

CHAPTER TEN

Pipeline Politics in the Caspian Region

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Geo-politics of pipelines from Central Asia and the Caucasus to markets in Europe, Asia, and elsewhere has become a major foreign-policy issue for the United States in the last few years. Countries like Iran, Turkey, and Russia are competing to gain a piece of the great pie. However, Washington favors Turkey for political reasons and against the will of its business community. At stake for Iran is strategic, not just economic, gains or losses. No wonder that the United States is not letting the business executives and the states in the Caspian region play the pipeline game among themselves. The winners of the pipeline game will reap strategic benefits while losers will become marginalized for some time to come. It is in this context that I assess the political risks of various pipeline routes and suggest an alternative.

To assess the political risks associated with various pipeline routes from Central Asia and the Caucasus to markets in Europe, Asia, and other world Regions, one must account for a multiplicity of often paradoxical factors at national, regional, and global levels. Yet the current positions held by the major players involved often ignore this complexity in favor of narrowly defined strategic and economic interests largely informed by shortsighted political animosity, rivalry, or alliances. To advocate for particular routes on the basis of a policy that excludes some players and includes others in the so-called great game that has ensued in the wake of the oil and gas rush in the Caspian basin is haphazard at best. The current approach is equally dangerous, for it remains oblivious to internal political and economic developments of the countries involved.

In what follows, I shall first provide a description of various routes and their advocates and then give an outline of the major risk factors involved, including the extent that they are ignored or accounted for in the positions held by the regional players. I shall conclude by proposing that

decisions concerning oil and gas pipelines should recognize the need for multiple routes as dictated by political, economic, technical, and strategic realities, and that a grand cooperative and win-win strategy is preferred over the current alliance-making and win-lose games. Yet, the most important preconditions for a sustainable transport of Caspian energy are national political and economic developments. The proposed framework is based on the assumption that the long-term prospect for every player is much richer than what it can achieve by maximizing its short-term gains.

Pipeline Routes and their Advocates

Currently, five pipeline routes are available, proposed, or contemplated. They include Northern routes, Southern routes, Western routes, Eastern routes, and Southeastern routes. As we shall shortly see, some are extensions of existing pipelines while others are altogether new and have to pass through untested and contested geographies. Rough terrain, ethnic violence, bureaucratic infighting, and individual ambitions need to be accounted for along the way. They are also distinguished in terms of their strategic significance, economic feasibility, and technical complexity. More importantly, these routes involve uneven political and environmental risks, as explained in the subsequent sections of this chapter, and are viewed within a framework of win-lose and alliance-making strategy.

Yet the real difficulty with pipeline politics is that it must find a solution to often opposing business and strategic interests. For example, while Iran provides the most economical routes, the United States opposes the alternative in an attempt to curb Iran's future regional influence. The fact is pipelines offer more than economic benefits and trade possibilities; they form strategic cores of power along which communications, transportation, and other infrastructure corridors develop. The nation or alliance that controls such corridors would supposedly hold sway over the region. The U.S. policy aims for an East-West axis, the so-called New Silk Road, which excludes Iran and Russia. As this U.S. policy goes against the economic logic of the companies involved, it has become a stumbling block to pipeline construction; meanwhile other countries have used the U.S.-Iran tension to push for less than optimal routes through their territories with a view to gain business and strategic advantages.

Northern Routes

Advocated by the Russians, both Kazakhstan and Azerbaijan could join existing Russian pipelines by building extension or new pipelines that would take their oil to Novorossiysk on the Black Sea. The Caspian Pipeline Consortium (CPC) is already busy developing the line. For the

Kazakh oil, the pipeline will be built as it encounters no rival or opposition at present. In 1977, CPC signed a \$2 billion contract for the construction of the pipeline; another \$2 billion is needed for the Azeri part. For the Azeri oil, however, the routes will have to pass through the insecure Chechnya territory or near it, a rather unpleasant possibility for prospective investors. Chechnya has a ruined economy with no real prospect for future growth and is seeking political independence from Russia. These conditions, combined with elite rivalry and a growing drug trade, call for continued political violence there. Besides, both Azeris and Kazakhs remain concerned about Russia's continued dominance of their political life; for the Azeris, the concern is elevated to fear by their Turkish, Israeli, and American allies. The real problem is this: Russia as the holder of the world's largest reserves of natural gas can hardly be excluded from the growing world gas market, thus making the Northern route a real option.

Western Routes

Preferred by the United States, Turkey, Azerbaijan, and Georgia, these routes are intended to bypass the Russian territories and Iran. The less expensive alternative (\$1.5 billion) is to build an upgraded pipeline to the Georgian port of Supsa on the Black Sea; from there oil will have to be taken by tankers through the Bosphorus to Europe. One immediate problem is the current political instability in Georgia: the Abkhazia separatists would have to be suppressed or co-opted first. Even then there is the problem with the rebellious South Ossetia. According to one report, the people living in the vicinity of the pipeline going to Supsa made some 800 holes in the line, forcing the Azerbaijan International Operating Company (AIOC) to build a whole new line for its early oil. The other problem is environmental. Turkey claims, rightly, that the Bosphorus is already too congested and that further tanker traffic will endanger Istanbul's safety. Despite these problems, this route seems to be on schedule for construction given a lack of better or more politically acceptable alternatives. The Bosphorus problem could be addressed in a number of ways including a \$1 billion Bosphorus bypass from Bulgaria to Greece or a pipeline from Supsa to Ceyhan.

Turkey instead has pushed, with American and Israeli support, for another pipeline from Baku to its Mediterranean port of Ceyhan, a direct one. A Trans-Caspian pipeline will then feed Kazakh oil and Turkmen gas to these routes. The United States is currently lobbying the Kazakh and Turkmen governments to support the pipeline. The United States' attraction to the Ceyhan route and the Trans-Caspian line emanates from its desire to build an East-West axis of influence and commerce in the Eurasia region. But this alternative is too expensive and passes through the Kurdish-dominated territories. The proposed Trans-Caspian pipeline poses

additional environmental hazards to the sea. No wonder that despite serious U.S. effort, the Ceyhan alternative is resisted by the companies. Even AIOC has argued against it. The companies had asked for American subsidies at a substantive level. The U.S. originally resisted, but after it became clear that the line may not be built by the companies, the United States offered to assist with \$823,000 toward a projected cost of \$3-\$4 billion (*New York Times*, October 22, 1998). Turkey, which originally did not come up with the promised incentive package, was also forced to bow, but its offer remains as yet vague and unattractive. Financial difficulty aside, companies also complain that "the instability of Turkey's government has made it a difficult partner" (*New York Times*, October 11, 1998).

Southern Routes

Favored by Iran and oil companies, the Southern routes make economic and commercial sense. They are cheaper to build (under \$1 billion), pass relatively safer territories, and pose no serious environmental hazard. Significant pipeline and port infrastructure also exists. A gas pipeline extends from Turkmenistan to Iran, which they hope to extend to Turkey via a new pipeline to be constructed by Shell. Extensive oil pipelines to south of Iran also exist, as do port facilities in the Persian Gulf, from where both European and big Asian markets could be efficiently served. Most notably, the Southern routes also offer the swap option, something no other routes have offered as yet. Oil companies and governments worry that the Southern option increases the world's reliance on the Strait of Hormuz, a concern that can be addressed by linking the pipelines, from Central Asia, to the port of Jask on the Oman Sea.

Certain geologists have also argued against the line because of possible seismic problems in Iran. Yet, in the last several decades earthquakes have not posed problems for the pipelines in Iran. The United States is opposed to the Southern routes for obvious political reasons and has made it a policy to prevent its realization. Opposed to the routes is also Azerbaijan, who remains wary of Iran's intention, a fear largely instigated by its allies, the United States, Israel, and Turkey. Yet, the United States and others may find it hard to advocate exclusion of Iran, which holds the world's second-largest gas reserves and is its fourth-largest oil producer.

Eastern Routes

China is increasingly energy-hungry and needs to seek new markets. The Kazakh option is attractive because it is, comparatively speaking, the most accessible. Thus, China signed a contract with Kazakhstan in Sep-

tember of 1977 to build a 2,000-mile long and extremely expensive pipeline (\$3.5-5.0 billion) from two fields in Kazakhstan that China has proposed to purchase, to its western territories. The deal, commercially unattractive, can only go if China is to continue viewing Kazakh's option as a new strategic necessity. All indications to date point to China's commitment to the proposed pipeline. However, financing the project can prove much harder than the Chinese had originally anticipated. This is the only route that seems to have no rival or enemy despite the fact that it can cause China's influence to rapidly grow in the Caspian region.

Southeastern Route

Favored by Pakistan and Afghanistan, UNOCAL, an American oil company, with Saudi Arabia Delta Oil, has been promoting a pipeline to transport oil and gas from Turkmenistan and possibly Kazakhstan, through Afghanistan, to Pakistan and eventually India. The line also had the tacit approval of the U.S. government until last summer when, following the bombing of American embassies in Africa, Washington had to bomb Osama bin Laden's terrorist camp inside Afghanistan. The Taliban's identification with bin Laden has also forced UNOCAL to withdraw its proposal for the time being. The Afghan geography presents some difficulty, and cost (\$1.9 billion) could make fund-raising a bit too difficult. Yet, the real obstacle is a political one. As long as the Afghan civil war is not fully ended and the Iran-Afghanistan crisis continues, any attempt to build the line will prove futile.

Major Political Risk Factors

Alternative pipeline routes are exposed and vulnerable to uneven political risks and involve risk factors of national, regional, and global origins and significance. It must be noted that these risk factors are interdependent, given that national and regional borders are increasingly at the mercy of global forces. The risk factors are also dynamic due to the fact that the region as a whole is in a state of transition to a new political-economic future. Clearly, the transient character of the region makes any short-term strategic alliances unstable as political changes will make loyalties shift and national interests change. For example, Russia, whom Americans thought would become a strategic partner of the United States in the wake of the Soviet collapse, has already become a strategic rival to it. Another case in point is Afghanistan. Iran thought encouraging Islamic movements there would help its cause, but the Taliban victory can jeopardize Iran's national interest. Indeed, the Taliban will not serve even the strategic interest of Pakistan and Saudi Arabia, the group's main political patron and cash register, respectively.

National-Level Risks

As *The Economist* (February 7, 1998, p. 6) noted: "Oil companies take a more relaxed attitude to political risk than many other firms. They are used to dealing with violent or unstable countries. Because oil is simply pumped out of the ground and can be speedily exported, they can tolerate economic mismanagement, civil disobedience and even isolated violence in the host country more easily than other industries." Nevertheless, political independence, stability, and certainty concern them to a great extent. Pipeline security will particularly depend on the political stability in countries of origin and transverse. These include Azerbaijan, Turkmenistan, and Kazakhstan as countries of origin, and Russia, Iran, Afghanistan, Georgia, Armenia, and Turkey as countries of possible transverse.

The fact that proposed pipelines would have to pass through two or more countries makes the situation even more complicated. Additional political sensitivity arises due to the multi-ethnic and socially polarized character of the countries involved. Another risk-contributing factor is the undemocratic nature of the ruling elite in most these states, in the countries of origin in particular. Political independence is not fully assured given the harsh political-economic conditions in the countries of origin and due to the growing Russian interventionism in its near abroad. The explosive population growth is generating increasing and urgent needs for jobs and economic growth. Meanwhile, the new generation is demanding more and has higher expectations than its predecessor generation. They will hardly accept the continuation of current political repression and backwardness for long. They will demand democracy and development.

Equally unacceptable will be the current social inequalities in income and wealth distribution and in geographic distribution of national expenditures, leading to extreme territorial imbalance. Such inequalities generate abject poverty and lead to environmental degradation and unsustainable growth. Just in the case of Persian Gulf states, oil economies in the Caspian region tend to overestimate the role that oil revenue can play in sustainable growth of their economies. Any undue overreliance will result in unstable economic policies and unwise spending. Finally, ethnic disparity and the unresolved nationalities' question are additional sources of national cleavage in the Caspian states. The desire of the ethnic elite to gain economically and politically from pipelines adds to the volatility of the political situation.

Regional-Level Risks

The Caspian pipelines face a series of risks that originate from regional and inter-state conflicts. Ethnic movements are quite prevalent in the region. The Kurds in Turkey dominate the eastern mountains of the

country and are a major source of worry for Ankara, which wishes to promote the Ceyhan route. The current crisis between Turkey and Syria is an indication of Ankara's deep concern with its Kurdish question. The Lezgians are struggling for national unity and independence. At present, they are divided into two parts in the Russian Federation and Azerbaijan. The Abkhazia separatist movement has destabilized the government in Georgia and continues to remain a source of national cleavage in that country. Chechnya and Dagestan continue to remain potential violent spots in Russia's Caspian frontier. The Chechens are particularly adamant about their independence and possible gains from future pipelines through their territories. Conflict among more than a dozen other ethnic groups in the Caucasus can flare up if their political and economic demands are not met.

The conflict between Armenia and Azerbaijan over Nagorno-Karabakh is on hold and could lead to renewed fighting in the future. Presently, 25 percent of Azeri's territories are occupied by the Armenians and this makes pipelines from Baku less than safe. In Afghanistan, while the Taliban seems to have secured its position as the dominant force, the endgame remains less than certain there given the crisis with Iran. Other regional or international crises can develop given the alliance-making policy that some states follow. Meanwhile two other important sources of tension remain: dispute over the legal regime of the sea and a possible environmental conflict that can follow from the unwise utilization of resources in the Caspian by the oil-producing states, Azerbaijan in particular. Iran and Russia have little oil and gas resources around the sea; instead, they depend on its clean environment for fishery and caviar. In addition, agriculture, forestry, and tourism are vital for the people on the Iran side of the sea. Any degree of pollution can harm Iran's interests and become a cause for political conflict.

Global-Level Risks

Another set of political risks that face a rational decision regarding pipeline routes emanates from global games for strategic gains. The East-West axis strategy followed by the United States proposes to exclude Russia and Iran while including Turkey along with states in the Caucasus and Central Asia. The rivalry this strategy generates can prove unproductive for the independent and democratic development of the very states the United States wishes to promote. Both Iran and Russia are central to the coherence and well-being of the larger region. Their cooperation can help, while their antagonism is sure to hurt. To view the Caspian solely as a linchpin of an American global game for strategic gains is unwarranted. The current power game and alliance-making policy goes against the need for cooperation in building, utilizing, and safeguarding the pipelines.

As part of its global and regional games, the United States has tried to cripple Iran economically and isolate it politically. The economic impact of the containment policy has been simply devastating for the Iranian people, who continue to suffer from declining income and employment opportunities. Politically, too, the U.S. policy has hurt Iran by making it enemies to its otherwise natural allies. At present, three sets of regional alliances are organized around and against Iran: the Turkey-Azerbaijan-Israeli alliance in the northwestern and western borders, the Iraq-Mojahedin-UAE alliance in the western and southwestern borders, and the Pakistan-Taliban-Saudi Arabia alliance in the southern and southeastern borders. These destructive attempts notwithstanding, the United States has not been able and will not be able to bring Iran to its knees as the country benefits from a rich history of national dignity and regional role.

Aside from destructive rivalry between the states, the present policy discourse in the Caspian region will increase the tendency toward anti-externalism, reviving the largely outmoded anti-imperialist political culture so embedded in the minds of the Caspian people. If current outside intervention leads to failure of the states to develop their respective societies, alternative social systems and ideologies will come to challenge the current drive for establishing liberal political and economic systems. Extremism and national fascism are candidates for such an eventuality. From this perspective, pipeline routes need to be decided with a view to regional development, not as tools to serve strategic interests of particular states or groups of states. The key to altering the present discourse is a change in U.S. policy toward Tehran, and a good starting point will be for the United States to release Iranian assets in a symbolic gesture and to drop its opposition to pipelines going through Iran.

Toward a Cooperative and Win-Win Strategy

The above analysis indicates, among other considerations, that the best solution to the current stalemate may be found within a cooperative framework that emphasizes four principles: a win-win strategy, a multiple-pipelines approach, political reform, and sustainable economic development. A win-win strategy will de-politicize decisions with regard to pipeline routes, seeks a balance of national interests, and includes existing and prospective investors in determining the optimal routes. Meanwhile, the states with high stakes in the region, namely the United States, Russia, Iran, and Turkey, must realize that their current rivalry or hostility serves no one in the longer term and that a more amicable solution to outstanding claims will serve all parties involved. In this regard, a solution to the current standoff between the U.S. and Iran is the most critical. Here, as in the case of other rivalries, visionary leadership is

called for in which sensationalism is subordinated to rationalism and long-term gains.

A multiple-pipelines approach is another most optimal and logical solution to the current stalemate. First, a multiple-pipelines approach will reduce dependency on a few countries and avoids concentration of world energy in a few hubs such as Baku, the Strait of Hormuz in the Persian Gulf, and Novorossiysk or Ceyhan and Supsa on the Black Sea. Second, the multiple-pipelines approach has economic logic. For example, while Iran offers a cheaper alternative than Russia or Turkey for pipelines from both Central Asia and the Caucasus, its comparative advantage lies in providing swap arrangements and easier access to fields in Turkmenistan and Kazakhstan. Turkey and Russia could have offered attractive routes for pipelines originating from points in Azerbaijan but, cost aside, feasibility is seriously constrained by political and environmental difficulties. Third, the political logic of multiple-pipelines is equally attractive as it reduces sensitivity to political instability in a given country or countries along a given route. The current largely political logic applied to pipeline routes not only goes against the economic logic but is counterproductive because of its superficial treatment of regional politics. For example, while bilateral political and strategic alliances are emphasized, internal political development is ignored.

Fourth, the technical feasibility of various routes also increases with a multiple-pipelines approach. This is due to the varying geographic and environmental difficulties that certain proposed routes pose. Within a cooperative framework, pipeline routes can be modified to avoid country-fixed solutions and possible inter-state environmental conflicts. Finally, the multiple-pipelines approach lessens possible strategic losses while increasing potential strategic gains. Pipelines are long-term commitments to a nation, and countries that lose will do so strategically. While there is no guarantee that the gaining people will remember the favor, the losing people will surely develop a structural animosity toward countries it considers the culprits. Given the deep-rooted anti-imperialist political culture or nationalistic tendencies in most of these nations, such a structural anti-externalism can lead to social upheavals. Needless to say that in that case, the domestic and international players in the pipeline and energy games of the Caspian region will encounter a lose-lose situation.

Political reform is key to political stability in the Caspian region and as such is the most important precondition for the safe operations of the pipelines in the long run. The reform must be genuine and lead to political participation, elite circulation, and the rule of law. It must also end corruption, create discipline within the state, and increase its accountability. Current personality-based and exclusionary politics will not last for long. The new generation expects freedom, participation, and develop-

ment and in that regard it looks to the developed world as a model to emulate. The future leaders of the Caspian states will have difficulty justifying under-development and dictatorship in an increasingly democratizing and developing world. As a basic requirement of political reform, the states must prepare the ground for expansion of civil society institutions and alternative discourses in all spheres of national life.

Political development is a precondition for sustainable economic development. Yet, the states in the region cannot afford to postpone the latter until the former has been achieved. Here lies the challenge facing the emerging economies in the Caspian region: They must develop as they democratize. The one and only possible alternative in this direction is a balanced development strategy: one that allows for economic growth and diversification, provision of basic needs, expansion of civil institutions, and circulation of the elite. As states promote political liberalism and free-market principles, they must also devise visions for re-inventing the government, expanding social networks, promoting political competition, and reducing reliance on oil income by encouraging export-oriented industrialization. In short, political and economic pluralism along with a complementary social policy is the key to state-building and national development in the region. Unless and until these conditions are met, pipelines will continue to remain vulnerable to domestic violence and inter-state conflicts.

In closing, I wish to invite attention to the consequences of the Iraqi invasion of Kuwait for the pipelines that used to take millions of barrels of Iraqi oil to international markets. Those who promoted the pipelines on the basis of economic, technical, or strategic criteria never thought that Saddam Hussein's dictatorship and underdemocratic approach to the states in the region would become a cause for their closure. Had the Iraqi people and the states involved insisted on a balanced political-economic development of the country, Iraq would not have lost billions in oil revenue investment, and the pipelines would have been carrying more oil to the world energy markets for the benefit of all involved (except for the Caspian states!). As it is rightly said, democracies do not fight, internally or externally; but dictatorships do. I am only hoping that this and similar other examples will make current decision makers think deeply about the multiple conditions that need to be satisfied for a sustainable Caspian energy transport.

Part IV

Security and Geo-Politics