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U.S. FOREIGN POLICY IN THE CAUCASUS AND CENTRAL ASIA: PIPELINE POLITICS AND THE NATIONAL INTEREST

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U.S. FOREIGN POLICY IN THE CAUCASUS AND CENTRAL ASIA: PIPELINE POLITICS AND THE NATIONAL INTEREST

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ABSTRACT

This thesis examines the post-Cold War foreign policy of the United States in the Caucasus and Central Asia from a theoretical and practical view. It investigates how U.S. policies towards specific countries in the region have affected the region as a whole. Specifically, three case studies are used to explore the geopolitical implications of pipeline politics in Kazakstan, Azerbaijan, and Turkmenistan. This study concludes with specific options and recommendations for U.S. foreign policy makers to enhance and enlarge U.S. influence in the Caucasus and Central Asia.

TABLE OF CONTENTS

LIST OF FIGURES

EXECUTIVE SUMMARY

The international system was completely changed by the collapse of the Soviet Union. What had been a bipolar system, with the United States and Soviet Union locked in a struggle for the control of the world, was abruptly transformed into a unipolar system, in which the United States is the de facto global hegemon.

Six years after this collapse, scholars continue to debate what will or what should become of the international system and, consequently, of the theoretical basis for U.S. foreign policy. Four main schools have arisen: neo-isolationism, cooperative security, selective engagement, and primacy. Within the primacy school there are two branches: maximal and minimal realism.

Maximal realism argues that the United States should take the necessary efforts to ensure its continued global primacy. Minimal realists argue that this path is expensive and dangerous. They instead counsel that the United States should exploit its position as the pre-eminent global power, relying on both global and regional power balances to control emerging powers, watching and waiting as these regional powers exert their muscle, finally stepping in only when action by the United States will increase its status at a minimized cost.

This thesis explores the basis of United States foreign policy in the post-Cold War era. It advocates a minimal realist approach and shows how U.S. foreign policy actions in the Caucasus and Central Asia region have been taken from a maximal realist approach. The politics involved in oil and natural gas pipelines - their routes and financing - are examined in three case studies. These case studies show that, after the removal of nuclear weapons from Kazakstan, the sole concern of the United States in this region has been to pursue the containment of Iran to the detriment of any other foreign policy goal in the region. In Kazakstan, this policy has resulted in coercing Kazakstan into relying on Russia as its primary partner in oil export. Similarly, in Azerbaijan this policy has forced the use of an existing Russian pipeline and has aggravated the United States' key ally in the region, Turkey. Turkmenistan has been forced to defy the U.S.'s policy, as Iran is not only the path

of least resistance for pipelines to world markets but also a natural trading partner for Turkmenistan.

This thesis concludes by advocating a less heavy-handed approach to the Caucasus and Central Asian region. It calls for the United States to become actively and visibly involved in resolving two main conflicts: that between Azerbaijan and Armenia over Nagorno-Karabakh, and the Afghan civil war. After calling for the repeal of section 907 of the Freedom Support Act, it commends and encourages long-term and low-visibility efforts to build an infrastructure friendly to the United States in these newly independent states. Finally, this thesis calls for a reevaluation of the policy of containment of Iran, comparing the logic behind this policy to the logic behind the policy of engagement and enlargement towards China.

I. INTRODUCTION

No one knows precisely when the Cold War ended. People point variously to the fall of the Berlin Wall, the reunification of Germany, the 1991 Persian Gulf War with its broad anti-Iraq coalition, the August 1991 Moscow coup, and the independence of Russia and the other fourteen Soviet republics of the Soviet Union. Perhaps the beginning of the end was December 8, 1987, when Georgi A. Arbatov - then the Director of the prestigious Soviet Institute for the Study of the United States and Canada – wrote to the *New York Times* to declare that the Soviet Union was going to use its "secret weapon:" its refusal to continue to play the game. In Arbatov's words, "...we would deprive America of the Enemy."[1] By refusing to play the part of enemy (without promising to play the part of friend), the Soviet Union indicated the end of the bipolar world.

The Persian Gulf War demonstrated to all that, for the nonce, the world was unipolar, with the United States the predominant Great Power. As the U.S. enjoyed its top dog status, it began to question both the price of maintaining global hegemony and the overarching principles that drove U.S. policy and strategy. Six years after the Persian Gulf War, this debate continues. However, as actions often speak louder than words, it has become apparent that the United States enjoys its position as the "king of the hill" and intends to remain as such. This position has been described as "maximal realism" or "primacy" in international relations theory.

This thesis seeks to examine how U.S. foreign policy has played out in the aftermath of the Cold War. Specifically examined is the role that U.S. foreign policy has played in the Caucasus and Central Asia, where the collapse of the Soviet Union revealed to the West the vast resources of oil and natural gas in this region. After a theoretical discussion of the basis of U.S. foreign policy and an explanation of some common issues, I examine three case studies of pipeline politics –Kazakstan, Azerbaijan, and Turkmenistan –

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[1] Georgi A. Arbatov, "It takes two to make a Cold War," *New York Times*, December 8, 1987, p. A38.

to show that U.S. foreign policy in this region is driven by maximalist tendencies that have often resulted in consequences other than intended. Reasoning that a minimalist approach would be more likely to further U.S. foreign policy goals, I conclude with specific policy options and recommendations along those lines.

II. THEORY AND COMMON ISSUES

A. THEORY

The predominant victor of the Cold War with regards to international relations theory was realism. Realism springs from the paradigm that, in the absence of a Hobbesian Leviathan, individual states will pursue their own security, define their own national interests, and choose their own methods to protect those interests.[2] The victor of the Cold War on a practical level was the United States. The U.S. was the sole remaining Great Power that retained the military and economic status to dominate the international system.[3] The end of the Cold War transformed, by default, the international system from a bipolar to a unipolar scheme.

U.S. foreign policy strategy rests upon two central realist ideals: security and prosperity. Current debate in the United States centers on the theoretical basis for the development of these ideals. Using realism as their starting point, four different schools of thought have risen to the fore: Neo-isolationism, cooperative security, selective engagement, and primacy.[4] Neo-isolationism argues that the U.S. should disengage from the position of global hegemon and concentrate upon the security and prosperity of the

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[2] See Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, 5th ed., rev. (New York: Alfred A. Knopf, 1973).

[3] Great powers are defined by their capabilities. "The economic, military, and other capabilities of nations cannot be sectored and separately weighed. States are not placed in top rank because they excel in one way or another. Their rank depends on how they score on all of the following items: size of population and territory; resource endowment; military strength; political stability; and competence." Kenneth Waltz, cited in Christopher Layne, "The Unipolar Illusion: Why New Great Powers Will Rise," *International Security*, Vol. 17, No. 4 (Spring 1993), n. 12 p. 8. See also Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*, New York: Random House, 1987. "To be a Great Power – by definition, a state capable of holding its own against any other nation – demands a flourishing economic base." (p. 539).

[4] See Barry R. Posen and Andrew L. Ross, "Competing Visions for U.S. Grand Strategy," *International Security*, Vol. 21 No. 3 (Winter 1996/97), pp. 5-53.

American people without undue concern for crises in remote areas of the world.[5] Cooperative security advances the idea of the "democratic peace." This theory states that democracies do not wage war *against each other*. Therefore, if every state is a democracy, there will be no war.[6] Selective engagement is based upon traditional balance-of-power realism.[7] This theory argues that balancing among great powers is made easier when there is a leader, in this case the United States. Primacy is defined as maximal realism in a unipolar world.[8] As applied to the status of the United States in the post-Cold War era, this means geopolitical preponderance through the maintenance and extension of security throughout the world to avoid the development of rising challengers, as well as an ideological proselytization of democracy and free market economics.

Neo-isolationism is the least favored of these theories. Critics point to the period between the two world wars, when the United States pursued a policy of isolation, as proof of the dangers of this path.[9] Some argue that current U.S. foreign policy (starting with that of the Bush administration) has meandered through various theories, selecting the moments when cooperative security, selective engagement, or primacy best applies.[10] Finally, one

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5 See Patrick J. Buchanan, "American First – and Second and Third," *The National Interest*, No. 19 (Spring 1990), pp. 77-82; Earl Ravenal, "The Case for Adjustment," *Foreign Policy*, No. 81 (Winter 1990-91); and, more recently, Eugene Gholz, Daryl G. Press, and Harvey M. Sapolsky, "Come Home, America: The Strategy of Restraint in the Face of Temptation," *International Security*, Vol. 21 No. 4 (Spring 1997), pp. 5-48.

6 See Michael Doyle, "Kant, Liberal Legacies, and Foreign Affairs, Part 1," *Philosophy & Public Affairs*, Vol. 12 No. 3 (Summer 1983), pp. 205-235 and Michael Doyle, "Kant, Liberal Legacies, and Foreign Affairs, Part 2," *Philosophy & Public Affairs*, Vol. 12 No. 4 (Fall 1983), pp. 323-353. An excellent compendium of the debate on the democratic peace is contained in Michael E. Brown, Sean M. Lynn-Jones, and Steven E. Miller, eds., *Debating the Democratic Peace*, (Cambridge, MA: MIT Press, 1996).

7 See Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, 5th ed., rev. (New York: Alfred A. Knopf, 1973), especially parts four and seven, and Kenneth N. Waltz, *Theory of International Politics*, (Reading, MA: Addison-Wesley, 1979).

8 For a discussion of maximal realism in the unipolar world, see Layne, "The Unipolar Illusion;" Posen and Ross, "Competing Visions for U.S. Grand Strategy;" Samuel P. Huntington, "Why International Primacy Matters," *International Security*, Vol. 17, No. 4 (Spring 1993), pp. 68-83; and Christopher Layne, "Less is More: Minimal Realism in East Asia," *The National Interest*, No. 43 (Spring 1996), pp. 64-77.

9 Gholz, Press, and Sapolsky, however, choose this path and urge a philosophy of 'restraint."

10 See Posen and Ross, "Competing Visions for U.S. Grand Strategy," and John Gerard Ruggie, "The Past as

school of thought theorizes that post-Cold War U.S. foreign policy (rightly) follows the route of primacy through maximal realism, pointing out U.S. efforts to thwart North Korean nuclear aspirations, reaction to Chinese efforts to intimidate Taiwan and influence Taiwanese domestic politics, and the emphasis on expansion of NATO.[11]

As indicated above, this author falls into the last camp, believing that U.S. foreign policy is based on maximal realist goals. Agreeing with the *de facto* primacy of the United States, I do not argue against primacy. However, as Layne points out, there are three central arguments against a maximalist approach.[12]

First, unipolarity cannot easily be maintained. Recognizing Fénélon's theorem that a state will behave with moderation and decency only if others check its behavior, lesser powers will seek to counterbalance the hegemon.[13] Second, any attempt to maintain unipolarity is expensive. Extending the broad shield of security throughout the world requires a large, capable military to deter aggression. Finally, American or even Western liberal values are not necessarily universally applicable. Witness the hostility that these values have received in many parts of the Muslim world.[14]

Minimal realism therefore views primacy in a different light than does maximal realism. Instead of viewing the international system as a hill with the hegemon securely atop it, minimalists see the hegemon as Atlas attempting to hold up the world. Atlas may be able to support the world on his shoulders today, but he may not be able to do so tomorrow as he wearies under his heavy load. Minimal realists thus advise great powers to avoid actively portraying themselves as the global hegemon and act instead as an offshore

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Prologue? Interests, Identity, and American Foreign Policy," *International Security*, Vol. 21, No. 4 (Spring 1997), pp. 89-125.

11 See Michael Mastanduno, "Preserving the Unipolar Moment: Realist Theories and U.S. Grand Strategy after the Cold War." *International Security*, Vol. 21, No. 4 (Spring 1997), pp. 49-88.

12 Layne, "Less is more," pp. 66-68.

13 Robert Jervis, "International Primacy: Is the Game Worth the Candle?" *International Security*, Vol. 17, No. 4 (Spring 1993), p. 66.

14 See Benjamin R. Barber, "Jihad vs. McWorld," *The Atlantic*, Vol. 269, No. 3 (March 1992), pp. 53-63.

balancer or, to continue the mythological metaphor, as Zeus, king of the Gods, but still wary of the combined opposition of his minions. Minimalists advise that the United States should:

- Exploit its position as a relatively powerful and secure great power
- Rely on global and regional power balances to contain newly emerging powers
- Increase its relative power position by exploiting the great strain that a state must place on its economy to emerge as a regional or global power.[15]

Minimal realism is not an untried philosophy. The imposition of peace upon Bosnia is an example of minimal realism in action. The United States allowed regional powers – namely France, Germany, and Britain – to attempt to effect a peace in Bosnia. This allowed the U.S. to watch while these regional powers spent their energies attempting to contain the situation in Bosnia. Eventually, when these efforts were universally viewed as ineffective, the United States stepped into the picture, effected the Dayton Accords, sent peacekeeping troops to Bosnia, and secured a peace there. This episode greatly enhanced the status of the United States as it proved that the U.S. alone was capable of imposing peace, in contrast to the European failure to ensure the peace.[16]

B. PIPELINE CONSIDERATIONS

Oil and gas pipelines crisscross the world. In the United States alone there are over 170,000 miles of oil pipelines and 200,000 miles of natural gas pipelines. Pipelines are, however only part of a system. That system is the oil and natural gas market.

The purpose of the oil and natural gas market is to take assets – crude and refined oil, petroleum products, and natural gas – and transport them to a marketplace for sale to a

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[15] Layne, "Less is More," p. 68.

[16] See Christoph Bertram, "Multilateral Diplomacy and Conflict Resolution," *Survival*, Vol. 37, No. 4 (Winter 1995-96), pp. 65-82; Frank Harvey, "Deterrence and Ethnic Conflict: The Case of Bosnia-Herzegovina, 1993-94," *Security Studies*, Vol. 6, No. 3 (Spring 1997), pp. 180-210.

customer. The basic problem of this system is transport. How does the producer get his product to market? Figure 1 shows the existing and potential oil and gas export routes for the Caspian basin.

There are, in general, three possible tools to use as solutions to this problem. First is transport of product via tanker or ship. Once the product has been loaded upon the tanker, it is fairly safe, easy, and inexpensive to transport to its ultimate destination. However, if the source has no outlet to the sea, the problem still remains: how to get the product to a tanker?

One of the oldest solutions to this problem was transport by rail. At the turn of the century, Baku was one of the major sources of oil and oil products, but it was over 200 miles from the nearest port. Ludwig Nobel, the "Oil King of Baku," built the first oil tanker ship to transport oil from Baku to Astrakhan, where it was further transported via barge to market in Russia. Two rival oil producers, Bunge and Palashkovsky, with financing from the Paris Rothschild bankers, constructed a railroad from Baku to Batumi on the Black Sea coast in what is now Georgia. This railway, constructed over mountainous territory, allowed great quantities of oil to be transported from Baku, allowing turn-of-the-century Russia to become a major source for the world's oil.[17] With the advent of the automobile, the tanker truck made its appearance as an alternate to rail transport. One variant on this theme is still in use today in the Caspian region. Oil is transported via tanker truck to the Don or Volga Rivers. From there the oil is transported via barge to market in Russia, a method very similar to that used by Ludwig Nobel and his rivals.[18]

A singular drawback of transport by road or rail is that it is relatively expensive when compared to transport by pipeline. Pipelines are by no means inexpensive; they involve a large investment of capital up front, but they are easy to maintain and they transport much larger quantities of product at lower costs than road or rail transport.

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[17] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, & Power*, (New York: Simon & Schuster, 1991), pp. 58-62.

[18] From interview with Azeri entrepreneur conducted by author.

Source: U.S. State Department

Figure 1. Existing and Potential Oil and Gas Export Routes from the Caspian Basin

Source: U.S. State Department

Figure 2. Areas of Instability and Oil Pipelines in the Caspian Region

As the major obstacle to building a pipeline is the initial capital investment, pipeline projects often must approach international financiers for funding. Several considerations must be satisfactory before funding will be approved. First, the pipeline's route must be the most economic. Factors that come under consideration in this area include the terrain that the pipeline will transit (i.e. flat, hilly, mountainous, etc.). As the shortest distance between two points is a straight line, the most inexpensive route should be a straight-line route over flat terrain from the source to market. Also, the threat to the pipeline from earthquake or flood must be considered.

The next consideration is the number of sovereign countries that the pipeline will transit. This is important because each country will receive rents from the transit of product through a pipeline on their territory. These rents, individually negotiated, have rendered pipelines unusable. The Arabian-American Oil Company (Aramco) constructed the Trans-Arabian Pipeline (Tapline) in 1951. The Tapline crossed Saudi Arabia, Jordan, and Syria, terminating on the Mediterranean Coast at Zahrani, Lebanon, south of Beirut. Each transit country received transit fees (rents) from this pipeline. Lebanon received an extra transit fee as the line terminated at her port, reasoning that its short section of the pipeline was the most important. The line, shut down in 1975 by the civil war in Lebanon, was partly reopened in 1979 but never again reached full capacity. The impact of multiple countries and their rents on the failure of the Tapline is one reason why Saudi Arabia constructed a pipeline from Abqaiq in the Eastern Province (on the Persian Gulf) to Yanbu on the Red Sea.[19] This, combined with a large Saudi tanker fleet and low transit fees in the Suez Canal, allowed Saudi Arabian oil to flow to European markets at lower cost.

A final and most important consideration for pipeline construction is the political stability of the regions that the pipeline will transit. Pipelines are strategic targets. They are very hard to protect due to the intensive manpower required to patrol them; all that is required to sabotage a pipeline is one small bomb. In the Tapline example cited above, the

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[19] George Lenczowski, "Major pipelines in the Middle East: Problems and Prospects," *Middle East Policy*, Vol. 3, No. 4 (1995), pp. 44-45.

line was only shut down due to the civil war in Lebanon. Interestingly, a pipeline that ran directly through Grozny in Chechnya was never disrupted during the fighting between Russia and Chechen separatists.[20]

C. STATUS OF THE CASPIAN SEA

The five littoral states of the Caspian Sea (Azerbaijan, Iran, Kazakstan, Russia, and Turkmenistan) have an especially strong interest in the legal regime that will govern the exploitation of the Caspian. While sovereignty issues have impact on fishing, navigation, environmental, and economic concerns, the subject of most important contention will be how the Caspian Sea legal regime impacts oil and gas exploration and transport.

Prior to 1991, littoral states Iran and the Soviet Union had settled the status of the Caspian through two treaties. The 1921 Treaty of Friendship between Russia and Persia recognized Russo-Persian frontiers as drawn up by the 1881 Frontier Commission that drew a straight line from Astara (on the modern-day Azeri-Iranian border) to the mouth of the Atrek river (at the modern-day Irani-Turkmen border) across the Caspian. Interestingly, this treaty also abrogated Article 8 of the 1828 Treaty of Turkmanchai that prohibited Persia from operating ships on the Caspian Sea and proclaimed the right of free navigation on the Caspian.[21] The Soviet/Iranian Treaty of 1940 also addressed the Caspian and navigation issues, calling for equal treatment of vessels in each other's ports.[22]

During the Soviet period, the demarcation of the Soviet zone of the Caspian Sea between individual republics varied considerably. There were several definitions of zones

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[20] "Caspian Oil and Chechen Instability," *Swiss Review of World Affairs*, February 3, 1997, online at Lexis-Nexis, Library: News, File: Allnws. Enterprising black marketeers have, however, installed taps into this pipeline that allow them to siphon off oil without being detected. See Greg Myre, "Chechens pilfer crude oil, brews homemade gasoline," *The Chattanooga Times*, February 6, 1997, p. A14.

[21] J.C. Hurewitz, *Diplomacy in the Near and Middle East: A Documentary Record: 1914-1956*, Vol.2, (Princeton: D. Van Nostrand Company, Inc., 1956), pp. 95-97.

[22] John Roberts, *Caspian Pipelines*, (London: The Royal Institute of International Affairs, 1996), p. 50.

that depended upon the reason for needing a demarcation. For example, the demarcation between republics for environmental concerns differed from that for economic concerns.[23]

With the dissolution of the Soviet Union, the question of demarcation of the Caspian Sea became all the more important with the realization that the seabed underneath the Caspian held oil and gas riches. How the status of the Caspian was finally decided would also decide to whom these riches would belong. The question hinges on the following question: is the Caspian a lake or a sea?

While the Caspian is the world's largest inland area of water and does contain salt water, the possibility exists that it could be considered a lake. In fact, Russia and Iran would prefer this definition. Under international law, a lake is divided between its littorals but its assets are recognized as jointly owned. This would entail that each of the five contending states would receive a portion of the Caspian, yet the assets (such as oil fields) would also be divvied up between the five littorals.[24] If, however, the Caspian were treated as a sea, then each littoral state would receive a portion that would be totally under that state's control; there would be no sharing of resources or of profits between the littorals of assets in their exclusive economic zone. This exclusive zone would depend on an agreement between the littoral states. Currently, there are several proposals, with 12-, 20-, and 45-miles from land being considered (see Figure 3, Territorial Issues in the Caspian Sea). Also being considered is the possibility of treating the Caspian as a sea and using an "equidistant" line (similar to the solution provided under the lake definition). As an example, under the sea definition an oil field in the Azeri portion of the Caspian would belong only to Azerbaijan. If the Caspian were considered a lake, then this field would also belong to Russia, Iran, Kazakstan, and Turkmenistan, even if it was located in the territorial waters of Azerbaijan.

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23 *Caspian Region Energy Development Report* (U.S. State Department Working Paper), (Washington, DC: U.S. State Department, 1997), pp. 8-10.

24 Clive Schofield, "Claims to the Caspian Sea," *Jane's Intelligence Review*, Vol. 8, No. 2 (1996), p. 75.

Source: U.S. State Department

Figure 3. Territorial Issues in the Caspian Sea

The United Nation's Convention on the Law of the Sea (1982) defines an enclosed sea as:

> ... a gulf, basin, or sea surrounded by two or more states and connected to another sea or the ocean by a narrow outlet or consisting entirely or primarily of the territorial seas and exclusive economic zones of two or more coastal states.

While the Caspian does not have an outlet to another sea, it does qualify as a sea under the second part of this definition.[25]

If the Caspian were treated as a lake, both Russia and Iran stand to gain, while Azerbaijan, Kazakstan, and Turkmenistan would tend to lose. Iran's section of the Caspian is very deep, and Iran does not currently have the technology or financing needed to exploit deep-water oil reserves.[26] The Soviet Union made the decision in the 1970's to shift oil industry investment emphasis from the Caspian region to the Volga-Urals and West Siberia regions; consequently, Russia's Caspian Sea oil assets are very old and dilapidated.[27] The other three littoral states have the ability and impetus to attract capital for investment in Caspian oil and gas in their economic zones. If the Caspian were treated as a lake, these states would have to share with the other littorals.

Both Iran and Russia have made clear their support for declaring the Caspian to be controlled under a condominium or "shared legal regime." Russia has gone so far as to issue a memorandum to the United Nations in which it emphasized that the Law of the Sea did not apply to the Caspian since it had no natural connection to other seas.

> Unilateral actions as regards the Caspian Sea are unlawful and will not be recognized by the Russian Federation.[28]

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[25] Clive Schofield, "Claims to the Caspian Sea," *Jane's Intelligence Review*, p. 75.

[26] This would most certainly change if the United States lifted sanctions against Iran.

[27] Robert E. Ebel, *Energy Choices in Russia*, (Washington, DC: The Center for Strategic & International Studies, 1994), pp. 8-9.

[28] "Other reports: Russia warns against unilateral action to change status of Caspian Sea," *BBC Summary of World Broadcasts*, October 11, 1994. Available via Lexis-Nexis, Library: News, File: Tbbcsw.

Also, in a demarche to the British government, Russia insisted that "Caspian projects cannot be recognized without its approval."[29]

Iran, Kazakstan, and Turkmenistan have all signed bilateral declarations with Russia averring that the status of the Caspian must be settled by the five littoral states alone to maintain a "zone of peace, good-neighborliness, friendship, and cooperation."[30] Azerbaijan has signed a similar agreement with Kazakstan, but appears to be the odd man out as far as negotiations with Russia are concerned.[31]

As of this writing, the status of the Caspian remains indeterminate. The United States is not one of the littoral states of the Caspian and recognizes that it has little influence in the decision over the status of the Caspian Sea. The U.S. State Department has, however, weighed in with advice that whatever decision is made as to the legal regime for the Caspian, it should:

> ... establish clear property rights, based on the division of subsea resources, and unrestricted transportation across the Caspian to further facilitate rapid energy development.[32]

This report does, however, raise the possibility that any condominium that would include Iran could preclude participation of U.S. firms.

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[29] John Lloyd and Steve LeVine, "Russia demands veto over Caspian oil deals: Moscow's salvo seems designed to stall BP's $7bn project," *The Financial Times*, May 31, 1994, p. 2.

[30] See *Joint Russian-Kazak (Almaty) Declaration* of April 27, 1996; *Joint Russian-Iranian Statement on the Caspian Sea* of October 30, 1995; and *Joint Statement by the Russian Federation and Turkmenistan on the results of talks concerning the problems affecting the Caspian Sea* of August 12, 1995. Available via gopher at gopher://gopher.un.org/.

[31] Azerbaijan appears to be the last holdout for considering the Caspian a sea and has entered several agreements with Iran, Kazakstan, and Turkmenistan to develop Caspian assets under the "sea" scheme.

[32] *Caspian Region Energy Development Report*, p. 9.

III. KAZAKSTAN

A. BACKGROUND

Kazakstan reluctantly declared its independence on December 16, 1991, as the Soviet Union expired. The only Central Asian republic where the titular ethnicity is not a majority, Kazakstan has spent much of its independence worried about its sizable Russian minority.[33] Issues such as dual citizenship (between Russia and Kazakstan), Russian versus Kazak language, and the establishment of Kazaks in positions of power have dominated much of Kazakstan's domestic politics.

Kazakstan is the largest of the former Soviet Republics. Its population is, at 16.9 million, the second largest in Central Asia, behind Uzbekistan at 23.4 million. The population is fairly evenly split between ethnic Russians (with 37%) and ethnic Kazaks (at 42%). Other minorities include Ukrainians and Germans (at about 5% each), Uzbeks (2.1%) and Tatars (2%). Kazakstan is also the Central Asian state with the lowest percentage of its population claiming a Moslem identity; forty-seven percent claim Sunni Islam as their religion of choice and some forty-four percent claim Russian Orthodox as their religion.[34] Recognizing this perilous balance between ethnicities, Kazakstan's President Nursultan Nazarbayev has taken great pains to stress the secular nature of his country. Kazakstan recognizes no Moslem holidays, and the constitution calls for religious tolerance.[35] The constitution also recognizes both Kazak and Russian as official languages.

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[33] Immigration by ethnic Russians back to Russia has decreased the percentage of Russian from 38% in 1989 to 37% in 1995 while the percentage of ethnic Kazaks has increased from 38% to 44% over the same period. The percentage of ethnic Russians would be even lower if not for a sizable inflow from other Central Asian republics. See Martha Brill Olcott, *Central Asia's New States: Independence, Foreign Policy, and Regional Security*, (Washington, DC: United States Institute of Peace Press, 1995), pp. 60-61.

[34] 1996 CIA World Factbook, Kazakstan page, at http://www.odci.gov/. For a discussion of the degree that Islam plays as a part of Kazak identity, see Nancy Lubin, "Islam and Ethnic Identity in Central Asia: A View from Below" in *Muslim Eurasia: Conflicting Legacies*, edited by Yaacov Ro'i, (London: Frank Cass, 1995), 53-72.

[35] Martha Brill Olcott, "Nation Building and Ethnicity in the Foreign Policies of the New Central Asian

Kazakstan's status as a "Central Asian" republic is also up for debate. The Soviet Union, for example, did not consider it part of Central Asia. In fact, several authors, notably Dostoyevsky, Solzhenitsyn, and the great British geopolitician Mackinder, have considered Kazakstan part of the Russian heartland.[36] For purposes of this discussion, however, we will consider Kazakstan part of Central Asia.

Kazakstan's economy is the largest of the post-Soviet Central Asian states. After it left the ruble zone in 1993, annual inflation rates soared, reaching over 2,000 percent. Through tight monetary policy, Kazakstan's central bank has been able to tame this runaway inflation and has kept it in the single-digit range.[37]

Nursultan Nazarbayev has been Kazakstan's only post-independence President. He was first elected to be president of the republic in March 1990, while Kazakstan was still a Soviet Socialist Republic. As the Soviet Union crumbled, he "revalidated" his election in December 1991, running unopposed and garnering over 98 percent of the vote. He has survived numerous threats to his power, always emerging on top of the situation. He has deftly managed to ensure that his nation has not split into two or more states controlled by tribal or ethnic politics.[38]

States," in Roman Szporluk, ed., *National Identity and Ethnicity in Russia and the New States of Eurasia*, (Armonk, NY: M.E. Sharpe, 1994), p. 219; "Draft Constitution of the Republic of Kazakstan," in J.L. Black, ed., *Russia and Eurasia Documents Annual 1992: Volume 2 CIS and Successor States*, (Gulf Breeze, FL: Academic International Press, 1994), pp. 515-531.

36 Milan Hauner, *What is Central Asia to Us? Russia's Asian Heartland Yesterday and Today*, (Boston: Unwin Hyman, 1990), pp. 1-3.

37 Gertrude Schroeder, "Economic Transition in the Post-Soviet Republics: An Overview," in Bartlomiej Kaminski, ed., *Economic Transition in Russia and the New States of Eurasia*, (Armonk, NY: M.E. Sharpe, 1996), p. 31.

38 For a discussion of Nazarbayev and the domestic politics of Kazakstan, see Martha Brill Olcott, "Nursultan Nazarbaev and the Balancing Act of State Building in Kazakhstan," in Timothy J. Colton and Robert C. Tucker, eds., *Patterns in Post-Soviet Leadership*, (Boulder: Westview Press, 1995), pp. 169-190.

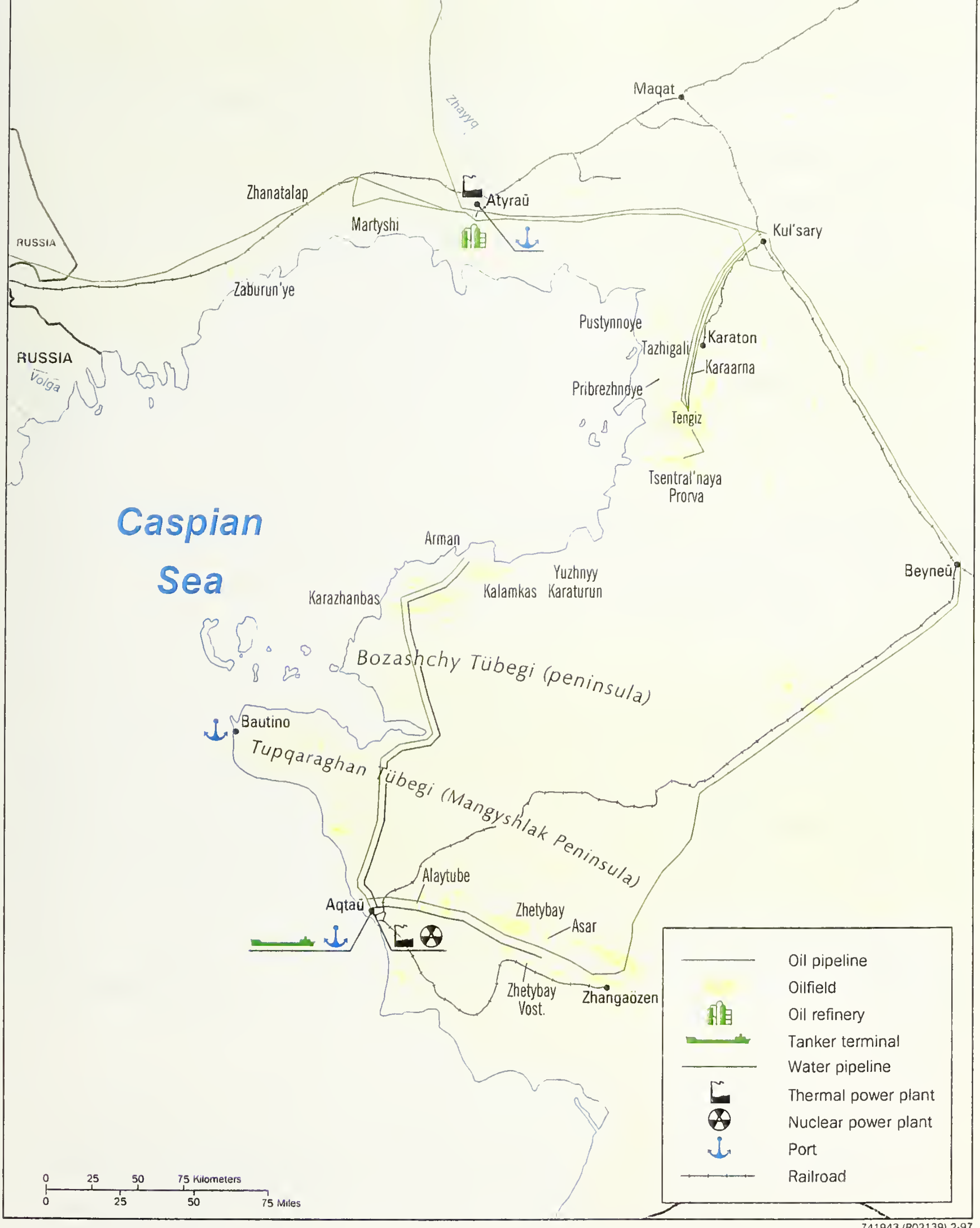
B. PIPELINE OPTIONS

The pipeline system that existed in Kazakstan at independence was designed to transport oil north to Russia (see Figure 4). A large diameter pipeline (1020 mm) gathered oil from the fields in the Mangyshlak peninsula, the Buzachi peninsula, and the Emba region, curved around the Caspian to Guryev (now Aterau) on the Ural River, and then proceeded north to Kubyshev and the rest of the Soviet pipeline system.

There are four options for new pipelines from Kazakstan. First, there is the option to skirt around the northern coast of the Caspian Sea and then head west to Tikhoretsk and the Black Sea port of Novorossiysk. This option has merits in that the route would transit only two countries, Kazakstan and Russia, and should therefore be easy to construct and maintain. The terrain is fairly forgiving; construction would not be a problem. The regions that the pipeline would transit have not been subject to any recent large conflicts, ethnic or otherwise. Unfortunately, once the oil gets to port at Novorossiysk, it would still have to be carried by oil tanker across the Black Sea and through the Bosphorus to European markets.

A variant on this first option would be to continue around the Caspian coast to connect to either the Baku-Novorossiysk pipeline or the Baku-Batumi pipeline. (For a discussion of the merits of the choice of connecting to a Baku-originated pipeline, see the chapter on Azerbaijan.) This route would entail passing through one of two autonomous republics: Chechnya or Dagestan. Both of these republics have had serious conflicts with Russia over independence or autonomy (the conflict between Russia and Chechnya being the more serious and more damaging, at least to Russian pride). Another possibility would be to construct a pipeline across the bottom of the Caspian Sea from Kazakstan to Baku, where it would hook up (again) to a Baku pipeline for export. While both Kazakstan and Azerbaijan look favorably upon such an arrangement, it runs afoul of Russian designs on the Caspian (see above).

A second option would be to run a pipeline south across Turkmenistan to Iran, connecting to existing or to-be-built pipelines that would terminate at the Persian Gulf or the Gulf of Oman. The terrain is mountainous and unforgiving, but not impossible from an



Source: U.S. State Department

Figure 4. Kazakstan: Key Energy Industry Facilities

engineering point of view. This route is free from conflict, but, as it involves Iran, would be frowned upon by the United States.

The conception of the third option involved an amazing act of imagination, at least from an engineering point of view. This option involves the construction of a pipeline from Kazakstan across the vast territory of China to the Pacific, providing oil and gas to China, the Koreas, and even Japan (see Figure 5). Although neither Kazakstan nor China is currently subject to any significant conflict, recent unrest in Xinjiang province by ethnic Uighurs has focused fresh attention on this possibility.[39] Although this pipeline project is possible, the sheer cost and engineering required to make this project happen boggle the mind.[40]

A fourth option is to continue to use the existing pipeline that runs north to Russia. It has the benefits of already being built and in use, but it also has the significant drawback of being totally controlled by Russia. This drawback is explained more fully below.

C. THE CASPIAN PIPELINE CONSORTIUM

Kazakstan and her extensive oil reserves were the target of Western oil companies even before the dissolution of the Soviet Union. In May 1991, after nearly three years of negotiations, Chevron reached a tentative agreement with Moscow on the operation of the Tengiz oil field in the Emba region. This field was estimated to contain over 25 billion barrels of oil, with over 6 billion barrels of oil recoverable with current technology.[41] Chevron's agreement called for a 50-50 joint venture, which would be called TengizChevrOil (TCO).

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[39] See Paul Goble, "Xinjiang and Central Asia," *RFE/RL Newsline*, No. 43, Part 1, June 2, 1997. Available online at http://www.rferl.org/newsline/.

[40] An interesting aspect of this option is that it is apparently being given sincere thought by the countries involved. For example, see "Kazak, Chinese presidents discuss oil, trade," *Reuters*, February 21, 1997.

[41] Walter Andrews, "Chevron reaches tentative agreement on Soviet oil deal," *UPI*, May 20, 1991.

Source: U.S. State Department

Figure 5. Selected Pipeline Routes Through China

As the Soviet Union dissolved, the deal on Tengiz also began to fall apart. In the days before the August Coup, several Soviet experts criticized the TCO deal and claimed that Kazak oil was being "sold for a song." Kazak President Nazarbayev criticized this account, accusing the "so-called experts" of having an anti-Western bias, and that these experts could not have properly analyzed the agreement in a week when it took experts from Kazakstan over three years to draft the contract.[42]

After the August Coup, the Tengiz contract was placed in limbo while Chevron waited to see what happened in the Soviet Union. In mid-September, U.S. Secretary of State James Baker visited Kazakstan with the new U.S. Ambassador to the Soviet Union, Robert Strauss. As both Strauss and Baker were former oil men, whether or not they were visiting Kazakstan on behalf of Chevron was a natural question. This was strongly denied by the State Department since both Strauss and Baker had signed agreements recusing themselves from dealing with oil issues upon assuming their offices.[43] There are no indications that Baker did discuss TCO at all, for Chevron was not able to secure the contract until several months after the Baker visit.

In March 1992, Chevron and Kazakstan came to an agreement about the protocols for TengizChevrOil. It was not the first Western oil company to contract with Kazakstan; Elf Aquitane of France and Bierderman International of the U.S. had both reached agreements over the previous year to develop oil fields in Kazakstan. Yet the Chevron deal was a much larger project than either of these two previous deals. Under the agreement, Kazakstan would receive fifty percent of the crude oil extracted over a forty-year period. The Tengiz field covered an area of more than 800 square miles.[44]

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[42] M. Ivanov, "Tengiz: The underlying causes of a scandal," *Rabochaya Tribuna*, August 1, 1991, in *RusData DiaLine Russian Press Digest.*

[43] Steven Heilbronner, "Baker makes symbolic visit to Kazakstan," *UPI*, September 15, 1991. We now know from Baker's memoirs that the purpose of the visit was to impress upon Nazarbayev the Bush Administration's "five principles for diplomatic relations" as well as to ensure the security of Kazakstan's nuclear arsenal. See James Addison Baker III, *The Politics of Diplomacy: Revolution, War and Peace 1989-1992*, (New York: G.P. Putnam's Sons, 1995), pp. 525-6, 538-9.

[44] "Chevron signs oil extraction deal for Kazakstan," *Agence France Presse*, May 8, 1992.

Now that Chevron had achieved an agreement with Kazakstan on where it could extract oil and how the profits would be shared, there was still one main question that needed to be answered: how would Chevron get its Tengiz crude oil to market?

In May, at a meeting in Ashgabad attended by the leaders of Iran, Turkey, Pakistan, and the Central Asian republics, the topic of a pipeline from Kazakstan through Turkmenistan to Iran was broached but broadly opposed. Turkish president Demirel's aide, Ilnur Cevik, was quoted as saying that this proposal "died a death."[45] The question of how to get Kazak oil to market would continue unanswered.

Simultaneously with the conference in Ashgabad, the formal signing ceremony for the protocols for the Tengiz agreement was held in Washington, D.C., at Blair House. It was roundly celebrated as the opening of Central Asia to the West. The details of the agreement were published: Chevron and Kazakstan would share the assets on a 50-50 basis, but Kazakstan would get eighty percent of the profits. The project was expected to achieve peak production of 700,000 barrels per day by 2010.[46]

Less than a week later, Kazak President Nazarbayev met with U.S. President Bush to sign a protocol on Kazakstan and the Strategic Arms Limitation Talks (START) treaty.[47] May had been a good month for Kazakstan, but the question of how Kazak crude oil would reach market was still unanswered.

As the first step towards answering this lingering question, in June 1992 Kazakstan and Oman agreed to form a consortium to design, finance, build, and operate a pipeline to bring crude oil from Kazakstan to the West. Preliminary evaluations indicated that as many as eight routes existed that crossed some seven countries. Undaunted, Oman indicated that it had "good relations with all the countries the line could cross."[48] This yet-to-be-designed pipeline was forecast to take three years to build and would reach a full capacity of 1.5

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[45] Ralph Boulton, "Summit offers little hope to former Soviet Asian states," *Reuters*, May 10, 1992.

[46] "Chevron, Kazakstan sign joint venture agreement," *UPI*, May 18, 1992.

[47] "Bush says U.S. to conclude START agreement soon," *Agence France Presse*, May 19, 1992.

[48] "Kazakstan, Oman to build oil line," *UPI*, June 17, 1992.

million barrels a day within twelve years. Oman agreed to provide the "technical, design, operating, and marketing assistance" necessary through the Oman Oil Company.[49] Three weeks later, on July 6, 1992, Azerbaijan discussed its desire to join the consortium, which now called itself the "Caspian Pipeline Consortium Limited." Oman had now agreed to provide the financing for the project, while Azerbaijan and Kazakstan agreed to contribute the oil.[50]

Over the next several months, Kazakstan made numerous announcements about the potential of Kazak oil fields. One such announcement, made at an energy conference in Almaty organized by the U.S. Department of Energy for 200 senior U.S. oil and gas industry representatives, claimed that:

> … [b]y the year 2010, oil output should be three times higher than in 1990, while gas output should rise more than fourfold.[51]

This was important for Kazakstan, for while it was trumpeting potentially volcanic increases in production, Russia was announcing lowered expectations for its oil and gas production.

On April 6, 1993, TengizChevrOil became a reality. The TCO agreement for called for Kazakstan to get a fifty-percent share of revenue, plus taxes and miscellaneous payments. Throughout the forty year life of the contract, Kazakstan would get more than eighty percent of the revenue, with the remainder going to Chevron.[52]

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49 "Oman and Kazakstan launch oil pipeline venture," *Reuters*, June 17, 1992.

50 "Azerbaijan joins Caspian Pipeline Consortium," *Reuters*, July 6, 1992.

51 Brian Killen, "Kazakstan sees rising oil output, steady exports," *Reuters*, November 2, 1992. See also Cherif Cordahi, "Steppes on the road to oil and gas wealth; Kazakstan's oil and gas sector," *The Petroleum Economist*, Vol. 60, No. 1, p. 7. In 1990, Kazakstan *produced* over 520,000 barrels per day of oil, but used domestically over 460,000. At the time of this claim, production was rising at 5,000-15,000 barrels per day per year. At this rate, a three- to four-fold increase in *exported* oil or gas is feasible; these figures do not support a claim that Kazakstan could be exporting or even producing 1.5 million barrels per day by 2010.

52 Sergei Sorokhodov, "Tengiz – Project of the Century," *Rossiiskaya Gazeta*, April 13, 1993, p. 7, in *RusData DiaLine Russian Press Digest.*

In an attempt to open Kazakstan up to Western investment, U.S. Secretary of State Warren Christopher visited Almaty in October 1993 to bring $225 million in financial aid and to sign a treaty eliminating double taxation by the U.S. and Kazakstan.[53] This tax treaty was seen as good news for all the oil majors attempting to negotiate contracts in Kazakstan. Chevron, then exporting 60,000 barrels per day from Tengiz, was also encouraged by this treaty. It saw the possibility of increasing production to 600,000 barrels per day but felt constrained by the lack of a pipeline.

In early November, Iran agreed to refine Kazak crude for its own domestic use while providing a similar quantity of Iranian oil for sale at Kharg Island for Kazak repayment. This oil swap was good news for Chevron; up to 200,000 barrels per day would be sent to Iran via the Caspian Sea or existing small pipelines.[54] The United States showed great concern at this announcement. While the primary concern of the United States was the denuclearization of Kazakstan, it was also important to U.S. policy makers that all efforts were taken to contain Iran. In the trip to Almaty in October discussed above, Warren Christopher had expressed these concerns to Nazarbayev and intimated that the U.S. would seek to block World Bank and International Monetary Fund lending for any project involving Iran.

In February 1994, the U.S. rewarded Kazakstan for denuclearization by increasing aid to Kazakstan to more that $300 million. U.S. President Bill Clinton took the opportunity to praise Nazarbayev for a recent statement that Kazakstan would seek to connect their pipelines to the Russian system first before any other route. Nazarbayev, however, had gone on to say that the "best one" [route] was a pipeline south of the Caspian Sea through Iran and Turkey to the Mediterranean.[55]

In March 1994, Nazarbayev met Russian President Boris Yeltsin in Moscow for a discussion of economic matters. Kazakstan's carryover debt (from its status as a republic of

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[53] Sid Balman, Jr., "Christopher bring money and tax treaty for Kazakstan," *UPI*, October 23, 1993.

[54] "Iran to refine Kazak oil at Tehran plant," *Reuters*, November 1, 1993.

[55] Sid Balman, Jr., "Clinton offers assistance to Kazak leader," *UPI*, February 1, 1994.

the Soviet Union, plus inter-CIS trade since independence) was $1.25 billion dollars; this was expected to rise to $2.5 billion by the end of 1994. Among the various agreements that came out of this meeting was the establishment of a joint Russian-Kazak oil corporation.[56] Within a month, Russia had entered into the Caspian Pipeline Consortium.[57] In May and June 1994, Russia showed its strength by blocking Kazak oil exports, claiming that Kazakstan had exceeded its oil export quota.[58]

These events were very disturbing to Chevron. Russia had also begun to complain about the quality of the crude oil being exported by Kazakstan and TCO; the oil had a high level of mercaptans, but this condition had been known for quite some time.[59] Charlie Auvermann, the public relations manager for TCO, forthrightly stated: "I'll be quite blunt with you, it's a political issue."[60] Auvermann further complained that Chevron would not be able to continue to invest in TCO unless it was able to get a return on its investment. The Russian tourniquet on Kazak oil was having a dire effect on Chevron. The need for a new pipeline was all the more evident.

Chevron had been offered a share in the Caspian Pipeline Consortium in an effort to force a pipeline from Kazakstan, but had turned down the offer. The four partners, Chevron, Kazakstan, Oman, and Russia, would each have a twenty-five percent interest in the consortium, but Oman would receive a sweetheart deal: it would not be required to put up any of the finance money for the pipeline. Chevron, which had found it necessary to explain its investment in Tengiz to its shareholders, started to complain loudly about Oman's status in the deal as the Tengiz project seemed to be the proverbial moneypit to Chevron. In September 1994, Chevron officials visited President Clinton at the White

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56 Konstantin Smirnov and Marat Salimov, "Prospects for Customs Union still bleak," *Kommersant*, March 26, 1994, p. 3, in *RusData DiaLine Russian Press Digest*.

57 "Caspian pipeline work to start in 1995," *Reuters*, April 30, 1994.

58 James Kynge, "Kazak Official says Russia blocked oil exports," *Reuters*, June 28, 1994.

59 Mercaptans are corrosive sulfur compounds. A high level of mercaptans indicates a lower quality oil.

60 James Kynge, "Russia stems Chevron's oil flow from Kazakstan," *Reuters*, July 20, 1994.

House; he promised them that he would try to help. When Yeltsin visited Washington that month, Clinton told him that the U.S. was:

> ... concerned by some unhelpful statements from your government. Oil development in this region is good for Russia and good for the United States. ...It's in your interest to take another look at this and show a little flexibility.[61]

Chevron's attentions, however, were centered on Oman and the Oman Oil Company. In early October, Richard Matzke, the president of Chevron Overseas Petroleum Inc., told an international oil and gas conference that the Caspian Pipeline Consortium arrangement was unfair.[62] Matzke offered to provide fifty percent of the required financing for a pipeline (half of the current arrangement). Kazakstan's deputy oil and gas minister, Anatoly Lobayev, told the conference that Chevron and TCO should enter the Caspian Pipeline Consortium, and hinted that British Gas and Agip of Italy had been offered shares in the consortium.[63]

The United States kept up its pressure on Russia. In December 1994, Vice President Al Gore met with Russian Premier Viktor Chernomyrdin in Moscow and discussed the Caspian Pipeline Consortium, suggesting that international financing organizations be invited to assess Chevron's proposal.[64]

In January 1995, progress seemed imminent. The Oman Oil Company, led by the redoubtable John Deuss, agreed to some of Chevron's conditions that seemed to allow the financing of the project.[65] The consortium also announced that it would start construction on a pipeline from Tikhoretsk to the Black Sea that would be completed by 1997. In the meantime, Chevron announced that it would open a demercaptanization plant in March

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[61] Sid Balman, Jr., "Clinton presses Yeltsin on oil deals," *Reuters*, September 28, 1994.

[62] Brian Killen, "Chevron criticizes Oman over Caspian pipeline," *Reuters*, October 3, 1994.

[63] Brian Killen, "Kazakstan seeks new partners for pipeline," *Reuters*, October 4, 1994.

[64] Rustam Narzikulov, "Gore upholds Chevron interests in Kazakstan," *Segodnya*, December 16, 1994, p. 1, in *RusData DiaLine Russian Press Digest*; Svetlana Sukhova, "Albert Gore: An extremely good discussion," *Kommersant*, December 17, 1994, p. 1, in *RusData DiaLine Russian Press Digest*.

[65] "Russia, Kazakstan to get new oil export route," *Reuters*, January 19, 1995.

1994 to allow Tengiz oil to be processed to meet Russian pipeline operator Transneft's conditions for transport.[66]

In May, Kazakstan began negotiating with Iran to build a pipeline from Tengiz to Iran's port of Aktau on Iran's Caspian Sea coast. U.S. opposition to any "investment" in Iran's petroleum industry had been made clear the previous week when President Clinton had signed an executive order banning trade with Iran. Officials in both Azerbaijan and Kazakstan indicated that they saw no problem with the ban on trade with Iran and that they would defy the ban.[67] Industry experts indicated that the executive order banning trade was flawed and had loopholes that would allow trade with Iran through oil or gas swaps. In the meantime, Kazak oil exports were severely limited by Russian pipeline quotas.[68]

Politics continued to rule the Caspian Pipeline Consortium. On October 1, 1995, Oman missed the deadline for providing financing for the pipeline project, but claimed that its partners were not holding up their end of the deal either. Russia had not guaranteed a sufficient quantity of oil to help raise finance, and Kazakstan had not contributed the amount of assets it had contracted with the consortium.[69] In response, Kazakstan announced the formation of a new pipeline consortium that would include Mobil, Chevron, LUKoil, British Gas, and Italy's Agip. Kazakstan and Russia would retain a twenty-five percent interest in the consortium, while the oil companies would split the remaining fifty percent and be responsible for financing the pipeline.[70]

Oman responded with a refusal to recognize the expiration of the Caspian Pipeline Consortium, saying "contractual obligations still existed."[71] It confirmed its commitments to the consortium and called upon its partners to fulfill their commitments.

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[66] Janet McBride, "Chevron sees higher Tengiz output by year end," *Reuters*, March 22, 1995. Transneft had complained about the mercaptan content.

[67] "Central Asia resists Iran trade ban," *UPI*, May 11, 1995.

[68] "Kazakstan mulls Iranian oil swaps, minister says," *Reuters*, October 2, 1995.

[69] Douglas Busvine, "Caspian oil pipeline financing hits fresh holdup," *Reuters*, October 2, 1995.

[70] "Kazakstan pipeline will include West," *UPI*, October 31, 1995.

[71] Faisal al-Mantheri, "Oman denies Kazak pipeline share loss," *UPI*, November 1, 1995.

After several months of negotiations, a new consortium – including Oman – was formed in April 1996. Oman's share had, however, shrunk to only seven percent.[72] The formal agreement for the designation of the new Caspian Pipeline Consortium was signed in December 1996 in London. Pipeline construction was due to start in 1997, with completion expected in 1999. In May 1997, however, a familiar tune was heard humming across the newswires: the Caspian Pipeline Consortium had signed another agreement to start building a pipeline in 1998 from "the landlocked Caspian to Russia's Black Sea coast," with oil to begin flowing in 1999.[73]

D. SUMMARY

U.S. foreign policy towards Kazakstan during the Bush administration was significantly different from that of the Clinton administration. Where the Bush administration was dominated by former oil men (notably Bush and Baker), the Clinton administration was not. The Bush administration took pains *not* to lobby the Kazak government for the oil industry, while the Clinton administration took extraordinary efforts to do so. The issue of nuclear proliferation was unarguably the more important issue and merited the attention that both administrations gave it; the Clinton administration built upon the groundwork laid down by the Bush administration and completed the denuclearization of Kazakstan in 1995. With the completion of Kazakstan's denuclearization, the Clinton administration was able to examine other issues, specifically the routes for pipelines from Kazakstan.

Kazakstan's attempt to build a pipeline leading south to Iran caused the United States to step in and push its containment of Iran by threatening the withholding of aid and

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[72] Douglas Busvine, "New Caspian oil pipeline group formed," *Reuters*, April 27, 1996. Shares in the consortium were Russia – 24%, Kazakstan – 19%, Oman – 7%, Chevron – 15%, Mobil – 7.5%, LUKoil – 12.5%, Rosneft (Russia) – 7.5%, Agip – 2%, British Gas – 2%, Munaigaz (Kazak) – 1.75%, and Oryx – 1.75%.

[73] "After 5 years, coalition agrees on pipeline to tap Caspian Sea," *AP-Dow Jones News Service*, May 16, 1997.

international financing. This policy drove Kazakstan's pipeline options northwards towards Russia, which continued to constrict Kazakstan's crude oil exports while negotiating for an enhanced share of the Caspian Pipeline Consortium.

IV. AZERBAIJAN

A. BACKGROUND

Azerbaijan first came under Russian rule in 1813 as a direct consequence of the Treaty of Gulistan, which ended the first Russo-Iranian war. The Treaty of Turkmanchai (1828) repeated the process, ending the second Russo-Iranian war and confirming the new Russia-Persia border.[74] In setting this border, the Azeri people were split between two empires: Imperial Russia to the north, Qazar Persia to the south. The 1905 Russian revolution, combined with the 1906-7 constitutional crisis in Iran, fomented a fervent nationalism among the Azerbaijani Turks.[75] Azerbaijan declared its independence in 1918, but it was returned to the control of the Soviet Union in 1920. More than seventy years later, Azerbaijan again declared its independence from Russia. After six years, maintaining independence is still a struggle.

Azerbaijan is a small country, roughly the size of the state of Maine. More than 90 percent of Azerbaijan's 7.6 million people are ethnically Azeri;[76] roughly 2.3 percent are ethnic Armenians. The rest of the population is Russian, Legzin, or other minorities.[77] Religious affiliation closely mirrors ethnicity; over 93 percent of the population professes to

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[74] See Audrey L. Altstadt, *The Azerbaijani Turks: Power and Identity Under Russian Rule*, Stanford: Stanford University Press, 1992), pp. 15-17.

[75] Tadeus Swietochowski, "Azerbaijan: A Borderland at the Crossroads of History," in S. Frederick Starr, ed., *The Legacy of History in Russia and the New States of Eurasia*, (Armonk, NY: M.E. Sharpe, 1994), pp. 279-280.

[76] I will refer to Azerbaijani Turks as "Azeris" the for sake of brevity.

[77] According to the 1989 Soviet Census, 82.7% of the population was Azeri; Russians and Armenians were each 5.6%, with others such as Legzin, Avar, Ukrainians, Tatars, and Jews making up the remaining 6.1%. [John Dunlop, Marc Rubin, Lee Schwartz, and David Zaslow, "Profiles of the newly independent states: Economic, social, and demographic conditions," in Richard F. Kaufman and John P. Hardt, eds., *The Former Soviet Union in Transition*, (Armonk, NY: M.E. Sharpe, 1993), p. 1099, table 22i]. As many as 300,000 Armenians (or nearly the whole Armenian population of Azerbaijan) fled to Armenia due to the Nagorno-Karabakh conflict.

be Moslem while Russian or Armenian Orthodox representation is 2.5 and 2.3 percent, respectively.[78]

Azerbaijan's economy is roughly the size of Turkmenistan's, but Azerbaijan has nearly twice the population of Turkmenistan. As many of the economies of the republics of the Former Soviet Union have begun to pull out of the tailspin that accompanied independence, Azerbaijan's economy has continued to slide, "growing" at a negative seventeen percent in 1995. This is due primarily to Azerbaijan's reluctance to introduce market reforms.[79]

Azerbaijan is a presidential republic which has had four presidents in its six years of independence.[80] The story of the leadership of Azerbaijan, installed through coups and counter-coups during the first two years of independence, has been instructive towards the policy of Russia and its "Near Abroad." With the emergence of Heydar Aliev as President, Azerbaijan has entered a period of stability that has included a closer relationship with Russia.[81]

One of the most defining episodes of modern Azerbaijan is its conflict with Armenia over Nagorno-Karabakh, the roots of which go back to the Armenian-Tatar wars of 1905-7.[82] In 1988, the Nagorno-Karabakh autonomous region was a primarily Armenian

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78 July 1996 estimate. Source: 1996 CIA World Factbook. Available online at http://www.odci.gov/. The Moslems of Azerbaijan are overwhelmingly Twelver Shi'a, the variant of Islam practiced in Iran. Most of the ethnic Armenians of Azerbaijan live in Nagorno-Karabakh.

79 Gertrude Schroeder, "Economic Transformation in the Post-Soviet Republics: An Overview," in Bartlomiej Kaminski, ed., *Economic Transition in Russia and the New States of Eurasia*, (Armonk, NY: M.E. Sharpe, 1996), pp. 27-29. Also, 1996 CIA World Factbook.

80 Ayaz Mutalibov (November 1991 – February 1992), Jagub Mamedov (March 1992 – May 1992), Abulfaz Elchibey (June 1992 – August 1993), and Heydar Aliev (October 1993 to present).

81 The story of Russia and Azerbaijan is a subject too profound for proper treatment in this thesis. See Mohiaddin Mesbahi, "Russian foreign policy and security in Central Asia and the Caucasus," *Central Asia Survey*, Vol. 12, No. 2 (1993), pp. 181-215; David E. Mark, "Eurasia Letter: Russia and the New Transcaucasus," *Foreign Policy*, No. 105 (Winter 1996-97), pp. 141-159.

82 Richard G. Hovannisian, "Historical Memory and Foreign Relations: The Armenian Perspective," in S. Frederick Starr, ed., *The Legacy of History in Russia and the New States of Eurasia*, (Armonk, NY: M.E. Sharpe, 1994), pp. 243-244. See also Tadeus Swietochowski, *Russia and Azerbaijan: A Borderland in Transition*, (New York: Columbia University Press, 1995), pp. 37-42 and Daniel Yergin, *The Prize: The*

enclave in the Azerbaijan Soviet Socialist Republic (SSR) of the Soviet Union. Ethnic Azeris protested after the leadership of Nagorno-Karabakh appealed for a return to Armenian control.[83] These protests led to attacks on Armenian villages in Azerbaijan; Armenia soon after expelled its Azeri population. Azerbaijan and Armenia quickly fell down the path to war. In its stubborn pursuit of independence, Azerbaijan seemed quite alone in its struggle against Armenia.[84] In 1991, the United States passed the Freedom Support Act. Section 907 of this law prohibited the United States from contributing any assistance to the Government of Azerbaijan until it could be determined that Azerbaijan had stopped any aggression towards Armenia over Nagorno-Karabakh. Finally, in 1994, a Russian-mediated cease-fire was effected and has been "generally observed."[85] Nonetheless, the Nagorno-Karabakh issue awaits a permanent settlement; this has had a significant impact on the pipeline politics of the Caucasus.

B. PIPELINE OPTIONS

Azerbaijan has been blessed with an existing (but run down) oil and gas transport system as a consequence of Baku's former status as the "oil capital of the world." From the major oil and gas fields near Baku and in the Caspian Sea, pipelines travel west and north to deliver product (see Figures 6, 7, and 8). Paralleling the railroad first built by the Rothschilds at the turn of the century, an oil pipeline leaves Baku, traveling a nearly straight

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Epic Quest for Oil, Money, and Power, (New York: Simon & Schuster, 1991), pp. 129-131. Swietochowski indicates that while there is no concrete proof of Russian instigation of this ethnic violence, it is probable that it was instigated by Russians to relieve the pressures of revolution mounting throughout the empire. Yergin documents the involvement of Stalin in the riots in Baku that later led to ethnic violence.

83 Stalin "awarded" Nagorno-Karabakh to Azerbaijan in 1921; it had previously been under both separately Azeri or Armenian control. It was part of the Azerbaijan Republic from 1918 to 1920. See Arie Vaserman and Rami Ginat, "National, Territorial, or Religious Conflict? The Case of Nagorno-Karabakh," *Studies in Conflict and Terrorism*, Vol. 17, No. 4 (Oct-Dec 1994), pp. 345-362.

84 Thomas Goltz, "Letter from Eurasia: The Hidden Russian Hand," *Foreign Policy*, No. 92 (Fall 1993), pp. 92-116.

85 1996 CIA World Factbook page on Azerbaijan, available online at http://www.odci.gov/cia/.../factbook/aj.htm.

Source: U.S. State Department

Figure 6. Azerbaijan: Key Energy Industry Facilities

Source: U.S. State Department

Projected Expansion of Oil Export Capacity (U) *Thousand barrels per day*

Project	Status	Planned capacity	Date of first operation
Northern early oil route	Needs refurbishment	100	Late 1997
Western early oil route	Needs refurbishment, some new construction	100	Late-1998
CPC phase I	To be constructed	300	Late 1999
CPC phase II	To be constructed	700	2002
Iranian oil swaps	Iranian/Kazakstani oil swaps by tanker, talks continuing	120	Early 1997

Source: Industry press.

Figure 7. Selected Oil Infrastructure in the Caspian Sea Region

Source: U.S. State Department

Figure 8. Selected Gas Infrastructure in the Caspian Sea Region

line to Tbilisi in Georgia. At Tbilisi this pipeline branches off into two lines. One large line (1020 mm) terminates at Batumi on the Black Sea, where the oil is loaded onto tankers for transport through the Bosphorus and on to market. The second (and smaller) branch leads to nearby Supsa, where it picks up oil from the Supsa and Chaladid fields before also terminating in Batumi. There is also a gas pipeline that parallels this oil pipeline until Tbilisi, where it continues north to the Russian gas export pipeline.

A second oil pipeline leaves Baku and heads north, initially along the Caspian coastline. At Makhachkala in Dagestan this line branches west to Grozny, then northwest to Tikhoretsk. From there, the line offers the choice of either continuing north to the pipeline system of Russia or west to Novorossiysk on the Black Sea. At Novorossiysk the oil is loaded onto tankers for transport to market.[86]

Azerbaijan and the Transcaucasus are the major crossroads for oil in this region of the world. This region is, roughly, at the center of the Caspian energy basin, surrounded by emerging states and ethnic strife. Azerbaijan shares borders with Armenia, Georgia, Iran, Russia, and Turkey, and as well shares the Caspian Sea with Kazakstan and Turkmenistan. To the north lie the Russian autonomous regions of Chechnya and Dagestan as well as Georgian Abkhazia, all of which have undergone some recent conflict. To the west Nagorno-Karabakh and Armenia. The Kurds, a people who live in Iran, Iraq, Syria, and Turkey, are in the southwest. Iran, to the south, presents Azerbaijan's most stable neighbor.

The terrain of the Caucasus is unforgiving. Constructing pipelines through the mountainous territory of the Transcaucasus region would be difficult and expensive. And if new pipelines were to be built along existing pipelines or along riverbeds, they would cross several national boundaries.

The first option available for construction of new pipelines is to build alongside the existing Baku-Batumi (the "Batumi" line) or Baku-Grozny-Novorossiysk (the "Novorossiysk" line) lines, refurbishing the old pipelines and adding larger capacity pipe to

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[86] *Energy Atlas of the USSR*, (Boston: National Foreign Assessment Center, 1985), p. 21.

move more oil. The Novorossiysk line has several drawbacks. First, it passes directly through Grozny in Chechnya. Although the Chechen war for independence seems to be concluded for now, the core conflict with Russia has not been settled.[87] Second, the line transits through Russian territory. As seen above, in the case of Kazakstan's dealings with Transneft, and below, in the case of Turkmenistan's dealings with Gazprom, Russian oil and gas firms do not have a history of square dealing with their suppliers. The possibility of Russia demanding exorbitant transit fees (as did Lebanon in the Trans-Arabian Pipeline) is not out of the question. Finally, as with the case of the Batumi line, oil must still be shipped to market once it gets to Novorossiysk.

The Batumi line has the advantage that it transits an established path through Georgia, a country that has been friendly to Azerbaijan. The route of the Batumi line is mountainous; Yergin describes how the original rail line, seventy-eight miles stretched over a three-thousand foot peak, was only able to haul half a dozen cars across it at any time.[88] Once oil reaches the Black Sea coast at either Batumi or Novorossiysk it must still be loaded upon oil tankers. This means transiting across the Black Sea to the Bosphorus and then on to market (see Figure 9).

The issue of transit through the Bosphorus has also become contentious. In March 1994, an oil tanker collided with a cargo ship in the Bosphorus and caught fire, closing down traffic through the Turkish Straits.[89] This collision caused Turkey to evaluate the shipping through the Straits and attempt to restrict vessel traffic.[90] Russia protested, calling

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[87] See Paul Goble, "Chechnya and its consequences: A preliminary report," *Post-Soviet Affairs*, Vol. 11, No. 1 (Jan-Mar 1995), pp. 23-27.

[88] Daniel Yergin, *The Prize: The Epic Quest For Oil, Money, And Power*, (New York: Simon & Schuster, 1991), p. 62.

[89] Alan Abrams, "Ship collision in Bosphorus kills 15; Turkey feared accident before tanker disaster," *Journal of Commerce*, March 15, 1994, p. 8B.

[90] "Battling it out in the Bosphorus Straits," *Jane's Defence Weekly*, Vol. 21, No. 21, (May 28, 1994), p. 8. Turkey specifically called for ships carrying oil and dangerous cargoes to provide 24 hours' notice before transiting the strait.

Source: U.S. State Department

Figure 9. The Bosphorus: Constraints on Oil Shipments

this an obvious attempt to influence pipelines in the region and a flagrant violation of Article 2 of the 1936 Montreaux Convention that guaranteed the freedom of navigation of merchant vessels through the Straits during peacetime.[91] Many experts believe that Russia's protests were valid on all points. In addition to possibly being a violation of the Montreaux Convention, Turkey's restriction of oil tanker traffic through the Bosphorus would raise the price of shipping oil through the Strait.[92] This would make the option of a pipeline through Turkey – and all the transit fees that it would generate for Turkey – all the more attractive to the parties involved.

There are other options for pipeline construction. The most direct route to a port passing through only one country would be a line from Baku to Abadan, Iran's major oil terminus. Although nearly twice as long as the route to Batumi (as well as being longer than the route to Novorossiysk), it does offer the possibility of hooking into Iran's existing pipeline system. Unfortunately, it would involve investment in Iran's petroleum sector and would therefore incur the opposition of the United States (which could effectively block financing).

Another option would be to build a line from Baku to Turkey's pipeline system. During the Iran-Iraq war, Iraq built an extensive pipeline system to avoid having to ship its oil through the Shatt el-Arab (the effluent of the Tigris-Euphrates rivers that comprises the border between Iran and Iraq). This system connected to large diameter pipelines built in Turkey that terminated at the Mediterranean port of Ceyhan. Other outlets for this system included Jordan and Syria.

There are two proposed routes for connecting Azerbaijan's oil fields to the Turkish pipeline system. The first route would use the Batumi line and build a direct-line connection south to Ceyhan across Central Turkey. This route across mountainous terrain passes through the heart of Kurdish territory, wracked by strife between the Turkish military and the Kurdistan Workers Party (PKK).

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[91] "Russians to ignore Turkish shipping rules," *Journal of Commerce*, July 7, 1994, p. 8B.

A second route from Baku to Turkey would head south to the Aras River along the border with Iran to Turkey's pipeline system. This route would also pass along the southern borders of Nagorno-Karabakh and Armenia, two very unstable regions (at least as far as Azerbaijan is concerned). A variant of this route would be to bypass the Armenian issue entirely and route the pipeline through Iranian territory.

C. THE DEAL OF THE CENTURY

The question of how to get Azeri oil to market was quickly raised by some of the major oil companies of the world. Political instability in Azerbaijan (as witnessed by the successive presidencies of Mutalibov, Mamedov, and then Elchibey) induced the majors to sit back and wait for some sort of permanence in Azerbaijan. After Abulfaz Elchibey had been in office for six months, British Petroleum, Amoco, Pennzoil, the State Oil Company of Norway (Statoil), the Turkish State Pipeline Company (Botas) and the State Oil Company of the Azerbaijan Republic (SOCAR) agreed to conduct a study of possible routes for oil and gas pipelines from Azerbaijan to the Black Sea, the Mediterranean, and the Persian Gulf.[93] Later, in January 1993, Azeri Petroleum Minister Sabit Aydinoglu Bagirov traveled to Turkey, where he spent four days touring the Turkish oil transportation facilities. Bagirov announced that the World Bank, the European Bank for Reconstruction and Development (EBRD), and Citibank of Turkey had all indicated interest in financing an oil pipeline from Azerbaijan to the existing Turkish pipeline system.[94]

As the development of possible pipelines seemed imminent, Western oil companies began to line up for a chance to develop Azerbaijan's Caspian Sea oil reserves. In late January, Amoco signed a memorandum of understanding with SOCAR concerning the

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[92] Additionally, it could have an impact on the passage of warships through the strait.

[93] "Azerbaijan to launch oil pipeline study," *Reuters*, November 10, 1992.

[94] "Azerbaijan studies possibility to transport oil through Turkey," *Xinhua News Agency*, January 13, 1993, item no. 0113168.

operation of the large "Azeri" oil field in the Caspian.[95] Turkey signed an agreement with Azerbaijan in early March 1993 to construct a pipeline from the three fields off Baku to the existing Iraq-Turkey pipeline which terminates at Ceyhan. This pipeline had been idle since Iraq's invasion of Kuwait, and Turkey dearly missed the revenue that it had provided. If Turkey could plug the Azeri oil into this system, Turkey would again be able to have a cheap source of oil for its own use, as well as the lucrative transit fees that such an arrangement would provide.[96]

In mid-March, Turkey announced the formation of an organizing committee to decide on participation in the Azeri pipelines. The members of this committee, the "Khazar Pipeline Consortium Organizing Committee," were Botas, SOCAR, Pennzoil, Amoco, and British Petroleum. At the first meeting of the committee, the most likely route for the pipeline was south from Baku to Iran. After a 42-mile jaunt through Iran (that conveniently avoided Armenia and Nagorno-Karabakh), the pipeline would again pass through Azeri territory (the enclave of Nakhichevan), passing into Turkish territory at Dogubayazit. From there it would continue westwards until it met up with the Iraq pipeline at Midyat. Turkey promised to build a parallel line for after the termination of the United Nation's embargo against Iraq.[97]

In an obvious ploy to get Armenia to agree to a peace with Azerbaijan, SOCAR intimated that a pipeline through Armenia (thus avoiding the jaunt south to Iran) was a

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[95] "Amoco announces agreement with Azerbaijan," *PR Newswire*, January 29, 1993, Available online at Lexis-Nexis, Library: News, File: Wires. Amoco would lead a consortium and hold a 45% stake in the operation. Other companies in the consortium included Unocal (25%), McDermott (10%), British Petroleum (12.67%), Statoil (6.33%), and Ramco (1%). The Azeri field is one of three megafields in the Azeri section of the Caspian. The other two are the Chirag and Guneshli fields. The reserves of these three fields alone are estimated to be 3-5 billion barrels of oil.

[96] Seva Ulman, "Turkey, Azerbaijan sign deal for pipeline to Mediterranean," *UPI*, March 9, 1993.

[97] Ercan Ersoy, "Multinational firm to operate Azeri pipeline," *Reuters*, March 15, 1993.

distinct possibility *if* the hostilities between the two countries were amicably settled.[98] Armenia was noticeably silent on the matter.

As the first year of Elchibey's term as president of Azerbaijan came to a close, it appeared that Azerbaijan's oil assets were going to be exploited, bringing riches to the country. The axis of benevolence appeared to be a Western axis; Western oil companies would benefit from the operation of the Azeri oil fields and the construction of pipelines to market. Turkey, with its extensive pipeline system, appeared to be the logical choice of terminus for new pipelines from Baku. The only problem on the horizon was the ongoing conflict with Armenia over Nagorno-Karabakh, which was bypassed by selecting a route that avoided the problem area. As is often the case, all would soon change.

In late June 1993, Heydar Aliev ousted Abulfaz Elchibey and installed himself as acting president of Azerbaijan. It was immediately apparent that Aliev was not for the status quo. Petroleum Minister Sabit Bagirov was also ousted. "I have received indications from our new rulers that I am not wanted, so I have submitted my resignation." Bagirov went on to hint that the previous year's oil deals, so close to finalization, were on less than firm ground:

> The government may have new demands from oil companies now. This is a possibility but we do not know what will happen.[99]

The first change was that support for the route through Iran became very weak. In early August 1993 the Azerbaijan International Oil Company (AIOC) – the consortium of companies that grew out of the Khazar Pipeline Consortium Organizing Committee – announced that there were as many as eighteen separate routes under consideration from Baku, with a route through the Kura Valley in Georgia being the favorite. Turkey was still the ultimate destination of any pipeline, but support for the route to Novorossiysk was

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98 "Unocal assigned 16% of foreign participation in unitized development of three oil fields offshore Azerbaijan," *PR Newswire*, June 7, 1993.

99 Elif Kaban, "Azeri oil chief resigns, Caspian deal in doubt," *Reuters*, June 30, 1993.

mounting in Azerbaijan, especially as Aliev began to look towards his northern neighbor Russia.[100]

At a meeting in Ankara between consortium members, Mete Goknel, a senior officer of Botas, promised that pipeline security in Turkey was not a consideration. The PKK, which has agitated against the Turkish government in Eastern Turkey, was not a threat to the construction or operation of any pipeline in Turkey. Goknel went on to promise that Turkey would guarantee the integrity of the pipeline in Turkey.[101]

In early October 1993, Heydar Aliev legitimized his presidency by being formally elected president. At the same time, Western oil companies began to predict that LUKoil, the Russian oil conglomerate, would be invited into the Caspian Sea oil project at Azerbaijan's behest.[102] In December, LUKoil was offered a ten percent stake in the consortium, but expressed a desire for a twenty percent stake. Russian Fuel and Energy Minister Yuri Shafranik began to actively push the pipeline route to Novorossiysk.[103]

Negotiations for the contract between Azerbaijan and the AIOC continued over the next several months. One key concern was the percentage of profits that Azerbaijan would get from this deal. Under Elchibey's government, it had been agreed that seventy percent of the profits would go to Azerbaijan, with the remainder being split among the participants of the consortium. With Aliev's entrance into the picture, all bets were off and Azerbaijan began to agitate for an eighty-five percent stake. Finally, on September 19, 1994, Azerbaijan and the AIOC signed what has become known as the "Deal of the Century." Azerbaijan would get eighty percent of the profits. Although very little oil was actually

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[100] Nadire Mater, "Energy: Oil company officials head for crunch meeting in Baku," *Inter Press Service*, August 6, 1993.

[101] "Turkey hosts talks on future Azeri pipeline," *Reuters*, August 25, 1993.

[102] Madira Artykova, "Azerbaijan: Western oil companies hopeful of deal after elections," *Inter Press Service*, October 4, 1993.

[103] "Azerbaijan seeks change to western oil deal," *Reuters*, December 17, 1993.

being exported at the time of the signing of the deal, all participants thought that a target of 600,000 - 700,000 barrels per day was achievable.[104]

Russia immediately lodged a protest about the $7 billion deal and refused to recognize the contract.[105] Russia's position rested on its adamant insistence that it shared in all of the assets of the Caspian Sea and that no one state controlled even a small portion of that shared Sea (see discussion of Caspian Sea, above). LUKoil officials were confounded by the position of their government, especially since they thought that they had achieved a great victory in obtaining even a ten- percent stake in the consortium.

While Turkey still balked at the transport of oil through the Bosphorus to European markets, Russia was even more insistent that any pipeline should go through its territory. It even proposed reversing the flow of the existing pipeline from Novorossiysk to Baku so that the flow of oil could start all the earlier. From Novorossiysk, according to a Gazprom official, the oil could be shipped to Bourgas, Bulgaria. After an oil terminal was built in Bourgas, it could be off-loaded to pipeline (yet to be built) from Bourgas to Alexandropolis in Greece.[106] The oil would then be reloaded upon tankers for shipment to market.[107] This option was seen as extremely expensive by the consortium.

On November 15, 1994, Azerbaijan's parliament ratified the "'Deal of the Century," but gave five percent of the deal to Iran from SOCAR's share.[108] Initial Turkish reaction to

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104 "Azerbaijan, foreign oil company group sign contract for Caspian Sea development," *PR Newswire*, September 20, 1994. Participants in the AIOC and their shares were: SOCAR 20%, Amoco 17.01%, BP 17.127%, Delta-Nimir 1.68%, LUKoil 10%, McDermott 2.45%, Pennzoil 9.82%, Ramco 2.08%, Statoil 8.563%, Botas 1.75%, Unocal 9.52%.

105 "Azerbaijan signs oil contract worth billions but Russia protests," *Deutsche Presse-Agentur*, September 20, 1994.

106 Greek shipping magnate John Latsis was later noted trying to raise funds for the construction of a pipeline from Bourgas. See John Roberts, "Azerbaijan: Azeris prepare announcement on crucial oil link," *Inter Press Service*, October 6, 1995.

107 Rajiv Tiwari, "Azerbaijan: explosive mixture of oil, coup plots, and power plays," *Inter Press Service*, October 5, 1994.

108 Elchin Nariman Oglu, "Azeri parliament ratifies oil deal, Iran included," *Reuters*, November 15, 1994.

this generosity was hostile. Hayrettin Uzun, the head of Botas, referred to a shared heritage between the Turks and Azeris:

> We have been surprised. How can we tell our public the situation that the Turks are close relatives of the Azeris, but have the smallest share in the deal?

The United States was quiet on the issue of Iranian participation and instead stressed the participation by Russia via LUKoil. U.S. Deputy Secretary of Energy Bill White said:

> … the participation of LUKoil in that Azerbaijani consortium is a very important development in the evolution of the Russian oil industry.[109]

However, as time passed and the participation of U.S. oil companies with Iran became public knowledge, the Clinton Administration turned up the heat on the American participants. In late January 1995, Pennzoil announced that it would not withdraw from the consortium if Iran were to join. The U.S. embassy in Baku made a statement that there currently were no laws against U.S. firms participating in deals with Iran.[110] Yet it soon became apparent that Iranian participation was unsavory, at least, to the U.S. firms in the AIOC, and that Iranian participation was viewed as a threat to the multi-billion dollar contract of the century.[111] Seeing a window of opportunity, Turkey began to increase its protests about its small share of the AIOC.[112]

After several weeks of negotiations, Turkey was able to increase its share in the AIOC to 6.75 percent. Exxon also entered the deal, getting the 5 percent that Iran had been promised. Hayrettin Uzun, the chief of Botas, indicated that Turkey had begun to look favorably upon a two-route solution. "Our project is not an alternative to Novorossiysk, but a complimentary system." Turkish Prime Minister Tansu Ciller indicated that the Turkish position had U.S. support and would even get financing from the Export-Import bank to

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[109] Steven Gutterman, "Azerbaijan parliament ratifies oil deal," *UPI*, November 15, 1994.

[110] "Pennzoil unfazed if Iran joins Caspian deal," *Reuters*, January 26, 1995.

[111] Rajiv Tiwari, "CIS-Oil: U.S. angered by Iran's involvement in Caspian Sea Deal," *Inter Press Service*, January 30, 1995.

[112] Ercan Ersoy, "Turkey expects its Azeri oil stake raised," *Reuters*, February 6, 1995.

help construct a pipeline south to Ceyhan.[113] The next month, at an oil conference in Baku, U.S. Energy Secretary Hazel O'Leary indicated that the U.S. was pleased that the pipeline routes would not be going through Iran.

> The United States has expressed a preference for a route going through Turkey. ...Multiple pipelines will guarantee sufficient capacity for Russia's future export needs, and reduce tanker traffic in the crowded Bosphorus Straits.[114]

LUKoil continued to press for the route to Novorossiysk as the main route for early oil exports from Baku. In mid-June 1994, SOCAR and Russian Fuel and Energy Minister Shafranik agreed that early oil from the Chirag field would go along the Novorossiysk route.[115] Azeri President Aliev confirmed that "...the Iranian option has effectively been dropped."[116] Aliev's son Natik, president of SOCAR, added:

> ... we think that, even with the presence of routes to the north and west, we will still need an outlet to the Mediterranean.

As the summer drew on, the viability of a pipeline project through Turkey to Ceyhan became dim. In early August 1995, Prime Minister Ciller indicated the frustration Turkey felt by a perceived lack of support by the U.S. and said that she fully expected "U.S. interference in Russia's backyard."[117]

Russia was not intimidated in the least. In early September, it offered to halve its transit fees until 2003 if the AIOC would agree to send both early and later oil through the Novorossiysk line.[118] Emre Gonensay, one of Ciller's closest aides and advisors, was

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113 Servet Yildirim, "Turks get bigger share of Azeri oil, eye pipeline," *Reuters*, April 11, 1995; "Azerbaijan-Turkey: Baku signs major oil deal with Ankara," *Inter Press Service*, April 12, 1995.

114 Brian Killen, "Azeris say need Mediterranean oil export route," *Reuters*, May 25, 1995.

115 The term 'early oil' refers to the first exports of oil from the Azeri oil fields, before all pipelines and oilrigs are built and working at full capacity.

116 Andrei Rakul, "Azeri oil shown northern route," *RusData DiaLine – BizEkon News*, June 15, 1995.

117 Nadire Mater, "Turkey-Russia: Rift widens over Caspian Sea oil pipeline route," *Inter Press Service*, August 10, 1995.

118 Lynnley Browning, "Russia offers lower tariffs to Caspian oil group," *Reuters*, September 4, 1995.

denied appointments with Russian officials, and had his appointments with Heydar Aliev postponed. Uzun, the chief of Botas, expressed his fears that if the early oil were to go only through the Novorossiysk line then the AIOC might become satisfied with the volume of oil exported and not desire multiple pipelines. According to Omer Urenden, the secretary general of Turkey's Foreign Economic Relations Board:

> The issue at stake is not simply deciding on early oil transportation routes but drawing major routes for channeling one of the world's tremendous natural resources to international markets. Therefore the matter is due to be decided not by the consortium proper but on a political level by leaders of Russia, Turkey, and the United States.[119]

Not only was Azeri oil at stake here, but possibly Kazak oil as well.

Ciller sent Gonensay to Washington and New York in an attempt to gather U.S. support for the Turkish position. In late September, U.S. Ambassador to Azerbaijan Richard Kauzlarich said that "The U.S. government will be glad if there will be not one, but multiple routes for the oil pipelines."[120]

As the official announcement of the possible route(s) for early oil drew near, President Clinton placed a telephone call to Azeri president Aliev and discussed the matter, expressing his support for two pipeline routes "to lessen the political volatility of [Aliev's] country's oil fortune in the Caspian Sea." Clinton went on to express his support for:

> ... commercially viable, early constructed, and multiple pipelines from the Caspian Sea region that would benefit the companies that were investing in oil development as well as all the countries of the region.

In contrast, Turkish Prime Minister Ciller was quoted at the same time as saying, "not a drop of oil will pass through the Bosphorus if Russia gains the pipeline."[121] Apparently

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[119] Nadire Mater, "Turkey-Russia: Moscow out front in high states Azeri oil route bid," *Inter Press Service*, September 7, 1995.

[120] "America calls for multiple export routes for Azeri oil," *AP Worldstream*, September 28, 1995.

[121] Presidential spokesman Mike McCurry quoted in Paul Basken, "Clinton talks oil with Azeri leader," *UPI*, October 2, 1995.

Clinton's phone call was effective, since two days later a highly placed Azeri official confirmed that Aliev now supported a dual pipeline solution.[122]

On October 9, 1995, Terry Adams, the president of the AIOC, announced that the dual-pipeline solution had received formal approval by Azerbaijan and the AIOC. Adams went on to say that, "...at this point in time there is preference to see the main oil going through the port of Ceyhan."[123] This solution seemed to please all parties involved. LUKoil announced its satisfaction that early oil would flow through Russia (the Novorossiysk line was in relatively better condition than the Batumi line).[124] Even Turkey seemed to be "...happy with the decision."[125]

Not all Turkish concerns were, however, eased. Botas chief Uzun refuted the claim that Turkey's interests were served by this decision:

> What the consortium has secured is the consortium's interests, not Turkey's. Turkey's share in the AIOC is 6.75% and the bulk of the consortium is comprised of US firms who, for their own long-term interests, would like to secure a double pipeline route instead of a single Russian owned one.[126]

Uzun's fears continued to be that without the guarantee that a pipeline would be built through Central Turkey to deliver Azeri oil to the Mediterranean, the AIOC could grow content with the flow of oil to Batumi and Novorossiysk, effectively cutting Turkey out of the loop.

Uzun apparently convinced his government that his fears were legitimate, for in early February 1996, Prime Minister Ciller announced that Turkey would entirely finance a pipeline from Batumi to Ceyhan.[127] Unfortunately, Turkey's terms for the construction of

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[122] Brian Killen, "Azerbaijan leans towards dual oil export pipelines," *Reuters*, October 4, 1995.

[123] "Azeri consortium confirms dual oil export routes," *Reuters*, October 9, 1995.

[124] Lawrence Sheets, "Azeri oil export struggle ends in compromise," *Reuters*, October 9, 1995.

[125] Vural Atay, first secretary of the Turkish embassy in Baku, quoted in Elchin Nariman-Oglu, "Azeri oil consortium settles export route dispute," *Reuters*, October 9 1995.

[126] Nadire Mater, "Turkey-Russia: Ankara's pipeline wins mixed blessing," *Inter Press Service*, October 9, 1995.

[127] "Turkey offers Azeri pipeline finance," *UPI*, February 8, 1996.

the pipeline were too steep for the AIOC, which turned down the offer in early May. Ciller announced several days later that it was withdrawing its offer of finance and would go to the governments of Georgia and Azerbaijan directly to negotiate the building of the pipeline to Ceyhan.[128]

As it began to appear that pipelines would indeed be able to transport oil from Azerbaijan, the major oil companies began to get interested in exploiting other fields. Unocal negotiated with Azerbaijan about the Dan-Ulduzu and Azhrafe fields in the Caspian, while the French company Elf Aquitane expressed interest in the Tagiyev structure (located near the Azeri and Chirag fields in the Caspian Sea). Mobil also indicated its interest in exploring for and operating Azeri oil fields.[129]

One large problem loomed ahead for the Novorossiysk pipeline, namely that it ran directly through separatist Chechnya. As fighting continued with Russian military forces appearing to be out-gunned and out-soldiered, Russia guaranteed the safety of the pipeline.[130] Faced with the possibility that Chechnya could become independent and threaten the existing deals on pipelines, the U.S. sent Deputy Secretary of State Strobe Talbott and Deputy National Security Advisor Samuel Berger to Baku. They met with Aliev and discussed possible plans for resolving the dispute with Armenia over Nagorno-Karabakh *and* the plan for a pipeline through Armenia to Turkey.[131] Armenian spokesman Levon Zurabyan, when asked about the possibility of building a pipeline through Armenia, responded enigmatically:

> By all means, building a pipeline through the Armenian territory is profitable for all. Armenia is interested in it. But at the same time, we do not see any relation between the pipeline's route and the settlement of the Karabakh conflict.[132]

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[128] Seva Ulman, "Turkey withdraws pipeline finance offer," *UPI*, May 10, 1996.

[129] Lynnley Browning, "US firms eye more Azeri Caspian oil reserves," *Reuters*, February 20, 1996.

[130] Lynnley Browning, "Chechen instability may influence Azeri oil routes," *Reuters*, March 7, 1996.

[131] Asya Gadzhidze, "US envoys present Karabakh plan," *UPI*, March 14, 1996.

[132] "Armenia has mixed reaction to Azeri pipeline idea," *Reuters*, May 2, 1997.

It can be said that Russian president Yeltsin's advisor General Alexander Lebed saved the Novorossiysk line. Lebed negotiated a peace in Chechnya by agreeing to troop withdrawal and a deferment of determining the status of Chechnya. In December 1996, Khozhakmed Yarikhanov, the president of Southern Oil Company (based in Grozny), guaranteed the pipeline's security in an oblique manner:

> We guarantee the link's safety. But remember that with pipelines all over the world, things sometimes happen – sabotage, technical errors, human errors. ...We want our share of profits from the transport of oil across our country.[133]

With one quick statement, Yarikhanov demonstrated the raison d'être and the vulnerability of oil pipelines.

Investment by the West in the Azeri oil industry continues apace. In June 1996, Iran entered a consortium that received a lucrative contract to develop the Shakh-Deniz oil and gas field. This mammoth field is estimated to have over 1.8 billion barrels of oil, as well as trillions of cubic feet of natural gas.[134] A consortium led by Unocal is exploring the northern Azeri sector of the Caspian Sea.[135]

On January 1, 1997, oil began to flow through the Novorossiysk line.[136] Discussions about the line to Batumi are continuing.

D. SUMMARY

Initial efforts by the United States to influence developments in the Azerbaijan oil industry have been hampered by the inability to interact with the Azeri government due to Section 907 of the Freedom Support Act, which prohibits any assistance to Azerbaijan.

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[133] Lynnley Browning, "Chechen oil head assures pipeline safe, wants cut," *Reuters*, December 19, 1996.

[134] Lynnley Browning, "Iran storms into big Caspian Sea oil deal," *Reuters*, June 4, 1996. The consortium consists of Oil Industries Engineering and Construction (Iran) with a 10% share, British Petroleum with 25.5%, Statoil 25.5%, Elf Aquitane of France with 10%, LUKoil 10%, TPAO (Turkey) with 9%.

[135] "Unocal consortium signs Caspian Sea production sharing agreement for Ashrafi, Dan-Ulduzu block," *PR Newswire*, December 16, 1996.

[136] "Azerbaijan starts pumping Caspian oil to Russia," *Extel Examiner*, January 3, 1997.

Once Iranian involvement in the Azeri oil sector was threatened, the U.S. used its good offices to quash any such possibility and focused its efforts on ensuring multiple pipelines to please anyone but Iran. By doing so, the United States has squandered any possibility of concretely influencing the route of pipelines in the Caucasus anywhere but south.

In May 1997, major oil company executives gathered at the U.S. State Department for a meeting about Caspian oil and gas. They brought with them a catchy little bumper sticker, with yellow letters on a black that read, "Happiness is Multiple Pipelines."[137] By supporting the U.S.'s position on multiple pipelines as the solution to keep everyone happy, little progress has been made on exporting Azeri crude in significant quantities, as even the Novorossiysk line still remains bottlenecked by shipping through the Bosphorus. Botas' chief Hayrettin Uzun's claim that the consortium was only pursuing its own interests may have been true, but the true winner in this instance was definitely Russia.

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[137] Author's interview with anonymous State Department official, May 1997.

V. TURKMENISTAN

A. BACKGROUND

Turkmenistan is a state replete with contradictions. The second largest republic of post-Soviet Central Asia, it is mainly desert and has less than ten thousand square kilometers of arable land.[138] With the world's third largest natural gas reserves – more than 98 trillion cubic feet of proven reserves – it is potentially one of the world's great sources of natural gas, yet it is geographically isolated and lacks the ability to get this product to market. Although it has a per capita GDP greater than that of Kazakstan or Uzbekistan, this is due only to its relatively small population, which, at 4 million, is the smallest in Central Asia.[139] Accordingly, the relative sizes of the Kazak and Uzbek economies are four to five times larger than that of the Turkmen economy.

Turkmenistan's population is the most homogenous of all the Central Asian states. Seventy-two percent of the population is ethnic Turkmen, with Russians, Kazaks, and Uzbeks comprising the remainder. The split between the urban and rural population is roughly 4:5 (1.9 vs. 2.3 million). Although Turkmenistan is overwhelmingly Sunni Moslem (87%) and of the Hanafi school, it is a secular republic in which Islamic fundamentalism has had little effect.[140] While other Central Asian republics have joined with Russia to stress their concern about the Taliban in Afghanistan or the United Tajik Opposition in Tajikistan, Niyazov has repeatedly voiced his countries lack of concern towards the spread of Islamic Fundamentalism into Turkmenistan.[141]

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[138] *The World Factbook 1995*, (Washington DC: Central Intelligence Agency, 1995).

[139] Based on a January 1995 census taken by Turkmenistan. Population 4,000,460; 54% dwell in rural areas; approximately 30,000 more women than men live in the republic. Source: *Central Asian Monitor*, No. 3, 1995, p. 10.

[140] The Hanafi school is considered to be the most willing to accept change or modernization as being compatible with the tenets of Islam.

[141] Vanora Bennett, "Central Asian Leaders Hold Tajik Crisis Talks," *Reuters North American Wire*, August

As stated in its constitution:

> Turkmenistan is a democratic, law-based and secular state, in which the administration of government is exercised in the form of a presidential republic.[142]

Sapurmurad Niyazov, the president of Turkmenistan, has been the country's leader since he became first Secretary of the Central Committee of the Turkmenistan Communist Party in 1986.[143] In June 1992, he ran unopposed for the presidency and received 99.5 per cent of the vote. Subsequently through a referendum conducted on January 15, 1994, Niyazov secured his position as president until 2002.[144] In fact, Niyazov has done all that he can to create a "cult of personality."[145]

Niyazov has steered Turkmenistan on a path of neutrality since independence. Turkmenistan has joined the Commonwealth of Independent States and has allowed the stationing of Russian troops on her soil, but is the only CIS country that has not joined its Interstate Economic Committee.[146] Also, Turkmenistan was the first Central Asian State to

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7, 1993. Online via Lexis-Nexis, Library: News, File: Txtnws.

142 "Konstitutsiia Turkmenistana," *Turkmeskaia isra* (19 May 1992), FBIS-USR, No. 077 (24 June 1992), 102-110, quoted in J.L. Black, ed., *Russia & Eurasia Documents Annual 1992: Volume 2, CIS and Successor States*, (Gulf Breeze, FL: Academic International Press, 1994), 452-462.

143 David Nissman, "Turkmenistan: searching for a national identity," in Ian Bremmer and Ray Taras, eds., *Nations and Politics in the Soviet Successor States*, (Cambridge: Cambridge University Press, 1993), p. 384.

144 "News and Comments: December 1993 – January 1994," *Central Asia Monitor*, No. 1, 1994, p. 10. Out of 1,959,637 registered voters, only 212 voted against exempting Niyazov from running for re-election in 1997.

145 For an interesting account of Niyazov's personality and his attempt to engender a "cult of personality," see Kirill Nourzhanov, "Turkmenistan: Half-way through to the golden age?" *Central Asia Monitor*, No. 1, 1995, pp. 7-13.

146 Kirill Nourzhanov, "Turkmenistan: Half-way through to the golden age?" n.1 p. 12.

join NATO's Partnership for Peace.[147] In essence, Niyazov's philosophy has been one of political independence, or as Niyazov calls it, "Open Doors and Positive Neutrality."[148]

B. PIPELINE OPTIONS

Turkmenistan's potential is in its energy-based assets, notably its natural gas (see Figures 10 and 11). The key problem is how to get product to market. At the time of the demise of the Soviet Union, the only existent pipelines pointed north to Russia via Kazakstan. Turkmenistan would have to complete major pipeline construction projects to get her gas and oil to market. Several options are available. First, there is the option of using the gas pipeline to Russia via Kazakstan. This line (the "Kazak" option) is already built and connects to the extensive Russian pipeline system that provides gas to the newly independent states of the Former Soviet Union and to Europe.

A second possibility is building a pipeline under the Caspian Sea from Turkmenbashii (formerly Krasnovodsk) on the Caspian coastline to Baku, Azerbaijan. This line (the "Azeri" option) has not yet been built, but several companies and consortia (notably Botas of Turkey) have prepared studies concerning this option. If built, this would provide a fairly short but secure path to Azerbaijan, but would then be dependent on pipeline systems from Azerbaijan to market. Additionally, studies of the Caspian seabed have shown it to be fairly unstable due to volcanic or gaseous activity.

The most direct line to market would be a line south through Iran to the Persian Gulf, the Gulf of Oman, or even to Bandar Abbas, which contains a major Iranian oil facility. This line (the "Iran" option) would provide the shortest line through the most favorable terrain of only one fairly stable country.

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147 Bess A. Brown, "National Security and Military Issues in Central Asia," in Bruce Parrott, ed., *State Building and Military Power in Russia and the New States of Eurasia*, (Armonk, NY: M.E. Sharpe, 1995), 247.

148 See William E. Odom and Robert Dujarric, *Commonwealth or Empire? Russia, Central Asia, and the Transcaucasus*, (Indianapolis, IN: Hudson Institute, 1995), pp. 58-62.

Source: U.S. State Department

Figure 10. Selected Pipeline Routes Through Afghanistan and Pakistan

[illegible]

Figure 10. Selected Pipeline Routes [illegible]

Source: U.S. State Department

Figure 11. Turkmenistan: Key Energy Industry Facillities

A fourth choice would be to build a pipeline south through western Afghanistan to Pakistan. From Pakistan, the option exists to continue south through Baluchistan to Gwadar on the Gulf of Oman or to branch east and direct the pipeline into India. This option (the "Afghani" option) would avoid Iran, please the United States, and provide natural gas and transit fees to Pakistan and possibly India, both energy-starved countries. There are, however, several major drawbacks to this option. First, it would pass through Afghanistan, which has been subject to significant strife since the 1979 Soviet invasion. While western Afghanistan has effectively been under control of the Taliban since 1995, stability in Afghanistan has proven to be a temporary condition.[149] Second, the terrain through Afghanistan and Pakistan is not favorable to major construction projects. Bridges, roads, and railways in this area of the world have repeatedly been washed away by flood or subject to earthquake damage. Finally, to complete a pipeline through this inhospitable territory would require innovative diplomacy with the tribes of Baluchistan.

A further option would be to build a pipeline from Turkmenistan to Europe via Iran and Turkey. This pipeline would be extremely long, pass through several countries, through difficult terrain, and through several regions of instability. Additionally, the pipeline would pass through Iran, thus incurring the displeasure of the United States. Finally, there is the China option, in which a pipeline would somehow pass from Turkmenistan to the Pacific Ocean via China and Central Asia (see discussion in Kazakstan case study). The China option would also be long and difficult, but would provide natural gas for China, the Koreas, and Japan.

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149 See Olivier Roy, *Afghanistan: From Holy War to Civil War*, Princeton: Darwin Press, 1995; Barnett R. Rubin, *The Fragmentation of Afghanistan: State Formation and Collapse in the International System*, (Princeton: Yale University Press, 1995); and Barnett R. Rubin, *The Search for Peace in Afghanistan: From Buffer State to Failed State*, (New Haven: Yale University Press, 1995) for an excellent treatment of the situation in Afghanistan from 1979 to the present.

C. OPEN DOORS AND POSITIVE NEUTRALITY

When Turkmenistan declared its independence from the Soviet Union on October 27, 1991, it had a command economy that relied on two major products: cotton and gas. Realizing that the Turkmen economy was entirely dependent upon trade with the republics of the Former Soviet Union, Niyazov quickly set about opening up avenues to new markets. At the February 16-17, 1992, Tehran summit of the Economic Cooperation Organization (ECO), Turkmenistan, along with Azerbaijan, Kyrgyzstan, Tajikistan, and Uzbekistan, were invited to join what had been until then a fairly dormant entity.[150] Kazakstan was granted observer status at this February summit. All of these nations, along with Afghanistan, were granted full membership in the ECO at the November 1992 Special Ministerial Meeting in Islamabad.

The February summit, although seen by some observers as a failure by Iran to export its peculiar version of fundamentalism north to ex-Soviet Central Asia, was a tremendous success for several of the participating countries. According to Iranian deputy Foreign Minister Abbas Maleki, Iran was not seeking to export Islamic Fundamentalism to Central Asia. "We want to establish economic relations and forge stability and security along our borders," said Maleki.[151] This was exactly what Iran accomplished. In addition to getting the formation of a zone of economic cooperation, Iran was able to get all the littoral states of the Caspian Sea (Iran, Azerbaijan, Turkmenistan, Kazakstan *and* Russia) to enter into a Caspian Sea Cooperation group headquartered in Tehran.

From the Turkish perspective, the ECO meeting allowed Turkey to get its foot in the door of the Central Asian markets. Turkey saw itself as the logical heir to the Soviets with regard to hegemony over Central Asia. The region was predominantly secular, of Sunni Moslem heritage, and Turkic in ethnicity. Turkey and Central Asia also had languages that

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[150] The ECO was created in 1985 out of the ashes of the Regional Cooperation for Development (RCD). Iran, Pakistan, and Turkey established the RCD in 1964 to promote regional economic cooperation. It ceased effective operation in 1979, concurrent with the Iranian Revolution.

[151] Alistair Lyon, "Iran talking trade, not revolution," *Reuters*, February 19, 1992.

were similar and based on a common root, although differences of dialect were considerable.[152] In addition, Turkey had the backing of the United States.

In reaction to the apparent threat of Iranian hegemony demonstrated by the February meeting of the ECO, United States Secretary of State James Baker made a goodwill trip to Azerbaijan and Central Asia in late February. Baker sponsored Turkish ambitions in the region and promised some small amounts of aid from the U.S.[153]

Over the next several months, the goodwill planted in Tehran began to bear fruit. Turkey, seeing itself as the avenue for the import of western goods to Central Asia, began to talk with Turkmenistan about a gas pipeline to Europe.[154] These talks included Iran, as the path for the pipeline soon appeared to transit south of the Caspian Sea. The May 1992 ECO meeting, designed to discuss a united customs policy and trade agreements for ECO participants, was deemed a failure because of Turkish and Kazak opposition to an oil pipeline from Kazakstan to Bandar Abbas, a topic that dominated the meeting.[155] However, after the ECO meeting had adjourned, Iran and Turkmenistan agreed on several bilateral issues: a joint banking and customs system, rail links, and on a project to build a gas pipeline from Turkmenistan to Iran. Iran also agreed to buy 19 bcm of gas from Turkmenistan.[156]

As the West began to learn about the energy potential of the Central Asian states, a significant report was published in the Western press concerning the size of the oil and gas reserves of Turkmenistan. An analysis of the Turkmen reserves indicated that 95 per cent of oil reserves and 88 per cent of natural gas reserves were located above 3 km

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[152] See Graham E. Fuller, "Turkey's New Eastern Orientation," in Graham E. Fuller and Ian O. Lesser with Paul B. Henze and J.F. Brown, *Turkey's New Geopolitics: From the Balkans to Western China*, (Boulder: Westview Press, 1993), 66-67.

[153] Vahe Petrossian, "Iran: At the hub of new trade alliances," *Middle East Economic Digest*, Vol. 36, No. 8 (February 28, 1992), p. 13.

[154] *Reuters*, "Turkey considers natural gas deal with Turkmenistan," *Financial Times*, May 6, 1992, p. 32.

[155] Gillian Tett, "Central Asian talks fail," *Financial Times*, May 11, 1992, p. 3.

[156] Gillian Tett, "Turkmens in trade deal with Iran," *Financial Times*, May 14, 1992, p. 6.

underground, and that little exploration had been done below this level. The report concluded that, given the geology of the area, there is probably much more oil and gas below the 3-km level.[157] The report started a cavalcade of interest by Western countries and oil companies.

In August 1992, Niyazov of Turkmenistan and Rafsanjani of Iran signed an agreement in Tehran to build a pipeline that would deliver Turkmen gas to Europe via Turkey.[158] Less than a month later, Pakistan announced that it would study importing Turkmen gas via Afghanistan.[159] And in early November, a U.S.-Turkish consortium (consisting of U.S. oil companies Enron and Wing Merril and Turkish Gama Guris) signed an agreement with Niyazov at the "summit of Turkic leaders" in Ankara to build a pipeline from Turkmenbashii to Baku, across Azerbaijan, along the Araz river on Armenia's southern border, to Turkey. Botas, the Turkish oil company, was later asked to join the consortium. It proposed that Uzbekistan could build a feeder line that would join up with this pipeline system.[160] Botas went on to say "[t]his deal ends months of anxiety that Turkmenistan would seek to export its gas via Iran." The reality, however, turned out to be otherwise.

The cross-Caspian pipeline scheme was fraught with potential problems. The first issue was, of course, the status of the Caspian Sea [see discussion in previous chapter]. If the Russian/Iranian position of the Caspian being a condominium with no sectoral divisions won out, then all littoral states would share in the transit fees for the Caspian section of the pipeline. If the sectoral division scheme was applied, the main question concerning the determination of economic zones was still to be resolved. Beyond Baku, the pipeline

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[157] Neil Buckley, "West needed to plug leaks in former Soviet oil sector," *Financial Times*, July 24, 1992, p. 28.

[158] Islamic Republic News Agency, "Iran Pipeline Deal," *Financial Times*, August 27, 1992, p. 4.

[159] Farhan Bokhari, "Survey of Pakistan," *Financial Times*, September 18, 1992, p. VI.

[160] John Murray-Brown, "Turkmenistan gas pipeline deal," *Financial Times*, November 3, 1992, p. 8.

problems were legion.[161] The most sensible plan – from a pipeline economics point of view – remained a route from Turkmenistan through Iran to the Persian Gulf or, barring that, through Iran to Turkey (and then on to Europe via tanker or pipeline). As both of these options involved Iran, both aroused the opposition of the United States.

The Bush administration's opposition to investment in Iran had been clear. Executive Order 12170, signed by President Carter to declare a national emergency with Iran due to the 1979 hostage crisis, had been renewed annually. Additionally, Iranian businessmen had several times been caught trying to import material that could possibly be used for nuclear or missile technology in violation of several Executive Orders signed by President Bush.[162]

In January 1993, the Clinton administration took office and quickly decided that its policy towards Iran would be one of containment.[163] The United States would no longer balance Iran against Iraq as had been done under both the Reagan and Bush administrations, but would seek to contain them both under a new policy of "Dual Containment." Washington's goal became to convince its allies to avoid investment in or commercial dealings with Iran due to its history of supporting terrorism and assassination, opposition to the Middle East peace process, and pursuit of weapons of mass destruction.[164]

Niyazov hired former U.S. Secretary of State Alexander Haig as a lobbyist for Turkmenistan. Haig set up Niyazov's visit to Washington DC in late March 1993.[165]

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[161] See chapters on Kazakstan and Azerbaijan for a discussion of these problems.

[162] See, for example, George H.W. Bush, "Extension of Declaration of National Emergency – Message from the President – PM 278," *Congressional Record – Senate*, Vol. 138, No. 133 – Part 2, September 25, 1992.

[163] See Martin Indyk's speech to the Washington Institute for Near East Policy, May 18, 1993.

[164] The literature on Dual Containment is extensive. See Anthony Lake, "Confronting Backlash States," *Foreign Affairs*, Vol. 73 No. 2 (March/April 1994) pp. 45-55; F. Gregory Gause III, "The Illogic of Dual Containment," *Foreign Affairs*, Vol. 73 No. 2 (March/April 1994) pp. 56-66. For a more recent debate on containment of Iran, see Zbigniew Brzezinski, Brent Scowcroft, and Richard Murphy, "Differentiated Containment," *Foreign Affairs*, Vol. 76 No. 3 (May/June 1997) pp. 20-30; Jahangir Amuzegar, "Adjusting to Sanctions," *Foreign Affairs*, Vol. 76 No. 3 (May/June 1997) pp.31-40; Graham E. Fuller and Ian O. Lesser, "Persian Gulf Myths," *Foreign Affairs*, Vol. 76 No. 3 (May/June 1997) pp. 42-52.

[165] See Washington Post Foreign Service, "Haig arranges US visit by leader of Turkmenistan," *Washington Post*, March 23, 1993, p. A16 and *Reuters*, "Haig to help," *USA Today*, May 12, 1993, p. 4a.

Niyazov's trip was uneventful, but he was able to put forward the case of Turkmenistan to many influential people in Washington.

Turkmenistan was beginning to feel the squeeze of the post-Soviet economic disaster. Although arguably less detrimentally impacted by the end of the command economy than some of the other newly independent countries, Turkmenistan nonetheless was placed in a hard-currency squeeze. Gazprom, the successor to the Soviet Union's natural gas ministry, controlled the pipeline system of Russia that delivered natural gas to the former Soviet republics and Europe. It insisted on paying Turkmenistan only one-seventh of the market price for natural gas, but, as it was the only game in town, Turkmenistan was forced to agree.

Russia was the only customer that paid for Turkmen gas in hard currency. Other customers, notably Azerbaijan and the Ukraine, paid for their gas with barter agreements. Even so, they were notoriously late in making their payments. In July 1993, Turkmenistan announced that all delivered gas must be paid for within ten days of delivery or delivery would be halted.

Further complicating this issue was the collapse of the Ruble Zone. In September 1993, Russia announced that it would issue new rubles and that the old rubles would cease to be honored. Many saw this as an attempt to write off millions of rubles being held in the newly independent states. In November, Turkmenistan issued its own currency, the manat.[166]

In October 1993, the United States granted Turkmenistan MFN status. The European Union had granted this status to all the newly independent states upon independence. Canada, Japan, and the European Free Trade Association countries granted MFN status in January 1992. MFN status greatly reduces tariffs imposed on a non-MFN

[166] IMF Economic Reviews, *Turkmenistan*, (Washington DC: International Monetary Fund, 1994), pp. 25-32. See also Bruce D. Porter and Carol R. Saivetz, "The Once and Future Empire: Russia and the 'Near Abroad,'" *The Washington Quarterly*, Vol. 17, No. 3, p. 72.

country. Unfortunately for Turkmenistan, since most of its trade was with the republics of the former Soviet Union and Iran, these events had little effect on the Turkmen economy.[167]

In December 1993, Gazprom refused to renew its contract with Turkmenistan to use the export pipelines to Europe. Prior to this, Turkmenistan had been able to export an average of 8-11 bcm of gas per year.[168] Turkmenistan's relations with Russia were beginning to seriously deteriorate.

Turkmenistan was not the only republic affected by the collapse of the Ruble Zone. In fact, nearly all of the former Soviet republics were hard hit by this unexpected event. In February 1994, Ukraine was late in making payments for its deliveries of Turkmen gas, and Turkmenistan turned off the tap. Ukraine owed Turkmenistan $693 million and had recently rescheduled this debt. After the Ukrainian Energy minister was sacked and the scheduled payment made, Turkmenistan resumed shipments of gas to the Ukraine.[169]

Following these financial crises, Turkmenistan made another push to attract foreign investment in the gas sector. In April 1994, Rafsanjani of Iran, Demirel of Turkey, and Niyazov met to sign another interim agreement on the construction of a pipeline to Europe via Iran and Turkey. That same month, in a visit set up by former U.S. Secretary of State Haig, French President François Mitterand, along with Gas de France officials, visited Ashgabad to discuss French involvement in the gas industry in Turkmenistan.[170] Again, in April, Chinese Prime Minister Li Peng met with Niyazov to discuss pipelines. Li Peng expressed interest in a pipeline to the Pacific via China as well as in buying Turkmen cotton.[171]

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167 Bartlomiej Kaminski, "Factors affecting trade reorientation of the newly independent states," p. 406, in Bartlomiej Kaminski, ed. *Economic Transition in Russia and the New States of Eurasia*, Armonk, NY: M.E. Sharpe, 1996, pp. 386-415.

168 Dr. Elaine Holoboff, "Russia and Oil Politics in the Caspian" *Jane's Intelligence Review*, Vol. 8, No. 2 (February 1, 1996), p. 80.

169 "Ukraine loses some power," *Reuters*, in *Financial Times*, February 22, 1994, p. 3.

170 Uri Dan & Dennis Eisenberg, " 'Triad' trial or error?" *The Jerusalem Post*, July 14, 1994, p. 6.

171 "News and Comment, April – May," *Central Asia Monitor*, No. 3, 1994, p. 1. There may have been ulterior motives for Peng's visit. It was rumored that Peng was actually seeking support from China's

Progress on the pipeline to Europe continued. After a trip to Mashad in May, Niyazov headed to Ankara in June 1994. While there, Turkish Prime Minister Tansu Ciller opened a $90 million line of credit for Turkmenistan with the Turkish Export-Import bank.[172] In July, in another trip orchestrated by Haig, Israeli Prime Minister Shimon Peres visited Ashgabad and set up Israeli participation in pipeline construction projects.[173]

Finally, on August 23, 1994, Niyazov met with Rafsanjani and Demirel in Tehran to sign the final agreement on the construction of a "grand trunk gas line" pipeline project from Turkmenistan to Europe via Iran and Turkey. A groundbreaking ceremony was held near Tehran. The pipeline would take six to eight years to complete and would be nearly 3000-km in length. The Iranian section alone would be over 1450-km and would cost in excess of $3.5 billion. The project would be in two phases, with the first phase consisting of a pipeline to transmit 15 bcm per year. The second phase would be an additional line with a capacity of 28 bcm per year.[174] Several months later, Niyazov held a groundbreaking ceremony to celebrate the beginning of construction in Turkmenistan.

Meanwhile, Pakistan's Prime Minister, Benazir Bhutto, also saw potential in a pipeline from Turkmenistan. In June 1994, the Pakistani cabinet decided to proceed on projects to build road and rail links to Turkmenistan. In November, Pakistan sent a convoy to Turkmenistan via Qandahar and Herat. The previous month, in Ashgabad, Bhutto had negotiated passage for the convoy with Ismail Khan and Abdul Rashid Dostum, the warlords in the Herat and Mazar-i-Sharif areas. However, once the convoy entered Afghanistan, local tribesmen stopped it and demanded tolls. The Taliban, a movement led by southern Pashtun religious students, streamed across the Afghan border. Armed by Pakistan, the Taliban freed the convoy. Subsequently, the Taliban captured Qandahar and

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Central Asian neighbors for suppression of Uighur independence movements in China's Xinjiang province.

172 "News and Comment, June – July," *Central Asia Monitor*, No. 4, 1994, p. 3.

173 Uri Dan & Dennis Eisenberg, " 'Triad' trial or error?" *The Jerusalem Post*, July 14, 1994, p. 6.

174 "Turkmen gas accord with Iran," *Reuters*, in Financial *Times*, August 24, 1994, p. 4.

established effective control of southern Afghanistan.[175] This incident showed that the route to Turkmenistan could be opened, but it also showed that security for the route had yet to be established.

Progress on the Iran-Turkey pipeline project continued. In January 1995, Turkey announced the formation of the "Turkmenistan Transcontinental Pipeline Company" (TTPC). Participating countries included Turkmenistan, Turkey, Russia, Iran and Kazakstan. The TTPC would be responsible for construction of the pipeline. "Turkmen Gas Export Company" (TEC), another new consortium, would be responsible for supplying gas for export. A third company (which was yet to be formed) would be responsible for raising the funds necessary to start construction on this project.[176]

Haig lobbied furiously for this project. In an interview with the Washington Post, he indicated that Russia was being consulted on the project and did not oppose it. The position of the U.S. government was, however, much different. According to an anonymous State Department official:

> We're not against trade with Iran, but we are against giving Iran access to concessionary trade. Whenever they get access to some spare funds, they tend to pursue policies that we consider unacceptable – violence against the peace process, the development of chemical or nuclear weapons, for example. ...But regardless of U.S. policy, this project will be a very hard sell.[177]

Haig, as a lobbyist, was very well placed. As a former Secretary of State, he is extremely influential in Washington. Based on his time as NATO commander, he has extensive contacts in Turkey, especially among the Turkish military. Additionally, he is a personal friend of hojatollah Hadi Khamene'i, brother to the Iranian spiritual leader Ayatollah Ali

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[175] Barnett R. Rubin, *The Search for Peace in Afghanistan: From Buffer State to Failed State*, (New Haven: Yale University Press, 1995), pp. 138-144.

[176] John Barham, "Turkmen gas plan seeks funds, " *Financial Times*, January 18, 1995, p. 4. Also "Turkmen pipeline plan gives US food for thought," *East European Energy Report*, January 27, 1995.

[177] Daniel Southerland, "Haig aids drive to build gas pipeline across Iran; project faces political, financing obstacles," *The Washington Post*, January 20, 1995, p. B1.

Khamene'i, and Rafiq Doust, president of the Mustadaafin Foundation and close personal friend of Rafsanjani.[178]

Haig's efforts to persuade the U.S. Government to back the Turkmen gas deal were for naught. In response to the announcement of a major oil deal between Conoco and Iran, President Clinton signed Executive Order 12959 on May 6, 1995. This expanded the embargo on Iran and forced Conoco to drop its deal with Iran. The French oil company, Total, immediately stepped in and snapped up the lucrative contract that Conoco was forced to abandon. This Executive Order did have a loophole: oil swaps between Iran and other states would be permitted. This would allow deals with countries such as Azerbaijan, Kazakstan or Turkmenistan to deliver oil or gas to Iran's Caspian ports or northern border towns. Iran would then deliver similar quantities of oil or gas to the Persian Gulf for shipment to markets, allowing these virtually landlocked countries an outlet.[179]

Immediately upon the signing of this Executive Order, Senator Alfonse D'Amato (R-NY) submitted legislation to enact 12959 into law. D'Amato's efforts eventually became the "Iran and Libya Sanctions Act" (ILSA), signed into law by President Clinton on August 3, 1996. This act prohibits any company from "investing" more than $40 million per year in Iran. ILSA, and 12959 before it, have made the arrangement of finance for any deal involving Iran almost impossible.

Realizing that the United States was implacable in its opposition to investment in Iran, Turkmenistan turned its attention to the Afghani option. Bridas, an Argentinean company with interests in several oil and gas fields in Turkmenistan, submitted a proposal in March 1996 to build a pipeline through Afghanistan to Pakistan. Turkmenistan gave Bridas an exclusive contract to complete this project.[180] Several months later, Unocal, backed by Delta Oil of Saudi Arabia, approached Turkmenistan with a similar proposal.[181]

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178 "Pipeline Scheme a pipe dream?" *Intelligence Newsletter*, No. 257, February 2, 1995.

179 Robert Corzine, "Caspian swaps offer loophole in US oil ban," *Financial Times*, May 10, 1995, p. 3.

180 Robert Corzine, "Afghan gas pipeline plan," *Financial Times*, March 5, 1996, p. 4.

181 Niyazov first signed a deal with Gazprom to form Turkmenrosgaz, a joint Turkmen-Russian consortium to

By September, the Bridas deal was recognized in the West as having "fallen out of favor." Gazprom subsequently negotiated inclusion into the Unocal/Delta project.[182] Bridas has taken this issue to the courts; it is suing Unocal in Texas for "gross interference," and has taken Turkmenistan to arbitration for breach of contract.[183] Although Bridas appears to have good legal grounds for its suit against Unocal, several knowledgeable sources indicate that the Unocal project will get the official go-ahead from Turkmenistan.[184] Any pipeline, however, awaits financing, which is contingent upon stability in Afghanistan.

D. SUMMARY

Turkmenistan's pursuit of "positive neutrality" has been characteristically unproductive. It has sought, under the leadership of Sapurmurad Niyazov, to avoid dependence upon Russia and Gazprom as the sole market for its natural gas by attempting to construct pipelines that lead anywhere but north to Mother Russia. It has attempted to court Turkey and the United States by recognizing Turkey as an ultimate market for its gas, but has run afoul of the U.S.'s containment of Iran. This makes financing for any pipeline to Turkey via Iran very hard to arrange. Recognizing this roadblock, it has negotiated for construction of a pipeline to Pakistan via Afghanistan, but is frustrated by the civil war in Afghanistan. And although Executive Order 12959 and the Iran and Libya Sanctions Act

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build the pipeline to Pakistan with 51% of the consortium going to Turkmenistan, 45% to Gazprom, and 4% to Itera, an international concern. Then Unocal, Delta, and Turkmenrosgaz signed a memorandum of understanding to study transporting gas from Dauletbad field to Pakistan. 85% of this consortium went to Unocal and Delta Oil, 10% to Gazprom, 5% Turkmenrosgaz. "News and Comments, September-October" *Central Asia Monitor*, No. 5, 1995, p. 1.

182 Mary Page, "Gas set for key role in central Asian republics," *Petroleum Economist*, Vol. 63, No. 9, p. S24.

183 Steve LeVine, "Unrest in Afghanistan is disrupting plans for pipelines," *New York Times*, June 5, 1997, p. D4.

184 From interviews conducted by the author with sources in the U.S. State Department and the Embassy of Turkmenistan. Indications are that Turkmenistan will plead lack of business acumen on the Bridas deal and arrange to settle the suit out of court. Bridas, although standing on firm legal ground, would have a difficult time arranging the necessary financing for any Turkmenistan-Afghanistan-Pakistan pipeline; the Unocal/Delta/Gazprom consortium should have much less trouble arranging financing for this project once Afghanistan's civil war is settled.

allow for gas swaps between Iran and Turkmenistan, this does not prevent Turkmenistan from being given the "cold shoulder" by the United States.[185]

By pursuing its unilateral containment of Iran, the United States is effectively isolating Turkmenistan. "Turkmenistan is fighting for economic survival," wrote David J. Kramer, the executive director of Russian and Eurasian programs at the Carnegie Endowment for International Peace in Washington.

> Turning to Iran to enhance its exports is Mr. Niyazov's only viable option. While the United States and its allies should continue to try to contain Iran, they should recognize that Turkmenistan, for reasons of economic necessity, will not join in the campaign.[186]

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[185] The Embassy of Turkmenistan source indicated that although no official statement has been given protesting Turkmenistan's gas swaps with Iran, there was a visible reduction in USAID projects in Turkmenistan that indicated U.S. displeasure.

[186] David J. Kramer, "A volatile mixture of politics and economics in Central Asia," *The Washington Times*, September 2, 1994, p. A21.

VI. CONCLUSIONS AND RECOMMENDATIONS

> A stable and prosperous Caucasus and Central Asia will help promote stability and security from the Mediterranean to China and facilitate rapid development and transport to international markets of the large Caspian oil and gas resources, with substantial U.S. commercial participation. While the new states in the region have made progress in their quest for sovereignty, stability, prosperity and a secure place in the international arena, much remains to be done – in particular in resolving regional conflicts such as Nagorno-Karabakh. – President Clinton, 1997[187]

A. CONCLUSIONS

The demise of the Soviet Union caused the birth of several new countries in the Caucasus and Central Asia. Each of these newly independent states has a different story; their populations are made up of different ethnicities, they practice their different religions, and they may not get along with their neighbors. These states do, however, share a common heritage and, as for the littoral states of the Caspian Sea, have vast energy resources that makes them important to the future of the world.

The United States has approached these newly independent states with one central goal in mind. It has, after securing the nuclear arsenal of the Former Soviet Union, sought to isolate Iran to the virtual neglect of any other foreign policy goal in the Caucasus and Central Asia. The effect of this focus has been to inhibit the development of the oil and gas resources of the region. The United States has often offered its ally Turkey as a "logical" regional hegemon, yet it has repeatedly bartered away this attempt to create a Western-oriented axis in an effort to avoid having Azerbaijan, Kazakstan, or Turkmenistan utilize Iran to develop or market their resources. This has also caused a strengthening of Russia's position and status in the region, forcing these energy-rich states either to use existing pipelines that point north or to plan pipelines that transit Russian territory. This attempted

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[187] William Jefferson Clinton, *A National Security Strategy for a New Century*, (Washington DC: The White House, 1997), p. 23.

isolation of Iran has also weakened the position of Turkey, traditionally a rival of Russia in this region.

Turkey continues to protest that the Bosphorus cannot handle the increased shipping and inherent danger to the environment of transporting oil. While true, this only thinly veils its attempt to forward itself as Central Asia's gateway to Europe and thus replace the revenue and source of oil for its domestic market that it lost when the United Nations imposed sanctions on Iraq.[188]

The National Security Strategy of the United States is detailed in an annual publication mandated by law. Its key tenets are the enhancement of the security of the United States, continued American economic prosperity, and the promotion of democracy throughout the world.[189] It emphasizes positive measures and cooperative actions, calling for efforts to integrate developing countries into the international community as responsible members. Yet the United States continues to ignore its own advice, following instead a policy of containment towards Iran. By continuing to pursue this heavy-handed policy towards Iran while neglecting the newly independent states, the U.S. diminishes its stature in this region. Although the United States recognizes the importance of the Caspian Sea energy basin, its actions in this region have brought about some unintended consequences.

B. RECOMMENDATIONS

1. Pursue Conflict Resolution in Nagorno-Karabakh

The continuing tensions between Armenia and Azerbaijan over Nagorno-Karabakh have negatively impacted pipeline politics in the Caucasus. It has placed a barrier in the way of a pipeline from Baku to Ceyhan which needs to be removed. By resolving this conflict and removing this barrier, the status of both Turkey and the United States in the

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188 Some placed the amount of revenues lost due to the cessation of transit fees in excess of $2 billion per year. See "Caspian Oil Exports – Now Turkish-US Axis leads in 'The Great Game,' Moscow Watching," *IAC Newsletter Database*, Vol. 43, No. 16, (October 23, 1995), available via Lexis-Nexis, Library: News, File: Allnws.

189 Clinton, *A National Security Strategy for a New Century*, p. i.

Caucasus would be enhanced. The United States should exert its leadership to assist the Minsk group in settling this conflict. Domestic politics in the United States has forced a position that favors Armenia.[190] The U.S. should repeal Section 907 of the 1992 Freedom Support Act to avoid being accused of hypocrisy at any peace talks. How can the United States appear impartial when it has sanctions in place against one of the parties involved?

2. Pursue Conflict Resolution in Afghanistan

The Civil War in Afghanistan imposes another barrier to pipelines in Central Asia. This country has been ravaged by conflict since the invasion of the Soviet Union in 1979. The struggles of the dying days of the Cold War saw the United States get involved in Afghanistan, arming and training mujahideen in their jihad against the communist invaders. While the United States was instrumental in forcing the Soviets to agree to the Geneva Accords and withdraw from Afghanistan, it must recognize that it too bears some responsibility for the resulting basket case that Afghanistan has become. In place of its tacit support for allies Pakistan and Saudi Arabia and their proxies in the Afghan civil war, the United States must provide vocal and active support for the United Nations' efforts to get the warring parties to achieve a peace in Afghanistan. Only a stable Afghanistan will induce international financial institutions to back pipeline projects through Afghanistan and Pakistan.

3. Open Foreign Markets

Continued support for the emerging markets of the Caucasus and Central Asia is necessary for the development of these newly independent countries. Not only are democratic governments more likely to cooperate with each other, but free and open markets are more likely to prosper and adopt democratic ideals. The efforts of the Department of Commerce's Business Information Service for the Newly Independent States (BISNIS) and the United States Information Agency (USIA) to build an infrastructure friendly to Western free market ideals are commendable and should be continued.

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[190] See Thomas Goltz, "Catch-907 in the Caucasus," *The National Interest*, No. 48 (Spring 1997), pp. 37-45.

4. Reconsider Containment of Iran

The United States policy of containment of Iran has had little success, primarily due to its lack of support by other nations. It cannot be argued that Iran's continued support of terrorism and efforts against the Middle East Peace Process are not harmful. However, U.S. sanctions against Iran have not had their desired effect. While Iran is not prospering as it would if the United States were active in that country, Iran has been able to meet its obligations and continue to function in the world economy. Also, it is interesting to observe U.S. policy towards Iran when contrasted to U.S. policy towards China. Where the United States attempts to change China's behavior through engagement and enlargement, it attempts to change Iran's behavior through containment. If the policy towards China is the right course, why would it not work with Iran as well? Perhaps the results of the May 1997 presidential election will offer both sides the opportunity to make a rapprochement.

An anthropologist once made the observation that a group of baboons lounging on a rock would spend all day long trying to maintain their position with regard to the other baboons in the group, each exerting its dominance and testing its rivals in an attempt to enhance its status. The wisest baboon would allow the other baboons to fight among themselves and then, when the other baboons were exhausted from their efforts, easily take the place that he desired. If the United States is to maintain its position as the global hegemon, it will be at considerable cost and effort unless its power is exerted wisely and in a timely manner. It is easier and wiser for the United States to return to the "Big Stick" philosophy of Teddy Roosevelt than to attempt to be the world's sole policeman.

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