1981. By end of 1982, this value rose to \$ 14, 74 million.¹⁴ Following the same tendency, Turkey's exports to the Middle East doubled between 1979 and 1982.¹⁵

Before turning to the main focus point of this paper and looking at Turkish – Middle Eastern relations in terms of energy policies, it is useful to take a close look at bilateral relations between Turkey and three neighbours on east side of country and at the same time three main players of Middle Eastern politics.

¹² Alon Liel, *Turkey in the Middle East – Oil, Islam and Politics*. 2001. p 156

¹³ Graham E. Fuller, *Turkey's New Eastern Orientation*, in *New Geopolitics – From the Balkans to Western China*, 1993.p 51.

¹⁴ George E. Gruen, *Turkey's Relations with its Arab Neighbors*. Middle East Review, pp 165 – 166.

¹⁵ Ali L. Karaosmanoglu, *Turkey's Security and the Middle East*. Foreign Policy, Fall 1983.

2.1.1 TURKISH RELATIONS WITH SYRIA

The main issue in Turkish – Syrian relations is the dispute over Turkey's Hatay (Icel) province. This province joined Turkey in 1939, with a plebiscite among the local people of the province, ending post- Ottoman French rule. However, Syria continues to claim Hatay as its rightful territory.

The other two main aspects of the Turkish - Syrian relations are mainly issues Turkey also experiences with other Middle Eastern neighbours. One is the sharing disagreement over the water of Euphrates River, recently used mainly by Turkish dams. But Syrian support for terrorist organizations created a great concern for Turkey. For decades, the most dangerous opponents in Turkey; ASALA (Armenian Marxist terrorist organization), radical Kurdish separatist groups and also violent Turkish extremist armed groups have maintained their bases on Syrian territory. Besides using its support for the PKK as an instrument of pressure against Turkey, it is more of a card for Syria to play, not a goal, because Kurdish population in Syria is much smaller than in Turkey, Iraq or Iran and Kurdish separatism has never been a potential problem for Syria.

2.1.2 TURKISH RELATIONS WITH IRAN

Turkish - Persian relations have a different basis than that with Turkey's other eastern neighbours. Iran had never been under Ottoman rule. Furthermore, the Kasr – i Sirin Treaty between Ottoman and Persian empires, signed in 1639, is still respected and determines the border between Turkey and Iran.¹⁶

Besides this border agreement, Turkey and Iran are two non – Arab states of the Middle East. Iran also differs religiously from other Arab countries, by having an enormous Shiite majority.

During the last decade, Iran under the Shah Regime had a rather stable relation with Turkey. Especially in the 1970s, Turkish – Iranian relations were marked by Turkey's increased oil needs and Iran's intentions to look for a new pipeline for Iranian oil. This was in the interest of both sides. Iran was seeking another way to replace the Suez Canal, closed due to the Six Day War and Turkey was ambitious enough to increase its oil imports and also to gain transit fees.

However, the Shah decided to turn to the tanker transfer option, rather than a pipeline which would pass through Turkey. Then negotiations changed in their nature. Iranian natural gas transport via Turkey to Europe became more attractive for both countries.¹⁷ Turkey was again aiming to get transit fees for gas travelling to Europe but also at having enough gas for

¹⁶ International Boundary Study, *Iran – Turkey Boundary*, located at <http://www.law.fsu.edu/library/collection/LimitsinSeas/IBS028.pdf>

¹⁷ Pulse, 24 May 1974

itself as fuel, development of petro-chemical and fertiliser industries and increased power production in the south-eastern part of the country.¹⁸ But this plan also failed mainly because of indecisive of Iran about a pipeline through Turkey. As seen in the following years, Iran has preferred a similar arrangement with the Soviet Union.¹⁹

Nevertheless, Turkish – Iranian relations had to pass another test with the Islamic revolution in Iran. Ruhollah Khomeini seized power in Teheran in 1979. After the drama of American hostages in Teheran, the American embargo began on Iran. With the American appeal to Turkey to join the embargo, Turkey found itself in a position to walk carefully on a thin road between a neighbour and an ally. Turkey needed Iran to overcome the oil crisis, but also needed the United States to recover its defence system which had weakened following the deterioration of American – Turkish relations in late 1970s. Again, Iran was an important player in Turkey's struggle against Kurdish irredentialism.²⁰

Turkey managed to convince the American government about the necessity of regarding the special relationship between Iran and Turkey. Historical ties, common religious and cultural backgrounds, as well as geographical proximity were emphasized. This move caused Iran to start shipping crude oil to Turkey without demanding immediate cash payment.

The 1980s were marked by war between Iraq and Iran. Turkey explicitly had chosen the strict position of neutrality. But bilateral trade and oil exports to Turkey increased because of blockades at Iranian seaports.

Besides the economic aspect, Turkey remained involved in Iranian affairs mainly, through many opponents to the regime who fled to Turkey, where they settled in the camps in south eastern part of the country. By 1985, the number of Iranian refugees in Turkey had reached nearly one million and they had become a real economic burden.²¹

2.1.3 TURKISH RELATIONS WITH IRAQ

Political relations between Turkey and Iraq were stable in the 1960s and that made Iraq Turkey's preferred oil supplier, with even Baghdad showing interest in building an oil pipeline to the Mediterranean Sea through Turkish territory. Besides this good neighbourliness; there are three main dimensions of the relationship:

1 – Kurdish Problem on Turkish – Iraqi border

¹⁸ Cumhuriyet, 9 July 1974

¹⁹ Alon Liel, *Turkey in the Middle East – Oil, Islam and Politics*. 2001. p 168.

²⁰ Pulse, 24 January 1980

²¹ A. H. Cordesman and A. R. Wagner, *The Iran – Iraq War*. Boulder/ Westview, 1990.

2 – Allocation of Euphrates – Tigris water

3 – Iraq's dependence on Turkey for land and sea transport routes.

The national aspirations of the Kurdish minority in Iraq and Turkey had different repercussions in the two countries. Likewise the approaches of the two countries to Kurdish issue are also different. For Iraq, the area, which Kurdish population is living in northern part of the country, is extremely strategic, especially the cities Mousul and Kerkuk. These two cities are where more than half of country's oil and gas are produced. Any political unrest in these sensitive areas could severely hurt the Iraqi economy.

Turkey was also interested in this unrest, due to its interest in securing its own stability on the northern Iraqi border. As well as the security of Iraqi – Turkish oil pipeline was very important for Turkey.

Another aspect of Turkey's Kurdish problem has been the violence against Turkish citizens in the area. During the 1980s and 1990s, the Turkish army put a relentless anti – terrorist effort in the area, including dozens of military operations against Kurdish separatists in Iraqi territory. These operations were mostly met with Iraqi consent and collaboration.

The second issue between Turkey and Iraq is the allocation of two main sources of water in region; the Euphrates and Tigris rivers. Since 1960, Turkey, Syria and Iraq have been debating over the allocation of Euphrates water. However, when Turkey began to construct a series of 21 dams and 17 hydro-electrical power stations along the side two rivers, Iraq decisively opposed the project. Iraqi officials lobbied the World Bank and oil producers, to reduce financing abilities of these dams by Turkey.²² Nevertheless, Turkey continued the constructions and many of these dams were completed in early the 1990s.

The third issue is Iraq's dependence on Turkey in terms of land transportation, including flow of oil. Since Iraq has problems with two other neighbours, Syria and Lebanon, in oil transfer, Turkey has become a vital actor for the Iraqi economy. This importance increased with construction of the Kirkuk - Dortyol pipeline in 1977, which leads the flow of Iraqi oil to Mediterranean Sea through Turkish territory.²³

But this stable relationship was damaged with problems in the 1980s. Increased Kurdish activism in the border area and change in Iraqi politics for a pro – Greek position on the Cyprus issue created an aloof policy in Turkey. The Iran – Iraq War added further problems. But Turkish– Iraqi relations met the most severe challenge when the Gulf Crisis began in August 1990.

²² Middle East Economic Survey, 22 January 1990

²³ Alon Liel, *Turkey in the Middle East – Oil, Islam and Politics*. 2001. p 158

2.1.4 TURKEY AND THE GULF WAR

When Iraq invaded Kuwait in 1990, Turkey didn't hesitate to join the western alliance to militarily stop Saddam Hussein, with the help of also economic sanctions levied mainly on oil. At the time, around 60 % of Iraq's oil exports were flowing through Turkey, as well as a major part of its foreign trade in other commodities and goods. Even though such a move would clearly entail heavy economic costs for Turkey, political and strategic considerations outweighed economic ones.²⁴

Besides burden of big the economic losses, Turkey also actively participated in the military operations against Iraq. The Turkish Parliament approved a bill granting the government full power to send troops abroad and to allow foreign forces to be stationed in Turkey.²⁵ Turkey become much more actively involved in the war than many other NATO members. After the United States and the United Kingdom, Turkey can be regarded as the most significant member of the anti – Saddam alliance during the hostilities.²⁶

In a short look at the bilan of the Gulf War for Turkey, it is obvious that Turkey has changed two main principles that had been part of its foreign policy for decades; neutrality in intra – Arab conflicts and good relations with Iraq. Although it clearly achieved an increase in its importance for western allies, but the heavy economic cost amounted to \$ 9 billion, for only the first year if the crisis.²⁷

The ongoing embargo against Iraq throughout the 1990s caused Turkey a financial damage because of suspension of operations of oil pipelines through its territory and the loss of Iraqi oil supplies. Saudi Arabia took over as Turkey's main oil supplier in the 1990s, followed by Iran, The United Arab Emirates and Libya.²⁸

2.1.5 TURKISH RELATIONS WITH THE MIDDLE EAST ON ENERGY ISSUE

Until 1973, Turkey had experienced no difficulty in either obtaining or paying for its oil. It had also been able to deal with its Muslim neighbours according to its own political and strategic agenda. Economics and energy didn't play a major role in Turkey's foreign policy

²⁴ Ibid : p 159

²⁵ Hurriyet, *Asker Gonderme Yetkisi Hukumette*. 10.10.2001

²⁶ Alon Liel, *Turkey in the Middle East – Oil, Islam and Politics*. 2001. p 158

²⁷ Bruce Kuniholm, *Turkey and the West*. Foreign Affairs 70, no 2 (Spring 1981)

²⁸ Ibid.

considerations. This situation drastically changed in late 1973, when the price of oil and the struggle to obtain it suddenly got difficult.

The Turkish Foreign Office's first step was to maintain a separation between oil and political and cultural affairs. The office tried to develop bilateral understanding with Muslim oil producers.

However this choice brought its challenges. When Turkey sought such an agreement with Iraq, the Iraqi government didn't hesitate to take advantage of its new power by insisting on a greater share of Euphrates water and collaboration against the Kurdish threat in exchange for oil. Again, Iraq and Libya appeared as the main oil suppliers of Turkey at the time.²⁹

One of the solutions emerging in Western countries like France, in the late 1970s to the oil shortage was "bilateralism", meaning relying on bilateral relations with oil producing countries, despite an American call for a joint struggle against oil producers. This choice of Turkey culminated in 1978 barter agreements. But during the 1980s, the dramatic economic recovery in Turkey caused a shift in the foundations of Turkey's bilateral relations with its oil suppliers. This shift brought two main consequences, which also combine with other changes taking place. The one is new interests in newly emerging ex - Soviet states with Turkic populations, including energy considerations. Another shift occurred with a closer move to the European Union, in terms of economic and political framework design.

²⁹ Dr. Sukru S. Gurel, *Ortadogu petrollerinin Uluslararası Politikadaki Yeri* . Ankara : Ankara Üniversitesi, 1979

2.2 TURKISH RELATIONS WITH THE CAUCASUS AND CENTRAL ASIA



During the Cold War, Turkey had the “communist threat” in next door by having direct border with the Soviet Union in Caucasus. According to long lasting principles of Turkish foreign policy dating back to the establishment of state, the Turkish Republic chose to obey the agreed – upon borders and maintained a policy of non – intervention in internal affairs of any country.

Depending also on the good relations, Turkey avoided any proclamation or announcement about “external Turks” living in the Soviet Union. By following the tradition, Turkish officials didn’t have any direct contacts with these populations, except some ultra – nationalist groups in Turkey.³⁰ The end of the Cold War brought new challenges to Turkish politics in the region. These challenges were mainly;

- 1- The end of Turkey’s geo-strategic importance based on an alliance against Soviet threat
- 2- The emergence of new instability sources next to Turkey.

³⁰ Baskin Oran, *Türk Dis Politikasi : Kurtulus Savasi’ndan Bugune*. 2001, Istanbul. P 356

These challenges required the development of new policies and even new interpretation of the role of Turkey.

Turkey's first reaction to the new environment was an optimistic and hopeful that would benefit from the changes. Of a new eight states, which five of them are Muslim, five Turkic origins; with more than 60 million populations, these states were source of new expectations in Turkey. The President of Turkey, in an inaugural speech at Turkish National Assembly pointed out that end of the Cold War brought Turkey to an ideal point to become a regional leader and that this first opportunity in 400 years shouldn't be missed.³¹

But these high hopes also brought false expectations. Obviously, the newly independent states had cultural, linguistic and religious ties with Turkey but the huge economic needs of these newly independent countries were out of Turkey's capacity. They were looking at Turkey both as a model to follow and also as a window to reach western world. But the phases of facing with reality, like a big budget deficit and high inflation, brought Turkey to a more conscious point on its expectations and attitudes.

Another important point in Turkish relations with ex- Soviet republics was their unwillingness to have a new "brother". After 70 years of Soviet dominance, the Central Asian and Caucasian states were hesitant and even afraid of getting under control of another power, no matter how much they had in common.³²

But it is important to point out that Turkey has been encouraged to play this role by western states and even by Russia. Inexperienced and hopeful Turkish officials also exaggerated the importance of the opportunities which Turkey had in the region.³³

Turkey has consciously chosen always to emphasize its cultural, linguistic and religious ties with the Central Asian and Caucasian Turkic republics. In fact, the religious ties are stronger than linguistic ties. Five new states in Central Asia: Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan and Tajikistan have Sunni – Muslim populations in the majority. Azerbaijan, which is only Turkic state in Caucasus, has rather a Shiite – Muslim majority. This sect difference puts Azerbaijan in a competitive position between Sunni – Muslim majority Turkey and Shiite Iran. Iran also has a relatively large number of Azeri minority. This population gives Iran an overhand in strengthening its relations with Azerbaijan.

Since the dissolution of the Soviet Union, both Turkey and Iran were aware of the political and economic benefits of the opening of Turco – Persian influence area. Turkey seemed a better example for even Shiite Azerbaijan, due to its image in the region. Turkey is the

³¹ Turkish National Assembly Archives, 1 September 1991

³² Gareth M. Winrow, *Turkey and the Newly Independent States of Central Asia and Transcaucasus*. MERIA Journal, Volume 1, no2, July 1997

³³ Gareth M. Winrow.

only Muslim country which is ruled with democratic, secular state structure and a free market economy. Its traditional pro – Western attitude made Turkey a model to follow in the eyes of new republics. However Turkey is, far away from having a perfect democracy and secularity, in a crisis point.³⁴ But still, linguistic ties play a big role with its closeness to Turkic republics. As described by several scholars, “being Turkish is neither ethnic, not cultural, nor religious. It’s definitely linguistic.”³⁵

This reasoning has been used by Turkish officials in several occasions with reference to the newly independent Turkic states. The most tangible example of this tendency is the more than 10,000 students coming from Central Asian states and Azerbaijan to Turkey for their studies. These students were granted scholarships by the Turkish government and this phenomenon seen as one of the most important signs of cooperation and closeness of Turkey with the students’ home states.

	Accepted Students	Graduated Students	Returned Students	Students still in study in Turkey
Azerbaijan	2570	556	545	1469
Kazakhstan	2111	216	859	1036
Kyrgyzstan	1301	100	364	837
Uzbekistan	1976	169	1444	363
Turkmenistan	3596	861	1066	1669
Total	11554	1902	4278	5374

Table 9: *Turkic Students who study in Turkey (August 1998), Turkish Ministry of Education.*

Nevertheless this projection did not produce as successful results as expected. Although Turkish is seen as the common language, there is a big difference between the Turkish which is spoken in Turkey and the one in Central Asia. These can be categorized as the different dialects of same language, but it is not always easy to use Turkish as a perfect means of communication with Central Asian Turkic states. 70 years of long Soviet experience also had a big linguistic effect. This reality turned to a big disappointment in the Turkish speaking countries’ Summit in Ankara on 16 – 18 July 1992, where the lingua – franca of the attendants was Russian language.

³⁴ D. Akogul, & S. Vaner, *La Turquie et le Monde Turc : Approches Politiques et Economiques*, in *Le trimestre du Monde*, 1992, p 167.

³⁵ Jean – Paul Roux, *Esquisses Socio– historiques sur le Monde Turc*, in *Problèmes Politiques et Sociaux*, No 757, p 72

The main aspect of relations between the Turkic states and Turkey is economics. Turkey couldn't foresee the size of the economic necessities of the Central Asian republics and its own capacity to fulfill them. The first attitude was to grant a big amount of long-term credits to all newly emerged states.

Country	Limit (million USD\$)	Used amount (million USD\$)
Azerbaijan	250	91,7
Kazakhstan	240	240
Kyrgyzstan	75	48,1
Uzbekistan	375	347
Turkmenistan	163,26	109,1
Tajikistan	50	19,9
Georgia	50	41,5
Total	1.203,26	870,6
Pay - back	-	468,32 (March 2000)

Table 10: *The Eximbank credits given to Caucasian and Central Asian countries by Turkey.* State Department for Economic Planning, 2000.

But in a very short period of time, the amount reached \$3 billion. This number necessitated a reconsideration of Turkey's economic policies towards the region.

Turkish entrepreneurs had a big role to play in Central Asia as well. They were benefiting the big demand in these countries through export and the goodwill based personal relations. They were preferred by Central Asian businessmen as trading partners. But abuse of this good will brought a weakening of trade relations. Low quality of export goods, unfulfilled promises and "cheating" on Turkic counterparts, turned trust to hesitance and unwillingfulness on the part of the Central Asian tradesmen.

Another challenging factor was Russian dominance in Central Asian markets. All through the existence of the Soviet Union, these countries were subject to a planned economy. All infrastructure and business networks had been established for "feeding" the center, Moscow. Even highways, railways, pipelines and communication networks have been designed to serve

Russia. This traditional structure brought it a dependency upon the Russian economy even after their independence.

Even though Turkic states were ambitious to prove their independence in economic field, were suffered a lack of legal regulations, a proper banking system and qualified man power to run all aspects of the economy. It was obvious that Turkey was unable to provide assistance in all these areas due to its own problematic economy. This insufficiency brought a sense of discomfort in the Central Asian countries.

Additionally, western companies were well aware of the big market in Central Asia. With the weakening role Turkey's role in area, western states got hand in big investments with their rich financial resources. This phenomenon became apparent especially in investments in the energy resources of these countries. Although Turkey was well aware of the energy issue in its relations with Turkic states, competition on rich oil and gas reserves in region became more and tougher for all actors involved.

2.2.1 ENERGY RESOURCES IN THE CASPIAN AND CENTRAL ASIAN STATES

Bold stories talk about a source of oil near Baku. In 13th century, Marco Polo had written that “he heard about a source of oil next to Baku, but an oil not for eating but for ‘burning’”. “Baku was also in area where the Zerdust sect had been organizing their rituals based on “eternal fire stones”. What made these stones burn was nothing else than a gas coming from squeezed petroleum within the soil.”³⁶

The first petroleum work in Baku started in 1829. Although they were primitive, dug by hand, there were more than 802 drills. With the opening of the area for private entrepreneurship in 1870 by the Russian empire, the first 20 new drills started in 1873.

A chemist called Robert Nobel arrived in Baku in 1873. Fascinated with the emergence of this new industry in city, he got into the business with gas gasoline trade to St. Petersburg from Baku. Then his deep knowledge about petroleum industry, allowed him to be “Oil King of Baku” after only a short time. Besides his work on developing the efficiency of oil drilling in Baku, he also started a big challenge by using the world's first tanker for oil transfer in the

³⁶ Daniel Yergin, *The Prize*, 1991 p 55

Caspian Sea in 1878. His big innovations in petroleum industry allowed him to control Russian petroleum production and trade within a very short time.³⁷

Even before the emergence of this new source of wealth in the region, the Caspian and Central Asia had been the scene of big competition between big powers. In the 1800s, the British and Russian empires had been in a continuous struggle, not only for money, wealth and land, but also for power and influence. British author Rudyard Kipling had named this rivalry “the Great Game”.³⁸

The new importance of the Caspian region and Central Asia was two fold;

A – Geopolitical rivalry over large amounts of oil and gas reserves in the region, extraction and transportation of oil and gas became a point of rivalry for regional and extra – regional powers, as well as numerous companies.

B – Increased geopolitical importance of these newly independent states after the dissolution of the Soviet Union.

Unlike in the original Great game, there are now new players such as Turkey, Iran United States and Russia. Interdependence among these new actors makes the picture much more complicated to understand. Promotion of controlling independence of the Caspian and Central Asian states sometimes come before than economic calculations of steps which were taken, “geopolitics count more than economy”.³⁹

³⁷ Marie Jégo, *Caspienne : Le Retour de « Grand Jeu »*, *Politique Internationale*, No 101, Automne 2003

³⁸ Shah Alam, *Pipeline Politics in Caspian Sea Basin*, *Strategic Analysis*, January– March 2002, Vol XXVI, No 1

³⁹ Patrick Clawson, *Energy Security: The Persian Gulf and the Caspian Basin*. Washington Institute for Near East Policy, Summer / Fall 2000. Volume VII, Issue 2.

A – Oil and gas Reserves in the Caspian Basin



The estimates of Caspian Basin oil and gas reserves vary widely. Geologists and energy analysts have been so far unable to access accurately the oil and gas reserves in the region due to lack of any major scientific study or surveys. There are, therefore, large discrepancies in the estimates. In the early 1990s, the United States Department of Energy estimated that Caspian oil reserves would exceed 273 billion barrels, around 16 % of the global oil reserves.⁴⁰ By 1999, the United States Department of Energy retreated from its earlier projection and estimates 123 billion barrels, about 7, 2 % of world reserves.⁴¹

⁴⁰ John Mc Carthy, *The Geopolitics of Caspian Oil*, Jane's Intelligence Review. July 2000. p 22.

⁴¹ Ibid.

However, within oil and gas industrial sectors, the revised figure is still considered too high. Various sources from the United States and Iran indicate that, the recoverable oil reserves in the Caspian Sea basin is around 170 – 200 billion barrels, which would make the Caspian Sea basin the third largest oil and gas reserve in the world after the Persian Gulf and Western Siberia.⁴² Caspian reserves are also frequently compared with North Sea sources, including at least 115 billion barrels of oil.⁴³ Gas reserves of the region are no more certain. Geoffrey Kemp claims that 279 trillion cubic feet of natural gas can be recovered from the Caspian Sea Basin.⁴⁴ Again there are different figures claimed by different sources.

Economically, exploration and production costs of oil and gas in the Caspian Sea Basin are big. Oil analysts estimate that the Caspian Sea Basin's oil production costs are around US \$ 5 per barrel. This is very high in comparison with Saudi Arabia's oil production costs of US \$ 1 per barrel. The Caspian Sea Basin's production costs are, however, lower than the production cost of the North Sea and Siberia, which are US \$ 13 and US \$6 per barrel respectively. Thus the Persian Gulf is likely to remain the principal source of oil (due to huge reserves, easy access and the cheaper price) for the world in the foreseeable future.⁴⁵

Despite having large amounts of oil and gas reserves, physical access to the reserves remains an obstacle due to the region's physiographic structure. The primary use of foreign capital and technology for exploration and transportation of the Caspian Basin's reserves is also the cause of infusion of extra regional political and economic influences in the region. There is not only the involvement of oil corporations (e.g. Mobil Oil, Chevron, UNOCAL and TEXACO of the US), British Petroleum and British Gas of the UK, Royal Dutch Shell, Total of France, AGIP of Italy and Statoil of Norway) in the region's oil and gas exploration and development projects. The Caspian Sea Basin affairs have also acquired importance in the foreign policy of a number of extra-regional countries.⁴⁶

The region's physiographical constraints have complicated the transportation of resources from the region. The area has no single means of exporting anything without crossing another country's territory and has no direct access to navigatable international waterways. So, the Caspian basin states are heavily dependent upon other countries for trade and transportation routes for their natural resources. However, pipelines would be long and carry a high transit fee. The Caspian Sea

⁴² M. Hamilton, "The Last Great Race for Oil Reserves? Companies Scramble to Rap Up to 200 billion Barrels in the Caspian Sea Region", *The Washington Post*; 26 April 1998, cited in Adrian W. Burke, *Pipeline Politics. US Corporations Lead Foreign Economic Policy*, *Journal of South Asian and Middle Eastern Studies*, XXIV (1), Fall 2000, p3.

⁴³ Jan H. Kalicki, *Caspian Energy at the Crossroads*, *Foreign Affairs*, September / October 2001.

⁴⁴ Geoffrey Kemp, *The Persian Gulf Remains the Strategic Prize*. *Survival*, Winter 1998 – 1999, p 40.

⁴⁵ *Ibid.*

⁴⁶ Shah Alam, *Pipeline Politics in Caspian Sea Basin*, *Strategic Analysis*, January– March 2002, Vol XXVI, No 1

Basin has, thus, the problem of routes in transporting its resources to the world markets. “The biggest obstacle to the Caspian oil is its distance to markets, between US\$ 3 and \$ 4 per barrel just to get oil out to a sea port for export and the additional fixed overhead of shipping costs.”⁴⁷ But there is another crucial obstacle in advancing exploration and exportation of Caspian energy reserves; which is the legal status of the Caspian Sea Basin.

LEGAL STATUS OF THE CASPIAN SEA

Since the beginning of the 20th century, the Caspian Sea basin had been known as holding rich resources. As littoral states at Caspian basin, in 1921 and 1940, Soviet Union and Iran have signed two treaties concerning the division of waters. But these treaties didn’t include the sea boundaries and the resources exploration. Since these two countries were the only two littoral states, their agreement clarified the legal framework for the time being. However neither side had intention nor need to excessively explore offshore resources of then the Caspian Sea at the time.⁴⁸

By 1940, Azerbaijan accounted for about 70% of Soviet oil production. Nevertheless, some of the known deposits were in difficult locations or geological formations that required extraction technology unavailable to the Soviet oil industry. The Soviet Union had obtained resources that were readily more accessible.⁴⁹

During the Soviet rule, the Soviet planned economy needed Baku’s oil, directly transferred to the heart of the country, Moscow, via the vast pipeline network whose aim was to feed growing Soviet industry.⁵⁰ The important point here is that in the Soviet economic system, the material resources and industry had never been placed together, at least geographically close to each other.

Soviets were result of center – based system. This dependency, after dissolution, resulted in the new republics who still need Russian network to activate their capacities.

With dissolution of the Soviet Union in 1991, 15 new independent states came up in the international arena. The number of littoral states around Caspian Sea increased from two to five, with three new independent states. The emergence of independent Azerbaijan, Kazakhstan and

⁴⁷ N. Jana, *Caspian Oil in 1999: The Imperative of World Class Performance*. Eurasia Business Unit, Chevron Overseas Petroleum Inc.

⁴⁸ R. Hrair Dekmejian & Hoven H. Simonian, *The Troubled Waters : The Geopolitics of the Caspian Region*, 2001

⁴⁹ Caspian Oil and Gas, 1998. International Energy Agency Publications, located at <http://spider.iea.org/public/freepdfs/1998/caspiano%2Bg.pdf>

⁵⁰ Baskin Oran, *Türk Dis Politikası : Kurtulus Savasi’ndan Bugune*. 2001, Istanbul. P 356

Turkmenistan brought a conscious opportunity of reaping benefits from the natural resources for strengthening their economic and political stability.⁵¹

However the reality is that new three states have coasts to the Caspian Sea which hold bigger part of the reserves within their seabed, have different measures. The division question is centred around the main arguments supported by different sides of the Sea. Iran and Russia, historically, claim equal distribution of the resources in the Caspian basin.



In first half of the 1990s, Iran and Russia proposed a “condominium” principle for exploration and exploitation of the natural resources of the Caspian Sea, which was opposed by Turkmenistan. Under the proposed principle, a 45 nautical mile coastal zone would fall under the jurisdiction of the respective littoral states and the rest would be used jointly.

Iran and Russia insisted that under the provisions of the 1982 United Nations Convention on the Law of Sea (UNCLOS), the Caspian Sea is a lake, since it has no outlet to a another sea or ocean. Thus, it can’t be governed by the Convention.⁵² According to the Law of Sea, the five states surrounding the Caspian would divide the sea and undersea resources into national sectors. A

⁵¹ Thomas R. Stauffer, *Caspian Fantasy: The Economics of Political Pipelines*. Watson Institute Papers, Summer / Fall 2000, Volume VII, Issue 2.

⁵² 1982 *United Nations Convention on the Law of Sea*, Part IX, Article 122. The Law of Sea. 1983. United Nations, New York.

median line would be established from the shores of each country and provide the national boundaries. The median line principle was supported by three other littoral states.



The three young littoral states, Azerbaijan, Turkmenistan and Kazakhstan claim the continental shelf principle (going parallel with Median Line principle), through which all littoral states have total control over resources within their coastal share.

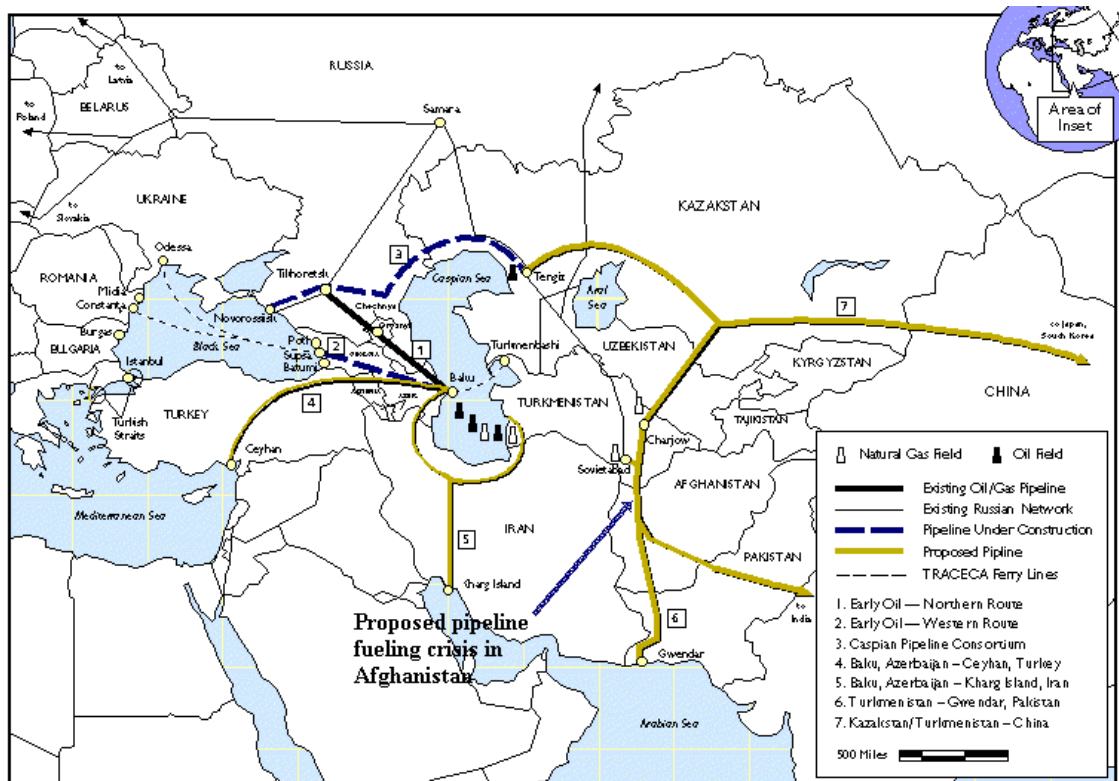
These two positions are based on a bigger debate of whether the Caspian Sea is a sea or a lake. This differentiation is important to support the respective states' positions. If the Caspian is taken as a "sea", it should be subject to the UN Law of Sea and then continental shelf principle should be applied, as Turkmenistan; Kazakhstan and Azerbaijan claim. If the Caspian is decided to be a lake, then the resources should be divided equally among littoral states, regardless of the geographical position of the resources, as Russia and Iran claim.

Even after years, this debate is still on the scene. The last meeting among the leaders of littoral states took place in April 2002, where they kept their traditional positions.⁵³ The prolongement of this debate blocks the new exploration efforts in Caspian Sea. International energy companies avoid intervening in the areas where legal or political problems can threaten the investment made. In the case that the Caspian's legal status is resolved, it's expected that new research and

⁵³ *Caspian Sea Region : Legal Issues*, located at www.eia.doe.gov/emeu/cabs/casplaw.html

explorations will be made in the Caspian Sea, which eventually affect the capacity and the importance of the region's reserves.

B - OIL AND NATURAL GAS PIPELINE ROUTES FROM THE CASPIAN SEA BASIN



Oil and Natural Gas Export Infrastructure in Central Asia and the Caucasus

The geopolitics of the region has complicated the determination of routes for transporting oil and natural gas from the Caspian Sea to markets in Europe, Asia and elsewhere. Transportation of the hydrocarbon resources out of the region has been a key issue for the United States' foreign policy in the last decade.⁵⁴

Countries like Iran, Turkey and Russia are competing to obtain the greatest share in this energy basin. The winners of the pipeline game will gain strategic benefits, while losers will be marginalized strategically. "The victory in the struggle will receive not only billions of dollars in form of transit fees. The real gain will be control over the pipelines which will be the most important factor of geopolitical influence in the Trans – Caucasus and in Central Asia"⁵⁵.

The oil and natural gas pipeline systems of Central Asia and the Caucasus were originally designed and built in Soviet times, to serve the economic needs of the Soviet Union. As such, they

⁵⁴ Stanley Kober, *The Great Game: Round 2 – Washington's Misguided Support for the Baku - Ceyhan Oil Pipeline*. Foreign Policy Briefing, 31 October 2000-

⁵⁵ Robert E. Ebel, *Energy Choices in Near Abroad: The Haves and Have – Nots Face the Future*. 1997. CSIS, Washington D.C. p37 – 38.

often cross the borders of its successor states. Today, all oil and gas export pipelines, which are inherited from the Soviet period, pass through Russia. Russian gas and oil operators, facing capacity constraints due to lack of maintenance and other technical problems, have capped exports from the region.

For example, in 1996, the capacity of crude oil export pipelines from Central Asia through Russia was about 16 million ton, which virtually has no capacity from Transcaucasia. For the export capacity, shared by Russian and Central Asian oil, the main Russian petroleum transfer company, Transneft allowed less than 10 million ton per year for Central Asian oil.

The situation is more difficult for natural gas. Since 1994, Russia's main natural gas company Gasprom has not allowed any exports through its territory, for the markets outside of the Former Soviet Union territory. Gasprom also further indicated that it doesn't want Central Asian gas to compete with Russian gas in the lucrative European market with the continuous increase in production in Central Asia and Caucasian reserves, existing oil and gas export pipelines are being proposed and in some cases are already under construction to serve the region. The most advanced projects are for the transport of oil, particularly the Azerbaijan International Oil Consortium's line from Kazakhstan.

"Early Oil" is a concept developed to test the feasibility and market role of oil from the Caspian region.⁵⁶ According to the model, before making great investments in the region, the oil obtained by first explorations would be transported to the markets as "testers". If it is determined to be economically profitable, then the main export route negotiations are possible for Baku – Tbilisi – Ceyhan crude oil pipeline.

Depending on the direction of the target markets for the Caspian reserves, five main transportation routes can be mentioned;

- Northern Routes,
- Southern Routes,
- Eastern Routes
- South-eastern Routes
- Western Routes

NORTHERN ROUTES

The northern routes are Russia's preferred choice. The terminal is at Novorossiysk, a Russian sea port on the Black Sea. Russia is trying to convince both Azerbaijan and Kazakhstan that their

⁵⁶ Mehmet Aydin, « Erken Petrol » in Baskin Oran, *Türk Dis Politikasi : Kurtulus Savasi'ndan Bugune*. 2001, Istanbul. P 356

interests will be protected if their oil and gas pass through the northern routes. These routes are from Baku to Novorossiysk and from the Tengiz oil fields in western Kazakhstan to Novorossiysk.

But Russia's position has weakened due to political instability in the northern Caucasus. Especially the strife in Chechnya and to a lesser extent separatist desires in Dagestan threaten the political stability required for the security of a Baku – Dagestan – Chechnya – Novorossiysk pipeline route.

SOUTHERN ROUTES

The Southern routes from the Caspian area have to pass through Iran and would terminate in the Persian Gulf. They are supported by Iran and various oil companies. The southern routes make sense economically and commercially since they are shortest, quickest and cheapest routes and would pass through relatively safer territories and pose no environmental hazard. Despite all positive points, these routes are firmly opposed by the United States due to relations between the United States and Iran. Depending on the nature of American – Iranian relations in last two decades, which is materialized with the Iran – Libya Sanction Act Bill of 1996, the United States still seeks to constrain Iran.

EASTERN ROUTES

In the east of the Caspian region, China is emerging as a big economic power and highly energy demanding country. Due to its need to diversify energy resources, Kazakhstan is attractive for China because of its relatively easy access. There have already been agreements between China and Kazakhstan, to construct an extremely long and expensive pipeline from two fields in Kazakhstan to Western China. This project is said to be the largest project among the planned pipelines so far (5000 km long).⁵⁷

SOUTHEASTERN ROUTES

The south-eastern route means transferring Caspian reserves to open seas via Afghanistan, to Pakistan and India. This route is especially favoured by Pakistan, Afghanistan, Saudi Arabia Delta Oil and the American UNOCAL Corporation. UNOCAL had withdrawn from the project in 1998, due to the unstable situation in Afghanistan and anti – American activities of the Taliban regime.

⁵⁷ Narsi Ghorban, *By Way of Iran: Caspian's Oil and Gas Outlet*. In Hooshang Amirahmadi, Ed. *The Caspian Region at a Crossroad. Challenges of a New Frontier of Energy and Development*, 2000. p 153.

However, with the establishment of a new state in Afghanistan and rather stable political environment in Central Asia can be discussed again. This would directly reduce the importance of Russian routes.

WESTERN ROUTE

The western routes for transporting oil and gas from the region are primarily supported by the United States in order to contain the Russian influence and dominance in the region. The western routes are preferred by the United States, Azerbaijan, Georgia and Turkey and are intended to bypass Iran and Russia. The Baku- Tbilisi – Ceyhan pipeline is the tangible result of these preferences. This route is favoured by the United States as the main export pipelines. The United States' attraction to the Ceyhan route and the Trans-Caspian line emanates from its desire to build an East – West axis of influence and commerce in the Eurasia region.⁵⁸ Through Turkish influence in the Caspian region, the United States will itself retain influence there and crucially will be able to counter attempts by Iran and Russia to expand in so strategically a crucial zone.⁵⁹ Besides these four main actors who favour an East – West energy corridor, the Ukraine is also a supporter of Western routes. The Ukraine is on a possible route for transferring sources via the Black Sea to Europe.⁶⁰

Turkey's position in a Western route for Caspian resources brings an important advantage which can be used for the country's long –term development efforts and also to fulfil the necessities of being a regional power, especially in terms of energy transportation. To evaluate the possibility of such a vision, one should first analyze Turkey's recent position in terms of both as an energy user and as a transfer country.

⁵⁸ Hooshang Amirahmadi, "Pipeline Politics in the Caspian Region" in *The Caspian Region at a Cross Road: Challenges of a New Frontier of Energy and Development*, 2000.

⁵⁹ *Slow Route on the Silk Road*, Petroleum Economist, May 1999 66 (5).

⁶⁰ Shah Alam, *Pipeline Politics in Caspian Sea Basin*, Strategic Analysis, January – March 2002, Vol XXVI, No 1

CHAPTER 3 – TURKEY AS AN ENERGY ACTOR

3.1 TURKEY AS AN ENERGY USER

3.1.1 THE TURKISH ENERGY OUTLOOK

Turkey, traditionally, is an energy importer. In 2001, Turkey consumed 77 mtpe (million tone petroleum equivalent) energy, while having produced only 26, 3 mtpe.⁶¹ National production answers only 35% of national consumption, and national production has been in decline over the years with a high rate.⁶² In the case those recent energy choices prevail, in 2020 the percentage of imported energy as a part of energy consumption, will rise to 78%.

According to the estimates of the Ministry of Energy and Natural Sources, energy consumption will be 154 mtpe in 2010 and 282 mtpe in 2020. For the same periods of time, the figures for energy production are 42 mtpe and 62 mtpe respectively. Depending on these figures, the production / consumption rate will be only 27% in 2010 and 22% in 2020.

Turkey is over the average of world energy consumption per capita, which is 1, 2 tons. This figure is 1, 45 tons in Turkey. For North America and the EU these figures are 6, 5 and 3, 1 tons respectively.⁶³

With actual data, the percentage of hydrocarbon sources – oil, natural gas and coal – in Turkey's energy consumption is 70%.⁶⁴

⁶¹ Figures from website of Turkish Ministry of Energy and Natural Sources, located at www.etkb.gov.tr

⁶² Necdet Pamir, *Dünyada ve Türkiye'de Enerji Kaynakları ve Enerji Politikaları*. May 2003, Istanbul.

⁶³ Necdet Pamir.

⁶⁴ Figures from the website of Turkish Petroleum Corporation, located at www.tpao.gov.tr/prpte/energytr2.htm

PRIMARY ENERGY CONSUMPTION IN TURKEY (THOUSAND TONS OIL EQUIVALENT)

YILLAR	PETROL	DOGAL GAZ	LINYIT	TASKÖMÜRÜ	DIGER	TOPLAM
YEARS	OIL	NATURAL GAS	LIGNITE	HARD COAL	OTHERS	TOTAL
1983	17,540	7	5,294	3,255	9,501	35,597
1984	17,840	36	6,408	3,464	9,499	37,247
1985	18,134	62	7,933	3,775	9,263	39,167
1986	19,622	416	8,879	3,992	9,259	42,168
1987	22,301	669	9,189	4,404	9,996	46,559
1988	22,590	1,115	7,932	5,204	10,729	47,570
1989	22,865	2,878	10,207	4,722	9,693	50,365
1990	23,901	3,110	9,765	6,150	9,706	52,632
1991	23,315	3,827	10,572	6,501	9,700	53,915
1992	24,865	4,197	10,743	6,243	10,250	56,298
1993	28,412	4,630	9,918	5,834	11,051	59,845
1994	27,142	4,921	10,331	5,512	10,769	58,675
1995	29,324	6,313	10,570	5,905	11,068	63,180
1996	30,939	7,186	12,351	5,560	11,999	68,035
1997	30,515	9,165	12,280	8,495	10,912	71,367
1998	30,349	9,690	12,631	8,921	12,576	74,167
1999	33,166	11,740	12,314	7,708	11,775	76,703
2000	34,893	14,071	12,830	8,149	9,728	79,671
2001	30,721	14,967	13,091	6,972	12,231	77,982
2002	30,777	16,128	10,603	8,870	12,025	78,403

Table 13: *Primary Energy Consumption in Turkey*, from the website of Prime Ministry - Foreign Trade Directorate, located at www.foreigntrade.gov.tr/ead/strateji/I-3.htm

This figure resembles the general picture of global consumption patterns. According to the estimates of the Ministry of Energy and Natural Sources, in the next 20 years, the total percentage of these three natural sources in energy consumption will be around 90%.

The same estimates show a definite increase in the percentage of natural gas – from 16% to 25, 2% - and a slight decrease in the percentage of oil from 40, 6% to 21, and 6% with an increase in amount consumed. Because of the almost halted oil exploration policies, external dependency is expected to continue at 90% for oil and 95% for natural gas.

For the year 2002, oil and natural gas purchases alone have costed Turkey US\$ 8, 1 billion to Turkey. ⁶⁵ Turkey buys natural gas at the highest price among OECD countries. As the easiest and quickest way of electric production, natural gas is used as a raw material. For 2010, there is expected to have an increase in percentage of natural gas in electric production. ⁶⁶ Relying on the International Energy Agency's estimations on doubling of natural gas prices over the next 20 years, it's obvious that depending on natural gas for producing electricity is a mistake.

3.1.2 ENERGY SOURCES OF TURKEY

Primary Energy Sources In Turkey (at end of the year 2001)

SOURCES	PROVEN	PROBABLE	POSSIBLE	TOTAL
COAL	7757	1028	345	9201
OIL (Million Ton)	41,8	-	-	41,8
NATURAL GAS (Billion M3)	8,7	-	-	8,7

Table 14: *Primary Energy Sources in Turkey*, from the website of Ministry of Energy and Natural Sources, 20 May 2003

OIL RESERVES OF TURKEY

Turkey's explored petroleum reserve is around 1 billion barrels so far. 70% of this reserve has already been used. The rest is around 296 million barrels (43, 1 million ton). 70% of this reserve belongs to the Turkish Petroleum Corporation (TPAO).

Turkey every year consumes 25 million tons of crude oil. 89% of this crude oil is obtained through imports. In the year 2002, the total amount Turkey paid for importing crude oil and petrochemical products was US \$ 5, 3 billion. Turkey's oil supplies are mainly the Middle Eastern states; Saudi Arabia, Iran and Iraq, and also Russia.

⁶⁵ Figures from the website of Prime Ministry - Foreign Trade Directorate, located at www.foreigntrade.gov.tr/ead/strateji/I-3.htm

⁶⁶ *Elektrik Üretiminde Ulusal Politika (National Policy on Producing Electricity)*, Ankara ve İstanbul Sanayi Odaları Ortak Yayını, October 2000.

The explorations made so far are insufficient. Since the establishment of the Turkish Republic, 1623 operations have been made for explorations and drillings.⁶⁷ The discussions about the oil reserves in Turkey are based on two main groundless claims, namely, “Turkey stands on an oil sea” and “There is not oil in Turkey”. Both claims lack any scientific base to develop any policy or argumentation, but they are popular enough in public opinion to shape daily discussions.

Turkey’s oil production is operated primarily by three companies; Turkish Petroleum Corporation (TPAO), and two foreign operators Royal Dutch Shell and Exxon Mobil. A few relatively small other companies like Petrom of Romania and Alaaddin Middle East also operate in Turkey. TPAO alone accounts for about 80% of the country’s total oil output.

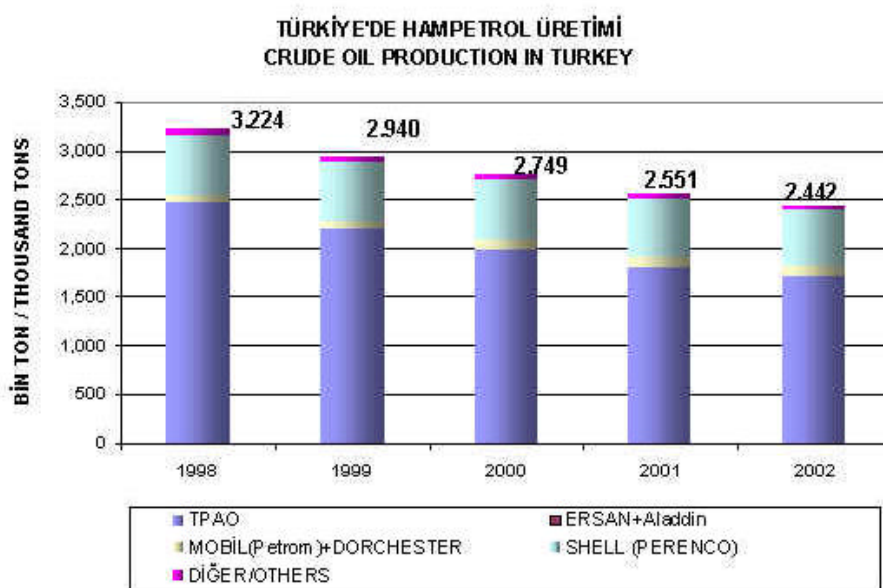


Table 15: *Primary Energy Sources in Turkey*, from the website of Turkish Petroleum Corporation (TPAO).

Turkey’s oil fields are relatively small and scattered around the country. Some relatively rich fields are located in Southeast Turkey. The Hakkari basin is specifically Turkey’s main oil producing area. However, all these fields generally use old technology and eventually have high production costs. In addition to Hakkari basin, there are some prospects for Western provinces, the Black Sea coast and the Aegean Sea coast.

⁶⁷ *Primary Energy Sources in Turkey*, from the website of Ministry of Energy and Natural Sources, 20 May 2003, located at website of Turkish Petroleum Corporation (TPAO).

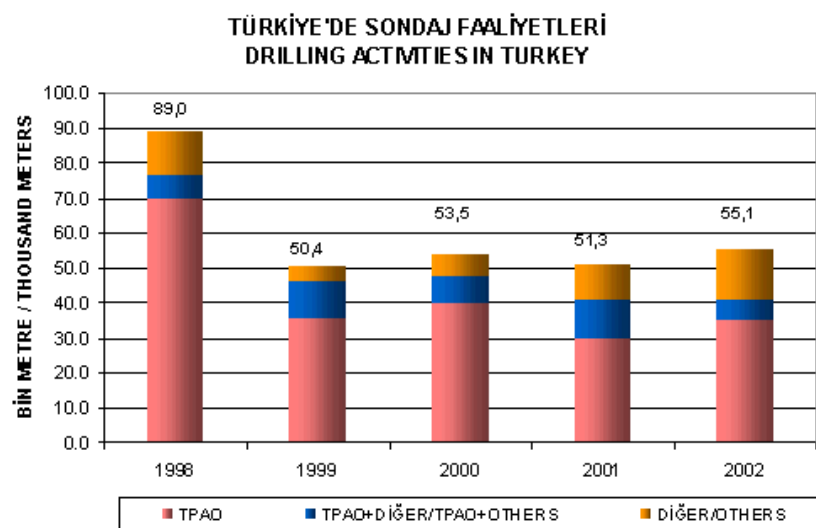


Table 16: *Primary Energy Sources in Turkey*, from the website of Turkish Petroleum Corporation (TPAO).

Refining / Downstream Operations

Turkey has a refining capacity of 771,275 barrels / day, at 6 refineries. Refining and other downstream operations in Turkey are dominated by a partly – state owned refining company, TÜPRAS, which has 4 main refining complexes; Batman in the Southeast region, Aliaga near Izmir on the Aegean Sea coast, Izmit near Istanbul and the Central Anatolian Refinery at Kirikkale near Ankara.⁶⁸

NATURAL GAS RESERVES OF TURKEY

Turkey consumed 520 billion cubic feet of natural gas in the year 2000, accounting for around 17% of Turkey's annual energy consumption. Nearly this entire amount was imported. Prior to Turkey's recent severe economic problems Turkish natural gas demand had been projected to increase very rapidly. The prime consumers had been expected to be natural-gas-fired electrical power plants and industrial users.⁶⁹

⁶⁸ Selma Stern, Turkey's Energy and Foreign Policy, Globalization 2003, located at website globalization.icaap.org/content/V3.1/03_stern.html

⁶⁹ The United States Energy Department website, Country Analysis Briefs– Turkey.

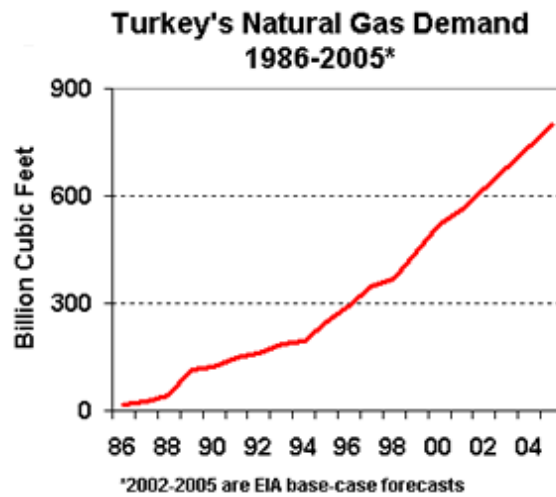


Table 17: *Turkey's Natural Gas Demand*, data by The United States Energy Department

However, the state owned natural gas and pipeline company BOTAS has revised its natural gas demand. The projections are much lower, based on Turkey's economic problems, from about 1,6 trillion cubic feet (Tcf) in 2005 to only 1,1 trillion Tcf in that year, with a 37% decrease in natural gas demand estimates for Turkey.

This sharp revision in Turkey's projected natural gas demand could have significant repercussions, since Turkey has already signed contracts for more natural gas than it's expected to need. So far, Turkey has signed deals around 2Tcf per year of natural gas imports, more than double of the EIA's forecasts for Turkish gas consumption at any given year.

Of this total, over 20% is already coming from Russia via Bulgaria, 17% from Iran and from Nigeria in form of Liquefied Natural Gas (LNG). Turkey has one 112 bcf / year capacity LNG terminal, adjacent to the existing Marmara Eregli combined cycle gas turbine power station.

In the future, around one fourth of Turkey's gas imports are to be supplied by Russia via the Black Sea, through the newly completed Blue Stream Pipeline. The Blue Stream Pipeline will provide Turkey with 14, trillion cubic feet of gas, over the term of the 25 year agreement, which began in 2002.

BLUE STREAM NATURAL GAS PIPELINE

In October 2002, a twin 866 miles natural gas pipeline running from the Russian port Dzhugba to the Turkish coastal city Samsun, under the Black Sea, was completed. Natural gas flows started in 2003, about one year behind schedule. The US \$ 3, 2 billion “Blue Stream” pipeline runs from Izobilnoye in Southern Russia to Dzhugba on the Black Sea coast, then under the Black Sea for about 247 miles to Turkish port Samsun and on to Ankara.



In March 2003, Turkey halted its gas purchases from Blue Stream for 6 months, with an official BOTAS (Turkish Pipeline Transfer Company) statement; “we don’t need gas now”⁷⁰. According to International Oil Daily, Turkey’s net gas purchase from Blue Stream in 2004 would be only about 35 bcf, just one fourth of the originally planned volume. By 2009, the Blue Stream had been expected to reach its peak transfer capacity of 565 bcf per year. But this amount is very high, given Turkey’s lower gas demand forecasts. Over the course of the 25-years-long agreement signed in December 1997, Turkey was to import a total of 14,1 tcf natural gas, from Russia via Blue Stream. The US\$ 3, 3 million Blue Stream pipeline will transfer 16 billion cubic meters natural gas per year from Russia to Turkey. Construction of the pipeline was completed in 2002. 375 kilometres of pipeline runs under the Black Sea, reaching a depth of 2150 meters, making it the world’s deepest pipeline. The Blue Stream was jointly built by Russia’s Gazprom and Italy’s ENI, after Turkey’s 1997 agreement with Russia.

⁷⁰ <http://www.rferl.org/features/2003/04/29042003170246.asp>

3.3 TURKEY AS ENERGY HUB BETWEEN EAST AND WEST

Turkey has a special geographical position in terms of closeness to the traditional energy sources. It has direct access to the countries which hold considerable amount of oil and natural gas reserves. Many of these countries are land-locked, meaning they don't have access to markets directly which in need of energy. To challenge the physical and geographical obstacles, they have to cooperate with neighbouring states. At this point, Turkey has a strategic advantage to be used; being bridge of these resources to transfer them to markets, especially to Europe.

However, to use this advantage, Turkey needs to pursue a conscious and goal-oriented policy. Because energy transfer requires big investments. The main way of carrying oil and natural gas is pipeline. But constructing a pipeline means much further than an engineering work. Decision of constructing a pipeline requires a strong political decisiveness, economic feasibility and proper conditions in international environment. It is a combination of multi – sided motivations by all involved parties.

If we look at Turkey's involvement in energy transfer issue so far, we face a variety of sources which don't have proper markets. As I will point out in following chapters, Turkey has been - and still is – part of several pipeline agreements and projects. These agreements are partly depending on economic reasons, supported by growth rate if Turkey and increasing energy demand. On the other hand, it is hard to claim that these agreements were always made solely on economic calculations. Political choices, international power balances and political clientalism shadowed the decisions made by Turkish energy authorities. These excess resources put Turkey in a position to look for joining existing energy networks and maybe reaching new markets.

3.3.1 PIPELINES VIA TURKEY



Oil and gas transportation is a crucial and contentious issue for Caspian and Central Asian regions, as well as for Turkey. To clearly see Turkey's position concerning energy transportation from these regions, it is useful to make a distinction between Turkey's role in the Middle East and Caspian energy resources. Then another subdivision for oil and natural gas transportation, can also contribute to clarification of picture.

3.3.2 MIDDLE EASTERN ORIGIN PIPELINES VIA TURKEY

3.3.2.1 OIL PIPELINES FROM MIDDLE EAST VIA TURKEY

Middle East, in region as a whole, holds 28, 5 % of the world's total crude oil production. The biggest reserves are in Saudi Arabia, with 11, 5% of the world's total oil reserves. Saudi Arabia is also the biggest exporter in the world with 303 million tons crude oil per year.⁷¹ Iran is the second biggest exporter of oil from the Middle East, with an amount of 119 million tons of crude oil per year. Then follow Iraq with 90 million tons and United Arab Emirates with 79 million tons on world's oil exporters ranking.

Saudi Arabia and Iran use their own transportation measures from Persian Gulf with tanker trafficking. Among these big reserve countries, only Iraq has a structure to transfer its oil through Turkish soil. Nevertheless, Iraq since 1990 lost its share in oil markets due to both the sanctions of the United Nations and also destroyed infrastructure. The heavy air strikes during the First Gulf War in 1990 destroyed the bulk of surface oil facilities and reduced the Iraqi oil industry to a "lamentable state".⁷² Until American operation in 2003, Iraq had been under the United Nations Resolution 986, which brings the program "Oil for Food". Within framework of this resolution, there was a certain limit for Iraqi oil sales as US\$ 5, 6 billion. The proceeds of sales were also channelled to a United Nations account to which Iraqi government had no access.⁷³

By following the UN sanctions on Iraq, Turkey closed the main two pipelines which were carrying Iraqi oil to Mediterranean ports; Kerkük – Dörtyol and Kerkük – Yumurtalik. Besides the loss of these resources and also transit fee, oil track trafficking is also banned from Iraq to Turkey. Including the other trade articles, estimated economic losses of Turkey, during the first year after the First Gulf War was around US \$ 9 billion.⁷⁴

Following the American operation in Iraq, it is questionable how Iraqi oil market will be shaped and in what degree it will contribute to export markets. In estimations of Fadhil Chelabi, even if Iraq catches the pre-sanctions level in oil production, it would be a very limited effect on global oil markets. However for Turkey, reopening of oil trade with Iraq would bring a new opportunity in terms of supply diversification and obtaining transit fees again, by transferring

⁷¹ International Energy Agency, *Key World Energy Statistics*, 2003.

⁷² Fadhil J. Chlabi, *Iraq and Future of World Oil*. Middle East Policy, Volume VII, October 2000, No 4.

⁷³ Fadhil J. Chlabi.

⁷⁴ Bruce Kuniholm, *Turkey and the West*, Foreign Affairs, 70, No2 (Spring 1991)

Iraqi oil to Mediterranean Sea. But it is still a debated issue how much Iraq can produce and export with its deprived infrastructure and lack of investment. Although Iraq has the second biggest proved reserves on the world, over a hundred billion barrels of oil. To recover country's oil infrastructure, it's needed to produce around 3 million barrels a year, which corresponds to an investment of US \$ 40 billion.⁷⁵ However, after the Gulf War, it took around 5 years of investors to feel secure enough in Kuwait to start investments. It is highly probable to have same hesitancies in terms of big investments in Iraq, to recapture of pre – war capacity.

3.3.2.2 NATURAL GAS PIPELINES FROM MIDDLE EAST VIA TURKEY

The only example of Turkey using natural gas of Middle East is the gas coming from Iran. In 1995, Iran and Turkey have signed an agreement which envisages the former selling 2 billion cubic meters of gas to the latter.⁷⁶ In 1996, the amount of gas to be sold increased to 10 billion cubic meters. This agreement is valid since 1996 and in effect for 25 years.⁷⁷

This agreement, at the beginning, has been designed as a starting step of an Iranian- Turkish – European gas pipeline project. The increase in amount, from 2 billion to 10 billion cubic meters, was sign of the positive negotiations between the sides. However, in time being, there is no concrete result of this proposal. As I will try to point out in following chapter, the failure of this project shows the weight of geopolitical choices, compare to economics. The main argument behind this frozen phase is the American sanctions on Iran since 1979.⁷⁸

Contrary to the articles of agreement, Iranian gas export to Turkey finally started in December 2001 after few years of delays. The deliveries were supposed to start in 1999, according to 1996 agreement. But delays in pipeline construction on Turkish side contributed to the technical and political reasons, which held back start of shipments.⁷⁹ Although shipments still continue, Turkey's economic crises in 2001 combined with over-supply of Turkey form the other natural gas exporters, appear likely to trigger "take or pay" penalties for Turkey.⁸⁰

⁷⁵ Edward C. Chow, *Why Oil won't be a Quick Fix*. Foreign Policy – Carnegie Special Report, Located at foreignpolicy.com/story/storyid-13757

⁷⁶ Nokta, 5 March 1995, Istanbul.

⁷⁷ Dogalgaz Calismalari, Ministry of Energy and Natural Sources website, located at www.enerji.gov.tr/dogalgaz.asp

⁷⁸ Hugh McDonalds, *Geopolitics and the New Middle East*. The Distinguished Speakers Series in Political Geography, 2001.

⁷⁹ MEES, 17 December 2001.

⁸⁰ „Middle East Gas Pipeline Systems Highlight - Need for Greater Price Transparency“, MEES, Vol XLV, No 24, 17 June 2002.

3.3.3 CASPIAN SEA ORIGIN PIPELINES VIA TURKEY



The main feature of the hydrocarbon resources in Caspian Sea basin is the inability of exporting the resources from reserves directly to markets.⁸¹ Any oil or natural gas transportation mean in the region has to pass through another country's territory. The only exception to this generalization is Russia. Besides having her own pipeline networks and access to open seas, she also has a big strong overhand on Caspian Sea basin states, in terms of energy transportation. Long Soviet tradition of oil and natural gas transportation from these countries through Russia, made them dependent on Russia and prevent a free and proper practice of their own natural reserves.

This reality is an important motivation for international involvement in the region. Especially the United States promotes exploitation of these sources as an important tool for these young

⁸¹ For the purpose of this paper, Caspian Sea basin states refer to Azerbaijan, Kazakhstan and Turkmenistan.

states to relieve from Russian dominancy. To support this aim, the United States, since 1990, make political investment in the region by strengthening some regional actors and by suppressing some other.

In this respect Turkey, for last two decades, experienced direct American promotion for its increased role in the area. The dissolution of the Soviet Union, gave an opportunity to Turkey and Iran to benefit from this change, relying on their cultural affinities with the region. However, to play such an important role, a country requires not only motivation but also support from a big external power, mainly the United States in Caspian case. By definitely disagreeing with the Islamic regime in Iran, the American governments refused to allow Ira to gain any power on Caspian states. Contrarily, Turkey had felt a big American support to more actively involve in Caspian Basin politics, especially using oil and natural gas resources transfer as a tool.⁸²

Since achieving its independence from the USSR in late 1991, Azerbaijan has become the focus point of intense interest on its oil resources. Unable to develop its offshore oil fields with only Russian technology, Azerbaijan welcomed western oil companies to drill for oil and help to export it. Drilling and extracting the oil is relatively easy compared to its exportation. This also involved highly political decisions about transport routes, which most of the time means a “zero-sum-game”.⁸³

Turkey with strong political support of the United States, has gained an overhand in this zero-sum game. Despite obvious Russian influence in the Caspian region, Turkey managed to make one of big oil exports from Caspian basin through its territory, as part of East – West Energy Corridor. Baku – Ceyhan – Tbilisi crude oil pipeline became the example how strategic choices overcome the economic ones.⁸⁴ As stated in Silk Road Strategy Act of 1999, The United States put forward its geo-strategic interests in the region, as opposed to increasing political influence of such regional powers as Russia and Iran.⁸⁵

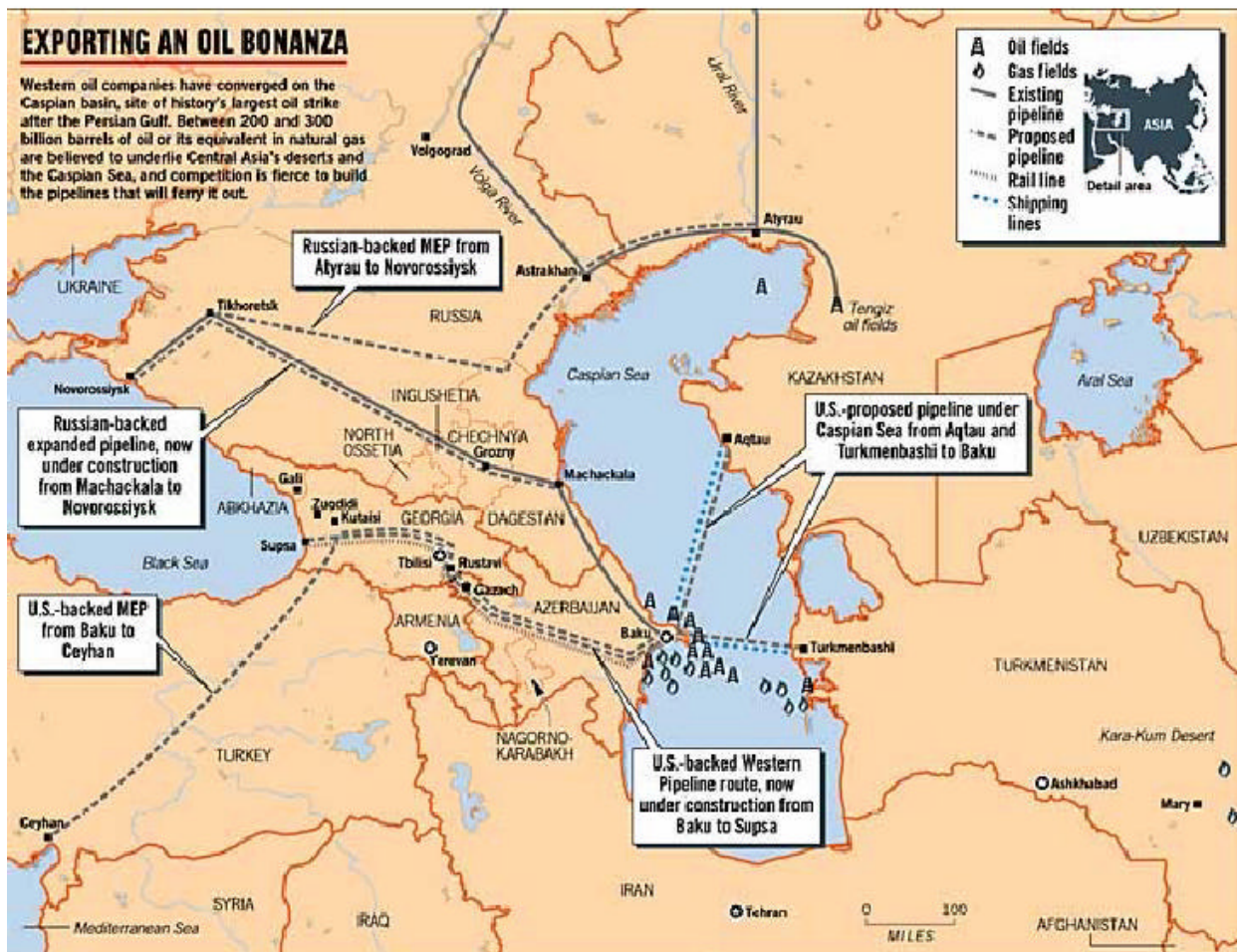
⁸² Svante E. Cornell & Maria Sultan. *The Asian Connection: The new Politics of Central Eurasia*. Cornell Caspian Consulting, Caspian Brief, 2000.

⁸³ Brent Sasley, *Turkey's Energy Politics in the Post– Cold War Era*. MERIA Journal, Vol 2, No 4, November 1998.

⁸⁴ Brent Sasley.

⁸⁵ The Silk Road Strategy Act. 11 May 1999, 106th Congress, Senate, 1st Session.

3.3.3.1 OIL PIPELINES FROM CASPIAN SEA BASIN VIA TURKEY



In 1992, 15 newly independent states emerged on the soil of dissolved Soviet Union. Azerbaijan was the first one among four ex-Soviet Caspian littoral states to invite foreign investors to evaluate proven and estimated hydrocarbon reserves on its land and also in offshore. (Other Caspian Sea littoral states are Russia, Azerbaijan, Kazakhstan and Turkmenistan. Iran is the 5th littoral state of Caspian Sea, but differently not an ex-Soviet Republic.)

There are several different claims about the size of estimated reserves in Caspian Sea basin. The debates are even stronger about the offshore reserves in Azeri sector of Caspian Sea. But still, proven reserves were enough to motivate investors for exploration and transportation of Azeri oil to markets. Thus, on 20 September 1994, Azerbaijan and a consortium of the global energy companies signed an agreement to develop three of Azerbaijan's oil fields. The agreement proposed to invest US \$ 8 billion in Azeri oil fields over a period 30 years.

This agreement is announced as the “Contract of the Century”, with a reference to the biggest oil agreement in 1901 between Shell company and the one of the biggest American oil producers James Guffley.⁸⁶ The contract is officially named as “Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Deep Water Portion of the Guneshli Field in the Azerbaijan Sector of the Caspian Sea”.

The contract called for the establishment of a business entity known as Azerbaijan International Operating Company (AIOC), whose purpose is to exploit some of the richest oil reserves over which Azerbaijan claims sovereignty. The shares of the AIOC consortium are currently divided among Azerbaijan State Oil Company and foreign companies.

Company	Country	Shares in AIOC (%)
British Petroleum	United Kingdom	17.12
AMOCO	United States of America	17.01
SOCAR	Azerbaijan	10
Lukoil	Russia	10
Pennzoil	United States of America	9.8
UNOCAL	United States of America	9.52
Statoil	Norway	8.56
TPAO	Turkey	6.75
EXXON	United States of America	5
McDermott	United States of America	2.45
RAMCO	United Kingdom	2.08
DELTA	Saudi Arabia	1.68

Table 18: Oil Companies and Their Shares in AIOC

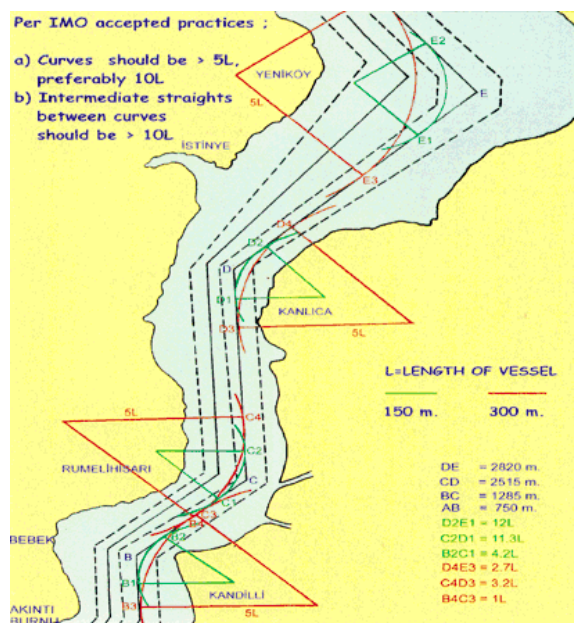
Originally SOCAR had a share of 20% in AIOC, which would have given it a major interest, but it subsequently transferred 5% of the total shares to TPAO - Turkish State Oil Company- and additional 5% to EXXON, when SOCAR was unable to come up with the necessary

⁸⁶ Daniel Yergin, *The Prize*, 1991 p 85

capital.⁸⁷ AIOC Consortium initially decided to transport its oil to Western markets via an existing pipeline to the Russian port of Novorossiysk at Black Sea, then by tankers through Black Sea and into Mediterranean Sea via Bosphorus and Dardanelles Straits.⁸⁸ However, this project raised objections from Turkey due to its great environmental threat posed by increased shipping volume in Bosphorus Strait, which this route would entail.⁸⁹



Ankara intended to issue a tender for a Vessel Trafficking System to facilitate safe passage through Straits, but no technology can completely eliminate the potential for a spill. 19 meters long and 700 meters wide at its most narrow point, the Bosphorus is one of the most difficult waterways in the world to navigate. Tankers have to change their course at least 12 times due to abrupt shifts in topography.⁹⁰



⁸⁷ Rosemary Fortsye, *The Politics of Oil in the Caucasus and the Central Asia*.1996.p 40.

⁸⁸ „Pipeline Starks“, The Washington Post, 30 October 1995.

⁸⁹ „Great Game is Afoot Again Rivals Carve Up Oil Bonanza“, The Independent. 12 May 1997.

⁹⁰ Michael Rank, *Russia and Turkey Clash over Control of Bosphorus*. Reuter, 25 July 1997.

According to the figures by Turkish officials, nearly 45.000 vessels pass through straits each year and there are frequent accidents. The Bosphorus Straits witnessed 167 large scale accidents only in a decade between 1983 and 1993, with an increased average annual rate of accidents since 1988.⁹¹

The International Maritime Organization (IMO) warned in 1994 as follows: “Navigation through the Bosphorus Straits presents an increasing potential risk to shipping, safety, the environment and well – being of the local community.”⁹² The 1994 Nassia tanker accident is an unforgettable example of the threat that shipping poses to the 15 million residents living on both sides of the Bosphorus. In March 1994, the Greek Cypriot tanker Nassia had collided with another ship by spilling 20.000 tons of oil into the sea.

The Convention of Montreux adopted in 1936, still regulates the passage of cargo ships through the Bosphorus Straits. It requires the Straits to be kept open to all merchant ships of all nations, regardless of nature of their cargoes. This agreement greatly restricts the ability of Turkish government to adopt the regulations required to ensure safety of passage through the Bosphorus. However on 1 July 1994, Ankara issued a new set of regulations designed promote safer traffic.⁹³

Russia and some other Black Sea littoral states have complained that Turkey’s unilateral interference with shipping in the Straits is illegal, despite the fact that “freedom of passage, required by Montreux Convention, doesn’t mean uncontrolled passage” for Turkey.⁹⁴

Following the Turkey’s expression of hesitancy to allow massive increase in shipping volume - that would be involved in the Black Sea route for Azeri oil would be used exclusively - , AIOC began to develop various alternative routes. One such route is to transport of oil from Azerbaijan capital city of Baku to Turkish port of Ceyhan on Mediterranean Sea, called as Main Export Pipeline. But before going into details of Baku – Tbilisi – Ceyhan pipeline, it is more useful to look at other alternative routes for Caspian oil.

⁹¹ *The Bosphorus : A Waterway at Risk*, located at website of Turkish Ministry of Foreign Affairs: www.mfa.gov.tr/grupf/caspian3.htm

⁹² *The Bosphorus: A Waterway at Risk*.

⁹³ Özlem Topses, Turkish Regulations Regarding Maritime Traffic in the Turkish Straits on Sea of Marmara, located at the website of Turkish Ministry of Foreign Affairs: www.mfa.gov.tr/pmfp/caspian5.htm

⁹⁴ Michael Rank, *Russia and Turkey Clash over Control of Bosphorus*. Reuter, 25 July 1997

EARLY OIL PIPELINES

BAKU – NOVOROSSISYK PIPELINE

Baku – Novorossiysk was the only pipeline that was in place and was economically attractive to investors. Therefore, the commercial production and transportation of early oil didn't take too long. Although the consortium had scheduled the start of exportation by 1997, the early oil could be pumped only at the beginning of 1998. The reason for this delay and later delays during the transportation of oil was that approximately 153 kilometres of 1411 kilometres long pipeline passes through Chechnya, where Russian government had launched a war against Chechen rebels. The Russian and Chechen authorities were deadlocked in negotiations over transit fees. Also, the pipeline itself had so many physical holes in it, and this made transportation inefficient.⁹⁵



Despite the fact that a cease – fire agreement between Chechens and Russians was signed in 1996, the early oil didn't leave Azerbaijan until January 1998.⁹⁶ Meantime Russian government developed a new pipeline proposal which bypasses the Chechen sector and instead runs through the Russian Republic of Dagestan.⁹⁷

The Baku – Novorossiysk Pipeline was the only available mean of transportation of Azerbaijan's early oil. It was used as a factor in softening the anti – western and pro – Armenian sentiment of the Russian government. The Azeri government was concerned about the possibility that Russia would control the routes of oil transport and dictate the rules for future oil exports. Moreover, the

⁹⁵ Jennifer Delay, "The Caspian Oil Pipeline Tangle: A Steel Web of Confusion" in *Oil and Geopolitics in the Caspian Sea Region* by eds. Michael P Croissant & Bulent Aras. 1999. p 50.

⁹⁶ CNN World News, „Russia and Chechen rebels Sign Cease – Fire Agreement”, 27 May 1996

⁹⁷ Nick Mikhailov, *Russia's Pipeline System and Oil and Gas Transportation Projects*. Business Information Service for the Newly Independent States (BISNIS), August 2000.

capacity of the Baku – Novorossiysk pipeline was not enough to export the main oil. Besides transit fees were too high compared to the Baku – Supsa pipeline.⁹⁸

BAKU – SUPSA PIPELINE



The Baku – Supsa route was the second pipeline that was constructed in early 1999 and had a capacity to carry 115,000 bbl / d (billion of barrels per day)⁹⁹ or 5 million tons of oil annually.¹⁰⁰ The pipeline was an important route not only for Azerbaijan, but also for Georgia and Turkey. Although the pipeline had to pass through several regions with ethnic tension, it was essential for both the Georgian and Azeri governments to have their independent path, while not being dependent on Russia. The Baku – Supsa pipeline is 985 kilometres long and lies between Baku and the Georgian Black Sea port of Poti.¹⁰¹

The Supsa terminal was completed in March 1999 and possessed the latest western technology. From Supsa, the oil was to be transported to Samsun, a Black Sea coast city of Turkey or to be moved towards the final destination using the Bosphorus Straits. The pipeline was the only alternative during the frequent disruptions of oil transfer through the Baku – Novorossiysk pipeline, because Russian authorities repeatedly stopped the transfer of oil due to the technical and operational problems in Chechnya.¹⁰²

The importance of Baku – Novorossiysk is its unique route which doesn't pass through Russian territory. Both Georgia and Azerbaijan had felt significant political and economic pressure from

⁹⁸ Nassib Nassibli, "Azeri Oil and Politics in the Country's Future" in *Oil and Geopolitics in the Caspian Sea Region* by eds. Michael P Croissant & Bulent Aras. 1999. p 150

⁹⁹ Taleh Ziyadov, *The Baku–Tbilisi–Ceyhan Pipeline and Its Potential Impact on Turkish– Russian Relations*, 2002.

¹⁰⁰ Nassibli. p.116

¹⁰¹ Delay, p 53.

¹⁰² Delay, p 73.

Russia. And this had narrowed their ability to act more independently and to pursue their pro – western path. Having Baku – Supsa as an alternative route had loosened Russian pressure on Azerbaijan and made it possible to further its realization of the Baku – Ceyhan project.

ALTERNATIVE PIPELINES FOR THE MAIN EXPORT PIPELINE

Azerbaijan - Armenia – Turkey: In 1995, the Azerbaijan – Armenia – Turkey route was supported in an announcement by the American government. But none of these three mentioned states put any positive, not even impartial remark on it. Although it is no longer an alternative to the main export pipeline, the first condition would have to be Armenian troops' withdrawal from occupied territories of Azerbaijan.¹⁰³

The Iranian Routes:

- **Baku – Armenia-Iran-Ceyhan**
- **Baku – Iran-Persian Gulf**

These two proposals are the most- discussed two routes among many Iranian proposals. Both proposals were rejected due to the American position towards Iran.¹⁰⁴ The United States government repeatedly stated that it will not support any pipeline route which includes Iran.

Iranian and Armenian routes did not find enough support due to the political and diplomatic deadlock. Nevertheless, American and European oil companies, which were in favour of Iranian route, because of the already existing Iranian pipelines, tried to use their leverage to put pressure on the American government to improve the relations with Iran.¹⁰⁵ However, the United States opposed the idea and continued supporting the Baku – Tbilisi – Ceyhan pipeline.¹⁰⁶

¹⁰³ Taleh Ziyadov, *The Baku–Tbilisi–Ceyhan Pipeline and Its Potential Impact on Turkish– Russian Relations*, 2002

¹⁰⁴ Nassibli, p 115.

¹⁰⁵ Nassibli, p 117.

¹⁰⁶ Jofi Joseph, *Pipeline Diplomacy: The Clinton Administration's Fight for Baku– Ceyhan*. WWS Case Study. New Jersey: Princeton University, 1999.

BAKU – TBILISI – CEYHAN CRUDE OIL PIPELINE



The “western route” pipeline will carry oil from Azerbaijan’s port of Baku through Georgia and then to Turkey until the Mediterranean port of Ceyhan. The planned capacity of this pipeline is 1 million barrel per day. The Baku – Tbilisi – Ceyhan pipeline “main export pipeline” will stretch approximately 1038 miles; 281 miles through Azerbaijan, 135 miles through Armenia and 622 miles (1730 km) within Turkey. The final cost of the pipeline is expected to be US \$ 2, 8 billion.¹⁰⁷

The negotiations and bilateral talks have took place during the late 1990s, with support of American government. The latest agreement between the presidents of the hosting countries of the pipeline; Azerbaijan, Georgia and Turkey, was made at the OSCE Summit in Istanbul in November 1999. In 2000, a sponsor group of eight companies was established for sponsorship of the project. After 2000, with joining of new members, the latest distribution of share of companies on project is as following:

¹⁰⁷ EIA – Turkey Country Analysis Brief

COMPANY NAME	SHARE (%)
BP Exploration LTD	30,10
SOCAR (Azerbaijan)	25
UNOCAL BTC LTD.	8,9
STATOIL	8,71
TPAO (Turkey)	6,53
ENI (Italy)	5
TOTALFINAELF (France)	5
ITOCHU OIL EXPL.	3,4
INPEX (Japan)	2,5
CONOCOPHILLIPS	2,6
DELTA HESS BTC LTD.	2,36

Table 19: Company Shares in BTC Pipeline Project, www.botas.gov.tr/projeler/tnmprojeler.html

Following the first phase of the project, “Basic Engineering” works started in 2000 and completed in 2001. The detailed engineering phase was finished in 2002. The pipeline is expected to start pumping Azeri oil to Ceyhan in 2005.

The regional players expressed different views on the construction of the BTC pipeline. Russia’s opposition to the project stems from its desire to regain control over the former Soviet republics before they become major oil exporters – Azerbaijan - and major transit corridors – Georgia -. ¹⁰⁸ It was largely claimed that Russia still considers Azerbaijan and Georgia as part of its backyard and wouldn’t tolerate any attempts to undermine its interests in the region. When Haidar Aliyev, the former president of Azerbaijan, came to power in 1993, he knew that some concessions would have to be granted to Russia for the sake of future projects of Azerbaijan. ¹⁰⁹ As a result, the Russian firm Lukoil was granted a 10% share in a US \$ 8 billion oil contract and two states signed various contracts regarding cooperation in energy field and oil engineering. ¹¹⁰

Russia’s apparent willingness to resort to violence in order to remove undesirable leaders in the Caucasus is another threat towards two involved Caucasian countries in the BTC project. In 1995, right after talks between Turkish officials and the former Georgian President Eduard Shevardnadze to conclude Georgia’s support of the BTC pipeline, Shevardnadze had become

¹⁰⁸ Delay, p 47.

¹⁰⁹ Gareth M. Winrow, „Azerbaijan and Iran“ in *Regional Power Rivalries in the New Eurasia: Russia, Turkey and Iran*, ed. by Alvin Z. Rubinstein & Oles M. Smolansky (NY: M.E. Sharp Inc.) 1995, p 100.

¹¹⁰ Nassibli, p 106.

subject of an assassination attack and barely survived.¹¹¹ Russian efforts to support civil strife in Georgia is another way of weakening Georgia's hand in future energy transportation plans.¹¹²

Iran is another country which has concerns about the BTC project. When talks about the exploitation and transportation of Caspian oil began in early 1990s, Iran took steps to improve its relations with Azerbaijan and was granted 10 % share in one of early oil production projects.¹¹³ However, western oil companies, under pressure by the American government, refused to have Iran in the consortium and rejected its participation in future projects. As a result, the Iranian government changed its policy and tried to prevent further agreements on Caspian oil without their participation.¹¹⁴

Besides these two countries' opposition, there were also three main obstacles in the realization of the BTC pipeline project:

- the commercial viability of the project,
- the ethnic conflicts in regions of the pipeline's passage
- the legal status of the Caspian Sea.

Commercial Viability of the BTC Pipeline

One of the main concerns of the consortium is the economic cost of the route. The estimated cost of the pipeline ranges from US \$ 2 billion to more than 4 billion. The general consensus is that it will be around US \$ 3 billion.¹¹⁵ The consortium is responsible for financing of the entire pipeline construction.

US Eximbank, Japan Eximbank, International Finance Corporation (IFC) and the European Bank for Restructuring and Development (EBRD) have already expressed their interests in providing extra financing for the project.¹¹⁶ Moreover, American oil company Chevron, which had opposed the Baku – Tbilisi – Ceyhan route because of its high cost, has also joined the sponsor group. On the other hand, Turkey has stated its guarantee for the cost of the

¹¹¹ Manos Karagiannis, Turkish – *Georgian Relations and the Transportation of Azeri Oil*. University of Hull, Department of Political Science, located at ourworld.compuserve.com/homepages/usazerb/413.htm

¹¹² Manos Karagiannis.

¹¹³ Khoshbakht Yusufzade, *Azerbaijan and Iran: Oil Industry Cooperation*. Azerbaijan International Magazine, Spring 1999, No 61.

¹¹⁴ Afhsin Molavi, *Caspian Basin Competition Kicking into Higher Gear*. Eurasianet, 14 March 2001.

¹¹⁵ Baku – Tbilisi – Ceyhan Crude Oil Pipeline Consortium website, located at <http://www.caspiandevlopmentandexport.com/ASP/BTC.asp>

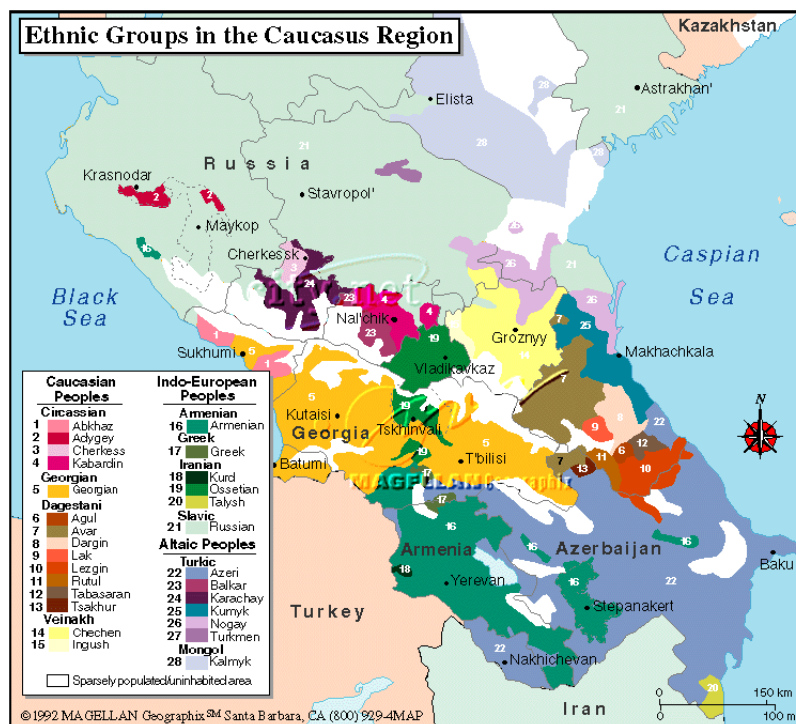
¹¹⁶ Asli Kandemir, *Turkey Says Baku– Ceyhan Pipeline Finance Plan Ready*. Reuters, 2 April 2003.

construction of the Turkish portion of the route.¹¹⁷ Turkish authorities have guaranteed to cover any cost in excess of US \$ 1, 4 billion of the Turkish part of construction.¹¹⁸

Another important economic factor is the price of oil on the world market. Some experts argue that in order for BTC pipeline to be profitable, world oil prices should stay above US \$ 12 per barrel. However, the consortium expects long – term returns over the period of 30 years, and therefore, short –term price falls will not affect the profitability of the project.¹¹⁹

The amount of available oil for the Baku - Tbilisi – Ceyhan pipeline is another discussion point concerning the viability of the project. It is claimed that unless new Azeri oil fields are not not discovered in near future, the BTC pipeline will not be able to reach its peak capacity, which is 1 million barrels per day, without adding oil from Kazakhstan.¹²⁰ Kazakhstan is an important country for the Transcaspian Subsea Pipeline project, which will carry Kazakh oil to Azerbaijan and merge with the BTC pipeline. Although Kazakh authorities signed agreement promising Kazakh oil for the BTC pipeline during the OSCE Summit in Istanbul in 1999, it has since been continually re-evaluating its position.¹²¹

Ethnic Conflicts in the Regions of Pipeline Passage



¹¹⁷ Richard Matzke, *Caspian Energy Transportation Infrastructure: The Key to a Bright Future*, 2000. American - Azeri Commerce Website, located at www.usacc.org

¹¹⁸ Tim Wall, *Oil Executives Increasingly Confident on BTC Construction*. Eurasianet, 29 November 2001.

¹¹⁹ Taleh Ziyadov.

¹²⁰ Ferruh Demirmen, *Analysis of Caspian Oil Scene: As Kazakh Turns Cool to BTC, a New Rivalry between Turkish–Russian Simmers*. The Financial Times, 25 February 2002.

¹²¹ Taleh Ziyadov.

Nagorno – Karabagh: Nagorno – Karabagh is a mountainous territory within Azerbaijan, which during Soviet rule was mainly populated by Armenians. In the late 1980s, while the Soviet Union was politically paralyzed, several clashes were reported from the region. The fight eventually turned to a full scale war between Azerbaijan and Armenia. The tension between the two states further increased when Nagorno – Karabagh authorities announced their separation from Azerbaijan and their intention to joining Armenia. The conflict continued after both states declared their independence. A cease – fire agreement was reached in 1994 and has been in place since.

Today, the status quo is preserved and Armenia still occupies 20 % of Azerbaijan's internationally recognized territory.¹²² The work of the OSCE Minsk Group has not yet brought any tangible development in situation. The continuation of the status quo in the Nagorno – Karabagh conflict has political consequences for the BTC pipeline project. Since the pipeline passes through just north of this conflict- ridden region, the resolution of the problem is essential due to the political risk involved in attracting foreign investment in Azerbaijan and also for the future security of the pipeline.

Abkhazian and Ossetian Separatism in Georgia: Georgia, like Azerbaijan, has stability problems related to the ethnic separatist movements in Abkhazia (northwest Georgia) and Ossetia (North Georgia). The Baku – Supsa and Baku – Novorossiysk pipelines pass through Georgian territory, which makes Georgian political stability important for the main export pipelines. After 1998, some parties in Georgia called on the west to help protect the Caspian oil transportation. During the same period, the American government tried to assist the Georgian government financially. After September 11, 2001, the United States sent its military exports to help Georgian government train its military forces and fight against terrorism in the Pankisi region within Georgia.¹²³

The American involvement in the region secures stability in Georgia and thus allows the safe transport of Caspian oil to the west.¹²⁴ After the recent change in Georgian politics, the new president of Georgia also gave signals of cooperation with the West in terms of security of the region and Georgia's continuous support for completion of the BTC pipeline.

Kurdish Separatism: The Turkish part of the BTC pipeline is 1070 kilometres long. Although most of the route will pass through areas where the Turkish government has full control, it has been argued that Kurdish Worker's Party (PKK) activities could block the

¹²² CIA World Factbook, 2003, located at www.cia.gov/cia/publications/factbook/

¹²³ Delay, p 55.

¹²⁴ Taleh Ziyadov.

realization of the pipeline by renewing hostilities.¹²⁵ The Turkish government responded by showing successful combat operations on the Iraqi pipeline, which is in fact closer to the PKK's activity areas.

Since 1994, the American government recognizes PKK as a terrorist organization.¹²⁶ The PKK changed its name and reorganize its structure in order to legalize its activities in Turkey. Moreover, since the capture of PKK leader Abdullah Öcalan, the political environment in eastern Turkey has been relatively calm. The extraordinary military rule has ended in south-eastern cities. Also constitutional amendments towards use of cultural affinities in the public sphere have eased the tension.

Despite all debates and doubts rising from interest calculations supported by these arguments, the BTC pipeline is the only Main Export Pipeline route that has succeeded to moving forward in its realization. The main reason behind this "success" is the long term American support for an east – west energy corridor which passes through Turkey. Promotion of a secular democratic system, next to the Caspian Sea basin and the Middle East, has been a preferential policy of the American government. Having oil and gas transfer from young republics in the Caspian basin for strengthening their independence, is a major argument for American support for the BTC pipeline. This choice, by bypassing Russia, gives a bigger role to Turkey in region. Realization of the BTC project has even been named as "Clinton's Proudest Achievement" by some scholars.¹²⁷

However, it is clear that realization of the pipeline will have a certain effect on Turkish - Russian relations. Russia had fears that if any route for transporting Azeri oil bypasses Russian territory, Russia won't only lose a lucrative source of revenue, but also experience the diminishing of its economical and political influence in this resource – rich region.¹²⁸

To better understand the strategic game surrounding the Caspian basin, some scholars bring the division of actors into two camps; Russia, Iran and Armenia versus Turkey, Azerbaijan and Georgia.¹²⁹ Each single player in the region has its own agenda. Russia is after the continuation of its economic and political dominance in region and the prevention of any expansion of American influence.¹³⁰

¹²⁵ Delay, p 55.

¹²⁶ State Department of The United States of America website, located at www.state.gov/www/global/terrorism/fto_1999.html

¹²⁷ Harun Kazaz, *Clinton's Proudest Achievement This year is Caspian Pipeline Agreement* Washington Insight in Turkish Daily News, 12 November 1999.

¹²⁸ Oumerserik Kasenov, "Russia and Transcaucasia: Oil, Pipelines and Geopolitics", in *Central Asia: Conflict, Resolution and Change*, ed. by Ronald Z. Sagdev & Susan Eisenhower, 1997.

¹²⁹ Taleh Ziyadov.

¹³⁰ Gareth M. Winrow, „Azerbaijan and Iran“ in *Regional Power Rivalries in the New Eurasia: Russia, Turkey and Iran*, ed. by Alvin Z. Rubinstein & Oles M. Smolansky (NY: M.E. Sharp Inc.)1995, p 100.

In pipeline politics, Russia wanted to prevent any plan which bypasses Russian territory. Iran, similarly, argued its present pipelines could reduce the cost of new pipeline project. For Turkey, neither present pipeline was adequate- because of increasing volume of traffic through the Bosphorus Straits. Turkey couldn't use Straits argument Against Iranian routes but opposed them by just relying on American concerns.¹³¹ The American position on the Caspian oil reserves was formed mostly during the Clinton administration. Main aspects of this position are;

- Strengthening sovereign independence of young states in the region and reducing Russian influence over them,
- Promoting the Western orientation of newly independent countries and creating a regional framework of cooperation with Turkey,
- Diversifying world energy supplies and reducing the global overdependence on oil reserves of the Persian Gulf,
- Excluding Iran from any economical benefits or regional development,
- Advancing American corporate interests in the region.¹³²

Based on American policies during 1990s, it was clear that the United States would back Turkey's proposal for the main export pipeline. It is also argued that American approach towards Russia, as a partner instead of rival, played an important role in sharing the balance of power in the Caucasus.¹³³ To balance Russian interests in region, Turkey also took its own steps, in terms of natural gas transportation. Having a new natural gas export pipeline from Russia to Turkey brought a new dependency for Turkey on Russian natural gas. When one considers the over – supply of Turkey in terms of natural gas, it is clear that the increase in demand for Russian gas is political, rather than economic.¹³⁴

¹³¹ Jofi Joseph, *Pipeline Diplomacy: The Clinton Administration's Fight for Baku– Ceyhan*. WWS Case Study. New Jersey: Princeton University, 1999.

¹³² Taleh Ziyadov.

¹³³ Bulent Aras & George Foster, « Turkey : Looking for a Light at the end of Caspian Pipeline », in *Oil and Geopolitics in Caspian Sea Region* by eds. M.P. Croissant and B. Aras, 1999.p 242.

¹³⁴ Necdet Pamir, Bakü – Ceyhan: Bitmeyen Senfoni (Endless Symphonie). ASAM Papers, located at www.avsam.org/turkce/analizler/4_analiz.htm

3.3.3.2 NATURAL GAS PIPELINES FROM CASPIAN BASIN VIA TURKEY

Natural gas demand has, in the last few decades, increased faster than the demand for oil. Especially in developed and developing countries this change is observed much more drastically. The European Union, as an entity, in which member countries are mostly developed, natural gas need is expected to become triple of recent need in 20 years.¹³⁵ The European concern about how to fulfil this demand brings Turkey into the debate as a possible transit country to reach rich natural resources in the Caspian basin.

Natural gas is also Turkey's preferred fuel for new power plant capacity for several reasons, environmental concerns, geographic, economic and also political opportunities which being a natural gas corridor can provide for Turkey. The United States has also been encouraging Turkey to utilize its unique geographical position to become a major transit centre for natural gas from the Caspian Basin to Europe.¹³⁶

However, Turkey's reliance on Russia for gas imports could reach 70 % or higher, preventing Turkey's goal of diversifying its energy suppliers. The "Blue Stream" pipeline reflects more a political choice by binding Turkey to buy a big amount of gas from Russia. Despite this visible dependency, Turkey still continues to make an effort to develop contacts with new energy networks through various contracts and proposals with different energy producers. These new contracts can be expected to have the aim of transferring and strengthening the energy bridge position of Turkey.

In 1974, Turkish Pipeline Corporation (BOTAS) was established to transport Iraqi crude oil into Turkey. In 1995, BOTAS became an independent entity and was granted the monopoly for transport of petroleum and gas within Turkey and to construct new pipelines. There are several gas pipelines which connect the Caspian basin and Russian reserves to Turkey. One of the oldest natural gas pipelines in Turkey is the 842 kilometres long Russia – Turkey line, running from Russia via the Ukraine, Romania and Bulgaria into Turkey.

In March 2002, Turkey signed a US \$ 300 million deal with Greece to extend an Iranian natural gas pipeline to Greece. The pipeline will go 200 kilometres within Turkey and cross the Dardanelles Straits, and then go into Greece. This line is expected to carry 17, 5 bcf of natural gas every year. In January 2004, this agreement was re-signed and revised by two governments. The pipeline will continue after Greece to Italy by crossing the Adriatic Sea.

¹³⁵ Avrupa Birliği'nde Arz Güvenliği (*The Energy and Supply Security in the EU*), Gürbüz Gönül, Representative of the EU Commission in Turkey, 2003.

¹³⁶ EIA Country Analysis Brief – Turkey, located at eia.doe.gov/emeu/cabs/turkey.html

The volume of gas to be transferred is also subject to change with this new agreement. For the first phase, 750 million m³ gas is planned to be transferred to Greece, starting in 2006.

The main plan behind this European oriented pipeline is to connect Caspian natural gas which will start to come to Turkey by 2006 from Shah Deniz region. Shah Deniz is an area on the Azeri section of Caspian Sea. The rich resources in Shah Deniz are to be transported by following the same route as the BTC pipeline. The negotiations started between Turkish and Azeri officials and a natural gas buying contract was signed in 2000. The two sides will share the construction of pipeline. Azerbaijan is responsible for bringing Turkish – Georgian border. BOTAS is responsible for construction and execution of pipeline.

Another big natural gas transportation from the Caspian region is the “Trans – Caspian” pipeline which will connect Turkmen natural gas to Turkish gas networks. The first negotiations were made in 1990s between Turkey and Turkmenistan. The route is planned start in Turkmenistan, passing through the Caspian Sea, then via Azerbaijan and Georgia, to Turkey. According to the signed contract in 1999, a cost of US \$ 2, 7 billion , 1700 kilometres long and carrying 16 billion m³ natural gas per year. Right after agreement was reached between Turkey and Turkmenistan, an intergovernmental declaration was made by 4 countries involved in the project, namely; Turkey, Turkmenistan, Azerbaijan and Georgia.

However there are certain obstacles in the realization of this pipeline. Turkey’s choice for the Blue Stream natural gas route has definitely affected the calculations by energy authorities in Turkey. Also Turkmenistan and Azerbaijan have had difficulties in reaching agreement on pipeline volumes, because the unexpected discovery of Shah Deniz reserves in Azeri offshore fields transformed Azerbaijan from a transit country to a competing gas exporter.¹³⁷ With the combination of this development with the hesitancies on all sides of the agreement, has kept the project frozen since 2000.

¹³⁷ Nüzhet Cem Örekli, *Turkey’s Energy Strategy in a New Era : Time to Re-look South*. Energy Project Finance, 2003.

CONCLUSION

The ongoing Turkish claim and ambition to become an “energy bridge” has been vocalized on various occasions, by several officials and statesmen. Turkey positioned itself as western – ally during the Cold War. With end of the Cold War, Turkish policy makers needed to compensate for the disappearance of this important role in region in another area. Turkish governments and administration tried to develop a new set of values and advantages to maintain the “strategic importance” of the country in the region.

The emergence of newly independent Turkic states and big energy reserves appeared as a big opportunity for Turkey. The cultural – linguistic closeness with the people of this attractive region gave Turkey a hope for strengthening its position vis- à – vis the other influential actors.

The main aspect of this calculation was to be a transmitting player between these new states and Europe in terms of energy resources. The nature of energy transportation is generally conceived as a zero – sum game. If a country gains upper-hand and manages to host a transportation scheme on its own territory, it’s counted as a loss for other probable countries which could have played the same role.

In this sense, to “win” a share from this strategic cake requires a strong position in both economic and political terms. This economical and political strength is to be proven both inside of the country and in international arena. To properly evaluate if Turkey really plays a role as an energy bridge, I see a matrix analysis as useful to understand all factors which shape such a position.

The combination of these factors creates different results for oil and gas transportation scenarios which include Turkey, because for oil and gas transportation, which generally follow a parallel pattern, different actors display different approaches and apply different policies, in terms of Turkey’s position in the picture.

	EXTERNAL FACTORS		INTERNAL FACTORS	
	POLITICAL	ECONOMIC	POLITICAL	ECONOMIC
OIL				
GAS				

Such a table can allow us to clarify the factors which support or weaken Turkey’s claim on being an energy bridge. The categorization of positive and negative factors which shapes Turkey’s position would lead us to draw a clearer conclusion on the viability of the claim.

Both external and internal factors can be divided into two main realms; political and economic.

External Factors for Oil Transportation via Turkey:

Turkey geographically stands next to the richest oil reserves of the world. The accessibility of the Caspian reserves at the end of the Cold War, made a strong contribution to Turkey's natural advantage. The international community, especially the American governments insisted on strengthening of self – rule in the new republics in the Caucasus and Central Asia. Transporting hydrocarbon reserves to world markets was evaluated as the main tool for advancing economic development in these countries and to provide self – reliance.

Turkey had already proven itself to be part of the “western” community, with its membership into various international organizations and also with its full participation into American activities in its region, such as the Gulf War. Being a western ally in its region and representing a modern, democratic, Muslim example were assets of Turkey to be supported by the United States as a model for these new states and as a reliable partner for following this aim.

Supporting the independence of new Caspian Sea basin republics was among priorities of former American presidents. President Clinton and his administration clearly stated the strategic importance of the region. The American interest towards weakening the influence of Russia in the region and promoting a “western” state model combined with American support for a strong Turkey in this picture. To overcome, or at least to balance Russian advantages in the area, American government explicitly favoured Turkey to take a more active role. The construction of pipelines which transfer the reserves of Caspian states became a tangible example of this choice. The American government openly favoured a main energy transport route which would pass through Turkey. This proposal turned into be a reality with the BTC crude oil pipeline, which was strong enough to bypass all other possible alternatives. The strong American political support behind the project convinced international companies to take part in realization of the pipeline in financial terms.

The reason why the United States gave such a strong support to this project had different answers by different scholars. Besides the strategic choice of strengthening the Caspian states, the project was a way to bypass Iran and Russia, by making their efforts to benefit from the Caspian resources fruitless. The choice of two hosting states on transferring Azeri oil; Georgia and Turkey were also strategic. Georgia, with its long-term internal ethnic

strifes, could continue to be a Russian dominated area, as seen in direct involvement and support of Russia in separatist movements.

For Turkey an important claim is “pay – back” of its support for American involvement in neighbouring areas, mainly in Middle East. Turkey had a big economic loss after the Gulf War, because of cut-off economic activities with Iraq under United Nations sanctions. Turkish officials, on several occasions, announced these losses and asked for a proper compensation from western allies. The American support behind the BTC project, in this manner, can be seen as a pay – back for Turkey’s sacrifices.

The combination of several reasons for American support made possible the realization of the BTC pipeline. This result can be understood as an approval of the Turkish claim to become an energy hub in the region, in terms of external political support for oil transportation via Turkey.

The other aspect of the external factors which shape Turkey’s role is international economic factors, since the emergence of the BTC project proposal; various analysts have claimed that the pipeline brought economic disadvantages. The length of the BTC pipeline and the route it follows in one of the most difficult geographies of the world, raised questions about the feasibility of the project. The high cost was a big question because of the unfavourable and long route. Despite the guarantee of Turkey to finance the exceeding cost of the expected budget, the support of international investors was not guaranteed. However, the American support for the BTC project convinced the big oil companies to make investment on the project. Any company is after its own interests and the American decision on this project made them feel secure about the viability and profitability of this investment.

Another issue was the amount of oil which can be pumped via the BTC pipeline. It was argued that, there were not enough reserves in Azerbaijan which to make this project profitable. The addition of Kazakh oil via the Caspian Sea was planned in the early phases of the project to sure the viability of the pipeline. Although Kazakh oil contribution plans have failed, rising oil prices made a positive effect on weakening the opposition for the pipeline. The possible upcoming discoveries of Azeri off-shore reserves and their exploration are also expected to contribute to the economic strength of the pipeline.

As a result, despite the questions and doubts about the economic profitability of the project, political support on the part of the United States put the economic concerns in second place and even helped them to be resolved, in favour of realization of Turkish claim in the region.

Internal Factors for Oil Transportation via Turkey:

Since the emergence of various plans for accessing oil reserves in the Caspian Basin, Turkey took a decisive position to impose its own preferences. Turkey, after realization of the BTC project, had strong arguments, such as heavy load in Bosphorus Straits. Increased number of tankers Straits became an important concern for Turkey, after several serious accidents, which threatens both environment and the security of the city with 15 million inhabitants. By standing behind this argument, Turkey constantly opposed other pipeline projects which included passage through Straits. In that sense, Turkey pushed for the BTC project within all political means for it by underlying its bypassing the Straits. Other features of the BTC, like ability to work all year long contrary to competing pipelines. Decisive military action to suppress Kurdish separatism in south-eastern Anatolia also contributed to security of the BTC route.

Turkey also benefited from its good relations with Azerbaijan and Georgia to strengthen its position. The official Turkish position towards Georgia was to support unity of the Georgian state, despite the lobbying of a strong Caucasian minority within Turkey, supporting for the independence of their proper sectors within Georgia. This turned to Turkey as a positive point, in terms of Georgian support for BTC project.

With Azerbaijan, Turkey had a closer relationship than it had with other states in region. The linguistic closeness and geographical proximity, combined with shared hostility with Armenia and Turkish support for the Azeri position in the Nagorno - Karabagh problem, made Azerbaijan close to Turkey.

Contrary to this political commitment, the economic situation in Turkey in the last decade had caused rising doubts about the financing of the project. Turkey experienced high inflation rates and two devaluations of its currency in the 1990s. Two big crises at beginning of 2000 also deepened the concerns about Turkey's ability to fulfil its promises towards financing of excess costs of the project.

Consequently internal economic factors were not in favour of realization of Turkish aims. However Turkey's political commitment has created an important effect in the international arena for the BTC pipeline.

To conclude, I would say that the picture for Turkey's claim of being an "energy bridge" claim of Turkey has been proven by the positive internal and external factors for the BTC project. As the biggest project, in which Turkey is involved, in terms of oil transporting

from the Caspian Basin to the Mediterranean port, the realization of the BTC is a case example of proven claim of Turkey, as being an oil bridge.

	External Factors		Internal Factors	
BTC Pipeline Project	Political	Economic	Political	Economic
	+	-	+	-

External Factors for Natural Gas Transportation via Turkey:

The weight and the combination of factors, in terms of gas transportation is different for Turkey, than they are for oil transportation. Politically it is not possible to talk about such a positive picture. The main feature of oil transportation was explicit American support, which is obviously absent in natural gas transportation. Besides this absence, the involved actors in gas markets are much more stronger and decisive vis-à-vis Turkey.

The main actor in gas markets is Russia. Besides her own huge reserves, all other importer gas exporters of the Caspian basin have to use Russian pipeline networks, to lead their reserves to markets. As other gas exporters in the region, Turkmenistan follows a pro – Russian position in terms of its contracts. This situation, besides being a reason, is also the result of the network of relationships in the area. Instead of waiting for an unpredictable opportunity to have new partners and markets to sell their reserves, it is reasonable to prefer to rely on already existing relations which bring revenues and trust, meaning selling their natural gas to Russia. Therefore the overhand of Russia emerges as an important obstacle in front of the Turkish presence as a “natural gas bridge”.

Turkey could have another advantage with its closeness to gas reserves in the Middle East, especially in Iran. However, the American sanctions over Iran prevented Turkey from following a decisive policy on Iranian gas transport. Although there is already natural gas trade between Turkey and Iran, Turkey couldn’t use this trade to create a new natural gas network towards Europe. There was not a full-fledged European demand, either. Since Russia is the main gas exporter to the EU, Turkey was unable to affect this dependency.

Economically, Turkey doesn’t show a proper performance to fulfil its claims on natural gas transportation. Turkey has already been involved in several natural gas import agreements with different countries. At the beginning of the 1990s, Turkey was expected to show a big economic development and growth rate in next decades. The natural gas agreements were

totally shaped by these positive expectations, relying on the idea that development requires energy, especially the natural gas. However, the economic crises and the high inflation rate in the late 1990s put Turkey in a difficult situation, where Turkey has a natural gas supply which it doesn't need. Besides the high bill of all these imports, the nature of the agreements brought another burden on Turkey. "Take or pay" principle requires Turkey to pay an extra fee for the contracted natural gas which it can not import physically.

Internal Factors for Gas Transportation via Turkey:

Turkey displays an indecisive and even irrational feature in terms of its natural gas import policies. The natural gas trade became a very important subject of domestic policies and also debates on corruption. Different governments put priority on different natural gas exporter neighbours and made different agreements. As a whole, we see a diversity of sources from even all neighbouring states.

Turkish relations with Russia display a big influence on Turkey's natural gas trade preferences. Although Turkey was involved in plans to get Turkmen gas via Trans-Caspian route, realization of the Blue Stream project postponed - if not eliminated - this project. The Blue Stream project increased the dependency on Russia in terms of energy resources. On the one hand trying to create a new network of opportunities for the natural gas markets, Turkey weakened its own hand by relying heavily on Russia with Blue Stream.

Internally, Turkey shows a questionable character in terms of natural gas exports. New agreements one after another created an indecisive image of Turkey, by importing excessive amount of gas without a well designed plan on how and where to use or transport it. Due to the economic problems, it was obvious that Turkey didn't need all these imports. However, internally, it is hard to say that a strong action is taken to get benefit of this over – supply.

	External		Internal	
Natural gas	Political	Economic	Political	Economic
	-	-	-	-

In conclusion, in terms of natural gas transportation, so far Turkey has not been able to fulfil its claims. Insufficient internal efforts and non – oriented policies, combined with lack of a strong political support behind - as in the case of oil transportation – and the strong presence of Russia shaped the failure of Turkey in this realm. Neither political nor economic factors were proper for Turkey to be an energy bridge in terms of natural gas.

Turkey, in two main energy sources, shows different performances and a different set of policies. The serious effort of Turkey to host the oil transportation from the Caspian basin is absent in the case of natural gas. Neither internal factors, nor internal conditions and policies allowed Turkey to be an important player in the natural gas trade. However, there is still a set of opportunities for Turkey. Opening of new reserves in Iraq after the war can create a new chance for Turkey to benefit. The increasing energy demand of the European Union, in the near future, should also be a strong motivation for Turkey to take more serious steps and to pursue more coherent policies to be an important player in new network of gas transportation to Europe.

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