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# US policy towards the Caspian region: can the wish-list be realized?

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*The Security of the Caspian Sea Region: SIPRI*

## I. Introduction: the underpinning of US policy towards the Caspian

When the Soviet Union began to collapse in 1991, the US reaction to the possibility that the states of the Caspian Basin would become independent was muted, if not non-existent. US policy makers concerned themselves primarily with the fate of Moscow and its political leadership in a programme that was dubbed 'Russia first' by practitioners.<sup>1</sup> To the extent that the countries of Central Asia and the Caucasus received any notice at all, it was mainly to make sure that nuclear or other major weaponry previously under the control of the Soviet regime was destroyed or returned to Russia. Experts argued that the USA needed to be 'careful' not to give the impression of siding with these new states' in their efforts at independence from Russia. The goal of this logic was to avoid the impression that a cordon sanitaire was being created around Russia in order to isolate it from Europe.<sup>2</sup> Some thinkers took it a step farther and argued that universal self-determination was 'not an American constitutional principle' and that, even taking into account the benefits of democratic change, the USA's interest in stability would be threatened by any violent disintegration of the Soviet Union. The breakaway republics and Moscow, it was declared, should find arrangements that were acceptable to both sides and leave the USA out of it.<sup>3</sup>

This lukewarm start in US policy on the Caspian countries was to give way to a growing involvement in the years following the break-up of the Soviet Union. During this process, the region attained a surprising salience in the US foreign policy hierarchy of worries. Although the Caspian region is both geographically remote and of only derivative importance to the USA's key strategic concerns, US diplomatic effort in the region has been incredibly active, starting with official visits, first by the leaders of the region to the USA and then by the US

<sup>1</sup> Barnes, J., 'US interests in the Caspian Basin: getting beyond the hype', Baker Institute Working Paper, 1997, available at URL <<http://www.bakerinstitute.org>>. Barnes served on the US Department of State policy planning staff at the time of the breakup of the former Soviet Union.

<sup>2</sup> Simes, D. K., 'America and the post-Soviet republics', *Foreign Affairs*, vol. 71, no. 2 (1992).

<sup>3</sup> Allison, G. and Blackwell, R., 'America's stake in the Soviet future', *Foreign Affairs*, vol. 70, no. 2 (1991).

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Secretary of State to the region.<sup>4</sup> There have also been several landmark addresses by key Clinton Administration officials regarding the ‘importance’ of Central Asia and the Caucasus to the USA. Perhaps most significant, however, was the appointment of a ‘special envoy’ to the region.<sup>5</sup> This post, by virtue of its existence, kept Caspian issues on a higher track than might otherwise have been feasible for a remote region that had no significant trade relationship with the USA, and posed no significant threat of major war and no significant immediate threat to regional or international peace and stability.

The Caspian Basin has also received attention from the US military, which has pushed to increase Western military cooperation with it under the general umbrella of NATO’s Partnership for Peace (PFP) programme. The PFP programme was designed to ‘improve practical military cooperation and common capabilities’ and ‘to enable joint operations with NATO peacekeeping and humanitarian missions’ among other functions.<sup>6</sup> On a practical level this has meant ongoing US military training programmes in the region under the Cooperative Threat Reduction (CTR) programme and the Foreign Military Financing programme, and border security activities. In 1997, as part of a well-publicized joint military exercise in the region, the US Army’s elite 82nd airborne division sent 500 paratroopers parachuting into the territory, including an Uzbek-born marine. Finally, between 1992 and 1999, the USA provided the region with approximately \$1.9 billion under the Freedom of Support Act which promotes democratization and market reforms, improved health care and housing.<sup>7</sup>

The question why the countries of the Caspian Basin have received such attention from the USA is often described as singularly clear—oil wealth. Secretary of State Madeleine Albright in one address before the Senate Appropriations Committee’s Foreign Operations Subcommittee noted that it was ‘strongly’ in the US national interest to assist these ‘strategically located’ and ‘energy-rich’ countries.<sup>8</sup> Other US diplomats speaking on US goals for the

<sup>4</sup> Central Asian and Caucasus leaders visited the White House as follows: President Islam Karimov of Uzbekistan in 1996; President Eduard Shevardnadze of Georgia in 1997; President Heidar Aliyev of Azerbaijan in 1997; President Nursultan Nazarbayev of Kazakhstan in 1997; and President Nursultan Niyazov of Turkmenistan in 1998. US Secretary of State Madeleine Albright toured the region in early 2000, holding press conferences and meeting leaders there. The texts of relevant press conferences are available online at URL <<http://www.state.gov>>.

<sup>5</sup> The Clinton Administration in 1994 established a special inter-agency working group to focus on Caspian policy. In May 1998, the US Trade and Development Agency, the US Export-Import Bank and the Overseas Private Investment Corp. announced the formation of the Caspian Finance Center in Ankara to facilitate the development of energy and other infrastructure projects in the Caspian region. Then in July 1998, President Clinton appointed Ambassador Richard Morningstar to the new position of Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy. For further detail, see White House fact sheet URL <<http://www.usis.it/file9911/alia/99111705.htm>>

<sup>6</sup> Strobe Talbott, Richard Morningstar and John Wolfe have made several addresses on this subject at various conferences and universities. The most notable was Talbott’s speech ‘A farewell to Flashman: American policy in the Caucasus and Central Asia’ delivered at Johns Hopkins University on 21 July 1997. The texts of these speeches are available online at URL <<http://www.state.gov>>.

<sup>7</sup> For a detailed discussion of this involvement, see Sokolsky, R. and Charlick-Paley, T., ‘NATO and Caspian security: a mission too far’, RAND Corporation, Santa Monica, CA 1999.

<sup>8</sup> Bhaty, R. and Bronson, R., ‘NATO’s mixed signals in the Caucasus and Central Asia’, *Survival*, vol. 42, no. 3 (autumn 2000), pp. 129–45.

region also cite energy security and diversification of supply outside the choke points of the Strait of Hormuz on the Persian Gulf and Turkey's Bosphorus, and opening access to promising investment opportunities for US companies, on a list that includes vaguer references to conflict resolution and state building.<sup>9</sup>

This early perception that the Caspian region is the focus of US diplomats seeking to help US companies lock up oil and gas assets is not without evidence. More than 30 US companies have invested billions of dollars in the region in hopes of 'striking it big'. Those same companies over the years have hired expensive lobbyists and specialists to enhance attention to issues relating to this business.<sup>10</sup> The oil companies, by contrast, have had an easy time finding allies among the US foreign policy establishment, and the reason for this underscores the fact that other factors besides oil are at play. Oil men looking for a willing ear needed to look no farther than former 'cold warriors' who still believed in the early 1990s that US foreign policy must focus first and foremost on countering any resurgence of Russian power. Part and parcel of this preventative attitude was to weaken Russia's influence on its southern flank by propping up the sovereignty and strength of Central Asian and Caucasus countries.<sup>11</sup>

However, besides those who remained phobic about Russia's long-term intentions, there was also a plethora of policy advocates who feared the rising influence of Iran and China. Hence, planting the US flag in the Caspian Basin was viewed as a strategic countermeasure to contain the regional power of these two countries as well. In the case of Iran, US policy has been more explicit. US sanctions against Iran are designed to prevent energy companies from investing in pipelines that would carry Caspian oil or gas to international markets.<sup>12</sup> The US Government has worked behind the scenes with mixed success to thwart foreign companies from joining with Iran's national oil company, NIOC, to construct energy export outlets via Iran.

Were US sanctions against Iran to be eased in a rapprochement between Iran and the USA, the attractions of various Iranian export routes from the Caspian could be compelling.<sup>13</sup> Ironically, the domestic political barriers to the US

<sup>9</sup> Federal News Service, 22 May 1997.

<sup>10</sup> Speeches by Ambassador John Wolfe and his staff at various meetings attended by author. See also texts available online at URL <<http://www.state.gov>>.

<sup>11</sup> Morgan, D. and Ottoway, D., *Washington Post*, 6 July 1997.

For a closer look at the intellectual underpinnings of this realist school thinking, see Brzezinski, Z., *The Grand Chessboard* (Basic Books: New York: 1997). A good critique of this school is provided by Harries, O., 'The dangers of expansive realism', *The National Interest*, winter 1997/1998 p 3-7

<sup>12</sup> The US Congress passed legislation, the Iran-Libya Sanctions Act (ILSA) of 1996 that would allow it to impose sanctions on 3rd parties which invested in Iran's oil and gas industry. Other US laws restrict such investments by US companies to \$40 million. This policy is nicely described by Washington analyst Robert Ebel as 'ABI: anywhere but Iran'. See Ebel, R. E., Center for Strategic and International Studies, *Energy Choices in the Near Abroad: the Haves and Have-Nots Face the Future* (CSIS: Washington, DC, 1997); Kemp, G., "The Persian Gulf Remains the Strategic Prize" *Survival*, Vol. 40, No. 4 (winter 1998) p. 132-49

<sup>13</sup> For economic comparisons and options, see Soligo, R. and Jaffe, A. M., 'The economics of pipeline routes: the conundrum of oil exports from the Caspian Basin', Baker Institute Working Paper, Apr. 1998, available online at URL <<http://www.bakerinstitute.org>>.

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Government getting out quickly from under its slowly evolving Iran policy may be inadvertently fostering tension between the USA on the one hand and Kazakhstan and Turkmenistan on the other. These states, faced with the imperative to export oil as soon as possible, are already looking to Iran regardless of the US position, creating an embarrassing backdrop to their bilateral relations with Washington.

In the case of China US policy is more ambiguous. The USA has not opposed oil or gas pipeline routes from Kazakhstan to China and has even given consideration to providing credits to a US firm to participate. However, China is still viewed as a strategic competitor whose activities in the region can be cited as another reason why the USA should also have a presence.<sup>14</sup>

The vital interest of maintaining good relations with NATO ally Turkey also dictates that US policy makers give Caspian energy issues high priority. Turkey has actively lobbied the USA and its oil companies to help it find a solution to what it terms unacceptable shipping congestion through its environmentally sensitive Bosphorus Straits, which currently serve as a passage for the transport of 1.2 million barrels a day of oil. A large rise in Caspian and Russian oil exports could potentially bring tanker traffic through the Bosphorus to dangerous levels, Turkey argues, endangering the population of Istanbul, which borders the waterway.<sup>15</sup> The matter is being investigated by several world bodies, including the International Maritime Organization (IMO), and Turkey has already sparred with Russia over the issue of accident insurance for tankers passing the Straits. Russia argues that improved management and traffic control equipment would permit safe passage of projected oil exports through the Straits. Free passage through the waterway is guaranteed by the Montreux Convention of 1936.

Turkey's concern for the future of the Bosphorus Straits has led it to lobby for the construction of an oil pipeline that would extend from Baku in Azerbaijan to the Turkish Mediterranean port of Ceyhan. Since 1995, the US Government has assertively backed this routing, not only to show support for Turkey, but also because it believes that such a pipeline will enhance economic and political ties in the region and cement its independence from the undue influences of Russia and Iran.<sup>16</sup> The US Administration helped choreograph the 1998 Ankara Declaration of support for the Baku–Ceyhan pipeline project by the Turkish president and other regional leaders, including the presidents of

<sup>14</sup> Most US authors discussing geopolitical competition in the Caspian mention China on the list, among them Starr, S. F., 'Power failure: American policy in the Caspian', *The National Interest*, spring 1997. For a good survey of China's moves, see Xiaojie Xu, 'The oil and gas links between Central Asia and China: a geopolitical perspective', *OPEC Review*, Mar. 1999; or Christoffersen, G., 'China's intentions for Russian and Central Asian oil and gas', *NBR Analysis Series* (National Bureau of Asian Research), vol. 9, no. 2 (march 1998)

<sup>15</sup> Author's interviews with US State Department officials show this latter concern to be cited as more important than the others, although public pronouncements do not emphasize it. For a more detailed discussion of the problem of the Bosphorus, see Soligo, R. and Jaffe, A. M., 'The economics of pipeline routes' (note 13).

<sup>16</sup> See note 10.

Georgia and Azerbaijan.<sup>17</sup> This was followed by a high-profile signing ceremony of the pipeline initiative by the presidents of the USA, Turkey and certain Caspian Basin countries during the summit meeting of the Organization for Security and Co-operation in Europe (OSCE) in Istanbul in November 1999, which US President Bill Clinton was attending. However, commercial and political barriers have so far blocked the development of the Baku–Ceyhan line, and this has raised questions about the effectiveness of US diplomacy in the region.<sup>18</sup>

## II. Oil as a driving factor: myths and realities

Ironically, a key problem for the success of the Baku–Ceyhan line, and US policy towards the region with it, is the fact that not enough oil has been discovered yet to justify its construction.<sup>19</sup> Indeed, the scale of the oil potential of the region as a whole and the monumentally difficult logistics of developing it may argue against the deepening of US involvement in the region.

A new oil find in Kazakhstan at Kashagan was touted in mid-2000 as confirming that sceptics might be wrong about the potential of Caspian resources. But even if Kashagan's reserves are confirmed to be as large as an average field in Saudi Arabia, the story does not end there. The Caspian will still not be the next Middle East.

There is no question that the oil reserves of the Caspian Basin are significant, but they do not come near to matching those of the Persian Gulf. The proven oil reserves of the Persian Gulf top 600 billion barrels, spread across eight different countries. Saudi Arabia's proven oil reserves alone are 269 billion barrels. There are also vast areas of the Persian Gulf that have still not been fully explored, such as Iraq's western desert and Kuwait's deeper strata.

By contrast, in Central Asia and the Caucasus, only three countries are thought to have major hydrocarbon deposits—Azerbaijan, Kazakhstan and Turkmenistan. Of the three, only Kazakhstan is expected to have Saudi-size billion-barrel oil fields. In fact, geologists predict that Kazakhstan is likely to hold up to 80 per cent of the region's future oil potential. Exploration in Azerbaijan and Turkmenistan so far has proved riches in natural gas and condensate, but some geologists are doubtful that these two other countries will turn out to be major players.<sup>20</sup> Geologists say that future exploration may confirm that the Caspian region holds potentially 140 billion barrels of oil, but this figure remains speculative at present. Proven oil reserves of Central Asia and the

<sup>17</sup> Signed on 29 October 1998. The complete text is available at URL <http://energy.gov/HQPress/releases98/octpr/pr98161a.htm>

<sup>18</sup> Fitchett, J., 'A resurgent Russian influence grips former Soviet Central Asia', *International Herald Tribune* July 9, 2000

<sup>19</sup> Aliriza, B., 'US Caspian pipeline policy: substance or spin?', CSIS, Aug. 2000, available online at URL <http://www.csis.org>.

<sup>20</sup> Talwani, M. and Belopolsky, A., 'Geology and petroleum potential of the Caspian Basin Sea Region', Baker Institute Working Paper, 1998, available online at URL <http://www.bakerinstitute.org>.

Caucasus currently represent less than 3 per cent of world proven oil reserves. By comparison, proven oil reserves in the Middle East account for 55 per cent of the world's proven reserves.

Even if it turns out that geologists are too pessimistic about the promise of Kazakhstan's geology, the Caspian Basin still remains one of the most difficult oil prospecting terrains in the world. This will limit its geopolitical and commercial importance as a vital oil supply centre on the scale of Africa or Latin America. No solution is in sight to the crippling dearth of drilling rigs and other necessary equipment. The problem of drilling rigs is a serious one. Currently only two semi-submersible rigs operate in the Caspian Sea, in contrast to 90 or so in Britain's North Sea. Without more drilling rigs and production platforms, the oilfields of the Caspian cannot hope to reach their optimum production potential in the coming years. So far, eight years of effort have not eased the critical shortage of drilling equipment. Already, analysts are saying that the Kashagan find, regardless of its size, may not be able to reach optimum production rates until 2015.<sup>21</sup>

The Caspian region is far from major supply centres for exploratory equipment and faces a debilitating shortage of modern drilling platforms and other related supplies. This shortage is worse than almost anywhere else in the world because the region is landlocked and has to rely on extremely limited supply routes, such as the Volga River, for bringing in necessary equipment.

Despite huge demand for equipment, there are only two assembly yards equipped for manufacturing or refurbishing offshore drilling rigs for the region: one at Astrakhan in Russia along the northern Caspian and one in Primorsk, near Baku. Such constraints severely limit the amount of drilling that can take place in the region at any one time. They also mean that oil well completions take considerably longer—in some cases up to two years as compared with 2–3 months in many other oil provinces in other parts of the world. Kashagan's first well, for example, took a year longer to drill than planned.

Obstacles to drilling mean that, while Kazakhstan's resources may be geologically exciting, the region's output could remain constrained for years to come just because several wells cannot be drilled simultaneously. Exploration and production forecasters Wood Mackenzie consultants project that oil production from the Caspian Basin could rise to 2.4 to 3.4 million barrels a day by 2010, up from 900 000 in the late 1990s, with increases primarily from Kazakhstan and to a lesser extent Azerbaijan, but even this assumes that obstacles to drilling and export routing will be eased over time. Woodmac's more pessimistic assessment of 2.3 million b/d reflects the possibility that known risks will prevent Kashagan from producing above 1 million b/d over the next decade and possibly beyond. These risks include the difficulty of appraising such a large structure, environmental and bureaucratic challenges, problems of natural gas disposal from the field and the complex hurdles to a major, commercial export route. Wood Mackenzie estimates that production

<sup>21</sup> Author's interviews with shareholders of the Kashagan field, September 19, October 3, 2000

may rise to 4 million b/d by 2020 despite an expected decline in output rates at the Tengiz and Karachaganak fields in Kazakhstan.

Even if the Caspian countries manage to achieve the higher 3.4 million b/d rate of production, it may not justify several large export pipelines to the West. Increased export sales into the Black Sea littoral states such as Romania, Ukraine, Bulgaria and Turkey could be expected to handle at least one-third to half of the expected volume, for example, allowing producers to maximize profits by cutting transport costs to more distant buyers.<sup>22</sup>

The problem of the transport of oil from the Caspian region to consumers beyond the Black Sea remains to be tackled. Since Caspian hydrocarbon resources are both landlocked and located at a great distance from the world's major energy-consuming regions, the region's producers cannot simply ship oil by tanker from domestic ports to international sea-lanes as is done from the Arab Gulf. Instead, the Central Asian and Caucasus states must rely on expensive pipelines built through neighbouring countries as the chief means of transport.

So far, Caspian oil producers have dabbled with a variety of export routes, mostly unsatisfactorily. BP is transporting some limited volumes of oil from the Chirag field in Azerbaijan through a refurbished pipeline from Baku to the Georgian port of Supsa on the Black Sea. BP would like to enhance the size of this line eventually but is being pressed by the US and Turkish governments to favour the longer, more expensive Baku–Ceyhan route. As mentioned above, the US efforts in favour of Baku–Ceyhan are designed to enhance energy security by moving oil supplies away from critical choke points and to re-establish economic cooperation in the region. The USA would also like to eliminate any chance of conflict that could erupt between Turkey and Russia over congestion on the Bosphorus.

For its part, Russia claims that it is aware of Turkey's concerns and is working diligently to open new export routes for its own oil from its own northernmost ports.<sup>23</sup> Routing from Russia's oilfields to the Adriatic is still an economically viable possibility. Neither the US Government nor Turkey has adequately explained why international oil company proposals for shorter, more economic bypasses of the Bosphorus across Turkish territory are unacceptable. Land rights might be one issue, but ultimately the focus on the Baku–Ceyhan route, which is the most expensive of all proposed, has sidetracked pursuit of other Turkish alternatives that might be favoured by oil company investors.

The potential of alternative routes through Russia remains a huge 'wild card' in the debate over Caspian oil exports. A resurgence of Russian concern with and influence in Central Asia and the Caucasus under the new government of President Vladimir Putin has raised the prospects that increased exports may soon flow as Moscow steps out of the way and removes the kind of obstacles it

<sup>22</sup> For more detailed discussion, see Soligo and Jaffe (note 13), and Jaffe, A. M. and Manning, R., "The Myth of the Caspian Great Game" *The Real Geopolitics of Energy, Survival*, Vol. 40, No. 4 (Winter 1998/1999) p. 112-29

<sup>23</sup> Fitchett (note 18).

imposed on transport out of the region in the early 1990s.<sup>24</sup> However, BP's experience with a Russian oil export route, called the Northern Route, provides an instructive glimpse of potential problems. The line, which extended from Baku through Grozny and Tikhorestsk to the Russian Black Sea port of Novorossiysk, was supposed to carry 120 000 barrels a day of newly produced oil from Azerbaijan. Ultimately, however, the safety of the line could not be secured. It was not just that security at Grozny could not be attained because of Russia's armed conflict with Chechnya. Routine pilfering from the line by local residents along its extended route meant that BP was unable to maintain the pumping pressure needed to keep commercial flows going, regardless of the state of war or peace along with route.<sup>25</sup>

In his early days as president, Putin referred to the need for international cooperation in the development of the Caspian resources, leading to optimism in the West. Russia also recently increased Kazakhstan's oil export quota to 14 million tons for 2000, up from a previously specified volume of 10 million tons. Transneft is also reportedly inviting Caspian neighbours to use a new line to Makhachkala on the west shore of the Caspian in Azerbaijan.<sup>26</sup> Given its geographical position, exporting through Russia is the most viable option for Kazakhstan because it obviates the need to cross the Caspian Sea or follow a wide span of its coastline before connecting to existing or proposed pipeline export facilities in third countries.

It is hoped that Russia will be able to deliver on its promise to support a new export system from Kazakhstan that will extend from the large Western-run Tengiz oil field through Russia to Novorossiysk. Initially that pipeline, run by the Caspian Pipeline Consortium (CPC), which involves US, Kazakh and Russian oil company shareholders, will carry 28 million tons of oil per year from Kazakhstan and Russia. It is expected to be in operation by late 2001.<sup>27</sup>

But the limited ability of the Russian military to protect and operate such lines is highlighted by Moscow's less than successful military operations in Chechnya and its inability to protect public facilities inside Russia.<sup>28</sup> Serious questions remain as to whether Russia itself has the capability to fill the vacuum of power that has prompted the rise in non-state actors and the slide to instability that now plagues parts of the region. Moscow's troubles raise important strategic questions for all those involved in the Caspian region. Increasingly, Central Asian leaders like President Islam Karimov of Uzbekistan

<sup>24</sup> Fitchett (note 18).

<sup>25</sup> Author's interviews with oil company executives involved in the BP consortium, September 19, October 3 and November 12, 2001

<sup>26</sup> Fitchett (note 18); and 'In the Caspian, it's all pipelines and no oil', *Petroleum Intelligence Weekly*, 11 Sep. 2000, p. 3.

<sup>27</sup> 'In the Caspian, it's all pipelines and no oil' (note 26); 'PIW Kazakh discovery eclipses Azeri pipeline progress', 9 Oct. 2000, p. 3 *Petroleum Intelligence Weekly*, a newsletter published by the Energy Intelligence Group, New York, New York. Author's interviews with shareholders for the various pipelines, various dates between August and October, 2000, also November 12, 2000.

<sup>28</sup> For discussion of the decline of the Russian military, see Pipes, R., 'Is Russia still an enemy?', *Foreign Affairs*, vol. 76, no. 5 (Sep./Oct. 1997).



are looking to Russia for help in controlling an upsurge in Islamic militancy and illegal running of drugs and arms across the region.<sup>29</sup> Neither the USA nor any of its fellow NATO members, including Turkey, can project ground forces into the region even approaching the size and capability of Russia's army. NATO's will to do so is also increasingly questioned inside the Caspian region. In the spring of 2000, news reports surfaced that the Central Asian republics were discussing the possibility of opening a joint anti-terrorism centre in Moscow.<sup>30</sup> The discussions came at the same time as Secretary of State Albright was touring Central Asia and expressing her dissatisfaction with human rights abuses and political repression in the region.<sup>31</sup> The US emphasis on these themes and on economic transparency was not well received by local regimes, who prefer Russia's more 'practical' military approach to the region's social problems.<sup>32</sup>

In October 2000, Russia and five of former Soviet republics met in Bishkek to discuss ways to guard against insurgencies in Central Asia. The meeting was prompted by battlefield successes of Afghanistan's Taliban militia along the Tajikistan border. An accord signed by the leaders of Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Belarus, and Armenia established a more detailed legal framework for the rapid deployment of joint forces against Islamic fundamentalist rebellion in the region.<sup>33</sup> The framework builds on an existing, but vague institution called the Collective Security Council of the Commonwealth of Independent States. Uzbek leader Karimov was notably absent from the accord.

Diplomats say that the USA has also begun trying to establish a regional body—to include Georgia and Turkey—to maintain security for oil pipeline routes, presumably bypassing Russia and Iran.<sup>34</sup> Among US strategic specialists, however, the extension of the PFP programme into Central Asia has raised new concerns. It has been argued in US policy circles that local conflicts could easily draw Russia and any Western-sponsored or Turkish-led body into an unwanted confrontation if these larger patrons were to support different sides.<sup>35</sup> Russia's military support and presence in Abkhazia in Georgia is one case in point.<sup>36</sup> Turkey's previous support of the Azeri war effort in Karabakh and Russia's of Armenia is another. Thus, it seems advisable for all concerned to re-evaluate strategic priorities and see where common ground exists. There is no point in routing oil expensively all the way to Ceyhan in order to prevent a

<sup>29</sup> Fitchett (note 18).

<sup>30</sup> Fitchett (note 18).

<sup>31</sup> The texts of Secretary of State Albright's speeches and press conferences are available at URL <<http://www.state.gov>>.

<sup>32</sup> Author's interviews with regional diplomats August 3 and November 15, 2000.

<sup>33</sup> "Neighbors Concerned about Afghanistan" Washington Post, October 12, 2000 p. A 19

<sup>34</sup> Author's interviews with officials from US Department of State, August 3, 2000.

<sup>35</sup> Sokolsky and Charlick-Paley (note 7); Bhatti and Bronson (note 8), and Jaffe, A. M. and Robert Manning, R., 'The shocks of a world of cheap oil', *Foreign Affairs*, vol. 79, no. 1 (Jan./Feb. 2000), p. 16.

<sup>36</sup> Pipes (note 28).

conflict between Turkey and Russia but to create the underpinnings for such conflict in protecting that same pipeline.

### III. Natural gas: equal export troubles for US policy

The issue of natural gas exports from the Caspian Basin is facing no less complex and difficult issues than the oil pipeline routes. By 2020, the Caspian region could be producing upwards of 29 billion cubic feet a day of gas, up from 11 bcf/d currently. But this potential growth is highly dependent on the development of secure, accessible markets for this gas. Financing and political risks must also be overcome. Market availability rather than productive capacity is likely to be the constraining factor for the foreseeable future, and a lack of access to export markets currently plagues gas producers in Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan. So far, US diplomacy has failed to loosen the stranglehold Russia maintains on natural gas exports from the region. Unlike the oil pipeline race where both East-West non-Russian routes, northerly Russian routes and southern Iranian routes remain viable, Russia maintains an upper hand in the struggle to control natural gas sales from Central Asia.

In 1999 the US Government backed efforts to establish the Trans-Caspian Pipeline (TCP). The \$2 billion gas line would carry up to 30 billion cubic meters of natural gas per year from Turkmenistan to Azerbaijan under the Caspian Sea to Georgia and Turkey. Several private energy companies have looked at the feasibility of the project, including Transcaspian Gas Pipeline Project, a grouping of Bechtel, General Electric and the Royal Dutch Shell Group. While technically feasible, the project still faces stiff competition from other better organized, cost-effective competitors, including BP's Shah Deniz gas field in Azerbaijan and a \$3.2 billion Russian-Italian-Turkish project called Blue Stream which would bring Russian gas to Turkey via a 750 mile long pipeline beneath the Black Sea.

In early June 2000, Transcaspian Gas Pipeline Project announced it would close its Istanbul and Baku offices and reduce spending dramatically following President Niyazov of Turkmenistan's refusal to commit to the project.<sup>37</sup> Turkmenistan failed to renew the companies' mandate to continue work. The arrangement technically expired in February 2000.<sup>38</sup> US diplomacy on behalf of the TCP continued but by November, Turkmen President Saparmurat Niyazov had reached agreement with Russia's gas monopoly Gazprom to sell it as much as 30 billion cubic meters of natural gas a year.<sup>39</sup> The agreement, taken together with the groundbreaking of the Russian-Italian-Turkish Blue Stream

<sup>37</sup> Stern, David, "Gloom Over Pipeline Plan: Turkmen Opposition May Scupper U.S. Backed Proposal" *Financial Times*, June 8, 2000, p. 12

<sup>38</sup> Gorst, Isabel, "Azerbaijan: New Caspian Discoveries Raise Export Stakes" *The Petroleum Economist*, July 19, 2000, p. 38

<sup>39</sup> Dorsey, James "Turkmenistan Deal May Kill Pipeline Backed by the U.S." *The Wall Street Journal*, November 19, 2000 p. A22

pipeline, is seen as the deathknell for a U.S.-backed program. Turkmenistan also has existing agreements to export gas to Ukraine and to Turkey via Iran.

Lack of agreement between Azerbaijan and Turkmenistan over how much share of capacity each should have in the joint Trans-Caspian natural gas export line to Turkey remains a major stumbling block. Moreover, political tensions between Azerbaijan and Turkmenistan make negotiation of the final plans for the TCP extremely difficult. Iran and Russia also have pre-existing 'take or pay' gas agreements with Turkey that take precedence over proposed projects and involve pipeline infrastructure that already exists.<sup>40</sup>

US rhetoric continues to support the TCP project but its competitors were gaining momentum in late 2000. Blue Stream, which partners Russia's state gas monopoly Gazprom with Italy's ENI conglomerate, has announced that it has arranged \$1.7 billion credits from Banca Commerciale Italiana, Mediocredito Centrale and West LB with an additional \$660 million expected from the Japan Bank for International Cooperation and Japan's Ministry of International Trade and Industry (MITI).<sup>41</sup> Construction of the pipeline has already begun, giving Russia a further advantage in enlarging its already sizable share of the Turkish gas market. The success of this project is considered a major blow against US-organized projects in Central Asia by taking up a good chunk of the potential market for similar sales to Turkey from Turkmenistan and Azerbaijan via the Caspian Sea and Georgia that would bypass Russia.

Turkey's surprising commitment to buy more Russian gas via Blue Stream has raised questions in Washington about Ankara's faithfulness to the Eurasian Energy corridor concept that is aimed to break Russia's hold on the energy supplies of the region and link the countries of Central Asia and the Caucasus more substantially to Turkey and free them from undue influence from Russia.

If Turkey itself has so few problems with Moscow that it will link its economy so largely to Russian energy, then US intervention against Russian influence in Central Asia and the Caucasus *on Turkey's behalf* may seem rather unnecessary. A strengthening of Turkish-Russian relations could potentially call into question whether *diversity from Russia* is a regionally-inspired, Caspian littoral states' priority or one cooked up far away in an America that cannot get past the chess game of the Cold War.

One trump card that could reduce future Turkish gas purchases from Russia is the possibility of cheaper Azeri supplies. BP is also trying to move ahead plans to export gas from its Azerbaijan Shah Deniz field to Turkey. So far, no sales agreement has been concluded between the two countries outside the framework of the November 18 1999 Istanbul accord that set up the framework for the delivery of up to 16 billion cubic meters a year of Azeri and Turkmen gas to Turkey via the Trans-Caspian Pipeline. The latter contract could be used as a starting point for a Azeri contract and existing transit accords for oil pipelines could be extended to gas lines. But Azerbaijan's and BP's desire to

<sup>40</sup> Joseph, I., 'Caspian gas exports: stranded reserves in a unique position, Baker Institute Working Paper 1998, available at URL <<http://www.bakerinstitute.org>>.

<sup>41</sup> Aliriza (note 19).

start exporting gas to Turkey as quickly as possible, perhaps within the next year, is providing Turkey with the opportunity to harden its demands that BP and Azerbaijan commit to the Baku-Ceyhan oil pipeline which is still lacking significant oil line fill. BP's partners in the Shah Deniz field include regional parties, including a joint venture between Russia's Lukoil and ENI's Agip, as well as Turkey's TPAO, Azerbaijan's Socar, Iran's OIEC, Statoil and TotalFinaElf.

Complicating gas export matters further is the fact that several major fields in Kazakhstan, including Tengiz, Karachaganak and Kashagan, need to find outlets for associated and non-associated natural gas production. Kazakhstan is important to Russia's Gazprom as a transit route for Turkmen gas to reach the Russian natural gas pipeline network. But, there is some talk that Kazakh gas might make economical supply for Gazprom to feed to certain Russian markets, potentially reducing Russia's need for Turkmen supplies and American companies will be forced to consider gas sales to the Russian monopoly if alternative export options cannot be identified.<sup>42</sup> In April, the US Trade and Development Agency awarded a \$600,000 grant to Kazakhstan's Minister of Energy to fund a study of the strategic uses of its natural gas, including possible export projects.<sup>43</sup> Any US pressure on Kazakhstan to deny Turkmenistan access to Russia's pipeline system would presumably muddy the waters for Russia's current dominance in the Central Asian gas game.

#### **IV. US strategic interests: what is at stake?**

All this begs the strategic question: What is truly at stake for the USA? If the answer is oil and natural gas, this resource prize hardly seems worth the risks and costs of intervention in a messy, tangled patchwork of ethnic conflict. Even in the event of higher flows than expected from Kazakhstan's Kashagan field, the region's output is still likely to be less than 5 per cent of world oil demand by 2010.<sup>44</sup> Unlike the Balkans, the region is also very distant from the heart of Europe, raising questions about the costs to NATO of instability there. Other types of trade with the Caspian region are also relatively limited compared to other regions, again raising questions about the Caspian region's strategic economic importance, especially when viewed against the promising and less difficult markets of Asia and the Indian subcontinent, for example. In this regard, however, NATO's economic interests might diverge somewhat from those of Turkey, which is a more prominent trading partner with the Caspian region.<sup>45</sup> For Turkey, which has strong cultural links to the Caspian Basin countries, the region remains an important nearby source of energy supplies as well as a major market for its goods and services.

<sup>42</sup> Author's discussions with Kazakh producers, October 13, 2000.

<sup>43</sup> "Russia Closing In On Central Asian Natural Gas Business" *Petroleum Economist*, June 13, 2000, p. 74

<sup>44</sup> For more details, see Soligo and Jaffe (note 13).

<sup>45</sup> Bhatti and Bronson (note 8).

For Russia, the experience of the break-up of the Soviet Union has demonstrated to some extent that the region and its poverty were more of a drain on its resources than an improvement.<sup>46</sup> And Russia itself has equal, if not, vastly superior energy resources that it cannot muster the finance, technology and logistics to exploit.<sup>47</sup> It hardly needs the extra barrels in Kazakhstan. That leaves only the prize of preventing Central Asia from competing with it for international markets, and the responsibilities that would go with blocking Central Asia from attaining any revenues to sustain itself seem far more costly than letting the region have a small share of international markets.

The Caspian Basin region's problems of arms proliferation, Islamic militancy and drug trafficking might be more pressing for NATO ally Turkey and for Russia itself, and this is a serious, if corollary, interest for the West. Turkey, which has suffered from instability and terrorist groups operating along its border areas, must in particular consider the fate of this region in its strategic calculus. But one must ask whether such concerns and the humanitarian considerations that accompany them would not be better handled through multilateral cooperation rather than strategic competition.

Given its trying experience in Chechnya, Russia should have serious reservations about whether it can police the region by itself. There is no question that many influential Russia politicians and military leaders would like to regain not only the full mantle of superpower status but also Russia's historical empire. But Russia's world-power status derived in large measure from its military prowess and nuclear arsenal.<sup>48</sup> At present, Russia's generals must face the reality that the country's armed forces are destitute and their morale low. The Russian Army can no longer brandish unlimited manpower, nor is there money to rebuild or maintain large, well-equipped forces.<sup>49</sup> Similarly, funds to finance a modernized arsenal of new-generation military technologies are lacking. This raises questions about whether there is a gap between any Russian ambitions in the Caspian and Russian capabilities.<sup>50</sup>

For the USA, the 1997 CentrasBat exercise which brought US paratroopers parachuting into Uzbekistan notwithstanding, it remains to be seen if the US policy makers could realistically rally public support for a major operation in a

<sup>46</sup> Kortunov, A., 'Russia and Central Asia: evolution of mutual perceptions, policies and inter-dependence', Baker Institute Working Paper, 1998, available online at URL <<http://www.bakerinstitute.org>>. See also Olcott, M., 'The Caspian's false promise', *Foreign Policy*, no. 111 (summer 1998), pp. 95–113.

<sup>47</sup> Rutland, P., *Lost Opportunities: Energy and Politics in Russia*, NBR Policy Analysis Series (National Bureau of Asian Research: Seattle, WA, 1997).

<sup>48</sup> Pipes (note 28). Richard Starr of the Hoover Institute has estimated that high technology investment represents 40% of Russia's military budget. Pipes argues that US cooperation with Russia is necessary to prevent Russia from coping with economic failure by resorting to military force as a means to assert itself because he claims that the 'emotional demands' of the elite and older generations inside Russia are pulling away from a pro-Western alignment and integration into the world economy and back towards a military posture and alignment with countries isolated from the West.

<sup>49</sup> Dick, C. J., *Russian Military Reform: Status and Prospects* (Conflict Studies Research Centre: Canberra, June 1998).

<sup>50</sup> Pipes (note 28).

region that most Americans cannot point out on a map and where the vital interests at stake, apart from a small volume of oil, will be hard to articulate convincingly. It took years for US policy makers to clear the idea of intervening in conflict in the Balkans, which are distinctly closer to the heart of Europe and NATO—literally and figuratively—than the Caucasus, let alone Central Asia. A large and effective US military presence in Central Asia would not only be costly but also politically difficult to sell at home. US per capita civilian assistance to the region, as well as military assistance, remains notably minimal. In the absence of incredibly large resources and extensive guarantees, talk of containing Russia in Central Asia and the Caucasus will be counter-productive.

Recommendations that the USA should proactively counter Russia in the Caspian Basin now while Russia is weak may, ironically, only serve to increase the likelihood of a Russian effort to re-exert itself in the region by fuelling popular support that might otherwise have been missing.<sup>51</sup> Suggestions that Uzbekistan could serve as the USA's regional military surrogate are even more unwise.<sup>52</sup> Religious, ethnic and other cultural factors still influence the stability of Central Asia and the Caucasus and threaten peaceful relations between neighbours. Increasing military shipments to any indigenous players in the region would risk escalating stubborn and simmering tensions. Moreover, history shows that US efforts to develop such surrogates in other countries can produce questionable results. Surrogates tend to have their own, rather than their masters', interests in mind as they gain military strength. The horrendous blow-back from US covert support to Afghan rebels against the USSR in the 1980s is a dramatic case in point.

## V. USA–Russia: A cooperative framework?

The choices left open to both the USA and Russia suggest that the USA should put Moscow's relationship with the region on its broader bilateral agenda. Neither country is likely to succeed in excluding the other from the region. Therefore, a more realistic stance is needed by both.

The US agenda should be to shape Russia's role in its southern flank to postures that can enhance those interests which the USA, Turkey and Russia share. Such interests are surprisingly many—to name a few, regional stability, economic development, trade and a reduction of human suffering and ethnic warfare.<sup>53</sup>

Its experience in Chechnya and Tajikistan should have demonstrated the costs to Russia of simmering discontent and instability on its borders. The USA's experience in the Balkans should make it similarly cautious about

<sup>51</sup> Chufrin, G. and Saunders, H., 'The politics of conflict prevention in Russia and the near abroad', *Washington Quarterly*, vol. 20, no. 4 (1997).

<sup>52</sup> Starr, S. F., 'Making Eurasia stable', *Foreign Affairs*, vol. 75, no. 1 (Jan./Feb. 1996), pp. 80–92.

<sup>53</sup> Chufrin and Saunders (note 45).

single-handedly tackling similar problems in a more remote and difficult terrain. Neither country benefits from having powerful non-state actors launching terrorist attacks inside its territory. For both, the lessons of the former Yugoslavia underscore the dangers of allowing rampant ethnic separatism in the Caucasus and Central Asia to stimulate political devolution in neighbouring states such as Russia, China or the Indian subcontinent.<sup>54</sup>

Options for US–Russian cooperation do exist. The 1990 Treaty on Conventional Armed Forces in Europe (the CFE treaty) is an excellent starting point. Joint peacekeeping operations in Bosnia and Kosovo have created additional positive precedents. Old habits might die hard but ultimately the presence of hard-to-control armed factions in the fractious region is in no one’s long-term interests. Cooperation in apprehending and limiting the reach of Taleban operational cells is of paramount importance to Russia, Turkey and the USA. If competition among major powers could be reduced, precedents exist for cooperation on conflict resolution activities in the region, especially between Armenia and Azerbaijan, supported either by the United Nations or by the OSCE. Finally, multinational humanitarian programmes which provide educational opportunities, jobs and medical assistance can lessen the appeal of radical leaders by providing an alternative window of hope for the populations of the region.

## VI. US Policy: Change Expected

The inauguration of a new US President in February 2001 will –no matter which candidate takes office – lead to a review of US policies towards the Caspian region. Such a review, no matter who leads it, is likely to focus its conclusions on several key points:<sup>55</sup>

- 1) Both Central Asia and the Caucasus have unique problems and concerns and should not be an adjunct to US policy towards Russia.
- 2) Conflict resolution is an important element in drafting a successful US policy towards the region.
- 3) Energy assets are not ample enough solely to justify the region a vital status in analysis of broad US strategic interests.

These conclusions will have several different effects on US policy. US attention to the region is likely to be downgraded in the coming years. A Pentagon review of US interests in the region has not supported contentions that these interests merit top priority, of say a comparable nature to the Persian Gulf.<sup>56</sup> In the case of a Bush Presidency, a reorganization of offices responsible

<sup>54</sup> Jaffe, A. M. and Olcott, M. B., ‘The geopolitics of Caspian energy’, eds E. Kalyuzhnova and D. Lynch, *The Euro-Asian World: A Period of Transition* (St Martin’s Press: New York, 2000).

<sup>55</sup> Authors conversations with US officials on the Gore team and the Bush team and supporters.

<sup>56</sup> Authors conversations with Pentagon officials, November 16, 2000.

for this region may actually strip away much of the separate bureaucratic attention it receives and lessen the number of official visits and diplomatic tours the region will enjoy. Moreover, even top Clinton Administration officials are switching the focus of their remarks, stating the region's importance comes not from energy or economic issues but from its potential for instability and conflict.<sup>57</sup>

Problems of human rights and corruption in Central Asia are receiving higher profile inside US policy circles and could begin to weaken public support for the region's leaders, such as Turkmenistan's Niyazov, inside the US, particularly for a Democratic Administration. But even Republican advisors such as Condoleezza Rice note that domestic reform is needed in the region before its countries can be strong enough to resist Russia's unwanted meddling.<sup>58</sup>

Western oil companies can be expected to continue to lobby the US to take a lower profile to questions of export routes and regional geopolitics in the coming years. The companies would like to see US diplomatic activity on the Eurasia Energy corridor to move closer in line to commercial realities and the economic and logistical practicalities of exporting oil profitably from the landlocked, distant area. It is assumed a Bush Presidency, with its strong ties to the American oil patch, will be more inclined to do this. But, such policies will be tempered by conservative voices inside the Republican elite that concern themselves with big power relations. A Republican Administration will be less likely to coddle diplomatically any Russian military adventurism in its "near abroad" and to deal more "resolutely and decisively" with rogue elements.<sup>59</sup>

The big Western oil companies remain optimistic about the size of assets that might be discovered in the region but are now more sanguine about the long time, thorny bureaucratic issues and severe technical difficulties that will be entailed in bringing those to market. Sizable line fill for a major oil pipeline out of the region isn't expected until 2007 at the earliest and maybe even as late as 2015. This does not bode well for Clinton Administration predictions, likely to be carried along by a Gore Administration, that the Baku-Ceyhan oil line will be built by 2002. Privately, ExxonMobil has made clear its lack of interest in committing export volumes to this uneconomical Turkish export route, and few, if any, other oil companies have substantial discoveries to offer up at this juncture. BP's objections to the costly oil pipeline have been muted by its

<sup>57</sup> Speech by John Elkind of the National Security Council to an audience at The Central Asia Institute at John Hopkins University in Washington DC on November 15, 2000.

<sup>58</sup> Condoleezza Rice, "Promoting the National Interest" *Foreign Affairs*, Vol. 79, No. 1, P. 45-62, January/February 2000. She writes, "The war (Russia in Chechnya) is a reminder of the vulnerability of the small, new states around Russia and of America's interest in their independence. If they can become stronger, they will be less tempting to Russia. But much depends on the ability of these states to reform their economies and political systems --a process, to date, whose success is mixed at best."

<sup>59</sup> Condoleezza Rice (number 57) outlines a stronger initiative against rogue regimes and international terrorism. While she does not mention the Taliban explicitly, the principles she espouses clearly could apply to terrorism sponsored by this group in Eurasia. Republican thinker Robert Zoellick also refers to the benefits of coalitions in dealing more forcefully with such problems as "dangerous powers" that threaten US interests in Eurasia. See "A Republican Foreign Policy" in the same issue of *Foreign Affairs*.



interest in exporting Shah Deniz gas to Turkey, which is trying to force the British oil giant to offer a small 500,000 b/d oil pipeline as a loss leader to any gas sales.

Few Western companies, if any, believe it will be possible to exclude or bypass Russia in the process of identifying secure export routes. Rather, many of the companies are trying to improve their own relations with Russia's Gazprom and other Russian parties that may help enhance their chances of monetizing assets. Several companies kindle hopes that US-Iranian relations will improve in the coming years, opening up the possibility of more economical export routes through Iran. Other companies would like to see a shorter-cheaper bypass of Turkey's Bosphorus Strait constructed only once it is seen definitively that the waterway cannot handle rising oil tanker traffic.<sup>60</sup> Still, it remains to be seen whether a switch in Administrations will be enough to rein in quickly a massive American bureaucracy that has been committed to the East-West Baku-Ceyhan line and accompanying anti-Russia, anti-Iran export policies for close to a decade.

Finally, much has been speculated about an improvement in US-Iranian relations to follow the change in US Administrations, thereby opening a chance for oil swaps with Iran for Caspian producers. While this remains possible, it is by no means a foregone conclusion. Both Texas Governor G.W. Bush and Vice President Al Gore focused their foreign policy rhetoric during the campaign on the importance of America's security considerations. A careful reading of their public statements indicates no initiative towards Iran will be possible --regardless of who is in the White House-- if Tehran is seen as a visible sponsor to international terrorism and a vocal opponent to the Arab-Israeli peace process.<sup>61</sup> There is no doubt that any evolution of Iran's domestic politics to favor rule of law, democratic principle is bound to create a better atmosphere for improved relations with the USA. However, the current deterioration of the Arab-Israeli dialogue and the negative public relations impact of military activities of Iranian-supported groups like Hamas and Hizbollah can be expected to slow the process of normalization for the foreseeable future.

## VII. Conclusion

The littoral states of the Caspian Basin—Russia, China, Turkey and Iran—all perceive a degree of interdependence with the fate of Central Asia and the Caucasus states. This will be true even if the region's oil and gas bounty does not turn out to be as great as some now expect. While the greatly anticipated

<sup>60</sup> Author's various conversations with Western oil company executives over the last six month of 2000.

<sup>61</sup> This is the stated policy of the Clinton-Gore Administration and similarly affirmed by members of the Bush foreign policy team. To quote Ms. Rice from her article cited above, "...changes in US policy toward Iran would require changes in Iranian behavior."

wealth of Caspian oil might prove a chimera, geopolitical interest in the region is likely to be sustained.

For the USA, then, its national interests in the Caspian Basin are more derivative than fundamental. The region will be strategically tangential so long as its resources are accessible to competing interests. Apart from oil and gas which may not be plentiful enough to justify a major US commitment to the region, US interests should be viewed as case-specific and part of a wider focus on stability in Turkey, Russia, China and the Persian Gulf. On an international level, they are oriented towards ensuring that the region does not become a feeding ground for illicit trafficking in arms, controlled technologies and drugs or a centre of ethnic and religious separatism that could spread political devolution to Turkey, Russia, China or South Asia. Finally, US policy towards the region must take into account humanitarian concerns to alleviate the basic human suffering that has come about with the collapse of the former Soviet Union and the breakdown in basic economic activity and delivery of social services that the Soviet system previously provided.