

THE EMERGING CASPIAN ENERGY REGIME AND TURKEY'S NEW ROLE

MERT BİLGİN

ABSTRACT

Soon after the disintegration of the USSR, Turkey attempted to take place at the heart of the emerging energy regime of the Caspian by becoming an energy corridor that could unite the Caspian with the World markets. Nevertheless, Russia and Iran started to become profitable associates not only for Azerbaijan, Kazakhstan and Turkmenistan but also for the multinational companies. In 2003, it became explicit that Turkey's common projects with Kazakhstan and Turkmenistan were either canceled or postponed. Turkey is likely to realize Baku-Tbilisi-Ceyhan oil pipeline project and Baku-Erzurum gas pipeline project. Turkey needs to develop a multilateral cooperation which includes Russia and other littoral states of the Caspian. Otherwise, Turkey's role in the Caspian region will be limited by bilateral relations with Azerbaijan.

KEYWORDS

Oil, Gas, Pipeline Politics, Caspian Energy Regime, Caucasus.

Introduction

The disintegration of the former Union of Soviet Socialist Republics (USSR) in 1991 introduced Azerbaijan, Kazakhstan and Turkmenistan (AKT) as the new hydrocarbon producers of the Caspian Sea. These three republics had once been important producers of hydrocarbons during the Soviet era until the exhaustion of onshore reserves in the first half of 1980s. Soon after gaining their independence, the exploration activities of multinational companies indicated that there were rich reserves of hydrocarbons in deeper sections of the Caspian, which remained undiscovered by the Soviet authorities because of technological inferiority of the Soviet petroleum industry.

Currently it is estimated that the hydrocarbon reserves of Caspian may reach 200 billion barrels of oil and 337 trillion cubic feet of gas. The proven reserves of Caspian constitute 3 percent of the total World supply which amounts to 25 percent of those of Middle East.¹ These figures indicate that Caspian has already become a significant region for the interaction between energy demand and supply. Despite the legal status of the Caspian is still an uncertain issue, the *de facto* situation indicates that AKT possess most of the Caspian reserves. The oil reserves are between 31 and 40 billion barrels in Azerbaijan, between 95 and 103 billion barrels in Kazakhstan and about 34 billion barrels in Turkmenistan. Azerbaijan has about 35 trillion cubic feet (Tcf) gas while the gas reserves of Kazakhstan and Turkmenistan are 88Tcf and 159 Tcf respectively.² In other words, 88 percent of oil and 83 percent of natural gas of the Caspian region belong to AKT.

Knowing the economic importance of this region, many multinational companies involved in various consortia in order to explore, produce, transport and commercialize the Caspian hydrocarbons. Despite their common legacy, AKT started to differ not only from other post-Soviet republics, but also from each other by their distinct responses to the external pressures related to oil and gas.

¹United States, Energy Information Administration,
<http://www.eia.doe.gov/emeu/cabs/caspian.html>.

²Ibid.

These responses varied in terms of production and transportation. With regard to production, the multinational oil companies became significant partners who held technology, know-how and vertical integration. Consequently, 24 significant projects were vitalized through Production Sharing Agreements (PSAs) and Joint Ventures (JVs) in Azerbaijan.³ Kazakhstan moved faster than Azerbaijan and attracted many multinational oil companies both by the virtue of its rich hydrocarbon reserves as well as by the help of its liberalization efforts. The result was vitalization of 46 projects.⁴ Despite its low rate of liberalization and Turkmenbashi's nationalistic approach,

³1- The mega Project of Azerbaijan International Operating Company (AIOC): Azeri-Chirag-Guneshli 2- Shah Deniz Project 3- Kursangi-Garabaghli 4- Abikh - Alov, Araz and Sharg 5-Ashrafi Dan Ulduz ; North Absheron Operating Company (NAOC) 6- Kur Dashi in the fields of Neftchala, Khilli and Babazanan 7- Lenkoran Deniz and Talysh Deniz 8- Muradkhanli 9- Yalama (D-222) 10- The Karabakh Field Caspian International Petroleum Company (CIPCO) 11- Karadag, Kergez and Umbaki (West Absheron) 12- Absheron (formerly Tagiyev) 13- Oguz 14- Nakhcivan 15- South East Gobustan 16- Inam 17- Atashgah 18- Zafer-Mashal 19- Lerik 20- Padar 21- Kalamaddin-Mishovdagh 22- Zigh-Hovsan 23- Ramany, Balkhany and Sabunchi 24- Kyurovdag, Shirvanoil JV.

⁴1- Tengizchevroil (TCO) 2- Karachaganak (Karachaganak Petroleum Operating Company) 3- Kashagan (Offshore Kazakhstan International Operating Company - OKIOC) 4- Uralsk, Aktubinski Atirau and Aktau (Kazakturkmunai JV and TEPCO LLC) 5- Federovskeye 6- Adaiski (FIOC - Rosneft) 7- Sagiski (FIOC - Falcon Energy Overseas) 8 - Begaidar (FIOC - Potential Oil) 9- Mangystau 10- Nationas Energy in Karazhanbas 11- Saigak (Maersk - Veba Oil & Gas) 12- Kyzyllov (Atlantic Caspian Resources PLC) 13- Akshabulak, Nuraly, Aksai (Kazgermunai) 14- Aktobe Preussag in the fields of Zharkamys 15- Anako 16- Arman 17- Uzen (Uzenmunaigaz).18- Aktobe (CNPC - Aktobemunaigaz) 19- Demunai 20- Embavedoil Onshore 21- Gyural, (Urals Trading) 22- Hurricane-Kumkol 23- Karakudukmunai JV 24- KazakhOil-Telf 25- Kara-Arna (Kazpromstavba) 26- Atyrau 27- Kumkol-Lukoil 28- Matin, Matoil S.A. 29- Svetlandoil JV 30- Tasbulat (Tasbulat Oil) 31- Tenge 32- Turan 33- Zhetbay-Quest 34- American International Petroleum Corporation in the gas fields of Shagyrlly-Shomyshty 35- Ertismunai 36- Mertvyi Kultuk PSA / Ostrovnyaya 37- Munai NPT 38- Temir APP 39- Aktobe (Tulparmunai) 40- Mangystau 41- Aktobe (BP-TPAO) 42- Chinese petroleum Corporation in the fields of AKJT 43- Pavlodar 44-Aral 45- JNOC 46- Sazankurak.

Turkmenistan became another area of interest for multinational companies.⁵

The transportation phase was more complex. The multinational companies and AKT searched for profitable ways to transport the Caspian hydrocarbons to world markets. During the first years of their independence, all of these republics stumbled between loyalty to their Soviet heritage reincarnated by Russia and cooperation with alternative powers such as the United States supported Turkey and Iran. Consequently, AKT started to dispute with Russia about commercializing their hydrocarbons at the World markets. There were two factors, which forced AKT to search for new trade associates outside the ex-Soviet zone. First of all, the dependence of AKT on the Gazprom's transportation system was allowing Russia not only to charge high transportation tariffs but also sustain its domination over the Caspian region. Secondly, the most significant buyers of Caspian gas, that is to say Russia, Ukraine, Georgia, Armenia and Byelorussia were not making regular payments despite the oil and gas prices were cheaper than anywhere else. The financial problems of these countries and the barter system were impeding the cash flow from the buyers towards the producers.

To the extent that the routes towards China, Afghanistan and Pakistan were characterized by political instability, AKT did not prefer these lines which necessitated huge investments. As a matter of fact, AKT became very ardent about cooperating with multinational companies and countries other than Russia (mainly Turkey and Iran) in order to reach the world markets. At first sight, Turkey seemed to be a very rational partner, which could offer AKT the chance to reach the world markets by decreasing their dependence on Russia. Furthermore, Turkey had advantages against Iran that was suffering from the isolation policy of the United States. Despite its initiatives to vitalize oil and gas projects, which could unite AKT with World

⁵1- Nebitdag (The fields of Burun) : ExxonMobil 40% ; Lasmo 35% ; Burren Energy 25% 2- Garashsyzyk-2 (Barsa-Gelmes, Ekizak, Kordekli, Cheleken, Guichzhik, and Kotur Tepe) MEPTI 52.4 % ; Lasmo 27.6 % ; Turkmenneft 20 % 3- Dragon Oil, Cheleken 4- Larmag, Cheleken 5-ExxonMobil, in Amu Darya 6- Shell, the right bassin of Amu Darya 7- Bidas, the fields of Keimir, Ekpatlaukh and Chikishlyar.

markets, Turkey could sustain good relations only with Azerbaijan in terms of pipeline politics. That is to say, Turkey's relations with Kazakhstan and Turkmenistan did not develop as much as it could have been. Consequently, Russia managed to cooperate with multinational companies by the virtue of its existing pipelines, ports, facilities as well as its political influence in the region. Companies such as BP, ExxonMobil and Chevron did not underestimate existing Russian transportation system, which offered transportation with low costs through amendments of the existing transportation system. Meanwhile, it became explicit that Iran was a reasonable trade partner both for multinationals and AKT by the opportunities offered by existing pipelines, ports and swapping. Indeed both multinational companies and AKT started to swap with Iran despite the embargo.

When Turkey's interpretation of the region is concerned, a sort of unexpectedness may be easily discerned. In other words, Turkey had failed to implicate a sound plan, which could increase its relations with these countries. Putting emphasis on ethnic, cultural, linguistic and religious affiliations, Turkish foreign policy did not consider the historic and economic realities of the region. Furthermore, Turkey could not start a multilateral approach, which could involve AKT in terms of realization of transportation projects. Consequently, each of these republics became competitors, which were looking for new markets. Having not realized these policies, (or having ignored them?) Turkey involved in natural gas agreements with Russia and Iran, which explicitly meant that it would not need gas agreements with Turkmenistan. As a matter of fact, Turkey lost the chance to vitalize common transportation projects, which could promote cooperation among AKT, Russia and Iran on the one hand, while promoting its national interests on the other.

The year 2003 will be remembered by the incidents, which proved that Turkey's inconsistent policies were the outcomes of short-term cost/profit analysis shaped by fraud rather than a long-term policy option favoring national interests. This article suggests that Turkey still has the chance to reconstruct its pipelines politics with Caspian littoral states on mutually more profitable basis if it manages to vitalize Baku-Ceyhan oil pipeline and Baku-Erzurum gas pipeline simultaneously by not ignoring the significance of Kazakhstan and Turkmenistan. First of all, Baku-Ceyhan oil and Baku-Erzurum gas pipelines are the two concrete projects left for Turkey. The

simultaneous construction of these pipelines may decrease the investment costs. Secondly, the discovery of new reserves in Kashagan and Karachaganak allowed Kazakhstan to supply certain amount of oil to Baku-Ceyhan pipeline. Within this sense Kazakhstan may involve in cooperation with Azerbaijan and Turkey after the construction of Baku-Ceyhan. Finally, rather than waiting the vitalization of a Trans-Caspian pipeline Turkey should first lead to construction of Baku-Erzurum, then convince Turkmenistan to take part in Trans-Caspian pipeline, which may also be considered along with Baku-Erzurum gas pipeline.⁶ Despite the vital significance of these projects Turkey seems to neglect its strategic interests in Azerbaijan by its complete attention on the Middle Eastern politics intensified after the intervention of the US. Meanwhile Haidar Aliyev has been replaced by his son Ilham Aliyev. This replacement may lead to drastic consequences if the opposition in Azerbaijan does not prefer to accept the election results. In other words, Turkey may lose its last chance left in Caspian transportation projects if it neglects its relations with Azerbaijan.

Within this context this article will elaborate the missing opportunities, growing challenges and the possibilities to reconstruct a comprehensive pipeline politics in terms of Turkey's options. Therefore, the pipeline politics in Caspian region deserves a further scrutiny which may give an idea about the threats that challenges Turkey's role vis-à-vis Caspian region, its energy dependence and as well as the opportunities that it may attain in the near future.

Oil Transportation

Azerbaijan International Operating Company (AIOC), that operates Azeri, Chirag and Guneshli oil fields, developed four alternatives in order to reach the world markets. Baku-Tbilisi-Ceyhan,

⁶This possibility may occur in three ways: 1- If European countries such as Greece agrees to buy gas from the Caspian 2- If Turkey's natural gas agreements are reconsidered 3- If Turkey's domestic gas demand increases unexpectedly. The first option tends to work on behalf of the all of the parties while the second one necessarily changes Turkey's relation with gas suppliers. The third option is not realistic because such an increase in domestic demand does not seem possible.

Baku-Supsa, Baku Novorossisk and Baku-Chechnia-Novorossisk. At first it seemed as if Baku-Tbilisi-Ceyhan and the other three options were mutually exclusive. The Baku-Ceyhan pipeline, which has been declared on November 1999 by a common declaration of Azerbaijan, Georgia and Turkey, has a strategic significance for the US, who want to impede the rise of Russia and Iran as the dominant powers of the region. In addition, this line is very important for Turkey, who wants to become a regional power.⁷

Table 1- Transportation Projects for Caspian Oil

Name of the Project (Oil)	Destination	Crude Capacity	Length	Investment	Status
		(b/d)	(km)	(dollars)	
AIOC Baku-Tbilisi-Ceyhan	Turkey	1 million	1,726	2.4-3.4 billion	Agreement 1999
AIOC Baku-Supsa	Georgia	0.115 - 0.21 million	880	590 million	Active since 1999
AIOC Baku Novorossisk	Russia	0.3 million	1,397	600 million	Active since 1997
AIOC Chechnia-Novorossisk	Russia	0.12 - 0.16 million	328+ railroad	140 million	Active since 2000
Baku-Tebriz Pipeline	Iran	0.2 - 0.4	Unclear	500 million	Proposal
Khasuri-Batumi	Georgia	70,000 - 140,000	232	70 - 100 million	Agreement 1999
Gardabani-Batumi	Georgia				Renovation of existing line
CPC Tengiz-Novorossisk	Kazakhstan-Russia	0.56 - 1.34	1,500	6.6 billion	Phase I 2001 Peak 2010
Trans-Caspian Aktau-Baku (Ceyhan)	Kazakhstan - Azerbaijan	Unclear	595	2 billion	Feasibility 1998
Aktuinsk - Xinjiang	Kazakhstan-China	0.4 - 0.8	2,880	3 - 3.5 billion	Feasibility 1999
Central Asia Pipeline	Kazakhstan - Pakistan	1 million	1,650	2.5 - 3 billion	Memorandum
Atyrau-Samara	Kazakhstan - Russia	0.21 - 0.31 million	695	37.5 million	Upgrading started in 1999
KTI	Kazakhstan-Turkmenistan-Iran	0.5 - 1	1,496	1.2 - 1.6 billion	Proposal
Neka-Teheran Oil Swap line	Turkmenistan - Iranian Port of Neka - Teheran	370000 b/day	335	400 - 500 million	Active

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal.

⁷"4.7 Milyar Dolarlık İmza", *Hürriyet*, 19 November 1999 and L. Weymouth "Turkey's Pipeline Provocation", *Washington Post*, 24 November 1999, p. A 23.

This project has advantages, which may promote the interests of the investors. According to the Turkish side, the port of Ceyhan was the best alternative in order to reach to the world markets. This line would allow AIOC to sell the Caspian hydrocarbons in Mediterranean region, which corresponded to a very huge market. In addition, this line would not suffer from the negative aspects of the port of Novorossiisk such as the weather conditions, which impeded lodging during winter. The oil transportation through Bosphorus could be realized by tankers, which had 150.000 DWT of capacity. The tankers, used in the transportation of oil from Ceyhan would be about 300.000 DWT.

Nevertheless, the Baku-Ceyhan line had many economic disadvantages such as the high costs and the gap between the demand and supply. According to AIOC, the cost of the construction of a pipeline (which has a capacity of 50 million tons per annum) between Baku and Ceyhan is 2.9 billion \$. Initially, AIOC followed policies by referring to the strategic aspects of this project. In 1999, the consortium increased the operational capabilities of BP-AMOCO which started to analyze the cost and profits instead of referring to the long term strategic concerns. As a matter of fact, BP, Statoil, Exxon, Unocal and Lukoil preferred the options of Novorossiisk, Supsa and Iran because of the low transaction costs. According to AIOC estimates, Baku-Novorossiisk line could be constructed for 2 billion \$, the Baku-Supsa for about 1.5 billion \$.

The consortium started to transport the early oil through the existing lines towards Novorossiisk and Supsa starting at 1997.⁸ First of all, AIOC developed new projects in order to transport the early oil of Azerbaijan such as the project of Baku-Novorossiisk (Azerbaijan-Russia) which has been initiated in 1997. In addition to this northern route, AIOC completed the pipeline of Baku-Supsa (Azerbaijan-Georgia) on western route. These two routes had a total capacity of 235,000 barrels per day. The ethnic conflicts and political instability made the construction of another pipeline necessary. The bypass of Chechnia was completed in 2000. This line was connected to Mahachkala port of the Caspian Sea (Russia) by railroad

⁸T. Adams and G. Rich, "Great Power Politics and the Azerbaijan Oil Pipeline: An Update", *Special Policy Forum Report of the Washington Institute for Near East Policy*, 24 February 1997.

transportation. Consequently, the total amount of alternative ways of oil transportation reached 500,000 barrels per day in 2000. Consequently, the gap between the demand and the supply became the most critical issue about the Baku-Ceyhan project. Baku-Ceyhan line needs 50 million tons of oil per annum to be feasible. In 2000 it became evident that Azerbaijan would be able to supply 25 million tons of oil per annum at least for the next ten years. There are two consequences of the incompatibility between the demand and the supply. First of all, AIOC and Azerbaijan have to convince Kazakhstan to supply 20 million tons of oil per annum to the Baku-Ceyhan line. Secondly, the Baku-Tbilisi-Ceyhan project, necessitates the evolution of an alternative transportation through the Caspian Sea for the transportation of Kazakh oil to Azerbaijan. That is to say, Baku-Ceyhan and trans-Caspian pipelines seem to be complementary projects unless new oil fields are discovered in Azerbaijan.

As an answer to AIOC's demand, Kazakhstan told that it could offer 400,000 barrels per day to Baku-Ceyhan if the production of OKIOC and other projects increase in short term of 5 years. Nevertheless, the proven reserves in 2000 indicated that Kazakhstan would not be able to supply the need of Baku-Ceyhan for the next 10-15 years.⁹ First of all, Kazakhstan has already started to transport oil via Novorossiisk.¹⁰ The Caspian Pipeline Consortium has already involved in the construction of a pipeline between Tengiz and Novorossiisk. "The %30 of the CPC line has been completed at that time and the storage tanks were being constructed at Novorossiisk."¹¹ Above all, Kazakhstan guaranteed the throughput of this pipeline, which had a capacity of 26 million tons of oil per annum. In addition the CPC had declared its intention to double the capacity of this line by reaching 70 million tons of oil per annum in the near future. These lines were exceeding the total production capacities of Tengiz (10.5 million tons per annum) and Karachaganak (3.5 million tons per annum). That is to say Kazakhstan had no difficulties about transporting its oil by using the ports of Novorossisk and Supsa. In 2001 representatives of Chevron and Kazakoil confirmed that the first

⁹V. Fedetov, "Interview about CPC", *Russian Petroleum Investor*, December 1998-January 1999.

¹⁰F. Tınç, "Yazdım Ya", *Hürriyet*, 1 May 2000, p. 28.

¹¹"Tekfen Rakip Boru Hattının Kazakistan Bölümünü Aldı", *Hürriyet*, 30 March 2000, p. 14.

shipments from the Tengiz field had reached Novorossiisk via the CPC conduit. The consortium began filling the pipe with Tengiz oil on March 26th. The pumping operations were ceased two times because of the difficulties such as the acquirement of customs clearance for the shipments of oil across the Russian-Kazakhstani border. Nevertheless, Kremlin and the CPC solved the problems by an agreement on the regulations of customs, currency and oil quality¹²

In addition it should also be mentioned that there were also other alternatives considered by Kazakhstan. The Transneft company of Russia completed the additional pipeline of 312 km. on April 29th 2000. The construction of this pipeline allowed the transportation of 18 million tons of oil per annum from the Caspian region to Novorossiisk.¹³ AmocoEurasiaKazakhstan started to transport the Kazakh Oil from the port of Aktau to Baku by 10 ships each of which had a capacity of 20 thousand tons.¹⁴ Kazakhstan and Russia involved in the innovation of the existing line between Atyrau and Samara in order to increase the capacity to 15.5 million tons per annum. The Caspian TransCo started to use railway transportation between Baku and Batum. The Tengizchevroil started to transport the Tengiz oil to the ports of Azerbaijan by the tankers, which pass through the Caspian Sea. The oil is carried to the Dubendi port of Azerbaijan by ships. From Dubendi the oil is transported to Georgia by using railroads and renovated Khasuri-Batumi oil pipeline. 70.000 barrels per day of oil are being transported through this route. In addition Kazakhstan exports small amounts of oil to Russia and China through railroad transportation. All of these projects of Kazakhstan did not leave any surplus for AIOC's Baku-Ceyhan pipeline project. Indeed, AIOC currently uses Supsa and Novorossiisk for the transportation of early oil and is not dependent on the construction of Baku-Ceyhan pipeline by holding to increase the capacity of this route by additional pipelines.¹⁵

¹²"First shipments of Tengiz oil arrive in Novorossiisk via CPC pipeline", *FSU Oil and Gas Monitor*, 21 August 2001, p. 4.

¹³"Rusya'dan Karsı Hamle", *Hürriyet*, 30 April 2000, p. 30.

¹⁴The transportation of 25 million tons of oil per annum will cost 500 million \$ through this system. M. Akgün, "Hazar'in Statüsü", *Yeni Yüzyıl*, 09 July 1998.

¹⁵"Baku-Ceyhan'a Doping", *Yeni Binyıl*, 15 August 2000, p. 9.

What can be suggested with no doubt is the fact that the roles of Novorossiisk and Supsa are simultaneously increasing. The increasing role of Novorossiisk offers advantages to Russia. Nevertheless, the consequences of the rising significance of Supsa are not very clear. Georgia considers the projects that pass through his lands as an opportunity to make fortune. Within this context, Georgia not only asks for high transportation tariffs but also does not guarantee the security of the pipelines going towards Turkey, such as the lines of Baku-Tbilisi-Ceyhan, Trans-Caspian and Baku-Tbilisi-Erzurum. Knowing the significance of Supsa, Russia uses its political and military influence in order to force Georgia to follow policies, which are compatible with her interests.¹⁶

Both Russia and the petroleum companies underline that the technological innovations will solve the problems about storage and loading from Supsa and Novorossiisk. In addition to this, they offer solutions for the negative consequences of tanker transportation which tend to increase. Currently, 50 million tons of oil is transported from Novorossiisk to Mediterranean by passing through the Bosphorus. The pipeline of Tengiz-Novorossiisk will add 67 million tons of oil to the current figure. Russia suggests that 117 million tons of oil can not be considered as a threat to the security of Bosphorus.¹⁷ Similarly, Chevron suggests that the oil will be transported by the tankers which are bigger and safer. Within this sense, Chevron emphasizes that the Turkish straits will not be jeopardized by the tanker transportation.¹⁸ If the current trend continues, 2.5 million barrels of oil will pass through the Turkish straits in one day in 2010. This is ten times more than the actual transportation.

The cost/profit analysis of multinationals, the advantages offered by existing pipelines and the political influence of Russia explicitly made this country an indispensable associate in terms of oil transportation. In addition to Russia, Iran is also becoming very active in oil transportation by the virtue of similar reasons which increased

¹⁶S. Kohen, "Oyun İçinde Oyun", *Milliyet*, 1 March 2001, p. 22.

¹⁷N. Hacıoğlu, "Rusların Pişkinliği Biz Herşeyi Hesapladık Boğazlara Bir Şey Olmaz", *Hürriyet*, 30 March 2001.

¹⁸"TPAO: Facia Unutulmadı", *Hürriyet*, 21 June 2001, p. 12.

its significance despite the US sanctions. At first, the Iranian option, which seemed to be very convenient for the transportation of oil from Azerbaijan, Kazakhstan and Turkmenistan with low transaction costs, was jeopardized by the US sanctions.¹⁹ The multinationals were expecting to use the Iranian option rather than to construct the Baku-Ceyhan line. "The Oil companies retarded the vitalization of the Baku-Ceyhan project in order to wait until the relations between the US and Iran become normal."²⁰ Nevertheless, there were significant issues (the Azeri population in northern Iran, the status of the Caspian and the Islamic regime of Iran) which obscured the vitalization of giant projects between Azerbaijan and Iran.²¹ Indeed, the Baku-Ceyhan project outdated the big projects that could be vitalized commonly by Azerbaijan and Iran.

Meanwhile, it became evident that Iran was a very good option for Kazakhstan and Turkmenistan who might prefer to supply the domestic demand of northern Iran in exchange for the same amount of oil at the ports of Gulf. In February 1998, 50,000 barrels per day (barrel per day) have been supplied to the swap line of Neka-Rey from the ports of Aktau (Kazakhstan) and Turkmenbashi (Turkmenistan).²² The capacity of the swap line of Neka-Rey will be about 315,000 barrels per day in the near future. It will be possible to increase this capacity to 425,000 barrels per day by the amelioration of the existing pipeline. Furthermore the Iranian network may become available for the swap of 700,000 barrels per day by the addition of following three new routes. The first route will be vitalized by the connection of the port of Anzali (southwestern coast of the Caspian Sea) to the pipeline of Tebriz-Ray through a trunk line. Starting at the port of Noshahr (north of Tehran), the second route will follow a similar line. The third route will become vitalized by the conversion of an existing pipeline from Atara (located on the coast at the

¹⁹Commission des Affaires Economiques, *Mission effectuée au Kazakhstan, en Ouzbékistan et au Turkménistan*, Rapport D'information, No. 412, 1997-1998.

²⁰E. Unur, "Baku Ceyhan Projesine Farklı Bir Bakış", *Star*, 27 November 1999.

²¹The Azeri population in Iran is a source of fear for the Iranian government, despite there are Azeri origins in most of the strategic positions.

²²N. Ghorban, "Neka-Rey Pipeline: Boosting Economic Integration of Caspian States", *Economic Magazine: Iran Today*, May-June 1998.

Azerbaijan border) to the Tebriz refinery.²³ As a result, it is now clear that Iran offers significant advantages to its Caspian neighbors and multinationals. This is why multinationals such as ExxonMobil and ChevronTexaco involved in illegal swapping with Iran despite Mobil's being charged with illegal activities that have been carried out commonly with Iran between 1999 and 2001.²⁴ As a matter of fact, it may be concluded that Iran is a rising power which tends to reconstruct its relations in the international arena by cooperating with American companies in the Caspian region.

Gas Transportation

Gazprom's existing pipeline with an annual capacity of 3.5 Tcf allows Russia to dominate the gas flow Turkmenistan towards other members of CIS as well as European countries. Consequently, Turkmenistan can not sell his gas at the world markets because of the absence of transportation facilities to the world markets. Turkmenistan needs to refer to Russia and Iran in order to reach World markets.

After gaining independence, Turkmenistan has faced with a dilemma. On the one hand, Turkmenistan wanted to decrease his commercial relations with Russia which were not very profitable. Nevertheless, Turkmenistan could not replace Russia with other partners because of the absence of alternative transportation systems. On the other hand, Turkmenistan wanted to develop his commercial relations with Iran. Nevertheless, the attitude of the US against Iran impeded the attempt of Turkmenistan to increase his exportation

²³It should be also mentioned that the high sulfur, mercaptan and the salt of the Kazakh oil can not be processed in the refineries of Iran. Nevertheless, Iran is upgrading the refineries of Rey and Tebriz in order to process 337.000 barrels per day of Kazakh oil. Iran may also increase the capacities of the refineries in Isfahan and Arak. Consequently, the Iranian route seems to be convenient for the oil of the Kashagan field. For the details of the attitude of Iran See, D. E. Gaddy, "Iran expands Middle East influence into Caspian Sea", *The Oil and Gas Journal*, 5 March 2001.

²⁴S. M. Hersh, "The price of oil - What was Mobil up in Kazakhstan and Russia?" *The New Yorker*, 9 July 2001.

through Iran.²⁵

Turkmenistan's relation with Russia is characterized by clash of interests shaped along pricing, transportation tariffs and payment problems. Gazprom, who buys most of the gas of Turkmenistan, does not regularly pay his debts because of the financial problems of countries such as Ukraine, Georgia and even Russia. In addition, Gazprom makes payments in ruble or exchange of goods in spite of the fact that he sells the gas on the basis of dollars.²⁶ Turkmenistan became very reluctant about selling gas via Gazprom because of the low prices and payment problems. Consequently, Turkmenistan started to negotiate with other actors (mainly with foreign companies, the US and Turkey) in order to decrease his dependence on Russia by creating alternative ways of transportation. Within this sense, the project of Trans-Caspian was very attractive for Turkmenistan in order to sell its gas to Turkey and even to Europe at good prices with no payment problems. The US and Turkey was supporting Turkmenistan for the vitalization of this project.

Table 2- Transportation Projects for Caspian Gas

Name of the Project	Route	Capacity	Length (km)	Investment	Status
Neka-Teheran Oil Swap line	Iranian Port of Neka - Teheran	370000 b/day	335	400 - 500 million	Active
Baku-Tbilisi-Erzurum	Azerbaijan-Turkey	175-565 bcf	280	682-782 million	Feasibility
Trans-Caspian (Baku-Ceyhan)	Kazakhstan-Azerbaijan-Turkey				Feasibility
Trans-Caspian (Turkmenbashi-Erzurum)	Turkmenistan-Azerbaijan-Erzurum	1.1 Tcf	1696	2-3 billion	Feasibility
Central Asia-Russia-Europe	Turkmenistan-Kazakhstan-Russia	3.5 Tcf			development of existing routes
Trans-Caspian (Baku-Ceyhan)	Kazakhstan-Azerbaijan-Turkey				feasibility 1998

Source: US Energy Information Agency and Archives of Offshore, World Oil, Oil and Gas Journal.

²⁵For instance Turkmenistan had to suspend the natural gas agreement with Iran by the pressure of the US. See, "L. Sarıbrahimoglu, "Kafkas Boru Hattı Tehlikede", *Yeni Binyıl*, 24 May 2000, p. 17.

²⁶S. Ergin, "Türkiye Doğalgazın Vanası Olursa", *Hürriyet*, 12 November 1999.

Between 1996 and 1998, Turkmenistan occasionally decreased the flow of gas to Russia because of payment problems.²⁷ In 1998, the relations between Turkmenistan and Russia worsened, when Turkmenistan started to burn the natural gas instead of sending it to Russia.²⁸ Turkmenistan was limiting his commercial relations with Russia by hoping to sell his gas to Turkey and Europe. Nevertheless, the developments in the project of Blue Stream, the discovery of natural gas in Azerbaijan, the natural gas agreement between Turkey and Iran, and the unstable policies of the US and Turkey forced Turkmenistan to re-consider Russia (and Iran) as significant partners.

In order to benefit from the growing demand of Turkey, Russia offered an alternative project which was named as the Blue Stream (*Goluboi Potok*). Russia and Turkey signed this project in 1997. The project was ratified by Russia in 1999. According to the project the pipeline would take place between the compressor station of Izobilnoye (Russia) and Ankara (Turkey). Gazprom had already built a pipeline between Izobilnoye and Dzhugba (A Russian city near Tuapse). The pipeline of 400 km. between Dzhugba and Samsun (a city at the northern coast of Turkey) would be constructed under the sea by ENI and Gazprom. Botas would complete the line between Samsun and Ankara)²⁹

The developments indicated that the Blue-Stream project excluded the trans-Caspian project by deeply hampering Turkey's relations with Turkmenistan. At the beginning of 2000 it became clear that Turkey was committed to buy natural gas not only from Russia but also from Iran. Turkey would buy about 16 billion cubic meter of natural gas from Russia and 3 billion cubic meter of gas from Iran (maximum 10 billion cubic meters).³⁰ Since then

²⁷The relationship between Gazprom and Turkmenistan leads to drastic consequences for other countries, which buy gas from Gazprom. For instance, Itera decreased the flow of gas between Turkmenistan and Ukraine from 80 million cubic meters per day to 50 million cubic meters per day because of the payment problems of Ukraine. See, *Kommersant* (In Russian), 16 August 2001.

²⁸F. Tınc, "Hazar Projeleri Delik Deşik" *Hürriyet*, 27 February 2000, p. 22.

²⁹"Putin Signs document on Blue Stream Project", *FSU Oil and Gas Monitor*, 7 September 1999, p. 7.

³⁰İ. Türkmen, "Enerji Politikası", *Hürriyet*, 11 July 2000, p. 24.

construction of Blue Stream gained momentum. In early 2002, Turkey started to buy gas from Iran despite there were claims that the price was two times more expensive than the Turkmen gas.³¹

The discovery of natural gas in Azerbaijan can be pointed out as another significant factor, which changed the characteristics of the commercial relations between Azerbaijan, Turkmenistan, Russia, Iran and Turkey. "BP Amoco discovered rich natural gas reserves in the Shahdeniz region of Azerbaijan. Since then Azerbaijan and Turkmenistan became competitors concerning the Turkish and European markets."³² In addition to Russia and Iran, Turkey signed an agreement of natural gas with Azerbaijan too. "Starting at 2004 Turkey will buy 2 billion cubic meter of natural gas from the fields of Shahdeniz. In 2006 the natural gas flow to Turkey will be about 6.6 billion cubic meters. If Turkey and Azerbaijan agree the gas trade between these countries will increase to 15-20 billion cubic meters in 2008."³³ The consortium started to construct the stage 1 of the field development studies in 2002.³⁴ In 2003 a working group started to install the pipelines under the Caspian Sea.³⁵ Recently Greece negotiated with Azerbaijan in order to export gas through for its domestic usage as well as for transporting towards European markets.³⁶ Turkey's natural gas agreements with Russia, Iran and Azerbaijan changed its relations with Turkmenistan. Nevertheless a part from these agreements Turkey's approach and inconsistent policies changed Turkmenistan's policies about Trans-Caspian pipelines. For Turkey agreements with Russia, Iran and Azerbaijan did not mean more than diversification of energy supply. Nevertheless developments created vital consequences in terms of Turkmenistan's relations not only with Turkey and Azerbaijan but

³¹"Iran'ın Pahalı Doğalgazına Gecikmeli Tören", *Hürriyet*, 23 January 2002, p. 11.

³²L. Saribrahimoglu, "Kafkas Boru Hattı Tehlikede", *Yeni Binyıl*, 24 May 2000, p. 17.

³³F. Arsan, "Interview with Haydar Aliyev", *Sabah*, 22 March 2001.

³⁴"Contract Award for the Shah Deniz Field Stage 1 Development in the Caspian Sea", *Business Wire*, 7 July 2003.

³⁵"J. Ray McDermott to Install Shah Deniz Subsea Pipelines", *Business Wire*, 18 July 2003.

³⁶"Greece to Import Natural Gas from Azerbaijan", *Europe Energy*, 23 April 2003.

also with Russia and Iran.

Soon after the ratification of the PSA of Shah Deniz consortium, Azerbaijan started to use the project of Baku-Erzurum as a bargaining tool against Turkmenistan by declaring that it would allow the transit of the trans-Caspian line through his lands under the condition of using the 50% of this line. "Azerbaijan wanted to use half of the capacity of the trans-Caspian line in order to sell its natural gas (15 billion cubic meters) to Turkey. Nevertheless, Turkmenistan did not want to share this line with Azerbaijan under the actual conditions."³⁷

Turkmenistan decided to sell its gas to Iran instead of sharing the pipeline with Azerbaijan. Nevertheless, the US forced Turkmenistan to suspend his agreement with Iran. Turkmenistan demanded financial support (about 300-500 million dollars) by emphasizing that it was becoming dependent on Azerbaijan because of abandoning the agreement with Iran. The US offered an Eximbank credit for the agricultural sector, which would be refused by Turkmenbashi because of the unfavorable conditions. "In order to convince Turkmenistan about the route of Trans-Caspian, Turkey disclaimed the debt of Turkmenistan to Turkish Eximbank worth of 25 million dollars"³⁸ Nevertheless, the attempt of Turkey was not satisfactory for Turkmenbashi, who has already become doubtful about the attitudes of Turkey and the US.³⁹

Turkmenbashi asked the consortium to finance the first phase of the line. In addition, Turkmenistan wanted to restrict the flow of Azeri gas with 15%. The conditions of Turkmenistan were not attractive for the members of the consortium. (General Electric,

³⁷E. Güven, "Türkmenbaşısı Deyip Geçmeyin", *Radikal*, 26 March 2000.

³⁸L. Sariibrahimoglu, "Kafkas Boru Hattı Tehlikede", *Yeni Binyıl*, 24 May 2000, p. 17.

³⁹We should also mention that Clinton and Gore have supported projects such as Baku-Ceyhan and Trans-Caspian in order to decrease the powers of Russia and Iran. The Bush administration may allow the development of commercial relations with Iran. In addition, the American companies want to increase in commercial relations with Russia and Iran because of economic concerns. See, S. Kohen, "Büyük Oyun Tartışması", *Milliyet*, 31 August 2000.

Bechtel and Shell)⁴⁰ Consequently, Turkmenistan started negotiations with Russia and Iran. In December 2000, Turkmenistan accepted to give 20 billion cubic meter of natural gas to Russia. ("The demand of Russia from Turkmenistan is about 120 billion cubic meters")⁴¹ This was exactly reconstruction of Turkmenistan's relations with Russia which has been suspended since 1998 when Turkmenistan started to burn the gas rather than sending to Russia. "On 10 May 2000 Putin convinced Turkmenbashi to increase the flow of natural gas to Russia 10 billion cubic meter every year. This agreement shaped the relations between Turkmenistan, Russia and Turkey concerning the commerce of natural gas. That is to say, this agreement made the Trans-Caspian project unnecessary."⁴²

In addition, Russia wants to increase the capacity of the existing line between Turkmenistan and Georgia. This line will be prolonged about 60 km. Russia will supply gas to Turkey through Blue Stream and through this line by transporting the Turkmen gas.⁴³ "According to this scheme Russia would be making good profits by selling gas to Turkey at 116 dollars for 1 thousand cubic meters which it was buying from Turkmenistan at 36 dollars."⁴⁴ In February 2003, Turkey started to buy natural gas from Russia according to the Blue Stream Agreement. Soon after the first delivery of gas it would

⁴⁰D. Zeyrek, "Doğalgaz Muamması", *Radikal*, 30 March 2000, p. 11.

⁴¹M. Sarıkaya, "Ersümer: Boru Hatlarında Problem Yok", *Hürriyet*, 23 May 2000, p. 24.

⁴²The American PSG who assumes the leadership of the consortium for the transportation of the Turkmen gas through Caspian is constituted by two companies. General Electric Capital is the financial supporter. Bechtel is responsible for the construction phase. General Electric Capital abandoned the consortium by claiming that the current developments impede the vitalization of this project. Bechtel will continue to work with Shell. Shell declared that his intention about vitalization of this pipeline still perpetuate. The agreement between Turkmenistan and Russia about increasing the flow of gas to Russia jeopardizes the projects of trans-Caspian and Baku-Tbilisi-Ceyhan. The consortiums emphasize that these projects are feasible so far as they are constructed simultaneously. Considering the current difficulties about these projects, AIOC wants to increase the capacity of Supsa. See, F. Tınç, "Kim Kaybediyor", *Hürriyet*, 28 February 2000, p. 22. and S. Yeşilmen and Z. Baran, "Amerika Havlu Attı" *Sabah*, 29 June 2000.

⁴³S. Kohen, "Oyun İçinde Oyun", *Milliyet*, 1 March 2001, p. 22.

⁴⁴*The Wall street Journal*, 23 February 2000.

be explicated that the agreement was completely hampering Turkey's national interests not only because of high costs but also because of the intermediate agents such as Turusgaz and Itera. Indeed, many Turkish officials would be accused of fraud and charged because of imposing economic burden upon Turkey for personal interests. Turkey's take or pay commitment impeded its initiatives to reshape its natural gas agreements. Above all, Turkey's reliability *vis-à-vis* Turkmenistan has been completely damaged, which in turn forced it to reconstruct its relations with Russia.⁴⁵

In 2003 it became explicit that along with Russia, Iran was becoming very active in transportation of Turkmen gas to world markets. Nevertheless, it should also be mentioned that there was an explicit intention and a well developed program of Iran, which led to development of relations with Turkmenistan. There are rich gas reserves in the eastern regions of Turkmenistan. On the contrary, the Northeast regions of Iran need gas. That is to say, Iran wants to acquire the gas of Turkmenistan in order to supply the domestic need of Northern Iran. There are two gas lines between Turkmenistan and Iran. The Korpedzhe-Kurtkui line started to operate in 1997 by transporting 2 billion cubic million per year. The capacity of this line will be increased to 12 billion cubic million per year until 2006. The second gas line, which takes place between Artik and Lotfabad has been vitalized in 2000. Initially, the transportation capacity of this line will be increased to 28 million cubic meters per year until 2004.⁴⁶ Besides these pipelines, Iran has suitable ports at the Caspian (Anzali, Noshahr and Torkeman) which are convenient for swapping. In addition to these ports, Iran is building two additional ports near Neka (The ports of Amir Abadport and Fereydoon Kenarto) in order to improve the unloading facilities for tanker deliveries.⁴⁷

Consequently, besides Russia, Turkmenistan started to negotiate with Iran in order to swap oil and gas. In the near future

⁴⁵"Devleti Çarpan Formül" *Sabah*, 6 June 2003, p. 7.

⁴⁶For the details of the attitude of Iran see, D. E. Gaddy, "Iran expands Middle East influence into Caspian Sea", *The Oil and Gas Journal*, 5 March 2001. W. James and B. V. Shenoy, "Turkmenistan fumbling opportunities afforded by Trans-Caspian Pipeline", *The Oil and Gas Journal*, 28 May 2001.

⁴⁷Ibid.

(probably until 2005) Turkmenistan may be selling 50 billion cubic meter per year of natural gas to Russia and 13 billion cubic meter per year to Iran.⁴⁸ Having changed his mind about constructing a gas pipeline between Turkmenistan and Turkey, Turkmenbashi would criticize Turkey's gas policy by emphasizing that Russia and Iran were paying 45 and 30 dollars per thousand cubic meters respectively from Turkmenistan, and selling to Turkey for 110 and 100 dollars per thousand cubic meters.⁴⁹

Conclusion : What is Left Other Than Azerbaijan for Turkey?

AKT stumbled between two distinct pipeline policies in the aftermath of their independence. On the one hand, they aspired to cooperate with foreign actors in order to decrease their dependence on Russia. On the other hand, the omnipresence of Russia and inconsistent policies Turkey forced them to perpetuate their former relations. Since 2000, the energy regime of the Caspian started to become more solid. Indeed, the production phase of the Caspian hydrocarbons are currently being dominated by the activities of foreign petroleum companies. The technological inferiority and financial problems of Russia appear to be the critical factors, which decreased its efficiency in the production phase. Nevertheless, Russia continues to be a very critical actor, which is being considered as a strategic partner because of the economic feasibility of its transportation system based on a complex link of pipelines, railroads, rivers, canals and marine facilities. As a matter of fact, the significance of Novorossiisk and Supsa ports started to increase by gaining Russia a strategic advantage. In addition to Russia, Iran's role is increasing in transportation phase by the opportunities it offers to AKT and multinationals in terms of swapping, port facilities and existing pipelines.

This emerging scene explicitly implies that there are few rooms left for Turkey in Caspian energy politics shaped along two projects both of which will be operated with Azerbaijan: AIOC's Baku-

⁴⁸E. Güven, "Türkmenbaşı Deyip Geçmeyin", *Radikal*, 26 March 2000.

⁴⁹S. Turkmenbashi, "Gazı Bizden Alın", *Milliyet*, 08 January 2002, p. 14.

Ceyhan oil pipeline and Baku-Erzurum gas pipeline of Shah Deniz project.⁵⁰ These projects have two special meanings for Turkey. Economically, Turkey will benefit from transportation tariffs charged upon the Baku-Ceyhan pipeline worth of 150 million dollars per annum. Meanwhile, it is explicit that the gas of Shahdeniz will cost cheaper when compared with that of Blue Stream as well as Iranian gas. There is no doubt that Azerbaijan will benefit from these pipelines by selling its hydrocarbons at market prices with no payment delays. Strategically, Azerbaijan will overcome its dependence on Russia. With regard to Turkey, these pipelines have a further meaning. Baku-Ceyhan pipeline may help Turkey to reconstruct its relations with Kazakhstan, which recently became able to provide certain amounts of oil to this line after the discovery of new reserves in Kashagan and Karachaganak. That is to say, Kazakhstan may be involved in this system in the future by a Trans-Caspian line or by marine transportation. Similarly the Baku-Erzurum gas line should also be considered in terms of its future benefits. Once this gas pipeline is constructed, then it may be easier to convince Turkmenbashi to participate in the construction of Trans-Caspian gas line.

Shortly, despite the incidents until now which did not allow Turkey to play a significant role in transportation of Caspian hydrocarbons to world markets, there are still some chances in which relations with Azerbaijan play the primordial role. Nevertheless, Turkey did not interact with AKT, Russia and Iran as much as it could have done. Currently, Turkey seems to carry out pipeline politics through bilateral relations with Azerbaijan. Nevertheless, it is clear that bilateral projects with Azerbaijan may offer an

⁵⁰Turkey's relations with Azerbaijan entered in a new phase since the general elections for presidency held at 15th October 2003. The trend indicates that Azerbaijan's attitude towards Turkey and pipeline projects will not be changed by İlham Aliyev, who won the majority of the votes against Isa Kamber (Musavat Party) representing the unified opposition. The new period imposes Turkey new obligations such as sustaining close relations not only with the new government, but also the growing opposition in Azerbaijan. This arises from the fact that it is not clear to what extent İlham Aliyev's regime will be jeopardized by opposition and external pressures. See, "Azerbaycan'da Gergin Seçim", *Cumhuriyet*, 16 October 2003, p. 10.

infrastructure which may involve Kazakhstan and Turkmenistan if and only if Turkey manages to realize the construction of Baku-Ceyhan and Baku-Erzurum oil and gas pipelines simultaneously, while not ignoring its relations with Russia, Iran, Kazakhstan and Turkmenistan. Until now, Turkey did not manage to implement such a consistent policy shaped by a multilateral approach. As a matter of fact, the conclusion is clear: pipeline politics in Caspian necessitates a consistent-holistic approach that may not only overcome the awkwardness of Turkey's ongoing energy policies, but also respond to the peculiarities related to the interaction among AKT, Russia and Iran. Otherwise, Turkey's role in Caspian region is doomed to be limited to bilateral relations with Azerbaijan.