

## TURKEY: A NEW ACTOR IN THE FIELD OF ENERGY POLITICS?

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Politics cannot be separated from the means to exercise it, and energy, short of armed power, is perhaps one of the most effective means in the service of international politics. Although other forms of energy such as hydropower and other renewable resources as well as nuclear power come to play a central role from time to time in the relations of two or more countries, it is oil (and increasingly natural gas) which is really the supremely political energy source having the power to profoundly affect international relations.

Because most oil moves internationally, because its trade is of enormous monetary value, because huge profits are to be made, because it is a vital necessity for most importing countries, because it is of crucial importance to the economies of the oil exporting countries and the balance of payments of developing countries for all these reasons, the ordinary day-to-day flows of international trade in oil are in effect the result of enormous and conflicting pressures among governments, companies and international organizations. It is not an exaggeration to say that oil is the most important single commodity to shape world history in the past hundred years.

Having an effective place on the game board of oil politics was, and still is to a certain extent, synonymous with power. Until very recently, this place was almost impossible to attain for an oil-importing developing country because of the economic and political structure of that crucial industry. The international oil industry was dominated by vast, enormously powerful, private profit-maximizing corporations of developed Western nations, particularly the United States. Now after decades of power struggle among producing and consuming governments and companies, involving wars and coups as well as world-scale energy crises, there are more actors, more possibilities for independent companies, and there is more elbow room for individual countries. Fragmentation of control over the world oil and gas supplies becomes increasingly more apparent. All the same, the Gulf War reminded us that oil is still such an important strategic asset that it is worth waging a war for.

### TURKEY AND WORLD ENERGY POLITICS UP TO THE NINETIES

The brief adventure in oil politics of the Ottoman Empire at the beginning of the present century is well known. This adventure served to whet the Big Powers' appetite for Middle East oil so much so that the sharing of oil fields among their zones of influence was their paramount consideration in the dismemberment of the Empire after the First World war. The young Republic of Turkey was wise enough not to get involved in the power struggle for the region's oil and consequently the territory of the new Turkey did not include any known oil reserve at that time.

Until the nineties Turkey's energy policies were mostly inward looking and designed essentially to meet the country's energy needs from domestic sources and to lessen dependence on imported fuels inescapable objectives for an oil importing developing country. The discovery of oil in the Southeast in the fifties created some excitement. However, the quantities produced remained at modest levels (around 4.45m tons a year maximum) far below the oil requirements of the country. It was during the same years that this domestic oil, although not a big prize in itself, served to ignite a national debate about the role of foreign capital. These discussions -which were going on in many other developing countries as well- between nationalistic antis and liberal pros continued for almost three decades and calmed down only from the beginning of eighties. Besides that, Turkey was not involved particularly in developments occurring in the international energy scene.

The world oil crisis of 1973, followed by subsequent oil price hikes culminating in 1980, caught Turkey off balance and caused the worst economic crisis in her history. Just to give

an idea how hard Turkey was hit, it suffices to remember certain figures concerning the country's trade balance in 1980. That year, total export revenues amounted to \$2.9bn while the oil and oil products import bill was as high as \$3.9bn dollars, more than half of total imports. An event to note in relation to the world oil crisis was the creation of the International Energy Agency (IEA) in 1975 as a response of the West to OPEC's actions. Turkey, as an OECD member, signed the IEA agreement as a founding member but hesitated for a long time before formally approving it. She remained thereafter a more or less passive participant in the work of the IEA without really contributing to its policy formulation function for its members as a whole.

Nevertheless, there were two exceptions to Turkey's passive foreign energy policy in those years. The first one concerns attempts to construct an oil pipeline between Ahwaz in Iran and Iskenderun port on the Mediterranean. Negotiations to that effect from 1968 to 1971 between Turkey and Iran involving also a consortium of foreign contractors including world famous companies such as Bechtel, failed mainly because of the Shah's intransigence. The project has not been revived since.

The second one is the successful completion of the Iraqi (Kirkuk)-Turkish (Yumurtalik) pipeline and the Ceyhan terminal on the Mediterranean. This project was swiftly negotiated between 1973-75, its financing easily secured and the construction of a 1,049 km long pipeline and the 120m ton capacity Ceyhan terminal was finished in just two years. In retrospect, it is surprising to note how the realization of this project stirred relatively little interest and controversy, especially when one compares it with the brouhaha surrounding similar projects today. The reason lays perhaps in the profound changes in the world's strategic balances as well as in the overwhelming role played by the media today, a role which may sometimes distort and influence perceptions. In any case, it is known that later the Kirkuk-Yumurtalik pipeline fell victim to the Gulf crisis and war and was closed in 1990 as the first application of the UN embargo on Iraq. It is still closed and this causes Turkey to lose hundreds of million dollars every year. Naturally, the building of the Iraqi-Turkish pipeline and, in particular, its use as a means of political pressure on Iraq can be seen as an example of Turkey's involvement in the energy politics. However, the need for a multifaceted, truly conscious and long term Turkish foreign energy policy really emerged only in recent years.

#### THE TURNING POINT

One of the consequences of the collapse of the Soviet Union has been to open new possibilities in the field of world energy supplies. Since then, the vast oil and gas reserves of some of the Newly Independent States (NIS), in particular Kazakhstan, Azerbaijan and Turkmenistan, have become the focus of attention.

The figures regarding these reserves vary considerably because of the scarcity of reliable data collected under the Soviet system. The overall estimates for identified and recoverable oil reserves in the Caspian region range between 15 to 20 billion barrels (approximately 2.5bn to 3.0bn tons). Undiscovered reserves are thought to be at least double the value of these figures. As for natural gas, the reserve estimates for the region are around 7.5 trillion cubic meters (more than half in Turkmenistan), likely reserves are put again at double this figure.

Taking into consideration the consumption projections of these countries, as well as the actual and projected investments to exploit their resources, even the most modest scenario suggests that 100m to 150m tons of additional crude oil will be available for export from the Caspian region around the year 2010.

#### THE CHALLENGE OF TRANSPORT

Obviously, Kazakhstan, Azerbaijan and Turkmenistan are eager to see their riches exchanged for hard currency as soon as possible so as to insure their economic development

and to consolidate their independence. However, it is as obvious that this depends on the availability of a network of secure pipelines to transport their oil and gas to open sea ports for sale in Western markets. Not to mention that the scale and the timing of investments are closely linked to the development of reliable, efficient and economically viable transport possibilities. Environmental considerations are also coming to the fore as a factor to take into account in moving oil in particular.

At present, the only conduit for oil and gas out of the region is the Russian pipeline network. However, many facts and considerations point to the necessity of creating new outlets outside this system.

The prospective exporters (i.e. Kazakhstan, Azerbaijan and Turkmenistan) have political factors to consider in addition to securing revenues. They have an interest in increasing their economic independence, and thus their political independence, from Russia. Continued reliance on Russian pipelines for their exports has many disadvantages for them: For example high transportation tariffs leaving most of the profits in Transneft or Gazprom hands; bowing to Russian demands for Russian companies to take high stakes in the region's field development projects; having to yield export priority to Russian oil and gas; and generally having to submit to Russian pressure since the latter will have the liberty to limit their access to the pipelines.

Even putting these considerations aside, there are also physical, economic and environmental factors underlining the need to look for alternative or additional pipelines.

Speaking about oil specifically, the vast Russian oil pipeline network inherited from the Soviet Union, most of which was laid during the past twenty years, is reportedly in a state of widespread decay mostly because it was designed without corrosion protection. The rehabilitation of this system requires huge investments, and Russian efforts to secure capital to this end seems to have met no success until now. The well-known difficulties encountered by the Caspian Pipeline Consortium destined to transport Kazakhstan's Tengiz oil to Western markets is partly due to this fact. Even if certain funds become available, it will take considerable time before the Russian network can claim to have the capacity to route the additional exports from the region in the coming years. One should add that, in particular concerning the export of Azeri oil, the Russian pipeline traverses Chechnya, presently a war zone, and there is no end to this conflict in sight.

Secondly, the main export outlet and pipeline terminal of Russia to the West for its own oil is the Black Sea port of Novorossiisk, which has a capacity of 30 million tons annually. Again substantial sums have to be secured to expand this port or to build a new port to handle new Kazakh or Azeri crude exports. One should also note that Novorossiisk is closed at least one third of the year because of the adverse weather conditions of the Black Sea.

#### THE BOSPHORUS : A WATERWAY AT RISK

Much more importantly, the oil is shipped from this port to the West via tankers through the Turkish Straits into the Mediterranean. All the oil has thus to traverse the Bosphorus which is known to be inadequate for even the present volume of tanker traffic passing through it.

Indeed, the Bosphorus is a virtually unique waterway. It is one of the world's busiest, handling some 45.000 major ships annually. This is three times the traffic of the Suez Canal, and does not include thousands of crossings by local boats and ferries, plus fishing and pleasure boats. Almost one and half million residents criss-cross the Bosphorus daily on local ferries.

It is one of the world's most difficult waterways to navigate. Nineteen miles long and less than half a mile (700 meters) wide at its narrowest point, the Bosphorus has abrupt turns that require ships to change course at least twelve times. There are powerful currents

capable of dragging ships off course. This has caused many collisions and groundings. Two major bridges span the Bosphorus, creating additional hazards.

Under the Convention of Montreux (1936), the Bosphorus is open to all merchant ships of all nations regardless of their cargoes (including nuclear, flammable or toxic waste). The use of pilots is voluntary, even though it has been demonstrated to reduce significantly the risk of accidents. No other major international waterway operates in such a risky manner.

Because of these factors, the Bosphorus is already an extremely hazardous waterway, with 167 large scale accidents occurring between 1983 and 1993. The average annual rate of accidents has increased 35 per cent since 1988.

Shipping traffic has grown dramatically and this trend is likely to continue both in terms of numbers of ships and their size. Since 1960, the number of foreign ships has increased by over 150 per cent while the tonnage of these vessels has increased by 400 per cent. The opening of the Main-Danube canal, creating a direct route between Rotterdam and Constanza; the fact that the foreign maritime trade of the Russian Federation -which has lost its ports elsewhere- is shifting to its Black Sea ports; and the economic recovery and foreign investment in Russia and the CIS which rely on the Black Sea and the Straits for their maritime trade are some of the factors pointing to the fact that the congestion in the Bosphorus will further increase in the near future.

What is at stake is the physical and environmental security of Istanbul with its 12 million inhabitants as well as the safety of transit and navigation in the Straits. Any shipping calamity involving fire, explosion, toxic or nuclear material could endanger the health and lives of millions of people. Scientific studies show that the marine environment is already in great jeopardy from the heavy traffic. Oil tankers pose a particular danger from leakage, improper flushing and possible collisions.

This precarious situation has prompted the Turkish Government to adopt some new regulations for passages through the Straits. Because of the provisions of the Montreux Convention, these regulations are unfortunately very modest in scope, falling very short of insuring the safety of the Bosphorus and the city of Istanbul. It is a little strange that Russia and some other Black Sea coastal states protest against these regulations -which are in conformity with international practice and have been adopted by the IMO- although an unregulated passage through the Straits will inevitably lead to the virtual blocking of this waterway if the present trends continue.

All these point to one reality: the Turkish Straits cannot be used as a pipeline to route Caspian oil to the West. The Turkish Government is adamant in this regard. International and national environmental groups are watching. Also, even supposing that increased tanker traffic can go on for some time, any major accident or collision will force the Bosphorus to be closed, disrupting further transport of Caspian oil via this route to Western markets.

#### ENTER TURKEY...

Immediately after the collapse of the Soviet Union, new vistas were opened for Turkey in the form of the newly independent Eurasian states, almost a new world in her immediate vicinity which was closed to her until then. Moreover, Turkey realized that she shares with most of them much of the same linguistic and cultural heritage as well as a common religion. After some initial mistakes caused by the euphoria of this discovery or 'reunion', the Turkish policy vis-à-vis these countries started to follow a more realistic and balanced course. Turkey is actually striving to bolster her political and economic ties with them on the basis of sovereignty and territorial integrity, equality and mutual benefit, the main objective being to contribute to their efforts to overcome their severe economic problems and to carry out their transition to democracy and a market economy.

Among the various fields of cooperation Turkey entertains with Eurasian countries, energy receives special attention. On the one hand, Turkey tries to assist those countries less endowed with energy resources in their efforts to gain energy security. As to resource rich countries such as Kazakhstan, Azerbaijan and Turkmenistan, Turkey is bound to develop her cooperation with them for mutual benefit in three main areas: as a customer for their oil and gas, as a participant in their production of energy and, most importantly, as a country offering unique access possibilities to Western markets for their production.

Turkey is and will remain for the foreseeable future an importer of crude oil and gas. Actually, she imports around 22 million tons of crude oil annually. According to demand projections, this figure will increase steadily to reach over 40 million tons by the year 2010. The figures for natural gas imports are more striking: the imports will rise from 8 billion cubic meters in 1995 to 32 billion cubic meters in 15 years. Naturally, this makes Turkey the most attractive market in the region for Caspian oil and gas given her proximity to the producers.

The Turkish Petroleum Company (TPAO), is already engaged in crude production activities in the region. It carries out prospecting and drilling work in four different fields in western Kazakhstan and expects to step up its production swiftly in a few years. However, the main stakes of TPAO are in Azerbaijan. This company is among eleven international companies of world stature which originally formed the International Oil Consortium to develop the Azeri, Chirag and Güneşli fields in the Azeri sector of the Caspian the so-called Contract of the Century. TPAO, which initially had a share of 1.75 per cent in this huge venture involving 8 billion dollars of investment, afterwards increased its participation to 6.75 per cent. The Turkish company is also about to acquire a sizeable share in another oil and gas field in Azerbaijan called Shahdeniz, along with BP/Statoil. These developments will certainly lead to extensive Turkish cooperation with the countries of the region in the production field.

#### TURKEY : IDEAL TRANSIT ROUTE TO WEST

However, it is in the field of transporting the regions oil and gas to Western markets that Turkey offers the most promising possibilities. Her geographical location as well as the prevailing political and economic circumstances makes Turkey an ideal transit route to the west.

Of all the pipeline projects under consideration for transporting Turkmen gas to Western Europe, the most feasible are those which would transit Turkey and the Balkans, whether they cross Iran or alter-natively go under the Caspian and then through Azerbaijan and Georgia.

However, even for these projects to see the light, age-old problems between the former Soviet republics as well as other political obstacles from outside the region need to be sorted out. Turkey is also the first transit option in the routing of Russian gas south to Israel, as in this project being developed jointly by Russia, Georgia, Turkey, Israel and a Canadian Company.

As to oil exports, the Turkish 'Caspian-Mediterranean Oil Pipeline Project' is already well known. It proposes routing Kazakh and Azeri oil through two interconnected pipelines from Tengiz and Baku overland from Turkey to the Ceyhan export terminal on the Mediterranean. It will have a capacity of 45m tons (20m tons Kazakh and 25m tons Azeri crude) and an approximate length -depending on the final route- of 2,500 km to 2,700 km (Baku-Ceyhan 1,500 km to 1,700 km). There are alternatives as to how this pipeline should run to the Turkish border. Turkey declared itself to be open to all options such as through Georgia or Armenia, the decision on the final route depending naturally on several factors including political ones. Turkey believes that this project offers an economically viable, secure and environmentally safe export outlet for the region's oil. It provides the shortest route to unrestricted tanker transport at the lowest cost. In fact, the Turkish proposal has

been met with interest from all quarters and seems to lead the field in respect to several other projects which are advanced from time to time but do not sound as convincing\*. The US government announced in January 1995 that it backs a Turkish pipeline within the framework of a policy of 'multiple pipelines' for the Caspian region and it has repeated this stance on several occasions since then.

The decision about the main export route for the Azeri Consortium oil is expected to be taken in 1997. Crude exports from the Kazakh Tengiz field via a southern route in addition to the northern network is on the agenda of the concerned countries as well as the companies developing the said field. As the production deadlines come nearer, the necessity of arriving at a consensus among all interested parties on the main export pipelines out of the region becomes more pressing.

A solution involving two pipelines or multiple pipelines, if one prefers, seems to gain increasingly more support since it is more liable to satisfy all the actors in presence. Given the already mentioned limitations of the northern route, the realization of the Caspian-Mediterranean Pipeline Project will indeed provide the answer, offering the needed incremental export capacity. In fact, this project is not conceived as an alternative to the northern route, but as an indispensable addition, in view of the increased production in the Caspian.

The recent decision of the Azeri Oil Consortium to select two simultaneous export routes from Baku, one North to Novorossiisk, the other West to Soupsa in Georgia, for the so-called 'early oil' from the Azeri off-shore fields has given a strong boost to the protagonists of 'multiple pipelines', and by the same token to the 'Caspian-Mediterranean Pipeline Project', in particular to its Baku-Ceyhan section.

However, the final solution will require the elimination of many obstacles. These are not physical, technological or geographic. Rather, they are economic, political and geopolitical. They are also eminently complicated by the continuing tremors caused by the collapse of the Soviet Union. The relations between the main players and their respective policies on this slippery ground naturally affects all decisions and the building of a consensus for politically and economically viable export pipelines to the West.

#### THE MAIN PLAYERS

Bearing in mind the continued predominance of Russia in the region and the current infrastructural dependence of the NIS on their big northern neighbour, any sizeable investment and cooperation project with the former Soviet Republics will have to be coordinated, at least in the immediate future, with the Russian Federation. The Eurasian countries and their oil and gas industry are particularly vulnerable to Moscow's foreign policy, which is becoming increasingly aggressive during the current electoral season.

There are many imponderables regarding Russia's position vis-à-vis oil pipelines outside the region. Up to now, Moscow's policy has been aiming at jealously keeping the monopoly over all export outlets, and this line has hardened recently. The well known difficulties encountered by the Kazakh government and Chevron Company in exporting Tengiz oil, and the uncertainties surrounding the fate of the Caspian Pipeline Company created for this purpose, stem mainly from this policy.

Therefore, the inclusion of the important Russian player in the consensus around the Turkish pipeline route to Ceyhan does not seem an easy task. However, although it may take some time, persuasion and trade-offs, this can and should be achieved. Much will depend of course on the evolution of Russia's relations with the West. The transformation of Russia's political and economic internal structure will also play a crucial role. In particular, the vital oil and gas industry which generates over \$20bn a year of hard currency earnings, that is half of the total exports of Russia, seems to be in dire need of huge investments and a complete restructuring just to be able to keep its production levels. This

requires Western capital as well as a reorganisation of the industry along Western lines, meaning a real and complete privatization. Although Lukoil and Gazprom have become public joint companies, the Russian government retains a controlling block of shares, and it remains to be seen whether they will continue to gain autonomy from the state. It is to be hoped that these factors will prevail after Russia's June elections and the need to do business with the West to mutual benefit will emerge as one of the overriding motivations in Russia's policies and actions.

Another positive factor is the potentially promising future of relations between Turkey and the Russian Federation. Economic relations in particular have seen a fast development after the break up of the Soviet Union. At present, the trade volume between the two countries has reached \$2bn, and unofficial trade is evaluated at around \$5bn. The value of work undertaken by Turkish contractors in Russia is around \$6bn while the Russian share of Turkey's infrastructure investments is growing. The further expansion of the natural gas deal will certainly give a new boost to these relations. Various projects involving Russian gas and pipelines transiting Turkey are also under discussion. During visits of the Turkish Prime Minister to Moscow in the last two years, the leaders of both countries confirmed their will to increase their economic ties and mentioned trade volume objectives as high as \$10bn. They discussed gas projects. In the specific field of oil export pipelines, they agreed on the need for close cooperation and decided to create a joint working group with the participation of Azeri and Kazakh representatives to study the realization of an oil pipeline from the Caspian region to the Mediterranean, overland from Turkey. The meetings of the said joint group and exchange of visits between high ranking Russian and Turkish officials during the past year have not yet led to tangible results. In the meantime, Turkey continues to reaffirm on every occasion her desire to cooperate with Russia on this subject. Admittedly, there are still various matters of contention between these two countries. Russia's attitude towards the new states of the region is still patronizing and may give concern to Turkey. Turkey's interest in the Caucasian and Central Asian countries may irritate Russia. However, it is obviously to the benefit of both countries to achieve a common understanding by putting to the fore their common, rather than conflicting interests.

As a nor rather than super power, the United States is obviously a major player in this game. After the Big Change, the overriding concern of the United States seemed to be to ensure Russia would become a fully democratic country with a market economy. It gave priority to all policies and measures liable to contribute to this aim, the idea being that if Russia achieves this transformation the NIS would follow suit naturally and the whole of Eurasia would become an area of prosperity and stability. Hence the policy of 'Russia first' pursued by two successive US administrations until very recently. However, the shaky evolution of Russian reforms and Moscow's often erratic but increasingly assertive, not to say aggressive, foreign policy seems lately to have convinced Washington of the need to pay some attention to the NIS. The US's 'multiple pipelines' policy appears as one of the important concrete signals of this change. This stance means that Washington recognizes that a continued Russian monopoly of export pipelines out of the region for Kazakh, Azeri and Turkmen oil and gas would limit these countries' independence and put in jeopardy the region's future stability. Understandably, the main focus of future US policy towards the Eurasian region would continue to be the Russian Federation given this country's sheer size and considerable weight in the international arena. However, with their backing of the 'southern oil pipeline' the United States hopefully will start to see at the same time that bolstering the political independence and economic prosperity of the newly independent states of Caucasia and Central Asia is the only means to end the existing conflicts in the area and ensure a sustainable peace and stability in the region. As we shall see later, the almost decisive role of the US in the selection of two routes, one northern, the other western, for the export of Azeri 'early oil' proved that this policy was still in force.

It is certainly not a coincidence that the US interest in the Transcaucasus and Central Asia grew in parallel with the increased involvement of US oil companies in upstream activities in Kazakhstan and Azerbaijan. This brings us to the direct participants in the game of oil and gas exploitation and exportation, namely the oil and gas companies. Almost all of the

major and some of the independent US, British and other western oil companies are actually engaged in some operation or other in the Eurasian region. Naturally the prime concern of these companies is profit. However, for some of big companies such as BP and Exxon which have operations extending to many corners of the globe, there are larger perspectives to maximizing their profits. With some exceptions, the strategic interests of these companies and those of their governments have been demonstrated to be mostly in parallel, and it is not rare that a government uses a company to further its political interests. The opposite case has also been observed in many instances. That is just to say that the companies are far from being negligible actors in the Transcaucasian and Central Asian oil and gas scene. Either on their own account or in the name of governments, they add to the complexities of this grand puzzle.

The cast of this complicated play certainly includes Iran as an important actor. Undeniably, Iran has many assets such as its energy technology, experience and geographical location, and tries to use them fully for its regional ambitions. It strives to weave a web of energy cooperation with all the Caucasian and Central Asian countries around itself. It plans to modernize all its major ports and its road and railway system to become a gateway for them. It has already signed contracts for the transport of Kazakh oil and Turkmen gas through its territory. Tehran's efforts to become a conduit for the region's oil and gas to the west are actually hurting against the US policy of denying western capital to this country. Iran has also failed to secure a share in the Azeri 'Deal of the Century' because of the same US policy. However, there is no doubt that this country will increase in some way or other its role in shaping the region's energy picture in not too distant a future.

One is tempted to ask what about the place of Europe and in particular the European Union in all this? Is Europe completely absent? The answer may be not completely absent but not really present either. Besides the United Kingdom and (to a lesser extent Norway) because of BP/Statoil stakes in Azeri oil, no European country or company seems to have taken a real interest in Eurasian oil and gas (excepting perhaps some timid attempts by Agip and Elf). This may be surprising given the increasing energy needs and import dependency of the EU from outside Western Europe. It is true that there is no lack of the EU plans or ideas to develop effective cooperation with Central and Eastern Europe and the NIS of the former Soviet Union.

It is also true that the Energy Charter Treaty, concluded on the EU's initiative, offers a sound and workable framework for such cooperation. The fact is that these plans and preparations are not yet translated into tangible ventures, in particular in Caucasia and Central Asia. A newly launched EU TACIS project, concerning oil and gas export pipelines out of the region, may hopefully pave the way to concrete joint projects between European companies and their Eurasian counterparts.

Finally, one should not forget the international financial institutions such as the World Bank and EBRD, whose participation in the projects, especially in the big ventures of the region such as export pipelines, will certainly affect positively and sometimes decisively the decisions of foreign investors.

#### TURKEY : HOW IMPORTANT A PLAYER ?

Turkey may not be the star of the show but she is not a mere spectator either. Her interest in the region's oil and gas resources as well as in their exploitation and exportation is obvious. She has firstly a general and strategic stake in the independence and well-being of the Central Asian and Caucasian republics. President Demirel recently said 'We see this rich region of oil and gas reserves, not just as a source of energy, but as an element of stability. Just as the founders of the European Community saw coal as a source of peace and stability for Europe, so we see oil and gas in our region serving the same role.' Stability and prosperity in the region will mean also increased trading and investment opportunities for Turkey.



As for Turkey's more specific interests, they include, in addition to transit revenues from export pipelines crossing her territory, securing relatively low cost crude for her refineries and gas for her consumers as well as substantial work contracts for her companies. We have already touched upon Turkey's safety and environmental concerns regarding increased tanker traffic through Turkish straits and her insistence in the necessity of avoiding this route for Caspian oil exports.

Turkey has also several advantages to fulfill her interests. Her ideal geographical location as a gateway to the West, her stability, her solid links with Europe and United States, her ever deepening relations with the countries of the region, are her many assets calling her to have a prominent role in this field.

#### TO WHAT EXTENT HAS TURKEY BEEN ABLE TO RESPOND TO THIS CALL UP TO NOW ?

Little time elapsed between the conclusion of the Deal of the Century' in September 1994 and the first instance when Turkey launched her 'Caspian-Mediterranean Pipeline Project' in December that year. It took only one month for the US to declare their support for 'a pipeline through Turkey' on 30th of January 1995. The realization of the Turkish project has become one of the first priorities of the Turkish Government. Conscious of the fact that this huge undertaking requires a constant effort and the disentanglement of a complex web of problems, the Turkish authorities and Turkish diplomacy have been fully engaged in the task of enhancing the prospects of the Tengiz-Baku-Ceyhan pipeline for one and half years.

One of the first results of these efforts was increasing TPAO's share in the Azerbaijan Consortium from 1.75 to 6.75 per cent. The agreement and support of Azerbaijan and in particular of President Aliyev were naturally decisive in this deal. However, Turkey's relations in general with this country as well as the unwaivering determination of the Turkish Government throughout the long and tough negotiations involving many strong competitors (including initially Iran) were also important factors.

#### EARLY OIL STORY

Another issue having a direct bearing on the realization of the Caspian-Mediterranean pipeline has been the selection of the export route for the relatively small quantity of the crude (around 5m tons a year maximum and totaling 20m tons over a ten year period) the so called 'early oil' to be produced by the Azeri Consortium from the Azeri, Güneşli and Çirag off-shore fields. The Consortium had reduced the options to two possibilities among several variants: the northern route to transport the oil from Baku via pipeline over Russia to the port of Novorossiisk or the western route moving the crude over Georgia to the port of Supsa on the Black Sea.

Although the decision ultimately rested with the Consortium, the Turkish Government too was forced to make a decision. One choice was of course not to do anything and wait for the Consortium to opt for one of the routes. If the decision were to fall in favour of the western route, this would have been to the advantage of Turkey because that would have meant the opening of an export outlet outside the Russian system thus increasing the chances of the Turkish project, in particular of its Baku-Ceyhan part. Indeed, the Baku-Tbilisi section of the Baku-Supsa line could constitute the first step of the Baku-Tbilisi-Ceyhan route.

The opposite decision, however, namely the selection of the northern route would have been a severe blow to the Baku-Ceyhan project, risking to delay it for an indeterminate time. Given the already existing capacity of the Russian system, the 'early oil' route might have become easily the main export route. In that case Russia would continue to maintain its monopoly over the export possibilities and the pressure over the already overloaded Turkish Straits would acquire unbearable proportions. In fact, in view of the apparent 'ease' of being able relatively quickly to use an existing route, the Consortium seemed at

that time on the verge of opting for the north. The wish to accommodate Russia was not indifferent to this leaning.

The Turkish Government preferred action to inaction and decided to actively support the western route. To give meat to its support, it made concrete proposals towards the financing of the Baku-Soupsa line. It pledged also to buy the Soupsa route oil with a view to transporting this oil either to Turkey to be consumed locally or to Bulgarian, Romanian or Ukrainian ports to be refined and sold in the area, thereby eliminating the need to move it through the Bosphorus. The Turkish Government always made it clear that its support for the western route was linked to the realization ultimately of the Baku-Ceyhan pipeline. Indeed, the financing proposals were conditional on limiting the capacity of the Baku-Soupsa line to maximum 6m tons with the expectation that a future expansion of only the Baku-Tbilisi section will be the first part of the main export pipeline to the Mediterranean.

The decision by the Consortium on the 'early oil' export routes turned out to be very difficult. It took months of negotiations involving not only the shareholder companies of the Consortium but also many governments including directly or indirectly that of the US, Azerbaijan, Georgia, Russia and Turkey before a conclusion was reached. In addition to Turkey, the western option had naturally the full support of Georgia who was hoping to get selected as a transit route for not only the 'early oil' but also for the main pipeline. Azerbaijan and the foreign oil companies, shareholders of the Consortium, were in two minds, in particular in the face of increasing Russian pressure for them to adopt the northern line. The US government which was bound by its policy of 'multiple pipelines' still did not decide to put its weight in favor of the western option until the last moment.

Finally, on 9 October 1995, the Consortium, i.e. the foreign oil companies and the Azeri oil company Socar selected both the northern and western routes to transport the 'early oil'. The related decision foresees that the necessary agreements with Russia, Georgia and Azerbaijan will be finalized and carried out simultaneously (that does not mean of course that oil will flow from both lines at the same time), but does not specify the amount of oil to be assigned to these lines while leaving open the possibility of transporting oil from third-party sources.

Although not entirely satisfactory for Turkey, this decision was generally interpreted in knowledgeable oil circles as well as in the specialized press as favouring the Turkish position, mainly because it meant the opening for the first time of a route outside the Russian network, enhancing by the same token the chances of a main export route to the south. Mr. Terry Adams, the President of the Consortium, pointed out this fact when he declared the decision about the twin 'early oil' routes, saying that Ceyhan was the most suitable port for the Azeri main oil. The reference he made to the dangers of crossing the Bosphorus as one of the main justifications of the Baku-Ceyhan pipeline signifies that the Turkish concerns about the Straits are well understood. Such declarations are not at all infrequent. While, understandably, a formal decision on the main Azeri oil export line cannot be reached before at least 1997 (since such a decision is linked to the Consortium's schedule for oil production), the merits of the Baku-Ceyhan project seem to be accepted by almost all concerned parties. The support for this project is confirmed in all joint declarations after -quite frequent- official visits between Azerbaijan, Georgia and Turkey at every level, and Baku-Ceyhan remains the focus of attention of the international press whenever the subject of Caspian oil is dealt with.

The early oil story has not ended with the dual decision. A series of complex agreements and legal documents between the concerned governments and the Consortium has to be concluded first. At present, this process is to be completed for the northern route and about to be finalised for the Baku-Soupsa line. Be it with or without Turkish financing, it looks certain now that there will be western route, with all its already mentioned short- and long-term benefits to Turkey, Azerbaijan and Georgia. There is no doubt that the outcome of the story would have been different if it were not for Turkey's involvement.

In any case, the realisation of the Caspian-Mediterranean pipeline is a long process and Turkey continues her efforts to this end. In addition to her actions concerning the western early oil route, steps are being taken to expedite the Baku-Ceyhan line, proposing concrete talks with Azerbaijan and Georgia on one hand, and making contacts to start the feasibility studies for this project on the other. Talks with the Kazakhs about routing Tengiz oil to the Mediterranean overland through Turkey, which had started some time ago, are about to be structured in the form of a permanent joint study group to be established in the Kazakh capital, Almati.

#### TO CONCLUDE...

It is arguable whether Turkey has been able up to now to maximize her interests in the power game revolving around the immense richness of the Eurasian region. For instance, it would have been certainly wonderful for Turkey if the full and formal commitments of Azerbaijan, the Consortium and the eventual transit countries were already secured for the Baku-Ceyhan pipeline. It would have been even better if Kazakhstan and the Chevron company entered a formal commitment, with Russia's explicit consent, to route Tengiz oil via the Caspian-Mediterranean line. However, life is not that easy. Although new in the game, Turkey learned very soon that nothing happens by itself and to further her interests she has to work very hard towards building a delicate balance where other parties' interests are also satisfied.

Turkey's first steps in energy politics appear to have secured some success given the distance already travelled. She has not only accumulated some knowledge about the rules of the game, but she has become as well a player which was able, through sheer constance and insistence, to persuade most of the other players to go her way. However, Turkey has no illusion that this will be an easy voyage. She realizes that it is rather a trek fraught with many pitfalls and deceptions. Still, the conviction that her policies and all the projects she is involved in are to the mutual benefit of all countries of the region as well as of the West as a whole, gives Turkey hope that her efforts are not in vain.