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GREAT POWER RIVALRY IN THE
CAUCASUS AND
GREATER CASPIAN REGION: 1991-
2011.

by

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Introduction

One of the most important events to occur in the Twentieth Century was the collapse of the Soviet Union. The U.S.S R. once maintained condominium with the United States in the sphere of international relations; however, in 1991 the vast expanse that Moscow once controlled collapsed under the weight of its own internal, socio-economic contradictions. This event was a watershed and its significance is twofold: it transformed the international system from a bipolar to a unipolar one, and it altered the geopolitical balance-of-power in the Caucasus and greater Caspian region in manifold ways that will represent the focus of this investigation. The disintegration of the Soviet Union created a power vacuum throughout Eurasia.\(^1\) Moreover, “the defeat and collapse of the Soviet Union was the final step in the rapid ascendance of a Western Hemisphere power, the United States, as the sole and, indeed, the first truly global power.”\(^2\)

Washington suddenly had a potential free hand in Eurasia; its decision to project force in this theater had profound implications for the Caucasus, especially in light of the mounting U.S. dependency on petroleum. Furthermore, Caspian Sea oil held out the promise of giving the United States an opportunity to diversify its petroleum portfolio.

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\(^2\) Ibid, xiii.
The Soviet Union is no more but today a resurgent Russia aggressively contests its near-abroad with the West. In light of Russia's proximity and its resumed assertiveness in the Caucasus, the United States must redouble its commitment not only to pro-Western regional players like Georgia, but above all to resource-rich and strategically-pivotal Azerbaijan.

After the demise of the Soviet Union, Russia lost many of its strategically important territories. For instance, the Baltic States were part of the Russian empire since the 1700s, and after the Soviet collapse Russia lost the important ports of Riga and Tallinn that limits Moscow's ability to project its power into the Baltic Sea and beyond. Moreover, the loss of the Ukraine was a genuine blow to Russia for several reasons. Russia proper is experiencing a demographic decline and many of the inhabitants of eastern Ukraine are pro-Russian. International recognition of Ukraine with its economic resources, it skilled and educated workforce is a real blow to Russia's ability to compete in the international market. The devolution of the U.S.S.R came at a time when ethnic Russian birthrates experienced a downward spiral, a trend that actually manifested itself decades before the collapse of the U.S.S.R. The Ukraine's strategic position astride the Black Sea, the Balkans, and Eastern Europe make it a vital area for Russian security concerns. Finally, there is the matter of the Caucasus and Caspian Basin. While Russia once had a free hand in exploiting the resources of the Caspian Sea, Moscow now must contend with new realities, namely, the emergence of new states anxious to exploit their own energy resources too. Thus, the Soviet demise witnessed the emergence of a diminished Russia with drastically-reduced political and economic clout in Eurasia.\(^3\)

\(^3\) Ibid, 91-93.
Paradoxically, the decline of the Soviet Union witnessed an intensification of international rivalries as new players who sought to gain influence in the former Soviet space entered the competition. One explanation for the tension centers around the vast oil and gas resources of the Caspian region. For instance, according to the *Statistical Review of World Energy* (BP 2002) the oil and gas reserves of the five Caspian littoral states are estimated to be in the neighborhood of 153.8 billion barrels (billion bbl). In addition, the total gas reserves are estimated at 2688.3 trillion cubic feet (tcf). The *RWE* study has also discussed the oil and gas potential of the region by using turns-of-phrase and percentages such as “the region have about 14.6 percent of the world’s total proven oil reserves and almost 50 percent of the world’s total proven gas reserves.”4 In light of these statistics, even if one accounts for exaggeration, it is easy to see how some statesmen around the world might be tempted to shape their foreign policies around the resources of the region.

The collapse of the Soviet Union led to the emergence of 15 independent new states on the world stage. Three of those states--Azerbaijan, Georgia, and Armenia--are situated in the South Caucasus region. Unique among them Azerbaijan enjoys access to the Caspian Sea, which gives it obvious strategic value because of the offshore oil located on the shelf. U.S. and Azeri interest thus dovetail nicely since American interest in Caspian Oil gives Baku a counterweight to Russian influence in the region. This arrangement gives Washington access to the resources of the Caspian Basin and an opportunity to isolate Russia and Iran, keeping the regional ambitions of these perennial players in check.

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Again, the primary focus of this study will be on the South Caucasus, meaning Azerbaijan, Georgia, and Armenia. That said, to a lesser extent the Caspian Basin broadly defined will enter into the discourse too, but since Azerbaijan is the economic engine of the Caucasus it will receive primary emphasis. Azerbaijan’s geography, economy, and natural resources make this one country more important than the others. Nevertheless, while discussing the regional players I will also examine the foreign policies of more distant players such as the United States. To this extent the South Caucasus region will be discussed within the broader context of Eurasia and within the framework of geopolitics. Understanding geopolitical theory is essential because some of the key architects who drive Washington's foreign policy today embrace its tenets. The term Great Game will feature prominently in the discussion as a euphemism for this dynamic. In order to make this study more manageable I separated the topic into three consecutive chapters and one concluding chapter, with each one focusing on relevant issues that are essential for the project in general, and for reinforcing my thesis in particular.

The first chapter of this study is more important in terms of familiarizing the reader with the region grasping its geographical and historical context. The countries under discussion will be discussed in both Soviet and post-Soviet contexts. Moreover, natural resources are also a principal aspect of this chapter in which my goal is to make explicit the overall potential of the region in terms of hydrocarbon reserves, and also to shed some light on important events in the history of Azerbaijan after it attained its independence. Chapter one will also provide the required background information that is essential for those readers who have a limited knowledge of the region. This general
background information facilitates a better overall understanding of the more nuanced questions that subsequent chapters will examine.

Chapter two of this study will investigate case-specific political developments in the region but in a critical light. For example, questions pertaining to energy access corridors and the so-called New Great Game represent its core components. The importance of the old Great Game in helping readers understand the new Great Game simply can not be overstated. Major differences and similarities between those famous games, themselves subsets of geopolitical theory will be elucidated. A cursory look at the recent history of pipeline politics in the Caucasus underscores the intense nature of international competition for control over the region's resources. The complex interplay between regional and non-regional powers in the region represents the real heart of the chapter.

There will be a shift in emphasis when it comes to the third chapter. In it I will focus on important contemporary events that generally receive short shrift in the press and require further scrutiny. This chapter in essence will be more analytical than the prior ones. The U.S. oil dependency, the Russian-Georgian Crisis, the state of U.S.-Azerbaijani bilateral relations, and above all the Nagorno-Karabakh conflict will be key issues discussed.

The final chapter of this study will attempt to summarize salient points made throughout the study and to clarify how these issues are relevant to the current state of international affairs.
Chapter One

Background: South Caucasus and Caspian region: Soviet/ Post Soviet Context

a) Caspian Region: Immense Oil and Gas Resources

The existence of vast oil and natural gas in the Caspian region is not a new phenomenon, for the region had always been rich in hydrocarbon resources and other raw minerals. The early extraction of oil began in earnest during the 7th and 8th centuries of the Common Era in the region of the Absheron peninsular near Baku, the modern capital of Azerbaijan.\(^5\) The Absheron supplied Zoroastrian Persia with the petroleum products it needed to keep the Zoroastrian fire temples burning for centuries. In the 10th century CE, the Arab traveler, Marudee, reported on the local methods of extracting oil.\(^6\) According to Rosemarie Forsythe, “the presence of oil in the Caucasus and Central Asia is recorded as far back as the thirteenth century.”\(^7\) Moreover, in the description of his journey through the Caucasus, Marco Polo noted the presence of geysers of fire that sprang from the earth; he also related how the inhabitants around Baku used oil for medical and religious purposes.\(^8\) The indigenous populations prized oil and gas highly,

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\(^6\) Ibid.


and this circumstance attracted the attention of regional and non-regional powers over the succeeding centuries.

During the last quarter of the 19th Century, for example, the great oil barons endeavored to develop the Caspian region’s petroleum resources. The names involved in this venture are indeed ones to conjure, including the Nobel Brothers, the Rothschilds, and various executives who headed Royal Dutch Shell. The vast potential of the Caucasus beguiled these industrialists; for instance, the Nobel Brothers operated the *Petroleum Production Company*, an economic venture that many business historians consider ‘one of the greatest triumphs of business enterprise in the nineteenth century.’ 9

In addition, Ludwig Nobel came up with the idea of inventing the first operational tanker that came into service in response to increased demands for Caspian oil. 10 In an article published by the *New York Times*, correspondent Douglas Frantz stated, “by 1900, it was providing nearly half the world’s oil, with most of the rest coming from the United States. So many wooden-cased oil rigs popped up along Caspian shores that they became known as the Forest of the Nobels.” 11

The 20th Century witnessed ever-increasing demands for Caspian oil due in large measure to the two world wars; indeed, Caspian oil became a strategic objective among

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the belligerents during both conflicts. For example, during World War I the Germans attempted to seize Baku in order to sustain their war effort. An industrial power, Germany is resource-starved and thus dependent on raw materials and resources from abroad. Germany’s defeat in World War I can in part be attributed to its failure to secure Baku during the ill-fated Ottoman offensive of 1915 that in turn triggered the Gallipoli campaign when Churchill headed the admiralty.

During World War II Hitler understood the need for Germany to secure sources of oil outside the Romanian fields at Ploesti. Germany relied heavily on synthetic oil that it extracted from coal thanks to technology transferred from the United States in commercial agreements concluded with Standard Oil during the inter-war years. One of the rationales behind the Nazi-Soviet Pact was that Caspian Oil would provide Hitler with almost one-third of Germany’s oil needs. When Germany made the fateful decision to attack the U.S.S.R the strategic picture changed dramatically. It became essential for Hitler to secure the Caucasus in order for Germany to continue the war effort. Significantly, Germany lost World War II when the Sixth Army under von Paulus surrendered at Stalingrad. Hitler's armored spearhead under the command of SS General Dimitri Shalikashvili had already penetrated the Caucasus Mountains and reached Georgia. That is how close the Germans actually got to snatching an important prize. In

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12 Gawdat Bahgat, American Oil Diplomacy in the Persian Gulf and the Caspian Sea (Gainesville, FL: University Press of Florida, 2003), 140.


14 Nikolai Baibakov, The Cause of My Life (Moscow: Progress Publishers, 1984)
Daniel Yergin’s words, ‘the Germans ran out of oil in their quest for oil’.\textsuperscript{15}

Ironically for the Caspian Basin, the end of World War II witnessed a dramatic shift in Soviet energy priorities. For instance, during the 1950s the U.S.S.R shunted its energy investment priorities away from the Caspian Basin in favor of new explorations in the Volga-Urals region and the Siberian wilderness. Not surprisingly as investment in the Caspian basin tapered-off, exploration and production declined commensurately,\textsuperscript{16} and Moscow maintained this investment-exploration pattern until the late 1980s when interest in the Caspian region resurfaced. During the perestroika period the Soviet Republics of Azerbaijan, Kazakhstan, and Turkmenistan inaugurated a policy of attracting foreign investment to their oil and gas sectors. The recrudescence of foreign interest in Caspian exploration was a consequence of a complex interplay between a decline in production from the fields of Alaska's North Slope and the North Sea. Surveys and explorations conducted at the time indicated that Caspian reserves in oil and gas were far more extensive than previously thought. Anti-colonial sentiment in the Middle East played a role in this dynamic too. Saudi Arabia and Kuwait, for example, began to chafe at the scope and extent of foreign investment and control over their energy sectors. In response to the Iranian revolution and the overthrow of the Shah, the U.S. imposed sanctions against Iran, then Libya because of that state's sponsorship of terrorism against U.S. interests. The sanctions on Iraq that followed in the wake of Gulf War I played a significant role in bolstering the appeal of Caspian oil in the eyes of Western policy makers and energy companies. The conjunction of these factors came at an opportune

\textsuperscript{15} Yergin, \textit{The Prize}, 337.

\textsuperscript{16} Bahgat, \textit{American Oil Diplomacy}, 140.
time because the economies of Azerbaijan, Kazakhstan, and Turkmenistan were largely agrarian and underdeveloped; naturally, the logical path to modernization was for their political leadership to play the oil and natural gas cards, which of course they subsequently did. Nevertheless a problem remained.

The problem was that the continued development of Caspian oil and gas reserves depended on the importation of a new generation of technology, a trump card that Western oil companies skillfully played to their advantage when selling themselves to the regional players. Negotiations between Western energy consortia bore fruit when two substantial deals were struck in April 1993: the first was a $20 billion dollar joint venture between Chevron and Kazakhstan with the goal of developing the Tengiz oil field. The other deal was between the Azerbaijani government and Western consortia with the goal of developing the Azeri, Chirag, and Guneshli fields. Needless to say, these historic partnerships changed the geopolitical balance of power in the Caucasus and beyond. The region’s immense oil and gas reserves are now well-established yet in order to demonstrate just how extensive those reserves really are we need to look at data illustrating the allocation of oil and gas throughout the region. First of all, major oil and gas resources throughout Central Asia and the Caucasus include countries such as Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan. It is to these countries that our focus now shifts. Since Georgia and Uzbekistan possess small deposits of oil and natural gas

17 Ibid.

18 Energy Information Administration (EIA), Country Profile: Kazakhstan, May 2001, Publications of the EIA are online at www.eia.doe.gov

19 Energy Information Administration (EIA), Country Profile: Azerbaijan, May 2001, Publications of the EIA are online at www.eia.doe.gov
these countries are therefore less relevant to the investigation.

Kazakhstan has vast oil resources and it is only second to Russia in estimated reserves. If we look at the data delivered by the United States Energy Information Administration, we see that Kazakhstan has 95-101 BBL total oil reserves, not-to-mention huge gas resources such as 141-171 Tcf (See table 1). According to the provided data Azerbaijan accounts for 31-39 BBL total oil reserves and 46 tcf total gas reserves (See table 1). In the case of Turkmenistan, its gas reserves far outstrip its oil reserves; the data show that it only has 34 BBL of total oil reserves as opposed to 257-314 Tcf total gas reserves (See table 1). Finally, proven oil reserves in the whole Caspian Sea region (Russia and Iran excluded) accounts for 15-29 billion barrels which is quite a big number compared to western Europe (22 billion barrels) or the North Sea (17 billion barrels).20 Despite the fact that many studies came up with different quantities of potential oil and gas resources for the Caspian region, the differences are in the scheme of things rather insignificant. Some analysts contend that the combined proven and possible gas reserves of the eight former Soviet Republics in the Central Asia and Transcaucasia amounts to 9.85 trillion cubic meters.21 Interestingly, according to the State Department’s report concluded in April 1998, there is a possibility that Caspian reserves could reach 178 billion barrels which would be thirty times that of the Alaskan North Slope reserves.22

Table 1. Oil and Gas Reserve in the Caspian Region

20 Mehdi Parvizi Aminih, Towards The Control Of Oil Resources In The Caspian Region (New York: St. Martin’s Press, 1999), 82-83.

21 Ottar Skagen, Caspian Gas (London: The Royal Institute of International Affairs, Russia and Eurasia Programme, 1997), 11.

22 Phil Reeves, “Great Game is afoot again as rivals carve up oil bonanza,” Independent (UK), May 21, 1997, first edition.
<table>
<thead>
<tr>
<th>Country</th>
<th>Proven Oil Reserves (BBL)</th>
<th>Possible Oil Reserves (BBL)</th>
<th>Total Oil Reserves (BBL)</th>
<th>Proven Gas Reserves (Tcf)</th>
<th>Possible Gas Reserves</th>
<th>Total Gas Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>3.6-11.0</td>
<td>27</td>
<td>31-39</td>
<td>11</td>
<td>35</td>
<td>46</td>
</tr>
<tr>
<td>Iran 1</td>
<td>---</td>
<td>12</td>
<td>12</td>
<td>---</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10.0-16.0</td>
<td>85</td>
<td>95-101</td>
<td>53-83</td>
<td>88</td>
<td>141-171</td>
</tr>
<tr>
<td>Russia 2</td>
<td>0.2</td>
<td>5</td>
<td>5</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>1.4-1.5</td>
<td>32</td>
<td>34</td>
<td>98-155</td>
<td>159</td>
<td>257-314</td>
</tr>
<tr>
<td>Total</td>
<td>15.2-28.7</td>
<td>162</td>
<td>177-191</td>
<td>162-249</td>
<td>293</td>
<td>455-542</td>
</tr>
</tbody>
</table>

Note: 1&2 only regions near the Caspian Sea are included; BBL (billion barrels), Tcf (trillion cubic feet)

Source: based on United States-Energy Information Administration (statistical agency of the US Department of Energy), October 1997

Despite the fact that some officials in Azerbaijan and Kazakhstan declared the region as “another Middle East,” “another Saudi Arabia,” or “another Kuwait”, a real assessment of these competing statistics suggests that the region is less likely to become another Middle East; rather, the situation more likely resembles that of the North Sea. However, after the discoveries in Shah Deniz and Kashagan, optimism about the Caspian’s actual potential in oil and gas reserves increased and thereafter the region’s pivotal role in meeting the world’s energy demands became more realistic. In light of

recent discoveries it is more realistic to assert that Caspian oil and gas reserve estimates will revise upward, and at the same time that developed drilling and technological infrastructure will decrease exploration costs.\textsuperscript{24} Experts who are familiar with the issue claim that the Caspian will play a substantial role in world energy markets. For example, Wood Mackenzie, an oil consultant, suggested that the Caspian has the potential to produce 3.8 million barrels per day (b/d) by 2015, and that most of the oil will come from Azerbaijan and Kazakhstan.\textsuperscript{25}

Because of the significance of oil to the modern economy, both regional and non-regional powers are more likely to profit from the vast oil reserves in the Caspian basin. Thus, we see a number of foreign interests involved in the region: significantly, those interests clash, and this sets the stage for a geopolitical show down of epic proportions. Before discussing how primary and secondary powers vie for influence in the region, however, some historical background about the countries that comprise the South Caucasus is essential. Azerbaijan is the key state in the region, and experts sometimes refer to it as the “Caucasus machine,” a geostrategically pivotal country due to its location and obviously, to its vast oil and gas resources. Compared to the resources of Azerbaijan, Georgia and Armenia have a very limited reservoir of hydrocarbon reserves. However, in the case of Georgia its political leadership has the advantage of positioning themselves to foreign powers as a transit country for Azerbaijani oil. Georgia is today a Western ally, and has been one since the so-called Rose Revolution. Armenia also has a small concentration of hydrocarbon resources, and for this reason it has less appeal to

\textsuperscript{24} Ibid.

outside powers.

\[ b) \text{ Azerbaijan} \]

The republic of Azerbaijan is one of the newly independent states that emerged from the rubble of the Soviet Union. Geographically it is situated in the South Caucasus region, which is a strategic crossroads for invasion and trade. With its population of 8.0 million Azerbaijan occupies approximately 87,000 square kilometers. Ethnically heterogeneous its indigenous populations include Azerbaijanis who represent the majority of the population, and ethnic minorities such as Russians, Ukrainians, Kurds, Tatars, and other peoples from Dagestan. According to the 1999 census its ethnic mix breaks down as follows: Azeris 90.6 %, Dagestanis 2.2 %, Russians 1.8 %, Armenians 1.5 %\(^26\), others 3.9 %.\(^27\) In addition, Azerbaijanis (Azeris) living in Iran comprise a population of over ten million, with enclaves scattered in neighboring Georgia too.\(^28\) Azerbaijan is considered a secular country and according to Article 48 of its constitution everyone has the freedom of religion.\(^29\) Moreover, the majority of the population is Muslim, but Azerbaijan also has minority religious communities including Christians,

\(^{26}\text{Note; Almost all Armenians live in the separatist Nagorno-Karabakh region}\)


\(^{29}\text{See Constitution of Azerbaijan, at }\) http://www.servat.unibe.ch/icl/aj00t.html

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Jews, Hare Krishna, Jehovah Witnesses, etc.\textsuperscript{30} Azerbaijani (Azeri) is a Turkic language that derived from the Oghuz branch of the Altaic languages, a branch that is similar to Turkish.\textsuperscript{31}

In addition to the aforementioned characteristics of Azerbaijan, its territory is famous for being the birthplace of different civilizations, many of which got incorporated into various empires throughout history. Historically many tribes settled in the territory of Azerbaijan. For example, the ethnically Turkic Oghuz and Seljuks settled on this territory in the Eleventh Century. Islam, which was introduced during the Seventh Century, also left its stamp on the region. Azerbaijan is popular as a place where different khanates dependent on the Ottoman Empire or on Persia at different periods of time existed. By the Eighteenth Century Russia successfully waged wars against Persia and Turkey, conflicts that subjugated the Azerbaijani khanates to Russia. In 1918 after the collapse of the Russian Empire Azerbaijan established its first independent, but ephemeral democratic republic that survived until 1920. In that year the Azerbaijani Soviet Socialist Republic came into existence and endured until the demise of the Soviet Union in 1991.\textsuperscript{32}

Azerbaijan was an important republic in the Soviet Union, essential to its economy because of its vast oil and gas reserves. For example, in the 1980s Baku

\begin{footnotesize}
\textsuperscript{30} Note; more information about religious communities, at http://mfa.gov.az/eng/index.php?option=com_content&task=view&id=236&Itemid=1

\textsuperscript{31} See Encyclopedia Iranica, at http://www.iranica.com/articles/azerbaijan-viii

\textsuperscript{32} Mesbahi, \textit{Central Asia And The Caucasus after the Soviet Union}, 99-100.
\end{footnotesize}
accounted for 50 percent of the world’s oil output.\textsuperscript{33} Secondly, Azerbaijan shares borders with Iran and Turkey, states that during the Cold War maintained friendly relations with the West, a fact that disturbed Moscow because the Soviet Union would not countenance Western military encroachment along its sensitive southern border. Third, Azerbaijan’s subtropical climate and fertile soil was important for the cultivation of tea, cotton, tobacco, grapes, and so on.\textsuperscript{34}

In the days of \textit{perestroika} initiated by Mikhail Gorbachev, Azerbaijan also started to develop diplomatic ties with other Soviet republics including foreign countries. For example, in 1992 there were 864 registered foreign economic agents representing enterprises, cooperatives, and joint ventures operated in Azerbaijan.\textsuperscript{35} Statistics indicate that a steady growth in exports of raw materials such as petroleum products, detergents, cotton fiber, and hydrocarbon wasters to foreign countries in exchange for much-needed consumer goods.\textsuperscript{36} The “Azerbitorg” foreign trade association alone distributed 21,000 tons of diesel fuel and an enormous amount of rolled nonferrous metals in exchange for 6,000 tons of flour and 1,800 pairs of shoes.\textsuperscript{37}

After the collapse of the Soviet Union, 15 republics gained independence, Azerbaijan among them. Despite independence, Azerbaijan faced new problems in the sphere of political, economic, and military development. In the liberal atmosphere of

\textsuperscript{33} Ibid.

\textsuperscript{34} Ibid.

\textsuperscript{35} Ibid. 103.

\textsuperscript{36} Ibid.

\textsuperscript{37} Ibid.
perestroika that preceded the break-up of the Soviet Union, the Azeri Popular Front was among the first political movements that sought to gain power. The APF attracted intellectuals to its ranks, but it also drew membership from among the lower rungs of the socioeconomic stratum. At the beginning the APF played on anti-Armenian sentiment in order to contest power with the communist party. Growing anti-Russian sentiment worried Moscow and Gorbachev in response sent the Soviet army to restore order in Baku, but their real goal was to undermine the APF and strengthen the communist party leadership in the country.\(^{38}\) Simply put, from that point on two men vied for power: Elchibey who headed the APF on the one hand and Haidar Aliev, the former Azeri Communist Party Chief and alternate member of the Politburo, on the other competed for power. Bearing in mind that Elchibey's political rhetoric was anti-Iranian and anti-Russian it is easy to see why Moscow was happy with Aliev's appointment as president of Azerbaijan. After a series of complex political maneuverings, Haidar Aliev emerged as the new president of Azerbaijan.

Once he became president, Haidar Aliev pursued a centrist foreign policy that sought to balance Russian interests against Western ones, a strategy that Sukharno pursued in Indonesia during the 1950s. In 1994 Aliev visited France and Britain, and in the spring of that year Azerbaijan joined NATO’s Partnership for Peace Program.\(^{39}\) However, to assuage fears in Moscow Azerbaijan also joined the Commonwealth of

\(^{38}\) William E. Odom and Robert Dujarric, Commonwealth or Empire? Russia, Central Asia, and the Transcaucasus, (Indianapolis: Hudson Institute, 1995), 79.

\(^{39}\) “Aliev on Expectations from NATO Partnership,” FBIS/SOV-94-056, March 23, 1994, p. 45
Independent States (CIS)\textsuperscript{40}, which Aliev saw as a platform to help settle the Nagorno-Karabakh conflict. Aliev’s visit to Turkey also illustrates his policy of balancing states against each other. For instance, on a state visit to Turkey he said that Azerbaijan and Turkey were two states but one nation, and added that Turkish troops should be part of peacekeeping forces in Nagorno-Karabakh.\textsuperscript{41} Consequently, even though some critics argue he is undemocratic, authoritarian, and pro-Russian, few can deny Aliev brought stability and prosperity to a country situated in a turbulent region.

In political terms Azerbaijan's nascent democracy lacks maturity and stability. It also suffers from rampant corruption that infects all levels of civil society. Recent anti-government protests in Baku triggered a government crack-down followed by the arrest of opposition protesters. Aliev's critics see this response as evidence of his heavy-handedness, and as confirmation that he is reluctant to establish a well-functioning democratic state that countenances genuine political opposition.\textsuperscript{42} As regards corruption, \textit{Transparency International} is a leading global watchdog that monitors this phenomenon. According to its co-called corruption index Azerbaijan ranks 134\textsuperscript{th} and scored a 2.4, which translated to a high level of corruption for the country.\textsuperscript{43}

\textsuperscript{40} Note; The Commonwealth of Independent States (CIS) is a regional organization formed during the breakup of the Soviet Union and consists of former Soviet republics.


\textsuperscript{43} See Transparency International’s Corruption Perceptions Index for more information about levels of corruption in the region, at \url{http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results}
Since Azerbaijan is a resource-rich country, whose immediate development prospects stem mostly from its vast oil and gas resources, it is necessary to mention two recent and important initiatives that hold great promise for the country's future economic development: first is the so-called Contract of the Century, and the second is the Baku-Tbilisi-Ceyhan (BTC) pipeline. These initiatives will be discussed at length in Chapter Three, but a brief outline follows here. September 20th, 1994 was an important day in the history of Azerbaijan, because it witnessed an event that promised a better economic future for its people. This day was also significant because the Contract of the Century was signed between the State Oil Company of the Azerbaijan Republic (SOCAR) and Western Oil Consortia at the Gulistan Palace that showcased development of Azerbaijani oil reserves so badly mismanaged in Soviet times. The project itself is vital for the economic and political well being of the country for decades to come. In addition, many of the top players who participated in the signing ceremony elaborated on the significance of the project. John Brown, who is exploration’s managing director for British Petroleum, said that: “The investments will open new possibilities for Azerbaijan and they will ensure thousands of occupations for all people. It will be one of the greatest projects in the history of Azerbaijan.” Moreover, the Western Oil Consortium, also known as Azerbaijan International Operating Company (AIOC), includes various companies from US, Britain, Norway, Russia, Turkey, Japan and Saudi Arabia.


According to the signed investment agreement, production details are as follows. The agreement calls for a total investment of $7.4 billion dollars (at today's adjusted rates) over a period of 30 years in three offshore oil fields. The fields in question include Guneshli, an 82 km offshore platform in the section of the Caspian shelf that is deeper than 200 meters, Chirag (94 km) and Azeri (113 km). These reserves are estimated at 4 billion barrels (511 million tons). Production was pegged at 40,000 barrels per day after 18 months (beginning perhaps as early as 1997) and was slated to rise to 80,000 barrels per day during the first years, eventually peaking at 700,000 barrels per day in the next ten to fifteen years. Current Azerbaijani oil production stands at 160,000 barrels per day.

The above-mentioned agreement defined the division of stakes and profits among the big oil corporations as enshrined in the *Contract of the Century* signed in September 20th. First, the division of stakes and profits were assigned the following percentages: Azerbaijan's government will receive approximately 80% of the total profits from a combination of royalties and SOCAR's share. Calculations indicate that 55 billion cubic meters of gas will also be extracted, whose revenues will belong to Azerbaijan. The remaining 20% of profits will be divided among the other Consortium members. The final division of stakes (and therefore division of expenses) among the eleven final multinational signatories is as follows: SOCAR (Azerbaijan) 20%, British Petroleum (UK) 17.127%, Amoco (USA) 17.01%, Lukoil (Russia) 10 %, Pennzoil (USA) 9.82%,

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Unocal (USA) 9.52%, Statoil (Norway) 8.563%, McDermott International (USA) 2.45 %, Ramco (Scotland) 2.08%, Turkish State Oil Company (Turkey) 1.75%, Delta-Nimir (Saudi Arabia) 1.68%. 48

c) Georgia

The collapse of the Soviet Union brought independence to Georgia and Armenia too. The political, economic, and security problems that plagued Azerbaijan before it achieved its independence are present in these two Caucasian countries as well. When Gorbachev was still in power, Georgia witnessed a national resurgence that frightened its ethnic minorities. For instance, as nationalist fervor peaked, non-Georgian ethnic minorities such as the South Ossetians demanded unification with North Ossetia. Shortly thereafter, a war in South Ossetia started due to Georgia’s heavy-handed nationalist policies. 49 Georgia declared its independence on April 1, 1991. While becoming an independent country its political leadership continued to spout nationalist rhetoric that disturbed ethnic minorities and this talk gave Russia an opportunity to meddle in Caucasian affairs. Georgia declined to join the CIS, and it demanded the withdrawal of Russian forces from Georgian territory. Georgia’s new stance led to Russia cutting off energy and economic supplies to Georgia. Russia also sent in peacekeeping forces to

48 Ibid.

49 William E. Odom and Robert Dujarric, Commonwealth or Empire? Russia, Central Asia, and the Transcaucasus, (Indianapolis: Hudson Institute, 1995), 84.
South Ossetia and also into Abkhazia afterwards.  Compared to Azerbaijan the Georgian leadership did a poor job of managing diplomatic relations with Moscow. Tbilisi failed to tone-down its nationalistic and anti-Russian rhetoric, which in the end obliged Shevardnadze to accept Russian demands, meaning Georgia joined the CIS and it also allowed Moscow to establish permanent Russian military bases on its territory. Shevardnadze also gave Russian Border Troops control of the Georgian border with Turkey.\footnote{Fiona Hill and Pamela Jewett, “Back in the USSR, Strengthening Democratic Institutions Project, JFK School of Government, Harvard University, January 1994, 10”} Since the Rose Revolution that deposed Shevardnadze, Georgia has had a pro-Western regime that strives in its rhetoric to make the country more democratic and prosperous. It is obvious that Western, mainly American, influence is ubiquitous in the country, a fact that disturbs Russia because Moscow considers the South Caucasus its “near abroad” and therefore any western influence in the region is unacceptable for Russia. Thus, Georgia as a Western ally seeks to decrease its dependence on Russia by maintaining good relations with Azerbaijan and the West.

\textit{d) Armenia}

In contrast to the aforementioned countries in which anti-Russian sentiment had increased during \textit{perestroika}, in Armenia such sentiments were rare. The basis of the friendly relationship between both countries may be due to the fact that both share

\footnote{Ibid.}
Christian faith and an historic antagonism against Turkey.° Armenia is a geographically
landlocked country, with insignificant hydrocarbon reserves. It is blockaded by Turkey
and Azerbaijan, a result of the Nagorno-Karabakh conflict in which Armenia violated
Azerbaijan’s territorial integrity and also occupied various regions leaving Azerbaijan
with almost one million refugees. The Soviet Union's dissolution created new
independent states on the world stage. Three of those states are situated in the South
Caucasus region. However, with the emergence of these polities, political turmoil spiked.
The following paragraphs will discuss the political turmoil that occurred in the Caucasus.
The Nagorno-Karabakh conflict is a perfect example of this dynamic. The failure of the
belligerents to reach a political solution continues to undermine the security of the entire
region.

e) Nagorno-Karabakh Conflict

The conflict between Azerbaijan and Armenia over Nagorno-Karabakh° has a
long and turbulent history. Most scholars divide this bloody war into three phases: 1988-
that transformed local, ethnic violence into a full-scale international war. The conflict

° Odom and Dujarric, Commonwealth or Empire, 75.
° Note; with a total area of 4,800 square kilometers, Nagorno-Karabakh is only 1.5 times
larger than the smallest U.S. state, Rhode Island. It is a largely mountainous area. (In fact,
the word “Nagorno” is derived from Russian word “Nagorny,” meaning “mountainous.”)
° Michael Croissant, The Armenia-Azerbaijan Conflict: Causes and Implications,
between Azerbaijan and Armenia over Nagorno-Karabakh started in 1988 when a non-binding referendum in which the Armenian majority in the Nagorno-Karabakh Autonomous Oblast 55 (within the Azerbaijan Soviet Socialist Republic) voted for unification with Armenia. During the second period, major battles occurred between Azerbaijani and Armenian forces in territories that had been occupied by Armenia. For example, Lachin, Kelbajar, Fizuli, Jebrail, Kubatly, and Zengilan were occupied in 1992-1993. 56 The war, which caused 30,000 deaths and the displacement of nearly one million Azerbaijanis, was stopped when Russia brokered a ceasefire in 1994. 57 The ceasefire ushered in the third phase of the conflict; the third stage is significant because of the meditations of the OSCE Minsk-Group. 58

Historically, Russia, as an influential power in the South Caucasus region, supported Armenia. Even nowadays, it is obvious that Armenia is Russia’s strategic ally in the region. For example, Russia and Armenia signed the Treaty of Friendship, Cooperation and Mutual Assistance in 1997. According to this treaty, both parties agreed to provide military support to each other in the event that one of them is attacked by a

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55 Note; Nagorno-Karabakh Autonomous Oblast was an autonomous oblast of the Soviet Union created as an enclave within the borders of the Azerbaijan SSR on July 7, 1923

56 Note; Lachin and Kalbajar both were important to be occupied by Armenia due to their significant geographic location-creating corridor between Nagorno-Karabakh and Armenia.


58 Note; the OSCE Minsk-Group was created in 1992 by the Conference on Security and Cooperation in Europe (CSCE, now Organization for Security and Co-operation in Europe (OSCE)) to encourage a peaceful, negotiated resolution to the conflict between Azerbaijan and Armenia over Nagorno-Karabakh.
third country.\textsuperscript{59}

Furthermore, Russia dominates the Collective Security Treaty Organization\textsuperscript{60} (CSTO), which strives to defend its member states from possible foreign military aggression. This organization also gives Armenia various kinds of support that compromises the ability of the OSCE’s Minsk-Group to settle the conflict objectively. Besides supporting Armenia via the different organizations dominated by Russia, the Russian military has a base in Gyumri (Armenia). The agreement with Russia allows Moscow to maintain a military presence in Gyumri until 2044. Moreover, in 2008 the Russian Duma passed an amendment to the 1996 \textit{Law on Defense}. This amendment gave Moscow the power to utilize the country’s military forces for the defense of its citizens and soldiers abroad.\textsuperscript{61}

In addition to the situation described in the prior paragraph, Russia’s militarily involvement in Armenia can also hinder the resolution of the Nagorno-Karabakh conflict because Russia, as an aspiring power, does not want its influence to be diminished by an adverse settlement of the conflict. As Thomas de Wall, an expert on the South Caucasus, mentions: “Russian generals still have a close relationship with Armenia, and many of them would rather not see the Armenian-Azerbaijan conflict resolved and their influence


\textsuperscript{60} Note: The Collective Security Treaty Organization, formed under the framework of the Commonwealth of Independent States, serves as a mutual defense alliance among Russia, Belarus, Armenia and the four Central Asian states except Turkmenistan.

\textsuperscript{61} Mikhelidze, “The Azerbaijan-Russia-Turkey Energy Triangle, 6.
in the region diminished.  

Another important player in the region is the United States, a country that has also shown a tendency towards bias and favoritism in the place of pragmatism: it played a significant role in helping Armenia with developmental aid during the conflict, and it tacitly supported Armenia in international fora. The United States has continued to show unequal treatment for the warring parties, the best example being *The Freedom Support Act*. The FSA provides financial assistance to Georgia and Armenia, but not to Azerbaijan. Excerpts from the *Freedom Support Act 907a* state the following:

Section.907. Restriction on Assistance to Azerbaijan.

(A) RESTRICTIONS - United States assistance under this or any other Act (other than assistance under title V of this Act) may not be provided to the Government of Azerbaijan until the President determines, and so reports to the Congress, that the Government of Azerbaijan is taking demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh.

(B) WAIVER- The restriction on assistance in subsection (a) shall not apply if the President determines, and so certifies to Congress, that the application of the restriction would not be in the national interests of the United States.

In conclusion, with the OSCE Minsk-Group meditations in political limbo, and due to the unequal treatment of the belligerents by the great powers, a peaceful resolution to the conflict is not likely to occur any time soon. The conflict, therefore, remains frozen. To paraphrase Thomas de Wall a state of “no peace, no war” persists.

For the United States the outcome of regional conflicts in the distant Caucasus and Caspian basin are not only relevant but of strategic concern simply because

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Washington needs to diversify its petroleum portfolio by decreasing its dependency on the Persian Gulf. The concentration of vital hydrocarbon reserves in the Caucasus makes the region a potential flash point for great power competition. The presence of a great power counterweight to Russia gives the regional players the opportunity to play both sides off against each other in order to gain maximal advantage. It would be naïve to argue that this competition is all about commercial interests, because strategic concerns also enter into the calculus. Recognition of this reality takes us into the somnolent realm of power projection politics. It is to these events that we now turn our attention.
Chapter Two

The New Great Game: competition over Caspian resources

a) The Great Game versus the New Great Game: similarities and differences

The Great Game is a well-known expression that has appeared in books, newspapers, and magazines since the last quarter of the Nineteenth Century. Historically, it referred to a clash between Imperial Russia and Great Britain over Central Asia, the Caucasus, and the Indian subcontinent. According to tradition, Rudyard Kipling supposedly coined the term when he wrote about the adventures of two British agents who were killed by the Emir of Bokhara supposedly at the behest of Russia.\(^6^4\) The game analogy is significant because it underscores the idea that this high-stakes game of brinkmanship, whether a function of power-projection or a function of economic competition, is a form of chess writ-large. It often implies that greatness should be defined solely as a country's ability to project force abroad. Above all, this conception of greatness suggests politics is exclusively a zero-sum game where there is no room for compromise and rapprochement.\(^6^5\) Of course there are alternatives to zero-sum games; some scholars refer to rapprochement-oriented approaches as positive-sum games. In positive-sum games players cooperate in order to secure their objectives to their mutual


advantage. For example, the Great Game between Russia and Britain began as zero-sum but ended, according to some scholars, in rapprochement with the conclusion of the Anglo-Russian convention of 1907, an agreement that divided the Caucasus, Central Asia, and the Indian sub-continent into mutual spheres of interest.

Even though Afghanistan was a bone of contention between the two powers, the South Caucasus theater was no less contested. Britain feared Russian expansion towards the South Caucasus that began in earnest with the Gulistan (1813) and Turkmanchay (1828) treaties. London perceived this expansion as an attempt to undermine its security interests in the region, interests that centered around the Ottoman and Persian Empires.

The Gulistan Treaty was signed in 1813 in the village of Gulistan in Karabakh at the end of the first Russo-Persian Wars (1804-1813). According to the terms of this treaty:

First, Persia (Iran) loses all its territories to the north of Aras River and is forced via this treaty to recognize Russia's authority over them henceforth. These lands include: All the cities, towns, and villages of Dagestan. All the cities, towns, and villages of Georgia, including all the villages and towns on the coast of the Black Sea, Baku in Arran province (now capital of modern Azerbaijan Republic), Derbent, Shirvan, Megrelia, Karabakh, Ganja, Shekin, Abkhazia, Mughan, Imeretia, Guria, The khanates of Talysh. Moreover, Iran loses all rights to navigate the Caspian Sea, and Russia is granted exclusive rights to station its military fleet in the Caspian Sea. Both countries agree on the establishment of free trade, with Russians having free access to conduct business anywhere in Iran. Furthermore, Russia in return promises to support Abbas Mirza as heir to the Persian throne after the death of Fath Ali Shah.

A little over a decade later, in 1828, the Turkmanchay Treaty was signed that concluded

66 Ibid.


68 See [http://www.cais-soas.com/CAIS/Iran/golestan.htm](http://www.cais-soas.com/CAIS/Iran/golestan.htm)
the Second Russo-Persian War. As it was in the case of the Gulistan Treaty Persia was forced to sign by virtue of its military defeat. For instance, a Russian general threatened Fath Ali Shah to sign the treaty or face the prospect of a Russian occupation of Tehran within 5 days. The following provisions of the treaty are noteworthy:

By Article 4 of the treaty, Iran loses sovereignty over Yerevan (current capital of Armenia), Nakhichevan, Talysh, Ordubad, and Mughan regions of Arran Province (now part of modern Azerbaijan Republic), in addition to all lands annexed by Russia in the Gulistan Treaty. 2. The Aras river is assigned the new borderline between Iran and Russia, from "from Arrarat ghal'eh to the outlet of the river at Astara". 3. By Article 6 of the treaty, Iran promised to pay Russia 10 Koroor in Gold (in 1828 currency) 4. By Article 8 of the treaty, Iranian ships lose full rights to navigate all of the Caspian Sea and her coasts, henceforth given to Russia. 5. Iran recognizes Capitulation rights for Russians in Iran. 6. By Article 10, Russia gains the right to send consulate envoys to anywhere in Iran it wishes. 7. By Article 10, Iran is forced to sign economic treaties with Russia as Russia specifies. 8. By Article 7 of the treaty, Russia promises to support Abbas Mirza as the heir to the throne of Persia after Fath Ali Shah dies. 9. Iran officially apologizes for breaking its promises made in the Gulistan Treaty. 10. By Article 15, Fath Ali Shah promises not to prosecute any Khanate secessionist movements in the northwestern region.69

The difference between the Great Game that occurred in the 19th Century and the New Great Game that began in 1989 is worth examining. These differences are well articulated by Michael Mandelbaum, who highlights the following points. In the first place, he noted, "the Great Game" of the 19th century had some romantic overtones that authors like Kipling exaggerated through literary license. Some scholars in the West, outside consensus, aver there actually was no original great game at all, that the entire affair is the product of British propaganda and a fertile imagination.70 The historical record is full

69 Ibid.

70 See Gerald Morgan’s Myth and Reality in the Great Game and Malcolm Yapp’s “The Legend of the Great Game.” Both studies show inexistence of the great game between
of accounts of eccentric and brave adventurers who traveled to exotic places. The novel *Kim* comes to mind where the ubiquitous Russians are everywhere yet nowhere to be found. Then there are the celebrated adventures of Stoddard and Conolly in Central Asia, of Burnes who was martyred in first the Afghan war on behalf of the crown, just to name a few examples. Second, in contrast to the Great Game, new Great Game actors are vast multi-national corporations, NGOs of various stripe, petroleum engineers, financiers, and so on. Third, there are more than two contestants in the new Great Game that centers on Central Asia and the Caspian. "They were like prizefighters glowering at each other from opposite corners of the ring", noted Michael Mandelbaum. Indeed the new Great Game is certainly different because this time rounds several sovereign countries are involved, not to mention the plethora of private interest, non-state actors involved.\(^71\) Hopkirk, who has written extensively about the Great Game, mentioned, “the difference between the period of the great game and what is happening today is that the United States has become the main player.”\(^72\) Finally, as previously noted, at the beginning the Great Game was a zero-sum game in which Russia and Britain originally vied for influence over the power vacuum created by the decline of the Ottoman and Persian empires in Asia Minor and the defeat of Napoleon in Europe. Some observers think the new Great Game is not a zero-sum game simply because numerous protagonists are involved in the

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\(^72\) Peter Hopkirk, *The Great Game: The Struggle for Empire in Central Asia* (Kodansha International, 1990)
dynamic. This reality restrains the main players, drives cooperation and interaction between various regional bodies such as the CIS, ECO (the economic cooperation organization), etc. Consequently, at this point in time the ongoing new Great Game is more positive-sum rather than being a negative zero-sum proposition.73

The degree of cooperation between the various players, however, is so limited or inconsequential that in the broader scheme of things little has changed for the good and great power interests remain the supreme driving force, meaning for the moment the new game is just as zero-sum in thrust as the prior game was at the beginning. For example, the interests of states participating in the construction of pipeline transit corridors makes it clear that even though some kinds of cooperation occurs between the protagonists in the region and beyond, the nature of the game is more volatile as each side jockeys for position making ‘moves’ that will further its own strategic ends to the exclusion of the others. In point of fact great power rivalry in the region coupled with Iran and Armenia’s exclusion from the lucrative projects underscores the zero-sum nature of the dynamic as a whole. As the competing interests in the region manifest clear-cut goals I will address those objectives in greater detail later in this chapter.

The vast resources that I described in the first chapter attracted various countries to the region at different times beginning with the 1980s. The region has also witnessed significant shifts in alliances, not to mention continuous warfare. Historically, Persia, Russia, Turkey, and the United Kingdom controlled enormous stretches of territory throughout Eurasia seeking to exploit their natural resources on the one hand, and to use these territories as springboards from which to conquer India and the rest of the South

Asia on the other.\textsuperscript{74}

A turning point occurred with the collapse of the Soviet Union and the arrival of international powers and transnational organizations. By regional powers I mean those powers that geographically were close to the South Caucasus and greater Caspian region who historically were influential players. Those regional powers are Russia, Iran, and Turkey. International actors involved in the region are countries that are geographically distant from the region, but are actively involved in it in order to gain economic and strategic advantage. International actors involved in the region are the United States, European countries, etc. By transnational forces I mean Transnational Corporations (TNC). A TNC is a “company that controls production in more than one country.”\textsuperscript{75} Moreover, TNCs have “the ability to take advantage of geographical differences, shift their resources and operations between locations throughout the globe.”\textsuperscript{76} As previously mentioned, the collapse of the USSR created a power vacuum in the region by encouraging more players to vie for influence in the region.

\textit{b) Regional powers – Russia, Iran and Turkey}

Russian involvement in the region dates back to the mid-16\textsuperscript{th} century when the Ottoman and Persian empires vied with it for influence and control. Over a period lasting

\begin{flushright}
\textsuperscript{74} Amineh, \textit{Towards the Control of Oil Resources}, 85.


\textsuperscript{76} Tamara Dragadze, “The Choice of International and Regional Economic Alliances has a political context,” \textit{Caucasian Views}, (1997).
\end{flushright}
almost three hundred years Russia managed to beat back both powers, eventually annexing modern-day Georgia and Azerbaijan during the first Russian-Persian war. After the second Russian-Persian war Russia seized modern day Armenia which established Russian influence in the region that exists today as well. Russian influence in the region increased in the 19th century as St. Petersburg played the Great Game that gave Russia control of the Caucasus. Russia maintained its hegemony there until the collapse of the Soviet Union. With the collapse of the Soviet Union Russia witnessed the rise of regional and non-regional powers who competed for influence in the areas of the former Soviet Union, especially in Central Asia and the Caucasus. Therefore the collapse of the U.S.S.R became the catalyst that re-ignited a century-old game but in a new guise that now involves several aspirants.

Two factions emerged inside Russian foreign policy circles, and it is essential to elucidate their positions on the Caucasus. The views articulated by Yevgeny Primakov and Victor Chernomyrdin defined the policy of one important faction during the 1990s. Primakov was the Russian Prime Minister who viewed Russian foreign policy towards the Caucasus from a realist or pragmatic perspective, and it emphasized balance-of-power in the sphere of international relations. He persuaded Boris Yeltsin, for example, to sign the secret Directive No. 396 “On Protecting the Interests of the Russian Federation in the Caspian Sea,” and he argued that Russia must maintain its “sphere of influence” in the Central Asian and the Caspian republics. Interestingly, Sergei Karaganov, who headed the foreign policy advisory board, described the Azeri-Western oil deal as a

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77 Amineh, *Towards The Control Of Oil Resources*, 87.
manifestation of a *century-long game*.\(^78\)\(^79\) Clearly the Karaganov approach advocated Russia taking the long view of things. Chernomyrdin was not a hard-liner, however, and he preferred to deal with transnational forces and to foster a spirit of cooperation. Moreover, he favored policies that fostered cooperation with the West because Russia needed access to Western technology. He also favored the presence of Western energy consortia in the Caspian Basin as a way of modernizing Russian technology, as a means for Russia to gain a foothold in the world oil markets, and as a means to share the earnings available there.\(^80\) Opposite to the prior group would be a faction that holds a traditional Russian nationalist line on Russia maintaining its influence on the Caucasus. Despite the split between the transnationalist and nationalist views, Russia nonetheless continues to exercise significant influence over the region. The Russian presence in the Caucasus and its ability to expand that influence depends on various factors to which this study now turns its attention.

First, Russia prefers to leverage a ‘Eurasian’ stance to its advantage, which basically means Moscow wants to increase its strategic and economic interests in the Caspian region and beyond. When Putin came to power in 2000, for example, he had inaugurated a more resolute Caspian policy that sought to increase Russia’s strategic and


\(^79\) Pierre Shammas, “The Prospects for oil Export Pipeline in the CIS,” in *The International Conference on December 10-11: Oil and Gas Prospects in the Caspian Region*, The Institute for Political and International Studies (IPIS) and Institute for International Studies (IIES), (Tehran)

\(^80\) Amineh, *Towards the Control of Oil*, 88.
commercial interests. In addition, Russia’s huge oil and gas companies such as Lukoil, Yukos, and Gazprom formed the Caspian Oil Company in 2000 that aimed to “help Russia strengthen its stand in the region.” In 2002 Putin proposed to create a “Eurasian Alliance of Gas Producers” that was going to establish long-term economic ties with the countries involved at a time when Russia was worried about the growing U.S influence in the region because of its presence in Afghanistan. Finally, Putin’s rise to power resolved factional strife as manifested in the in policy divides and this move made Russian foreign policy in the Caucasus more coherent and more assertive. Second, Russian interests in the region depend of course on Caspian hydrocarbon resources. Given the fact that the energy sector is a leading and driving force within the Russian economy, establishing energy relations with other regional countries is an essential move for Russia. For instance, the Russian oil industry makes up to 40 percent of foreign earnings, and consequently it is now the foremost sector of the Russian economy. Not surprisingly, energy relations have an enormous impact over the Russian economy and those of its neighbors. Russia still influences the oil and gas industry in Baku in several ways. Dr. Baghat, a political scientist, summarized the situation in the following way:

Moscow can influence oil and gas industry in Baku, Astana, and Ashgabat in a number of ways: as an investor or partner in field development and pipeline projects; as a transit country for their exports to formal Soviet

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81 Bahgat, *American Oil Diplomacy*, 150.


Republics and markets; as a competitor in most of these markets; and as a market in its own right.\textsuperscript{85}

Third, Russia views the Caucasus and the greater Caspian region as its backyard or ‘near abroad’, and therefore any other power striving for the influence there, be it a regional or an international one, disturbs Russian interests. For example, after the U.S. got involved in the region, especially in Georgia, Russian policy became more assertive and it eventually sparked the Russian-Georgian war of 2008. This conflict highlights Russian concerns over who controls what in its near abroad, and that is why any move by others in the region is considered by Moscow to be inimical to Russian national interests. Russia’s stance towards the region makes it clear that both its strategic and commercial interests will not be undermined by the involvement of outside players in the region. Thus, Russia's current stance towards the region coupled with its economic interests in energy transit corridors there are now zero-sum in thrust.

Despite the fact that Russia would like to be the most influential player in the region, this desire is completely out of touch with reality for several reasons. According to Zbigniew Brzezinski, “the ‘near abroad’ option offers not a geopolitical solution, but a geopolitical illusion.”\textsuperscript{86} One report written in 1997 concluded that Russian policymakers should recognize the “geopolitical pluralism on the territory of the former Soviet Union.”\textsuperscript{87} U.S. senator Mitch McConnell told his Georgian hosts in August 1997 that

\textsuperscript{85} Bahgat,\textit{ American Oil Diplomacy}, 150.

\textsuperscript{86} Brzezinski,\textit{ The Grand Chessboard}, 115.

“Americans are here to stay”\textsuperscript{88} which sent a message to Russia that they would not be able to dominate the region. Greater Western (read American) involvement in the region will diminish Russian regional aspirations, and since the West got involved in the region several compromises had been reached. For instance, Moscow has agreed that multiple pipelines will be needed to export Caspian oil; Moscow has changed its position over the Caspian’s legal status too,\textsuperscript{89} and it is warming up to the idea of having multilateral solutions diffuse tensions in the region.\textsuperscript{90}

In addition to Russia, Iran also is a regional power that historically had influence in the Caucasus, and to a greater extent, the Caspian region. Even though Iran lost its influence in the Caspian Sea with the established treaties of Gulistan and Turkmanchai, the first international treaties defining the relationship between Russia and Persia over the Caspian Sea. The above-mentioned treaties limited Persian influence in the region. Russia enjoyed freedom of navigation in the Caspian Sea since the signing of the Gulistan treaty, but in 1921 the Treaty of Friendship signed between Persia and Russia extended freedom of navigation in the Caspian to Persia and hence this treaty established the normalization of relations between two countries, and it enhanced Persian influence in the region.\textsuperscript{91} Twenty years later the two states concluded the Treaty of Commerce and

\textsuperscript{88} “US and the Great Game in Pursuit of Caspian Riches,” \textit{Turkistan Newsletter} 1 (24 October, 1997)

\textsuperscript{89} Note: there is disagreement over the Caspian’s legal status between Russia-Iran on one side, and littoral states (Azerbaijan, Kazakhstan, and Turkmenistan) on the other.


\textsuperscript{91} Bulent Aras and Michael P. Croissant, \textit{Oil and Geopolitics in the Caspian Sea region} (Westport Connecticut, London: Praeger, 1999), 23.
Navigation further strengthening Persian and Russian access to the Caspian Sea.  

When the U.S.S.R collapsed Iran saw a historic opportunity to increase its influence in the region, and by extension, to become more actively involved in the new Great Game. Since 1991, Iranian policy makers recognized the independence of former Soviet republics and Teheran formulated specific goals in the region along the following lines: enhance Iranian political influence, cultivate economically profitable commercial relations with regional states, spread religious ideology, procure former Soviet weaponry, and acquire nuclear expertise and materials. Despite the fact that Iran strives to project religious influence throughout the region, it is not the most important component of Iranian foreign strategy. Iran has much better relations with Christian Armenia than Muslim Azerbaijan, and Iran is much less inclined to support insurgents operating in Chechnya against the Russians. These two examples serve to illustrate that Islam is less important to Tehran’s grand strategy, and that nationalist and economic interests appear to suffuse their policy objectives.

In spite of Iran’s zeal to gain more political and economic influence in the region and to exert more influence in the newly independent South Caucasian states, its interests nonetheless were hindered by the United States, the only major power involved in the region. First the sanctions imposed on Iran by the United States blocked Iranian involvement in a number of significant regional energy projects. Second, the United States “has exerted strong pressure on other countries to punish Iran for its behavior,

92 Ibid. 24.

93 Amineh, Towards the Control of Oil Resources, 111.

94 Bahgat, American Oil Diplomacy, 152.
successfully arguing for a block on sensitive technology transfers, and denying Iran access to international finance.”  

Third, because of the ill will between the United States and Iran, the newly independent South Caucasian states became cautious in their dealings and relations with Tehran, yet despite these impediments there is still considerable trade conducted with Iran. For example, Iran exports food, manufactured goods, machinery to Armenia, Iran also supplies 10 percent of Armenia’s electricity demand. In the case of Azerbaijan it is clear that even though there is some trade going on between them, Iran’s support for Armenia complicates Azeri-Iranian relations. In the case of Georgia, Turkey is a more important trading partner than Iran. Like Iran, Turkey also perceived the downfall of the Soviet Union as an opportunity to strengthen its presence in the region and also to profit from the huge oil and gas reserves of the Caspian. The strategic importance of the Caspian Basin to Turkey is manifest because the growing Turkish economy will need considerable amounts of oil and gas in order to sustain economic growth. The Turkish economy is now the 17th largest in the world, and in order to maintain that pace Turkey needs ready access to oil and gas resources that it has only in limited supply. Therefore, the new Great Game is also significant for Turkish interests and Turkey as a regional power struggles to maintain not only better relations with its neighbors, it also seeks to increase its own clout.

Bearing in mind that Turkey needs oil and transit fees from pipelines that traverse

95 Amineh, Towards the Control of Oil Resources, 113.

96 Ibid. 116.

its territory, it is easy to understand Ankara's tilt toward Azerbaijan. Behind the rhetoric of “one nation, two states” stands Azerbaijan's need to enhance its security and Turkey's need for oil and gas. It is a symbiotic relationship that benefits both sides. The common problems with Armenia such as the “genocide issue” and the Nagorno-Karabakh conflict strengthen diplomatic ties between these two countries. Turkey also blockaded Armenia in response to the latter's invasion of Azerbaijani territories, and this action underscores one aspect of the mutual support. In conclusion, normalization of relations between Turkey and Armenia depends mostly on the resolution of the Nagorno-Karabakh conflict, an issue on which Turkey's position is clear.

The existing state of Turkish-Georgian relations on the other hand cannot be better because Turkey needs Georgia as a transit country for its oil and gas imports. Beyond that Turkey is a NATO member and Georgia has a pro-American government. Historically Turkey has sought to thwart Russian influence in the Caucasus, and the current state of Georgian-Russian relations fosters better relations between Turkey and Georgia. Therefore, Azerbaijan and Georgia are essential secondary players in the new great game, and the Turkey-Azerbaijan-Georgia alliance bolsters the interests of the United States in the region.

However, the relationship between Turkey and Iran is significantly different from the Turkish-Georgian and Turkish-Azerbaijani ones. Several issues need to be highlighted in order to understand the relationship between these two countries. First, as we know Turkey is a NATO member and that means to some extent it furthers U.S. interests in the region. For that reason, Iran opposes the Turkish stance and views it as vehicle to expand NATO influence, and by extension, Washington's interests in the
region. Second, there are some differences between the regimes in both countries that also undermine their foreign relations with each other. For example, Iran has an Islamic regime, which is quite different from what we see in Turkey. Even though the current AKP government in Turkey has Islamic roots, it does not make Turkey a theocracy, which is to say that Turkey still is a secular and democratic country, a fact that disturbs Iran. Third, even though some troubles roil Turkish-Israeli relations after the flotilla incident, in contrast to Iran, Turkey has much better relations with Israel. Needless to say, Iran also dislikes this Turkish stance towards Israel. Finally, some observers claim Iran supports Kurdish guerillas, and this suspicion naturally strains relations between the two countries.

c) The United States – superpower in the region

After the end of the Cold War and the collapse of the Soviet Union, the United States became the only remaining superpower. Today the United States has the economic, political, and military capabilities to take advantage of the collapse of the U.S.S.R by getting involved in the Russian near abroad. In this respect the United States does not differ from other regional powers who desire to strengthen their strategic and commercial interests in the Caspian region. Therefore, after the Caucasian states got their independence they strove to attract the Western powers to the region and thus to solidify their independence from Russia. Azerbaijan, as a newly independent country, was a more attractive target for Western influence. Because of its geography Azerbaijan was likely to serve as a corridor for Western access to the riches of the Caspian basin and
Central Asia. Moreover, it would be folly for the West not to get involved in this pivotal place, because if the West fails to do so, then Caspian Basin and Central Asia would be sealed to outside access. Given the importance of the region, the West, above all the United States, should not hesitate to exploit a historic opportunity to its advantage by developing the region’s resources through its superior technology, which in the long term diminishes Russian influence.

The case for U.S. involvement is articulated by Jan Kalicky, a United States Administration Energy adviser for the new independent states who argued that: “We can now look forward – optimistically, but I think not unrealistically – to a time some 10 years from now when the Caspian becomes the third largest energy-producing region in the world, with secure nation-states embedded in the international economic and political system, and oil wealth supporting a dynamic process of economic and political development.” Moreover, U.S Senator Sam Brownback remarked that: “Investment in the region could ultimately reduce United States dependence on oil imports from the volatile Persian Gulf and provide regional supplies as an alternative to Iranian sources.” Furthermore, Vice-President Al Gore was also among those who were promoting and encouraging oil projects in the Caspian region.

Studies summarizing the national interests of the United States in the Caucasus

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101 Amineh, *Towards the Control of Oil Resources*, 95.
and Caspian region abound. A hearing conducted by the 107th Congress presents a more detailed and clear-cut expression of the United States national interests. According to this document, U.S. national interests in the region are as followings:

1. Ensuring the viability and stability of global energy supplies and diversification of supply areas other than the Persian Gulf.
2. Improving relations with the Muslim world.
3. Promoting trends in neighboring Middle East states that are conducive to U.S national interests.
4. Promoting the well-being of Turkey, an important U.S ally, now in the midst of a financial crisis.
5. Promoting U.S economic interests.
6. Promoting the independence of the states in the Caucasus and Central Asia; their successful democratization; general peace, stability and prosperity in the region.  

For the aforementioned reasons it is in the U.S. best interest to be involved in the Caucasus; the U.S. must therefore forge better relations with regional countries such as Azerbaijan and Georgia. A more pro-active engagement by Washington with the region will also help Azerbaijan and Georgia solidify their independence from Russia.

\[ d \] Pipeline politics – contending interests in “the New Great Game”

After the fall of the Soviet Union, and with the resumption of the new Great Game pipelines became a major bone of contention among the primary and secondary players in the region. Primary players such as Russia, Iran, Turkey, and the United States, along with secondary actors such as Azerbaijan, Georgia, and Armenia compete for the best deal. The respective parties put forth 5 pipeline routes; some of them had already

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been constructed while others were a matter of future consideration. Naturally, each state chose a particular route that promised economic, geopolitical, environmental, and other advantages that maximize its interests. The first plan proposed by Russia sought to export Caspian oil via the Baku-Novorossiysk pipeline corridor that crossed Chechnya to Novorossiysk from where it would be transported to the Mediterranean by tankers sailing through the Bosporus. This route did not need huge sums of money because it was already working and a small amount of money would have been enough to modernize it. But the major concern of the parties involved was Chechnya, which was insecure due to the political instability there. Azerbaijan above all was more interested in an alternative route that would export its oil not via Russian-backed pipelines because this would translate into continued dependence on Russia. The Turkish plan by contrast highlighted environmental concerns about possible oil spills and incidents in the Bosporus. The Turks produced statistics showing a high rate of tanker incidents in the Bosporus due to the sheer volume of shipping there. For instance, Turkish authorities made clear that between 1982 and 1994 no less than 207 accidents had occurred, and two of those caused oil spills, fires, and explosions, including severe loss of life. Thus, Azerbaijan on one hand and Turkey on the other were not happy with the Baku-Novorossiysk option.

The second option was similar to the first one, the only difference being an alteration in the course of the line from Chechnya into Dagestan. This kind of re-routing avoided the Chechnya obstacle, but the changes still did not address the environmental

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concerns Turkey voiced earlier.\textsuperscript{105}

The third option already existed but was in much need of maintenance, the Baku-Supsa pipeline, which was cheap, compared to other alternatives. This was also an acceptable deal for Azerbaijan because it did not have to fear any Russian dependency. In contrast to the Azerbaijani position, Turkey was still concerned with environmental problems associated with the straits. Thus Russia and Greece proposed the solution of loading oil in Novorossiysk or Supsa and discharging it in the Bulgarian Black Sea port of Burgas, where the oil would be shipped by tankers to world markets. Due to the fact that this option was difficult and time-consuming, it became less attractive to financiers, hence, this option was also ruled out.\textsuperscript{106}

The fourth option was less expensive compared to the previous ones due to the shorter distances involved since this particular route was going to run through Iran to the Persian Gulf. The Trans-Iranian route was controversial due to the stormy nature of U.S.-Iranian relations. To preempt this move, the Clinton administration levied fines on companies and individuals and barred them from doing business in Iran. The \textit{Iran-Libya Sanctions Act} was the final nail in the coffin that made the Iranian route impossible.\textsuperscript{107} Pressure from the United States also persuaded Haidar Aliev, the Azerbaijani president, to oppose the Iranian route. For example, a phone call from President Clinton to Haidar Aliev persuaded him to abandon the venture.\textsuperscript{108} For Washington the Iranian route gave

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\textsuperscript{105} Ibid.

\textsuperscript{106} Ibid.


\textsuperscript{108} Hale, \textit{Turkish Foreign Policy}, 277.
\end{flushleft}
Tehran too much leverage to shut down the pipeline whenever it wanted and to hinder the traffic of tankers out of the Persian Gulf by controlling the Strait of Hormuz. To sum it up, the Iranian option was ruled out due to Iran’s unpredictable and unfriendly relations with the United States.

The fifth option concerned a pipeline route through Armenia, which the Azerbaijani government immediately ruled out. This pipeline would have crossed the disputed region of Nagorno-Karabakh reaching Turkey via Armenia proper. Due to the unfriendly nature of relations between Armenia and Azerbaijan, Baku rejected this route. For Baku, Yerevan gained too much clout through transit fees in exchange for which Yerevan offered no concessions on the future status of the Nagorno-Karabakh enclave.

In this chapter I have discussed how various players submitted plans for competing pipeline routes. This competition became more intense with the completion of the Baku-Tbilisi-Ceyhan or BTC pipeline. Despite myriad obstacles, BTC is now commercially profitable. The United States was the big winner in this tilt with Russia drawing the short straw. The importance of the BTC and other pertinent analysis will be discussed in the next chapter.


\[110\] Ibid.
Chapter Three

More Analysis on the United States’ crucial involvement in the South Caucasus

a) U.S. growing dependency on petroleum

The Caucasus is decisive for U.S. national interests in several ways. In order to sustain its economic growth the U.S. needs to secure its energy needs by solidifying its presence in the Caucasus region in general and especially in Azerbaijan. Azerbaijan’s potential hydrocarbon reserves discussed in the first chapter of this study clearly shows that it would be a nice fit for the United States, whose economy requires petroleum to sustain itself. The oil and gas resources of Azerbaijan not only provide the U.S. with the necessary amount of reserves; it also makes the country less dependent on crude from the more volatile Persian Gulf. Energy source diversification is a wise solution to this problem.

President George H. W. Bush once said: “Our nation now imports nearly half the oil it consumes and could face a major threat to its economic independence and, thus, the sovereign independence of Saudi Arabia is of vital interest to the United States.”¹¹¹ Most of the analysts claim that oil will remain the most important source of energy in coming decades, which in turn makes this resource so important to the future health of the American economy. Oil has manifold applications as it is used to heat homes, schools, and power industry, provide the raw materials for plastics and other synthetic products. That it is the life-blood of the transportation economy goes without saying; nowadays

petroleum products account for 97 percent of all fuel used in cars, trucks, buses, planes, trains, etc.\textsuperscript{112} Oil remains a strategic asset on which the United States depends for a wide range of commercial and household products.

The United States is the world's only remaining superpower, and it maintains many military bases around the globe. These bases play a crucial role in helping Washington maintain its global supremacy. Those facilities rely heavily on a steady supply of petroleum. The United States has the largest military in the world with a vast inventory of ships, planes, helicopters, and other modern high-tech vehicles. Therefore, “although the Pentagon may boast of its ever-advancing use of computers and other high-tech devices, the fighting machines that form the backbone of the U.S. military are entirely dependent on petroleum, and hence without an abundant and reliable supply of oil, the Department of Defense could neither dispatch its forces to distant battlefields nor keep them supplied once deployed there.”\textsuperscript{113} Moreover, Robert E. Ebel from the Center for Strategic and International Studies argued that, “oil fuels military power, national treasuries, and international politics,” and it is also “a determinant of well being, of national security, and international power for those who possess this vital resource and the converse for those who do not.”\textsuperscript{114}

\textsuperscript{112} Michael T. Klare, \textit{Blood and oil; the dangers and consequences of America’s growing dependency on imported petroleum} (New York: Henry Holt and Company, LLC, 2004), 7.


Historically the United States was not as dependent on foreign oil as it is today. The first endeavor to develop large-scale native oil industries began in 1859 in Titusville, Pennsylvania which later expanded and sustained the nation’s economic growth for more than 100 years. Later, America’s large, multinational oil companies arose including John D. Rockefeller’s Standard Oil Company, Exxon Mobil, Chevron, Amoco, Atlantic Richfield, etc. Due to cheap and abundant oil, other areas of the economy grew such as automobile manufacturing, DuPont and other chemical companies, airline companies, and freight companies.\textsuperscript{115} The United States achieved its maximum domestic production in 1972 after which point output started to decline as has been pointed out. In order to compensate for the decline in domestic production the U.S began importing foreign oil and that dependence has been increasing decade after decade.\textsuperscript{116} For example, according to \textit{Annual Energy Outlook 2004}, “U.S. oil consumption will rise from an average of 19.7 million barrels per day in 2001 to 28.3 million barrels in 2025, an increase of 44 percent. At the same time, domestic crude-oil production is expected to drop from 5.7 to 4.6 million barrels per day.”\textsuperscript{117} Meanwhile dependence on foreign oil will continue to grow “rising from 55 percent of U.S. consumption in 2001 to an estimated 58 percent in 2010, 66 percent in 2020, and 70 percent in 2025.”\textsuperscript{118}

Bearing in mind the Caspian’s promise of delivering abundant oil and gas

\textsuperscript{115} Yergin, \textit{The Prize},

\textsuperscript{116} Klare, \textit{Blood and oil}, 16.


\textsuperscript{118} Ibid.
reserves for decades to come, and considering America’s growing dependence on foreign petroleum, Washington needs to step up its engagement in the Caucasus region. The geography of the region makes Georgia a natural land bridge between the Black and Caspian Seas; Georgia, therefore, will play an important role in the transportation of oil, via pipelines, to world markets. Moreover, the growing oil dependency not only of the United States, but also China makes it clear that the U.S. must bolster its presence in the region and strengthen its ties with the oil-rich countries there like Azerbaijan. According to current energy projections in 2001 China produced approximately 3.3 million barrels of oil per day and consumed 5.0 million barrels, generating a shortfall of 1.7 million barrels that had to be made up through imports. Significantly, by 2025, China’s petroleum consumption will rise to 12.8 million barrels of oil per day, but its output will remain at 3.4 million barrels, which is five times the 2001 amount.\footnote{U.S. Department of Energy, Annual energy Outlook 2004 (Washington, D.C.: DOE/EIA, 2004), table A4, D1, pp. 167, 213.} China’s growing economy now being the fastest expanding in the world means Beijing will require more petroleum and these needs will affect how much oil the U.S. can purchase on the foreign market. These considerations represent a compelling reason for the U.S. to be involved in Azerbaijan where the Chinese too now vie for influence.

\textit{b) Baku-Tbilisi-Ceyhan (BTC) Main Oil Pipeline Project}

The BTC main oil pipeline was created in order to transport the crude oil produced in the Caspian Basin (Azerbaijan and Kazakhstan) into the Mediterranean port
of Ceyhan where it can be shipped to world markets. The feasibility study, environmental impact assessment study, detailed route study for the project was completed in 1998. The approximate length of the pipeline is 1,100 miles (1,700), and the cost was $3.6 billion. It was supposed to be completed in 2005, but unanticipated delays only made possible first flows in the second half of 2006. The capacity of the pipeline enables the flow of one million barrels per day.\textsuperscript{120}

The importance of the BTC is essential for several reasons compared to other pipeline routes I have already discussed in chapter two. First, the BTC pipeline project was an innovative idea in the regional pipeline politics dominated by Russia before the BTC’s realization. Second, this project was also significant for the newly independent states in the Caucasus (Azerbaijan and Georgia). Third, the BTC was also beneficial for Turkey, because of its environmental concerns in the straits. Fourth, the BTC intensified friendly relations between countries involved in the project. The last and most important aspect of the project was that it changed the geopolitical nature of the region. Russia’s assertiveness in projecting influence over its “near abroad” became an important reason why the BTC came to fruition. Under the Putin administration Russia did everything possible to block the realization of the BTC pipeline project. The Russian government suggested lower tariffs for the Baku-Novorossiysk route. The Georgian case is a perfect example illustrating how Russia exerted influence due to its monopoly over pipelines in the region. Russia cut the gas supply to Georgia and also accused the Georgian

government of supporting Chechen guerillas in 2001 and 2002.\footnote{Ibid. 43.} However, with the realization of the BTC pipeline route, Russian influence in the region diminished.

The BTC became indispensable for the newly independent states of the Caucasus because it helped them strengthen their independence and diminish their reliance on the Russian pipeline network. Azerbaijan gained a chance to transport its oil and gas via the BTC and BTE pipelines that would deliver product to world markets. In this matter it became hard for Russia to exert influence on Azerbaijan by using its ‘pipeline card.’ Azerbaijan owes the United States a great deal for seeing the BTC project through to completion that served Baku’s and Washington's mutual interests well. Moreover, another South Caucasian country, Georgia, benefits immensely from the BTC due to the fact that Tbilisi does not have a lot of natural resources, a fact that makes it very easy for Russia to achieve its goals in Georgia. Michael Saakashvili, the current Georgian president, stated: “the opening of the BTC is a “geopolitical victory” for the Caspian Basin nations.” He also implied that securing an independent energy export source would allow both Georgia and Azerbaijan to resist more effectively geopolitical pressure exerted by Russia.\footnote{Mevlut Katik, \textit{EuroasiaNet}, 26 May 2005.} Therefore, the realization of the BTC and the inclusion of Georgia as a transit country means it will collect considerable sums in transit fees that will contribute to its economic development as well.

Even though the BTC was well designed as a geostrategic tool in making the South Caucasian countries less dependent on Russia, in the case of Armenia this goal was missing. This is the case because Turkey and Azerbaijan are diplomatically blockading
Armenia for its occupation of Azeri lands. Armenia became an unwanted player in the BTC pipeline project and therefore did not benefit from this highly-promising project.

In addition to creating the political conditions for both Azerbaijan and Georgia to exercise greater independence from Russia, the BTC has also served to further Turkish interests in the region. In the early phases of the new great game the major concern of Turkey was of course to thwart Russia in its desire to secure a monopoly on pipelines in the region, but also to use its geographic position to benefit directly from the basin's oil and gas resources both in terms of imports and lucrative transit fees. Washington backed the Turkish initiative, and that partnership made the BTC pipeline feasible. Needless to say this initiative furthered the interests of both countries in the region by diminishing the Russian ones. The BTC also contributed to regional stability by strengthening ties between Azerbaijan, Georgia, and Turkey. Representative from all three countries met in Istanbul and signed a trilateral agreement in June to combat terrorism, organized crime, and to provide security for the BTC-BTE oil and gas pipelines. This alliance represented a strategic counterweight to an emerging alliance between Russia, Iran, and Armenia who were solidifying their relationship.

The BTC was a diplomatic coup and it gave the upper hand to Azerbaijan, Georgia, Turkey, and the United States. Each country in the alliance benefited in specific ways that furthered its national interests: Azerbaijan found a lucrative outlet for its oil and gas, Georgia decreased its dependency on Russian gas, Turkey increased its influence in the region, and the United States, the most important player in the new Great Game, established an alternative, Western-backed energy corridor that dealt a blow to waning

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123 Babali, “Implications of the Baku-Tbilisi-Ceyhan Main Oil Pipeline Project,” 43.
Russian influence over energy politics in the region.

c) Russian-Georgian war (2008)

The Russian-Georgian war occurred in 2008 was a watershed in the new great game, and it had far-reaching implications on Baku’s attitudes towards Moscow and Washington. U.S. active engagement in the South Caucasus is critical for Baku because it gains from geopolitical competition that diminishes its fear of Russian reprisals. While the U.S. foothold in Georgia has tangible benefits for that country's security concerns, it also angered Russia, so when Moscow showed its fist in 2008 it sent a clear signal to the U.S. that Russia is not as weak as it was after the collapse of the Soviet Union and back in the game. Moscow's revulsion of the BTC and other U.S.-backed regional projects coupled with its response in Ossetia also sent a message to Azerbaijan that it can not continue to play both sides. The attitudes of South Caucasian countries were always different from each other. Regional diversity is really the norm. For instance, after the Rose Revolution Georgia became a pro-American country and this angered Russia very much. The Russian-Georgian war serves as a poignant reminder that Russia is not going to countenance any more encroachments into its sphere of influence. The situation with Armenia is the opposite of the Georgian case because Yerevan is today the one pro-Russian country in the region, despite Washington's attempts to drive a wedge into the relationship. Until the Georgian war Armenia was the only remaining country in the Caucasus where Russia wielded any clout.

In contrast to the others Azerbaijan on the other hand is quite a different case in that
Baku's strategy has been to balance Russia against the United States. Azerbaijan even gave Russia a stake in its state-owned oil company when it concluded the so-called *Contract of the Century* with Moscow. Although Azerbaijan would prefer to tilt more towards Washington than Moscow, its ‘Russia fear’ blocks it from allying itself totally with the U.S. The Azerbaijani opposition leader, Isa Gambar, said: “Azerbaijan is doing a dance between the West and Russia.”  

There are several points we can summarize which illustrate the balance policy in action. On the one hand Azerbaijan accepts NATO training, which means that it harbors a desire to join NATO sometime in the future. On the other hand, the foreign ministry has not officially stated its intention of joining NATO. Yet, American planes can easily overfly and refuel in Azerbaijan’s territory, which sends a message to Moscow that it wants to maintain ties with the United States. By the same token Azerbaijani officials understand that this will increase American influence in the country, and that this will also disturb Russia. In order to assuage fears in Moscow, Azerbaijan prohibits American soldiers to be based in the country by which it also shows support for Russia.  

In sum, balancing is Baku's preferred way to deal with the United States and Russia.

The aforementioned Russian-Georgian crisis of 2008 also made Azerbaijan’s delicate balancing strategy difficult to continue. The deck has been reshuffled. For example, Paul Goble, an American expert on the region stated that: “the chess board has been tilted, and the pieces are shifting into different places and what looked balanced before does not

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125 Ibid.
look balanced now.” After the Russian-Georgian war Russia pressured Azerbaijan along several fronts. The new Russian stance can be summarized as follows: “The U.S. has come to your country and is plundering your natural resources, but not giving you any support. Why not go with us instead?” In a country that has lost 20 percent of its territory to Armenians the inability of Washington to redress Azeri grievances makes Russian overtures more appealing. While Russia reasserts itself and increases its influence in the region, Azerbaijan is more likely to tilt towards Moscow and to reduce its cooperation with the United States. For this reason it is imperative for Washington to reassert its former position in the Caucasus before Russia has an opportunity to consolidate its recent gains. A good place to start would be the cancellation of specific provisions of the Freedom Support Act coupled with diplomatic measures designed to pressure Armenia into compliance with international norms and to force Yerevan to withdraw its support for the occupied territories of Azerbaijan.

d) U.S.-Azerbaijan bilateral relations and Nagorno-Karabakh conflict

The events that occurred in Georgia illustrate that Russia is pursuing a very aggressive agenda towards the South Caucasus. For instance, according to one observer, “Russia has not removed its troops from the occupied territories of Georgia after the August War in 2008, events which culminated in the independence and recognition of the

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\[126\] Ibid.

\[127\] Ibid.
secessionist regions of Abkhazia and South Ossetia.”  The August War had also sent a message to other countries in the region meaning Azerbaijan and Armenia that it would be hard to distance themselves from a newly assertive Russia. Russia used South Ossetia in order to undermine Georgia and to show its disapproval for the current pro-Western regime in Tbilisi. The South Ossetia case differs little from the Nagorno-Karabakh one in which Russia, as an important member of the Minsk Group, wields considerable influence in the resolution of regional conflicts. Since Russia is an important ally of Armenia, and given the historic relationship between the two countries, not to mention Russia’s existing foothold in Armenia, it is easy to understand why Russia continues to block a settlement of the conflict. If the U.S. can break the diplomatic impasse the reverberations would sweep across Azerbaijan and once again roll back Russian gains.

However, in order to be actively involved in the resolution of the conflict the United States must consider several issues. First, the U.S. must define its position in the conflict in such a way that clearly defines its national interests rather than giving in to the Armenian lobby that maintains considerable pressure on the U.S. Congress and other governmental bodies. The first step towards active engagement in Azerbaijan would be the cancellation of Section 907, which bans U.S. aid to Azerbaijan. Now Azerbaijan is a resource-rich country that does not need financial aid from the U.S., but it does seek political support which the U.S. should consider if it intends to leverage one of the most important “geopolitical pivots of Eurasia.”

Section 907, as Hafiz Pashayev Azerbijan's

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first ambassador to Washington mentioned, is “the first obstacle in the path of U.S.-Azerbaijani bilateral relations.”

Second, active U.S. pressure on Turkey to normalize relations with Armenia without any reference to the occupied territories disturbs Azerbaijan, which in turn makes it look to Moscow for support. By pressuring for Turkish-Armenian rapprochement, the U.S. undermines its relationships with strategically important Azerbaijan. Azerbaijani president Ilham Aliyev criticized the U.S. policy of pressuring Turkey to open its border with Armenia, without addressing the occupied seven Azeri districts around the Nagorno-Karabakh region. The above-mentioned considerations disrupt the relationship between Azerbaijan and U.S., a situation in which both sides lose something important. The worsening relationship between the two countries is not beneficial to either side. Only Russia gains by making continued overtures to Azerbaijan, and this in turn undermines U.S. interests in the region.

Third, another recent event had important repercussions on U.S.-Azerbaijan bilateral relations. President Obama invited Georgia and Armenia to attend the Nuclear Security Summit, but Azerbaijan was not invited. This gesture, of course, angered Azerbaijan because Baku feels Azerbaijan is ideally-situated for interdicting the trafficking of nuclear material between Russia and Iran. Thereafter, Azerbaijan showed its

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132 Ibid.

133 Ibid.
displeasure with the United States and canceled U.S.-Azerbaijani joint military exercises, which were supposed to take place on May 2010.\textsuperscript{134} Once again this cooling of the relationship benefits only Russia, and it paves the way for it to consolidate its influence in Azerbaijan. The appointment of a new American ambassador to Baku created a diplomatic row after Washington took a whole year to appoint an ambassador to Azerbaijan. Not surprisingly, Azeri officials cited this incident as ‘proof of U.S. disrespect and disinterest in the development of Azerbaijani-U.S. bilateral relations.'\textsuperscript{135}

Recent developments in the region call for the U.S. to redouble its efforts in Azerbaijan and forge better relations with Baku. In order to strengthen its standing in the region, the U.S. must initiate several steps. According to Inessa Baban and Zaur Shiriyev:

1. Supporting steps taken towards democratic consolidation in the three Southern Caucasian countries and removing Section 907 of Freedom Support Act in order to become a credible and sincere supporter of democracy in Azerbaijan.
2. Sustaining the integration of South Caucasus countries into Western markets, institutions and organizations through the prioritization of energy projects and regional organizations such as GUAM.
3. Working bilaterally with Russia on the solution of regional conflicts without abandoning or ignoring the interests of small Southern Caucasian countries in the U.S.-Russian dialogue.
4. Containing to sustain European energy projects and helping European countries in diversifying their energy supplies by connecting them to the energy resources of the Caspian Sea-Central Asia region. Concretely, the U.S should help Europe push forward the Nabucco pipeline project, which will diversify Europe’s natural gas supplies away from Russia.\textsuperscript{136}

Finally, in order to thwart the growing Russian influence in the Caucasus, U.S.


\textsuperscript{135} Baban & Shiriyev, “The U.S. South Caucasus Strategy and Azerbaijan,” 100.

\textsuperscript{136} Ibid. 103.
policymakers must support the equitable resolution of local conflicts, including Nagorno-Karabakh.
Conclusion

This study familiarized the reader with the resource potential of the Caspian Sea and underscored the importance of the South Caucasus region, Azerbaijan in particular, to the global economy. The vast oil deposits of the Caspian basin make Baku a significant player in world affairs. For this reason it is important for the United States to stake its claim along side the other regional powers who vie for influence in the region in order to maintain a balance-of-power. The prospect of economic and political gain continues to drive both regional and non-regional players in the region. Great power rivalry makes the Caucasus a complex and volatile hub of clashing interests. Pipeline politics is now the major issue in the new great game just as railway corridors were in the old. The sheer number of competing pipeline projects that crises cross the Caucasus makes the new Great Game a challenging study indeed for students of international affairs. The U.S. is deeply involved in pipeline politics all across the globe from Sudan to Myanmar, of this there is little doubt. In many specific cases humanitarian crises divert public attention from the real underlying issues. Washington is locked in a deadly game of lethal shadow play with Moscow as it pursues an aggressive strategy of securing its share of the energy resources of Eurasia. Georgia's war with Russia over Ossetia and Abkhazia are ominous reminders just how deadly the game has become. U.S.-backed energy routes such as the BTC gained Washington enthusiastic support both in Azerbaijan and other regional capitals, but this support alienated Russia and Iran. The United States must continue to encourage ways of protecting and securing the oil and gas
pipelines it has invested in but clearly not at all costs. The consequences of such a policy could plunge the world in another world war.

Russia's growing assertiveness in the Caucasus is cause for concern in some capitals like Tbilisi. But that reaction was a consequence of Georgia's sudden tilt toward Washington in the wake of the Rose Revolution that upset the fragile rapprochement. Azerbaijan, even though it pursued a balancing policy between the U.S. and Russia also began to worry, especially after the August '08 crisis over Ossetia. Azerbaijan’s geographic location limits its ability to support one or the side fully; therefore, the U.S. must resist any tilt in Azerbaijan towards Russia as a way of restoring the balance of power in the Caucasus. Thus, I think more active U.S. involvement in the region as a whole coupled with more concern for Azerbaijan’s independence would counter any possible benefits Baku sees in a tilt towards Russia. America's energy dependence makes Azerbaijan a wise investment strategy in petroleum diversification. If the growing trend in the United States toward increasing consumption of foreign oil continues unabated, then the vitality of countries like Azerbaijan is beyond dispute unless of course domestic drilling becomes a policy priority in Washington.

On the one hand there is a resource-rich Caspian Sea region, and on the other hand there are lots of players competing for a piece of the same energy pie. All the players in the game need oil or want to control its distribution. The U.S., in order to sustain its economic growth, needs it even more because it already consumes a large percentage of global oil. The resolution of the Nagorno-Karabakh conflict, as stated previously, is also essential in terms of creating lasting regional stability. Otherwise, this conflict would be a potential leverage for Russia to increase its expanding influence in
the region. The current Russian strategy is thus to maintain the status quo. The resolution of this conflict will benefit all the parties involved in the new Great Game, as well the as U.S. Regional stability is also important in bolstering future U.S.-backed energy corridor projects. As long as the conflict remains frozen there is always the possibility of a wider war that is inimical to U.S. interests, which will be undermined in the case of a resumption of hostilities.

The Russian-Georgian war of 2008 over Ossetia and Abkhazia was a turning point in the history of the new great game. It marked the first time since the collapse of the Soviet Union that Moscow was willing to use military force to achieve its strategic goals in the region. Besides sending a strong message to South Caucasian countries, the conflict also showed Washington that Russia is more keenly concerned about protecting its near abroad and will be more actively involvement in the region, especially in Azerbaijan. Given America's might it would be both easy and beneficial to contain Russia's growing aspirations. If the U.S. retreats from the region it will damage Washington's credibility and countries will question its leadership in the world.

Throughout this paper I have attempted to argue the case that direct U.S. engagement in the Caucasus is essential to America's long-term global security interests. During the research and writing phases of this study it became clear to me that without U.S. involvement in the South Caucasus, whether because of energy issues or security ones, it would be difficult for the Caucasus states to maintain their independence from Russia. If the U.S. disengages from the region it will damage its prestige in the eyes of many other smaller states throughout the globe; above all, America would lose its position as the foremost global power.
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