

Chapter V

Sidestepping Iran

One of the pillars of the Clinton Administration's policy toward the Persian Gulf and Caspian Sea is to contain Iran, preventing it from benefiting from the development of the Caspian oil and gas deposits or from the passage of oil and gas pipelines through its territory. What complicates the pipeline issue is the fact that the Iranian route, which the U.S. adamantly opposes, is economically very attractive because it would be the shortest route for transporting Caspian oil to the Persian Gulf.

On May 28, 1998, the president of the US Eximbank declared, "There is no limit to the amount of money we will commit to pipeline projects which are commercially viable." This first public offer of US financing was announced just after US Energy Secretary Federico Pena strongly endorses the Baku-Ceyhan plan, at 1,780 kms and \$2.5 billion. The Azerbaijan International Operating Company (AIMO) is expected to make a final decision on pipeline routes by the end of 1998.

Specific routes being proposed as alternatives are the Georgia route, the Afghanistan route, the Turkish route, and the Chinese route. The feasibility of each route depends not simply on the economic costs involved but also on security considerations. The possibility remains, although remote, that the idea of building an alternative route may suddenly be scrapped if there is an improvement in U.S.-Iranian relations.

1. The Afghanistan Route

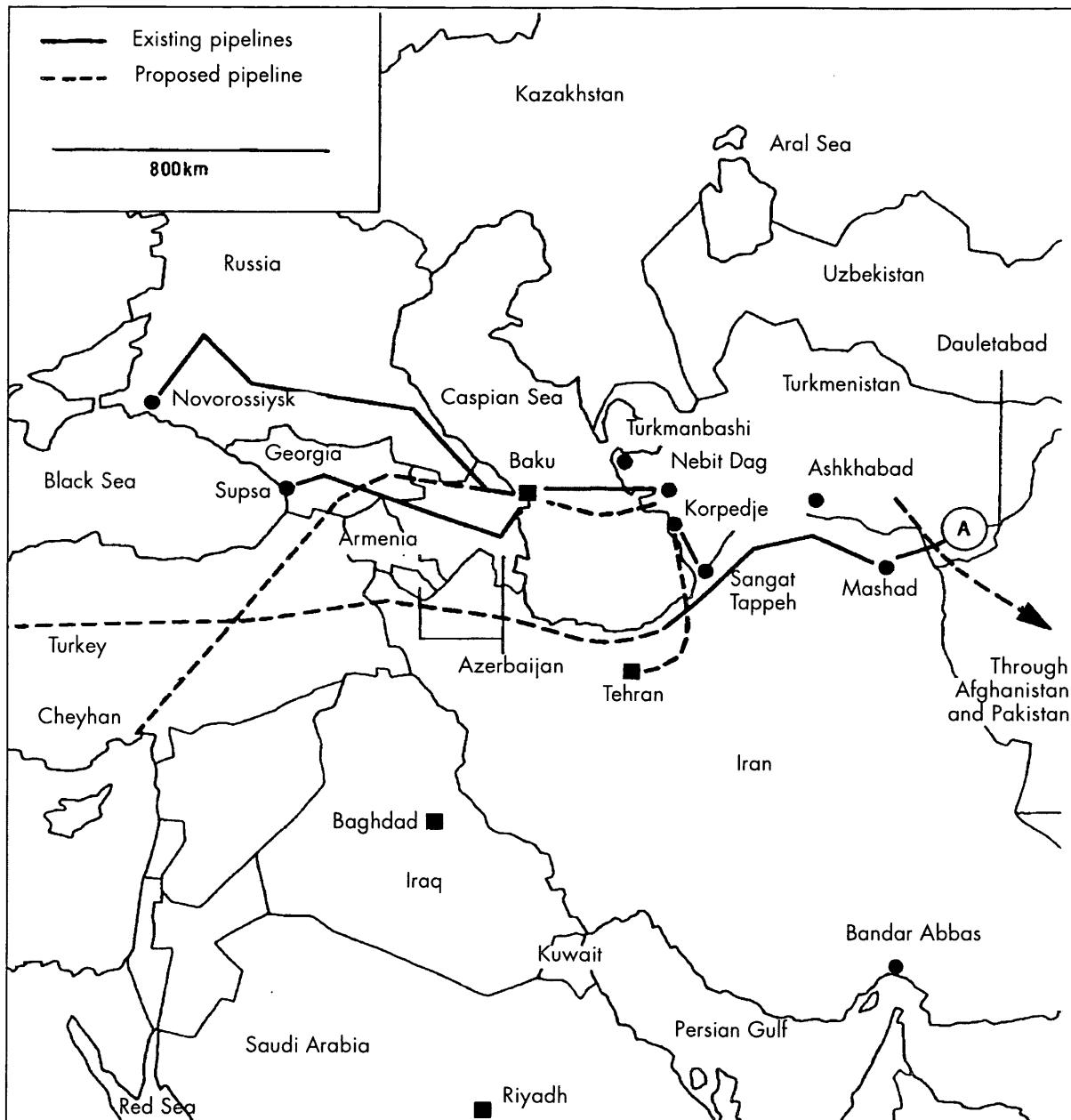
One alternative to the Iranian route is to transport the gas produced in the East Turkmenistan gas field through a pipeline passing through Afghanistan, Pakistan, and India. A serious problem with this route, in addition to the long distance involved, is that the civil war still going on in Afghanistan, making the political situation there extremely volatile. Ever since the April 1978 coup d'état by the People's Democratic Party of Afghanistan, which led to the establishment of a leftist regime, Afghanistan has been shaken by a series of serious armed confrontations. First, a civil war erupted between the leftist regime and Muslim opposition guerrillas who called themselves "mujahedeen," or holy war-

riors, which led to an invasion by Soviet troops toward the end of 1979; following the Soviet invasion, the civil war between the government and Soviet forces combined and the Islamic guerrilla forces became protracted and slipped into a quagmire; subsequently, in 1989, toward the end of Gorbachev's reign in the Soviet Union, the Soviet troops withdrew, tipping the balance of power in favor of the rebel forces, and leading to the ousting of the Soviet-supported Najibullah government in April 1992; shortly thereafter, various rebel groups began to fight each other for control of the country, and the fighting continues. The armed conflicts that have raged for two decades have ravaged the country's economy, and driven more than 3 million people into Pakistan, Iran and other neighboring countries as refugees. What is especially important to note is that the armed struggle for power among the various ethnic tribes, guerrilla forces, and other groups has rather escalated since the withdrawal of the Soviet troops, who were a common enemy, and especially since the establishment of a new regime in December 1992, following the April 1992 ousting of the Najibullah regime. The Rabbani government of the Islamic Association, which was formed in Kabul, has its main base of support in the minority Tajik ethnic group, and has been unable to extend its control to the regions inhabited by the majority Pushtun nation.

Taliban, which means "religious school pupils," emerged as an opposition movement, supported mainly by the majority Pushtun nation. Taliban has rapidly extended its power, taking advantage of the support of external powers who were eager to see the situation in Afghanistan stabilize, by whatever group it might be. Pakistan has reportedly supported Taliban, and it is clear that it has gained influence without any objection being raised by Saudi Arabia, or by the United States. While openly hostile to the Iranian version of "Islamic fundamentalism," the United States has turned a blind eye to the Afghanistани version. The U.S. government, however, has not yet recognized the Taliban regime, because of strong criticism in the United States about the regime's policy toward women.

In order to realize the plan to construct a pipeline through Afghanistan and Pakistan, two

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Source: *Financial Times*, Jan. 14, 1998

American oil companies, Unocal Corp. and Delta Corp., approached Taliban and agreed on a US\$2 billion contract. However, the feasibility of this pipeline route depends critically on whether the internal political situation in Afghanistan can be

stabilized, and moreover on whether the conflict between India and Pakistan can be successfully resolved. Given the current situation, there is no chance that India will approve of the proposed pipeline route, which will pass through Pakistan, or

agree to depend on the pipeline for its gas supply. In fact, India is very interested in manufacturing urea fertilizer using natural gas produced in Turkmenistan. The blueprint of the blueprint as it now stands envisages building a urea manufacturing plant near the natural gas field in Turkmenistan, and transporting the manufactured fertilizer via rail to the Iranian port of Bandar Abbas. However, the project is on such a grandiose scale that the plant's output will have to be shipped by 30-car freight trains which will shuttle back and forth, and this will invariably call for the modernization of the Iranian railway system.

2. *The Turkish Route*

In June 1997, Prime Minister Erbakan of the Islamist Welfare Party was forced to resign under pressure from the military. Since assuming office one year earlier, his government, in an attempt to make adjustments to Turkey's traditional diplomatic stance, had been taking steps to improve its relationships with Iran and other Islamic countries. One outcome of this effort was a tripartite agreement with Iran and Turkmenistan on a pipeline project for the transportation of natural gas from those two countries to export markets via Turkey. Moreover, the improved relationships between Turkey and Iran opened up new vistas of an increasing role for the Economic Cooperation Organization (ECO), a regional organization that had been established in 1985.

The new Yilmaz government, which replaced the Erbakan government, has been trying to readjust Erbakan's diplomacy, while searching for a new political identity for the country, different from its older image of being strongly oriented toward the West. More specifically, the Yilmaz government is trying to strengthen ties with countries of the Caucasus, Central Asia, and Balkan in collaboration with the United States, Russia, and Israel. Turkey is trying to play a leadership role in the region by deepening its contacts with the other countries through the summit conferences of Turkic countries and the Black Sea Economic Cooperation Conference, and by capitalizing on its national, linguistic, and cultural proximities to its neighbors. Turkey has been prompted to take this initiative by the difficulties it has faced in its bid for European Union membership. As early as 1963, Turkey first filed an applica-

tion for admission into the then European Economic Community, the predecessor of the present EU, but at the EU summit held on December 14, 1997 in Luxembourg, Turkey was excluded from a list of 11 prospective member countries. A decision was reached that of the 11 candidates, negotiations for membership with five countries from Central and East Europe (Poland, the Czech Republic, Hungary, Estonia, and Slovenia) and for Cyprus would begin in April 1998, while the negotiations with the remaining five (Bulgaria, Latvia, Lithuania, Romania, and Slovakia) would begin sometime later. Turkey was not included even in the second group. Prime Minister Jean-Claude Juncker of Luxembourg stated: "We regard Turkey as a great European country . . . we want to have it understood by Turkey that we are not a Christian club, but a club which follows certain rules."¹ Among the members of the EU, Germany is disinclined to admit Turkey, while Britain, France, Italy, Spain, and Austria have voiced concern over the possibility that continuing to deny Turkey a place in the EU will have the effect of invigorating Islamic fundamentalist forces there.² Erbakan remarked that "Turkey was kicked out of Europe, but it was kicked out of the Islamic Conference, too," referring to the fact that Turkey absented itself from the Islamic Conference that met in Teheran toward the end of 1997.³

Subsequently, Yilmaz made an official visit to the United States and had a meeting with President Clinton, during which Turkey was praised for playing a leadership role in the volatile regions of the Balkan, the Caucasus, and the Middle East. After Yilmaz' return, Chernomyrdin became the first Russian prime minister to visit Ankara, and the two leaders signed an agreement committing Turkey to exporting US\$20 billion worth of natural gas to Russia over a 25-year period. The conclusion of the agreement was indeed epoch-making, given the centuries-long history of rivalry between the two countries. There are, of course, many conflicts of interest between the two, as evident from the Russian plan to supply Cyprus, a long-standing enemy of Turkey, with missiles, but the signing of the gas export contract deserves special attention as a manifestation of Turkey's willingness to develop its relationships with Russia into a new direction. During his visit of Turkmenistan around December 20, Prime Minister Yilmaz stated that Turkey was ready to collaborate with Turkmenistan in trade, and that it would dispatch engineers in

exchange for supplies of energy resources from Turkmenistan.

Israel is another country with which Turkey has been cultivating a new partnership, especially in the field of military cooperation. In early December 1997, Israeli Defense Minister Mordechai visited Ankara, in the first official visit to Turkey ever by an Israeli minister of defense. During 1998, Turkey is scheduled to hold a joint military exercise in the Mediterranean code-named "Reliant Mermaid," together with the United States and Israel, two countries which are deemed Turkey's "strategic partners."⁴ The strategy of cultivating closer ties with Israel and the United States is different either from the one of dependence upon the West or the Islamic world. Yet developing closer ties with Israel, with its tough attitude toward the Palestinians, can possibly touch a raw nerve of the Muslims. For the part of the United States, too, the chances of cultivating closer partnership with Turkey cannot but be restrained by the influence of the Greek, Armenian, and Kurdish lobbies within the country.

Turkey is supporting the idea of constructing an oil pipeline that will extend from Baku, Azerbaijan, pass through Georgia, enter Turkish territory, and lead to Ceyhan on the Mediterranean coast. Turkey hosted a conference of foreign ministers of the oil producing countries of Central Asia (Azerbaijan, Kazakhstan, Turkmenistan, and Georgia) in Istanbul on March 1, 1997.⁵ Turkey's aim in hosting the conference was to win support for the pipeline route connecting Baku and Ceyhan. The proposed 1,700 kilometers-long pipeline, which will cost a total of US\$2.5 billion, is expected to have a target transport capacity of between 1 and 1.5 million barrels of oil per day. Before Turkey can put this pipeline route into reality, however, it must persuade the AIOC into accepting the estimated costs involved in the pipeline's construction, and must also solve the question of how to finance these costs.

The United States is most ardently supporting the Baku-Ceyhan route because it is compatible with its policy of containing Iran. Thus, the chances of this route's being adopted are increasing, but still remain uncertain, depending both on whether the financing question can be solved, and on future developments in U.S.-Iranian relations.

3. *The China Factor*

In September 1997, China and Kazakhstan agreed on an oil exploration package deal amounting to US\$9.5 billion, the largest of its sort ever concluded in the Caspian Sea region. The agreement covers the development of the South West Uzen oil field, and the construction of a pipeline which will transport crude oil from Kazakhstan directly to China. The Uzen field is expected to start producing 160,000 barrels of oil per day beginning in the year 2002. The Chinese National Petroleum Corporation (CNPC) will be responsible for constructing the pipeline extending from Kazakhstan to China via Tajikistan. In addition, CNPC is reportedly planning to build another pipeline that will cover a distance of 250 kilometers from Kazakhstan to Iran via Turkmenistan.⁶ It is noteworthy that China is pursuing an increasingly dynamic policy toward Central Asia, the Caucasus, Iraq, and Iran, so as to meet its domestic oil demand which has been on the increase since it became a net oil importer in 1993. It should also be noted, however, that the prospect for China's efforts to secure reliable supplies of oil import from the Caspian region remains considerably uncertain, and will be affected by whether China can successfully deal with a number of problems, such as project financing, the costs of pipeline construction, and diplomatic negotiations with the countries located along the proposed routes.

4. *Iran's Defiance*

As is shown in Chapter 3, Iran is engaged in various means to transport oil and gas from Central Asia and the Caspian Sea, such as a swap deal with Kazakhstan and a pipeline route for Turkmenistan gas that is expected to pass through its territory to Turkey. In addition, it was learned at the end of May 1998 that Iran is planning to issue a tender for \$400 million for a pipeline between Iran's Caspian port of Neka and Tehran, a distance of some 392 km. This is a new challenge to the US strategy to contain Iran in connection to the Caspian oil and gas. Iran's pipeline project has been offered as a buy-back scheme, and excludes foreign ownership of oil and gas projects.

Notes

1. *International Herald Tribune*, December 18, 1997
2. *Financial Times*, December 18, 1997
3. *International Herald Tribune*, December 16, 1997
4. *International Herald Tribune*, December 29, 1997
5. *Financial Times*, March 2, 1998
6. *MEED*, October 10, 1997