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TITLE: AZERBAIJAN`S GEOPOLITICS AND OIL PIPELINE ISSUE

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PAGES: 0-0

ORIGINAL PDF URL: <https://dergipark.org.tr/tr/download/article-file/817084>

PERCEPTIONS
JOURNAL OF INTERNATIONAL AFFAIRS

December 1999 – February 2000

Volume IV - Number 4

AZERBAIJAN'S GEOPOLITICS AND OIL PIPELINE ISSUE

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Most of what Azerbaijan has gone through is explained by its geographical location. The weakness of Azerbaijan's natural defences has repeatedly left it open to external aggression. This feature means that Azerbaijan has played the role of a convenient corridor for foreign states' attacks from north to south and vice versa, as well as for expansionist goals of mighty forces. Historically, there has been no place for the weak structures in the region, but at the same time, there has been no durable stability or opportunity for evolutionary development. Access to Caspian waters in the east has caused serious problems also. The Caspian has the nature of a big lake (having no natural exit to the high sea) and this has noticeably retarded the country's development and relationship with foreign states. It is indicative that Azerbaijan is classified as one of more than 40 landlocked countries.¹

In addition to its complicated geographical location, there were at least three important events that were preconditions for its contemporary geopolitical situation. One of these is the split in the Turkic world in early sixteenth century and the consequent religious, ideological and political separation of the Azerbaijanis from the external Turks. Under the rule of Shah Ismayil Khatai, who founded the state of Safavids (1501-1524), the Shiah creed was officially adopted on the greater part of Azerbaijan's territory. Having been estranged from the Eastern (Central Asia) and Western (Ottoman) Sunni Turkic world, Azerbaijani Turks thus bound their fate with the Persians and other Iranian peoples for a long time. The 150-year long Safavid-Ottoman wars, besides further exacerbating the alienation, cut Azerbaijan's way to the west. Deprived of such an opportunity for many years, the Safavids and subsequent states were compelled to build their relationship with Europe through Russia. These processes laid the foundation for Azerbaijan's predilection for a North-South axis.

A second event completely bogged Azerbaijan down on a north-south axis. From the beginning of the nineteenth century, the Russian Empire invaded the north. The Azerbaijani khanates were factually independent but legally regarded as part of Qajar Iran. Azerbaijan was divided and with that, the problem of the forceful integration of its north to Russia and south to Iran commenced.

In the middle of the nineteenth century, the development of abundant oil fields in north Azerbaijan, which was still a colony of the Russian Empire, significantly elevated the geopolitical importance of Baku and of the entire northern region of Azerbaijan. Baku turned into one of the largest oil producing centres in the world. More than half of the world's oil production (by volume) was, at the dawn of this century, centred on Baku.

Independent between 1918 and 1920, the Azerbaijan Democratic Republic made courageous moves

to establish a relationship with Western countries. Azerbaijan's and Georgia's overlapping geo-strategic interests laid the groundwork for a union of the two. In order to minimise the negative impact of being a landlocked country, the government of Azerbaijan undertook several steps. In a move to obtain access to the open sea and ensure security of foreign trade relations, the government of Azerbaijan planned to build two railway lines to Batumi (Borchaly-Batumi and Julfa-Kars-Batumi). At the same time, the government put the issue of Batumi's status on the agenda. After long negotiations, in April 1920, an important decision was made about this city at the San-Remo Conference and Batumi was declared a free city. In April of 1920, the Azerbaijan Democratic Republic again tried the bitter taste of its complicated geopolitical location and the economic importance it represented for foreign states (first and foremost for Russia). Russia invaded Azerbaijan again.²

Notwithstanding the geopolitical and geo-economic contribution of oil to Azerbaijan in the last 150 years, its role has generally been negative. The biggest fruits of the 1.250 billion tons of oil Azerbaijan produced in the years of Soviet power were oil puddles on the Absheron peninsula.

The restoration of Azerbaijan's independence has given it an opportunity to take another look at the matter, this time from a different angle. Palpable changes are currently underway in the entire region Azerbaijan is located in, as well as in the geopolitical situation of the Azerbaijan Republic proper. What is the role of oil in these processes? How significant is it? This article is an attempt to study only one aspect of this great political and academic problem, the oil pipelines issue.

NEW OIL BOOM LEADS TO A NEW GEOPOLITICAL SITUATION

In the course of the national and democratic movement in the late 1980s, numerous people were calling upon Azerbaijan to become the real proprietor of its abundant oil reserves. In reply to this, Moscow's local supporters started disseminating ideas that this contradicts the reality. Interpreting the developments in accordance with their own interests, the world's oil giants started showing explicit curiosity in the matter as well. The latter began direct talks with Azerbaijan at a time when Azerbaijan was still a 'sovereign republic' within the USSR.³ In conclusion of these long talks and deep political processes, on 20 September 1994, a consortium was established in Baku to tap the Chirag, Azeri and deep-water portion of Guneshli fields. Twelve international oil companies participated in the deal. The consortium is expected to invest \$7.4 billion and produce 511 million tons of crude over 30 years.⁴ The local and some foreign media termed this deal the 'Contract of the Century'. This laid a reliable foundation for the signing of other contracts and establishing new consortia. According to official sources, the number of oil contracts Azerbaijan has signed to date exceeds 16. For these to be implemented, investments totalling \$50 billion are expected over the next 30 years.⁵

In November 1997, the first contractual well gave oil. This oil was almost immediately used to fill the recently prepared Baku-Novorossiysk early oil pipeline (yearly capacity five million tons). In 1998, this pipeline transported 2.5 million tons of Caspian oil to world markets. In January 1999, oil started being pumped into the second early oil pipeline, the Baku-Supsa line (yearly capacity 5-7 million tons). According to official sources, a total of up to \$2bn has thus far been invested in Azerbaijan's oil industry.⁶ The media have begun characterising these developments as the second oil boom in Azerbaijan.

The Baku Silk Road Summit (7-8 September 1998) and the Baku-Tbilisi-Ceyhan Main Export Pipeline Ankara Declaration (October 1998) have become integral parts of the boom in question.

These events laid the foundation for a new stage in the issue of pipelines and the Baku-Tbilisi-Ceyhan pipeline route has come to the fore against competition from other alternatives, the Baku-Novorossiysk and Baku-Supsa lines. The documents signed during the Baku Summit gave further impetus to the work on implementation of the Europe-Caucasus-Central Asia energy and transport corridor project (TRACECA), the foundation for which was laid back in 1993.

KEY PLAYERS IN GEOPOLITICAL ARENA

The developments in the Caspian basin region are not confined to tapping its hydrocarbon resources. The matter goes far beyond what is clearly seen on the surface. First, to transport the hydrocarbon wealth to world markets from the landlocked Caspian, the main oil export pipeline has to be built from the Caspian to the open ocean. This matter also requires the determination of the Caspian's legal status. It is these issues that largely precondition the geopolitical (as well as geo-strategic) interest of certain states in the region.

THE UNITED STATES OF AMERICA

The United States is the only superpower that stands behind all the strategically important processes in the Caucasus and Central Asia, both as author and initiator. The US Administration has repeatedly announced through its official envoys and a number of legal documents that the region, the Caspian basin, is one of vital importance for the USA. The US Department of State, in its Caspian Region Energy Development Report released in 1997, outlines main principal directions for US policy in the Caspian region.⁷

In accordance with its strategic course, the US administration gives preference to the Baku-Tbilisi-Ceyhan main export pipeline route and advocates the principle of division of the Caspian Sea between its five littoral states into national sectors meeting in the middle. The US government has demonstrated noticeable activity and persistence in its regional policy since 1995.

In our opinion, the USA has done a great deal to promote its authority in the Caucasus and Central Asia and, just like in most other regions worldwide, has become a party to reckon with. Washington is determinedly in favour of the Baku-Tbilisi-Ceyhan pipeline route and regards it as being capable of promoting geopolitical changes in the region.

THE RUSSIAN FEDERATION

Another important geopolitical player in the struggle for the oil pipeline is the Russian Federation. This country's reaction to the 'Contract of the Century' was very strange. Russian Minister for Energy and Fuel attended the solemn signing ceremony. Its state oil company, LUKoil, became a co-founder of the first international petroleum consortium for the Chirag, Azeri and Guneshli fields with a 10 per cent stake. But hardly had the ink on the contract dried than the Russian Foreign Ministry representative first, then the Foreign Minister, Andrey Kozirev, proper and still then the President, Boris Yeltsin, regarded the signing of the contract as contradicting Russia's interests and issued statements of condemnation.⁸

In the ensuing years, too, Russia has continued to pursue the strange policy on the Caspian oil issue. There are quite a few important reasons that explain Russia's complicated position on this issue. First, the Yeltsin administration has announced that the former USSR republics are its 'near abroad' and it is trying to preserve them in its area of influence. Therefore, it considers the attraction of Western capital and advanced technology to hydrocarbon development as a blow to its own

economic interests. Another aspect to consider is that Russia's sector of the Caspian is rather poor with oil reserves as compared with others. As for the political background for Russia's concerns about the rampant activities in the Caspian basin, this naturally comes from the fact that Russia considers itself the heir of the Russian Empire-Soviet Union and continues looking down upon its previous colonies. In this connection, the ex-Soviet republics' steps towards shaking off dependence infuriate Russia.

On the other hand, certain political and economic circles of Russia, especially the energy complex, take the processes evolving in the region realistically, understanding all too well that to apply older methods (political, military and other pressure) in order to restore previous influence is no longer possible. To get the upper hand in this struggle, Russia not only has limited internal resources (financial, technological, etc), but also has to count on Western assistance for the attempt to recover from the deep crisis that has paralysed the Russian economy. It is for this reason that these realistic forces call for preserving what is available today in order not to lose it in the future.

TURKEY

The Turkish Republic welcomed the formation of the Turkic states. The rich hydrocarbon resources of the Caspian's independent Turkic states further increased their significance in the eyes of Turkey. Having become NATO's regional co-ordinator, Turkey is now trying to make the best of its role as the Alliance's representative in the Caspian region. Political, economic and strategic interests, as well as Turkey's geographical factors, predisposed the country to joining the struggle for Caspian mineral resources.

With the signing of the 'Contract of the Century' and the establishment of the international consortium to tap Azerbaijan's hydrocarbon resources, Turkey has been eager to obtain a place among its participants. Owing to a shortage of financial and technological opportunities, Turkey has been mainly attending to the problem of Caspian oil transportation to foreign markets. Despite all the efforts of some close partners in the Baku-Ceyhan oil pipeline issue (the USA, Azerbaijan, Georgia, Uzbekistan and Kazakhstan), decision-making on the main export pipeline has encountered serious obstacles. The main card that Turkey has been using to counteract all the alternatives to the Baku-Ceyhan line is that the Bosphorus might become overloaded with shipping.⁹ The Ankara Declaration (1998) announced that the Bosphorus has dangerous ways and stressed the impossibility of further overburdening the Strait.¹⁰

The Turkish government has forwarded a number of proposals to ensure the safety of the Baku-Ceyhan oil pipeline and is continuing work in this direction. In addition to the expansion of military co-operation with Azerbaijan, the Turkish government is establishing military contacts with other regional states.¹¹ Turkey has had major success in restoring its historical role in the Caspian region and making other states reckon with its political, economic and strategic richness. Turkey's geographical, ethnic and cultural proximity to the region lays the groundwork for further expansion of Turkey's local successes. Turkey has also succeeded as a representative of the West and conductor of Western values. The Baku-Tbilisi-Ceyhan oil pipeline can serve as a good foundation for the expansion of Turkey's bilateral relations with regional states, especially with Azerbaijan.

IRAN

Another participant in the geopolitical struggle over Caspian oil is the Islamic Republic of Iran. On

this issue, Iran's position overlaps with that of its historical rival, Russia. The two states, two of the world's major hydrocarbon exporters, have been facing serious problems in the world's export markets. Russia and Iran regard the appearance of prospective oil and gas producers in the Caspian region as a threat to their own economic interests. Just like Russia, Iran is deeply concerned with growing Western capital investment and foreign interest in the region. Being unable to compete with highly technological and financially secure US and European capital in tapping the abundant Caspian natural resources, Iran and Russia have resorted to non-economic ways of influence in the region.

Iran has been closely following the appearance of the new independent states that followed the collapse of the Soviet Union. Among the primary reasons for such concern is that multicultural Iran contains regions where Azerbaijanis and Turkmen live. Still more important is the fact that the rights of these people, who live in an area covering an enormous part of Iran, hardly meet the standards of Middle Ages. The population of southern Azerbaijan and southern Turkmenistan were extremely delighted to hear about the appearance of their native states in the North. Thus, a very acute geopolitical knot was further entangled.

Immediately after the news of the international consortia with participation of Western capital to tap hydrocarbon resources in the Azerbaijan sector of the Caspian spread, Iran started taking a particular interest in the consortia and even tried to obtain a share in them. It is indicative that at that time Iran vowed to advocate Azerbaijan's position on the division of the Caspian into national sectors. However, being unable to obtain a share in the 'Contract of the Century' on the demand of the USA, Iran abruptly altered its position in the issue of Caspian status. Officially, Iran thus turned into an advocate of the 'condominium' concept of joint utilisation of Caspian resources. Until recently, Tehran was persistently advocating this principle. It even went as far as sharply criticising its close partner, Russia, for having reached an agreement with Kazakhstan in 1998 on the division of Caspian into national sectors.¹² However, later in 1998, Iran again changed its position on the Caspian status issue at a Moscow meeting of littoral states. It suggested there that the Caspian's waters should be divided in five equal sections.¹³

One of the issues of concern for Iran is the problem of the main export pipeline. Iran regarded recent developments in the Baku-Tbilisi-Ceyhan pipeline proposal as a forthcoming threat and launched a counter-offensive using all the means at its disposal to prevent the realisation of the project.

The government of Iran claimed that the Baku-Ceyhan project is unreasonably expensive (by frequently referring to erroneous \$3.7 billion). Officially, Tehran, together with Moscow, alleged that to build an oil and gas pipeline (to connect Tengiz oil and Turkmen gas with Baku) might promote undesirable ecological consequences considering the Caspian's seismic situation. One of the main goals of Iranian propaganda and its foreign lobby was to convince the world community of the idea that there were considerably less oil reserves in the Caspian, especially in the Azerbaijan sector.¹⁴

As tensions over the Baku-Tbilisi-Ceyhan pipeline were heating up, Iran made several alternative proposals in this regard. Iran suggested that the most profitable alternative was to buy Azerbaijan oil and export adequate portions of it from the Persian Gulf.¹⁵

By proposing to build the main export pipeline through its territory and to transport Caspian oil to the Persian Gulf, Iran is trying to elevate its shaken authority in the Caspian region and to take

control of the Caspian, including Azerbaijan oil exports. Therefore, contrary to its ideological and propagandistic activities, Iran has attempted to think pragmatically so as not to lose what has been obtained with great difficulty. On the one hand, officially Iran is expanding military co-operation with one of its main allies, Russia, in the area of acquisition of mass destruction weapons and with another ally, Armenia, in the area of a strategic relationship. On the other hand, Iran is proposing economically promising forms of co-operation to Caspian littoral states and trying to achieve suspension of the 1996 US Congress's embargo. Should the US-Iranian relations improve, as Senator Sam Brownback stated, "The South Caucasus will lose out on its opportunity to prosper as a producer of oil and as a pivotal transit point from East to West."¹⁶

KAZAKHSTAN

Despite the presence of various conflicting reports concerning Kazakhstan's hydrocarbon reserves, one thing is not brought into question: Kazakhstan possesses the greatest quantity of mineral reserves in its national sector as compared with other states.¹⁷ The complicated geopolitical location of Kazakhstan creates a problem of transportation of the produced oil to world markets.

Having failed to hamper the attraction of foreign investments to Kazakhstan's oil industry, Russia proclaimed itself a 'major partner' in the issue. Having failed to do this, Russia turned to the issue of the Caspian's status to prevent materialisation of oil export pipeline projects. However, in recent years, because of this tense struggle, Kazakhstan made noticeable progress in the issue of utilisation of its natural resources. Astana reached an agreement with Russia on division of the Caspian seabed into national sectors and on the connection of the Tengiz field to Novorossiysk through the Caspian Pipeline Consortium (CPC).¹⁸

Astana is pinning great hopes on the South Caucasus energy corridor. At present, the Baku-Batumi railway line transports a proportion of Kazakh oil to the Black Sea. In 1998, the line transported 2.2 million tons of Chevron oil, while in 1998 the figure is expected to reach 5 million.¹⁹ Kazakhstan's Prime Minister has announced that the Kazakh government is planning to transport 10 million tons of crude to Batumi in 1999 through Azerbaijan and Georgian railways.²⁰ Astana has also stated its intention to use the recently commissioned Baku-Supsa early oil pipeline.

In July 1997, the presidents of Azerbaijan and Kazakhstan signed a letter of intent on co-operation in the transportation of oil to world markets. According to the document, construction of the oil pipeline through the Caspian Sea is scheduled to commence in 2000 and to be completed in 2003.²¹ In October 1998, President Nursultan Nazarbayev was among others who signed the Ankara Declaration concerning the Baku-Ceyhan oil pipeline. In December 1998, in accordance with the agreement signed in Washington, Mobil, Shell and Chevron oil companies, together with Kazakhstan's state oil company, started preparation of sub-sea oil and gas pipeline projects to be connected with the Baku-Ceyhan pipeline. Twenty million dollars was allocated for the purpose.²² Speaking of the importance of the Tengiz-Baku-Ceyhan line for Kazakhstan, director of Kazakhstan's Institute of Strategic Studies said, "Of course, Russia will not agree with this project, and will try to block it. It would have a huge political impact. We have been isolated from the world system and this would be our link to Europe. It would make our independence real and also the independence of Azerbaijan and Georgia."²³

TURKMENISTAN

Another Caspian littoral state, Turkmenistan, is primarily rich in gas reserves. Having the status of a landlocked country and the peculiarities of the old Soviet communication system considerably complicated the utilisation of the country's natural resources after the country obtained independence. In 1990, Turkmenistan produced 88 billion cubic meters of gas, while seven years later it produced only 17 billion.²⁴ One of the main reasons for the decline was the insolvency of the ex-Soviet republics of Ukraine, Georgia and Armenia, while another reason was Russia's monopoly of the gas pipeline. Considering Turkmenistan a rival, Russia turned off the tap on the gas pipeline coming from Turkmenistan and put forward unacceptable conditions to Turkmenistan through its company, GasProm. The President of Turkmenistan, Saparmurad Niyazov (Turkmenbashi), said of Russia's proposal to buy Turkmen gas on the Uzbekistani border, "Russia wants to pay \$28-32 for 1,000 cubic meters, but we insist on \$42. How can we understand their proposal when they themselves sell to Ukraine for \$80 per 1,000 cubic meters and to Turkey for \$104?"²⁵

Another reason for Ashkhabad's inefficient gas diplomacy, in our opinion, was its philandering with Moscow and Tehran without paying attention to the logic of world and regional developments. Having announced his country neutral, Turkmenbashi supported the condominium principle put forward by Russia and Iran in anticipation of assistance and sympathy for the two. In April 1998, after an official visit to Washington, Ashkhabad proposed in December 1998 at a regular meeting of Caspian littoral states in Moscow to divide the Caspian in five independent seas.²⁶ The new official position of Turkmenistan elevated hopes for the earliest solution of the Caspian legal status issue.

Attending the signing ceremony of the Ankara Declaration, Turkmenbashi, at the very last moment, refused to sign the document. Observers explain this action by the fact that negotiations with Azerbaijan over several disputable oil fields have born no fruit. In recent years, Turkmenistan has claimed partial ownership rights over the Chirag field and complete ownership over the Azeri and Kapaz fields.²⁷ The negotiations between the two parties, mediated by US Department of State, have yielded no results.²⁸

Thus, the non-constructive position of Turkmenistan in the Caspian status and oil and gas pipeline issues has made Turkmenistan lag behind the evolving regional processes. It seems that having realised the uselessness of counting too much on the Moscow-Tehran alliance, Ashkhabad has been compelled to introduce certain changes to its 'neutral' policy.

GEORGIA

Another active participant of in this major geopolitical struggle is Georgia, with its own limited hydrocarbon reserves. Georgia is important because it is one of the few regional transit states (Russia and Iran). At present, the Eurasian energy and communication corridor project, including the TRACECA programme, are rapidly underway in Georgia.²⁹

Eduard Shevardnadze, who came to power in 1992, tried to come to terms with Boris Yeltsin's proposal to station four Russian military bases in Georgia and send 1,000 Russian soldiers to Abkhazia under the pretext of a CIS peacekeeping operation. In case of consent from Georgia, Russia promised to ensure Georgia's integrity. Shevardnadze accepted the terms, but Russia, in violation of its commitments, started supporting separatist forces in Abkhazia.³⁰

The Georgian parliament speaker, Zurab Zhvaruya, announced during his official visit to the USA in April 1998 that Russia's military bases in Georgia have no legal foundation. The military agreement

with Russia, initialled in 1994, has not been signed yet because, according to him, Russia has violated two provisions of the deal: assistance in solution of the Abkhaz issue and provision of the Georgian national army with necessary weaponry and ammunition.³¹

Strategic co-operation with Russia having fallen short of its expectations, official Tbilisi turned to the West and tackled the implementation of projects encouraged by the West. Eduard Shevardnadze was one of the architects of the Georgia, Ukraine, Azerbaijan and Moldova (GUAM) union, which envisioned close co-operation among member-states. In early 1999, liquidation of a strategically important for Russia military base in Javakhetia (the Baku-Ceyhan pipeline is to cross this region, which is noted for strong Armenian separatism) began. Under pressure from Georgian public and government, prospects of withdrawal of other Russian military bases from the territory of Georgia are becoming feasible.³²

In a move to leave the Russian sphere of influence, Georgia has obtained its first noticeable successes and is rapidly integrating with NATO's and Western political and economic entities. The country is turning into one of the region's main geopolitical players. Having signed the Baku and Ankara declarations, the government of Georgia has demonstrated the importance it attaches to the creation of the Eurasian energy and communication corridor and realisation of the Baku-Tbilisi-Ceyhan oil pipeline project. Future developments in the region, to a great extent, depend on Georgia's determination in these matters.

ARMENIA

There is neither oil nor gas in Armenia and Armenia has no direct connection to the Caspian and its oil. However, the state is concerned with the oil pipeline issue because it is Armenia that has undermined regional stability, so vital for the export of Caspian oil, by occupying 20 per cent of Azerbaijan's territory. Yerevan rejected the 1995 American proposal to transport Caspian through Armenia. US diplomacy did not conceal that the matter might give impetus to the solution of the long-standing Upper Karabakh conflict. The then leader of the Armenian separatists, the future prime minister and later President of Armenia, Robert Kocharian, and the ASALA terrorist organisation even declared that they would never allow the transit of Azerbaijan oil to world markets.³³

The geopolitical events and progress on the issue of Caspian oil started perturbing Yerevan in the fall of 1997. The relatively lenient and pragmatic President, Levon Ter-Petrosian, addressed the nation with a letter 'Peace or war? Time to think'.³⁴ Ter-Petrosian's logical appeal could barely make an impression on Armenians living in a state of ethnic hysterics. Seeing the threat to its interests, Russia began getting involved in the processes. After Ter-Petrosian's resignation, the extreme nationalist and supporter of Russia, Robert Kocharian, was elected President of Armenia in March 1998. The new president started implementing his destructive policy from his first months in office. With its policy of no reconciliation, the Kocharian government reversed the process of negotiations within the OSCE Minsk Group to zero. Yerevan expanded its strategic relationship with Russia and Iran.

Nevertheless, Yerevan encountered undesirable consequences in the last year. First, Armenians, together with their foreign diaspora, have started to understand the dual effect of the oil pipeline issue on the geopolitical situation in the region. On the one hand, Armenian propagandists are disseminating reports in the world media alleging that the Baku-Ceyhan pipeline may undermine stability in the region, that it is economically unviable and that "there are considerably lower reserves of oil in the Azerbaijan sector of the Caspian than it is largely said."³⁵ On the other hand,

the world media and Armenian press have recently begun writing of the impending threat of isolation for the country.³⁶

Speaking at the Baku Conference dedicated to the restoration of the Silk Road, the Armenian Prime Minister said it was unacceptable to leave one of the regional states, Armenia, unaffected by the numerous programmes. The Azerbaijan delegation insisted that changes be introduced to the final document, which actually left Armenia outside the TRACECA project.³⁷ In addition to this, a special provision was adopted reflecting the necessity for solution of regional conflicts in accordance with UN Security Council resolutions. The document, which was also signed by the Armenian Prime Minister, caused quite a stir in Yerevan and even calls for his resignation were sounded.

Armenia's recent moves in favour of the USA and NATO illustrate Yerevan's desperate attempts to win some assistance from Moscow and Washington. It is not ruled out that assistance from Washington may invigorate Armenia's dependence and end up with its becoming a means of economic pressure in the hands of America.

AIOC AS PARTICIPANT OF GEOPOLITICAL GAME

Despite being a consortium for oil production, the Azerbaijan International Operating Company (AIOC) has become a participant in the geopolitical game as well. As mentioned above, the AIOC was established on 20 September 1994 as a result of an agreement signed by 11 foreign companies with the SOCAR.

The AIOC has played a tremendous role in the appearance of the oil transportation routes of Baku-Grozny-Novorossiysk and Baku-Supsa. The issue of deciding which pipelines to use for the early oil was not characterised with any extraordinary disputes. However, at a time of hot discussions as to the main export pipeline (MEP) route in 1998, after British Petroleum (BP) bought Amoco, the situation drastically changed in favour of the former (at the same time, BP was in alliance with Statoil). BP turned into the dominating company in the AIOC.

In the fall of 1998 (first on October 29 and then on November 12), at a time when a final decision on the MEP was expected and a choice of one of the three discussed alternatives (Baku-Tbilisi-Ceyhan, Baku-Supsa or Baku-Novorossiysk) was to be made public, AIOC president, Mr John Leggate, made a sensational statement. According to him, Turkey's cost estimate of \$2.2 billion for the Baku-Tbilisi-Ceyhan pipeline construction was unrealistic. In accordance with his consortium's calculations, the figure should be \$3.7 billion. The AIOC president, who was soon to leave office, also announced that as a result of continuously declining crude prices on world markets, Azerbaijan alone will be losing \$500 million every year after 2007.³⁸ Despite various refutations of John Leggate's statement by both the Turkish president and US government officials, the utterance did a lot to considerably delay discussions on the MEP issue and laid the foundation for a new, sharper stage of the struggle. Rivals of the Baku-Ceyhan pipeline alternative started an offensive.

In our opinion, BP, which holds sway in the AIOC, its close allies and their shareholders, are also protecting the geopolitical interests of their own countries. This ambivalence emerged through the discrepancies between the US and the European Union in the region. According to observers, the allegation that another reason for resistance to the Baku-Ceyhan pipeline alternative is an attempt to win concessions from Turkey (tariffs, funding of a part of the project, etc) is not illogical.

States that do not hold shares in the AIOC, have also started taking an interest in the MEP issue,

particularly opposing the Baku-Ceyhan route. Ukraine wishes to transport the oil flowing through the Baku-Supsa line to Western Europe by means of an oil pipeline to be built on its territory. Bulgaria and Greece have offered the Burgas-Alexandropolis project. Romania proposes an oil export pipeline from Constansa to Triest (Italy) to transport oil from Supsa. Israel and the Jewish lobby have joined the struggle as well. Projects of extending the Baku-Ceyhan pipeline along the Mediterranean seabed to the Israeli coast have been proposed.

The struggle between the USA and Europe over the MEP issue is likely to end this year. The final word in the matter, of course, is up to Azerbaijan.

BAKU'S OIL DIPLOMACY

The Azerbaijan Republic is not an ordinary participant in developments in Eurasia, but is one of the leading players in the arena because it possesses the vitally important oil. According to a number of analysts, the fact that the Ganja coup d'état of June 1993, took place on the eve of the signing of an oil document in London is no mere coincidence.

Before the coup d'état, the government led by Ebulfez Elchibey had covered a significant distance in negotiations with foreign companies. The principal issues were resolved in negotiations with Amoco, Unocal, McDermott, BP/Statoil. The Russian Federation and Russian companies did not take part in the processes. It is for this reason that Russia was not too pleased with the course of developments. Russia and Iran were delighted to hear of the change in the regime in Azerbaijan and provided the Haydar Aliyev government with initial support. Naturally, the new leader of Azerbaijan was supposed to first placate the main conductor of the coup, Russia. As a result of the Baku talks with the Russian ministry of fuel and energy delegation led by the Minister, Yuri Shafrannik, Azerbaijan yielded 10 per cent of its participating interest to the then state-owned (later privatised) LUKoil. Having made such essential concessions, Baku was counting on the establishment of a pro-Azerbaijan lobby in Russia and Russia at least staying neutral in the Karabakh conflict. Indeed, certain energy circles in Moscow (Viktor Chernomirdin, Yuri Shafrannik, Vahid Alekperov, etc) did play a role in blunting Russia's aggressiveness towards Azerbaijan. This, however, could not alter Russia's traditional policy in the Caucasus.

Despite the concessions made, in July-October 1993 the Armenians occupied the Agdam, Fizuli, Jabrayil, Gubadli, Zangilan provinces, located outside Upper Karabakh. Russia appeared not to have changed its exclusively pro-Armenian position in the Armenian-Azerbaijan conflict. Russia insisted that 'peacekeeping' troops be introduced to the conflict zone. Moscow manifested further insistence in issues of returning the Caspian fleet to Russia, stationing Russian frontier guards on the Iranian-Azerbaijan border and the establishment of an air defence system in South Caucasus. Under such circumstances, to make further concessions to Russia seemed unreasonable.

Along with the various official agreements with Russia, Haydar Aliyev did not interrupt his steady contacts with foreign companies. In early 1994, the process of negotiations with foreign companies was resumed. The head of state authorised his son, Ilham Aliyev, whom he appointed as SOCAR vice-president, to hold the talks. In February 1994, while in London, Haydar Aliyev signed an inter-state agreement with the British government on oil production. In the summer of the same year, the USA started taking a close interest in the Caucasus. During a visit to Baku on 5-6 September, the then US representative to the UN, Madeleine Albright, who later became Secretary of State, announced that the USA did not recognise Russia's 'special role' in the Caucasus. She also stated that Russian military forces in Karabakh could only be stationed together with the troops of other states

and exclusively within the OSCE framework.³⁹

The successful completion of negotiations in the area of the oil consortium and the ameliorated international environment preceded the signing of the 'Contract of the Century' on 20 September. As mentioned earlier, the contract laid the groundwork for a new stage. It made Western countries, led by the USA, interested in the stability of the region.

As a result of this policy, it appeared quite possible to endure Russia's various attempts to apply pressure (e.g. the attempt on the head of state, support of a military opposition, diplomatic pressure, etc) and, in November 1997, the export of the first Azerbaijan contractual oil to foreign markets commenced. It was at this time, from September 1994 until late 1997, that the oil pipeline issues were resolved, consecutive agreements were signed on the establishment of new oil consortia and the interest of Western capital in the region considerably expanded. At the same time, after Moscow voiced its refusal to investigate illegal weapon supplies to Armenia, Baku had to introduce adequate changes to its position as well. Haydar Aliyev announced his explicit support of the Baku-Ceyhan project and the fact that Azerbaijan's position on the Caspian's status issue had not changed.

The year 1998 was remembered for the organisation of the Baku Summit and the Ankara Declaration. It seems that geopolitical developments in the region have assumed new dimensions. Azerbaijan is in the centre of developments. Azerbaijan is also about to become a prospective transit state.⁴⁰

Of course, the Ankara Declaration was a political document so it did not yet mean the solution of the MEP problem. A number of technical problems, including tariffs, taxes and construction issues, are still in the offing. Recent developments in the oil pipeline issue have made the Baku-Ceyhan alternative more feasible. Ashkhabad has already decided to transport its gas along the Turkmenbashi-Baku-Tbilisi-Turkey route. Three major US state finance institutes have assumed a commitment to partially fund the Baku-Ceyhan project. It was announced early this year that an international consortium, MEPCO, would be established for construction of the pipeline. The consortium is open both to AIOC shareholders and other companies.

Recent developments bring considerable hope of strategic changes in the region. In January of this year, the USA announced that it would be assisting in the establishment of Azerbaijan's naval base.⁴¹ Shortly after this announcement, Azerbaijan's top foreign political adviser, Vafa Guluzade, stated that the ~~ncirlik~~ air force base in Turkey could now be re-stationed on the Absheron peninsula. This utterance caused a lightning-like response from Moscow, Yerevan and Tehran.⁴² In addition, in January, the GUAM defence ministers met in Baku to discuss issues of the security of the Eurasian corridor and creation of a joint peacekeeping force.⁴³ Soon after Uzbekistan announced its secession from the Collective Security Agreement in the CIS, Azerbaijan proclaimed that it too would not like the agreement to be extended for another five years. The Georgian leader stated that he was of the same position.⁴⁴

The course of developments shows that the processes evolving in the region may be completed in the foreseeable future, probably even in the current year, as a number of important issues are resolved. Azerbaijan can finally pass through the narrow corridor of the pipeline issue, which would considerably improve the country's geopolitical situation.

CONCLUSION

The struggle for Caspian oil, including the main export pipeline, has not yet reached its logical conclusion.⁴⁵ It would simply be unreasonable to think that the Moscow-Yerevan-Tehran triangle can so easily relinquish its views. Despite the increasing successes of the Baku-Tbilisi-Ankara (plus Washington and later on Tel Aviv) as well as the GUAM groupings, a possibility of further dramatic changes in the geopolitical breakdown is not ruled out yet. The logic of these processes suggests, however, that Azerbaijan is on the threshold of vital historic changes. Azerbaijan has already become an important geopolitical pivot in Eurasia. The realisation of the Caspian oil pipeline and Eurasian corridor complex depends greatly upon the firmness of Azerbaijan's position.

The experience of recent years proves that unlike previous decades, the oil factor has created favourable conditions for the solution of several of Azerbaijan's problems. First, the Azerbaijan Republic has gained an opportunity to invigorate its independence. The oil factor can also positively affect the process of a fair resolution of other problems for the country, including the Upper Karabakh one.

Today, the realisation of the energy corridor project is turning Azerbaijan into a transit state, which can significantly make up for it being a landlocked country. Implementation of the Baku-Ceyhan project would lay the groundwork for transportation of Kazakh and Uzbek oil, and Turkmen gas through Azerbaijan.

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