

The Geopolitics of Oil

America's Role in the Caucasus

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Introduction

Since the demise of the Soviet Union the southern Caucasus¹ has been the object of competition between not only the surrounding regional countries, but also the distant superpower the United States. All wanted to profit from the region's favorable geopolitical conditions. Located between the Black and the Caspian Seas, Russia, Turkey and Iran, the region serves as a gateway to Christian, Orthodox, Islamic and even Asian hemispheres. In addition, it offers substantial unexploited oil and gas reserves. However, the Caucasian experiment with independence has been anything but smooth. Haunted by numerous ethnic conflicts, political instability and the legacy of the Soviet economy, democratic and market-oriented reforms have been slow in coming. These internal circumstances have been aggravated by the often dubious policies that outside powers have pursued in the region. Confronted with these realities, the United States has tried to influence and direct developments in the southern Caucasus. However, its enthusiasm in doing so has varied over time. While up until the end of the first Clinton administration an overall passivity characterized American policy in the region, Washington's current activities point in a whole different direction. High-level contacts between American government officials and their Armenian, Georgian and Azeri counterparts occur on a regular basis. Washington plays a leading role in mediation efforts to produce a settlement to the Nagorno-Karabakh conflict. Most strikingly, it throws in all its diplomatic weight to influence the decision on the routing of the Main Export Pipeline, which is supposed to carry the bulk of Azeri oil to Western markets. In this article an attempt will be made to explore the reasons for this policy shift, by examining Washington's assessment of and response to developments in the region and the way this affected US policy.

US Interests and Policy Objectives

Just after the collapse of the Soviet Union in 1991, the most vital American national interests in this vast region were twofold. First of all, the United States wanted to make sure that authority over nuclear weapons would not be lost and that the former Soviet republics would continue President Gorbachev's disarmament path. Consequently, although they had no former Soviet nuclear weapons on their soil, Washington nevertheless wanted to make sure that the newly independent Caucasian countries would not function as a transfer point for Soviet nuclear weapons and technology. Secondly, in this undefined world order the United States wanted to prevent expansionism by a single nation or coalition of backlash states. The Caucasus borders Russia on its north side and Iran on its south side. After a successful cooperation in the Gulf War, Russia had transformed itself into - what some American policy-makers defined as - "a strategic partner." Consequently, it was not an expansionist Russia that these policy-makers feared. It was Iran's future role in the Caucasus and the possible spread of its Islamic ideology that worried them most. Therefore, the US urged Turkey to establish close ties with the Caucasian countries.² This NATO ally could serve as a secular, political and economic model.

With these most pressing national interests in mind, the Bush administration developed several policy objectives in the Caucasus, and these objectives have remained the same for the whole post-Cold War period. All three administrations stated their desire to foster the independence of the Caucasian countries, minimize the nuclear threat, strengthen civil societies and market economies, help them integrate into the world economy, promote the resolution of conflicts, regional cooperation and US business interests in the region. But, as

we shall see, the importance given to these objectives was mainly a function of the degree to which US interests in the region were perceived to be at stake.

1991-1994: “Russia First” Policy

The Bush Administration

The Bush administration soon discovered that its fears for the spread of Islamic ideology in the Caucasus were somewhat an overreaction. All three Caucasian countries indicated their willingness to turn Westward, and to prove this they became members of the Conference on Security and Cooperation in Europe (CSCE), NATO's North Atlantic Cooperation Council (NACC) and the United Nations (UN), and signed the Conventional Forces in Europe (CFE) treaties. To Washington's delight the Muslim country Azerbaijan viewed Turkey, instead of Iran, as its model. As a result of these developments, Washington decided to establish diplomatic ties with all three countries and to include them in the American assistance program.

These decisions were not in line with America's initial intentions to condition diplomatic ties and assistance on the American perception of the countries' progress with democratic and market-oriented reforms. Progress on these two fronts lagged behind. But the three Caucasian countries' promise to move on with the desired reforms was obviously considered sufficient grounds on which to base American diplomatic recognition and assistance. In the absence of any other meaningful incentives such as security assistance or more aid, these were the only tools Washington could use to influence somehow the behavior of the Caucasian countries. In this case, this meant ensuring that Armenia, Azerbaijan and Georgia would remain Western-oriented, which at that time was apparently all that enticed the United States to make its limited moves in the Caucasus.

There were not enough American economic and geopolitical interests at stake in the Caucasus to justify a more energetic US policy. American business interests had not yet penetrated the region. Moreover, since Iran did not appear to pursue expansionist policies in the Caucasus, there was no need for the United States to try more actively to influence developments in the region, which more or less seemed to go in the desired direction by themselves. But most importantly, a too active American engagement would jeopardize the fragile “strategic partnership” that the United States had just established with Russia.

The Gulf War had shown how helpful it could be for the United States to have Moscow at its side, able to act as a great power in support of American policies. The Bush administration directed all of its attention to nurturing this relationship. For the Caucasus this not only meant that the bulk of American assistance devoted to the former Soviet Union ended up in Russia, it also implied that the United States pursued a “Russia first” policy with regard to the ethnic conflicts that raged in the region. The American policy objective of promoting the resolution of these conflicts therefore entailed little more than that Washington supported the Russian mediation initiatives and the activities of the UN and the CSCE in the region. It did not want to go any further, since Washington would then offend Russia in its zone of influence. In the neo-isolationist mood that was so prevalent in the United States in the early 1990s, it was also quite convenient for Washington to hold on to this strong support for Yeltsin.

The exception to this overall inactive policy in the Caucasus, however, was Washington's acceptance to become one of the negotiators in the CSCE's Minsk Group, established in 1992 to mediate a political settlement to the Nagorno-Karabakh conflict. A war has raged since 1988 in this mountain enclave inside Azerbaijan, populated mainly by ethnic Armenians seeking independence or a union with Armenia. These Armenians had an influential Diaspora promoting its cause in the US Congress. Not only did this Diaspora help to persuade Washington to become involved in the Minsk Group, but its lobbying activities also

resulted in Congress's adoption of Section 907 of the Freedom Support Act. This section prohibited Washington from providing any government-to-government assistance to Azerbaijan as long as it continued its blockade on Armenia. The United States could only give assistance to Azerbaijan through NGOs that were active in the country.³

The First Clinton Administration

When Clinton came to power in January 1993 the Moscow-centered and Russia-first policy survived, despite mounting evidence of Russian “divide and rule” policies in its former Caucasian republics. Allegedly, Russian elements were fighting at the side of the Abkhaz separatists who fought for the independence of Abkhazia, a former Soviet autonomous oblast within Georgia's borders. The Russian role in Nagorno-Karabakh was not less ambiguous. It pursued strong military ties with Armenia and as a result Russian weapons were said to have ended up in the hands of the Karabakh Armenians. Again, Washington (and the international community in general) did nothing to halt these Russian policies. Instead, Moscow profited significantly from the frozen instability that its policies helped to maintain in the Caucasus. In 1993, for example, it offered to end hostilities in Georgia, and in return for this help it forced Georgia to join the CIS and accept the presence of Russian military bases on its soil.

US Interests in the Caucasus Increase

Caspian Oil

On 20 September 1994 the state oil company of Azerbaijan (SOCAR) signed a major oil deal with a number of international oil companies united in the Azerbaijan International Operating Company (AIOC). The stakes for the United States in securing the signing of this final contract were high. US oil companies, including AMOCO, UNOCAL and Pennzoil, together had the largest share in the consortium (43.8 percent).⁴ Washington therefore strongly promoted the activities of US oil companies in the Caucasus. This policy was also grounded in Washington's desire to diversify its energy supplies and lessen its dependence on the Persian Gulf. Both were vital national and strategic interests for the United States, which imports over 40 percent of its oil supplies.

Azeri estimates suggested that the Caspian Sea held energy reserves second only to those of the Persian Gulf. Proven reserves were comparable to the North Sea basin. The main problem, however, was how to get the oil to international markets. None of the options for a pipeline route seemed either stable or attractive. There was the possibility of using worn-out former Soviet pipelines to transport the Caspian oil. One of these ran north through Russia to the Black Sea port of Novorossiysk, on its way crossing territory near the break-away republics of Chechnya and Dagestan. The other one crossed Georgia and ended in its Black Sea port of Supsa. Further on, there was the option of building a pipeline on a route crossing either Armenia or Georgia and ending in the Turkish Mediterranean port of Ceyhan, or one running through Iran and flowing into the Persian Gulf.

Washington made clear that it favored the construction of multiple short- and long-term pipeline routes.⁵ Not only would this encourage commercial competition and keep tariff rates lower, it would also safeguard exports against interruption by avoiding dependence on a single route. This last aspect was a priority to American policy-makers. They wanted to make sure that separatist groups would not be tempted to use a future pipeline as a target. In case these groups did so anyway, the existence of other pipelines would guarantee that the Caspian oil would not suddenly stop flowing. These kinds of scenarios had to be taken into account, since almost every possible pipeline route crossed territory where separatist groups resided (the Chechens on the northern route through Russia, the Abkhaz in Georgia, the Karabakh Armenians in Azerbaijan and the Kurds in Turkey).

The United States also included geopolitical considerations in its Caspian policy. It wanted to prevent Russia from being able to monopolize the pipeline routes going out of Baku. Moreover, as part of the US policy of containing Iran, Washington persuaded Azerbaijan to exclude Iran from international consortia. Pressured by the US government, American oil companies had already vetoed the participation of an Iranian oil company in the AIOC. In addition, Washington was against plans to build a pipeline through Iran. From a commercial point of view this route was the most viable one, not only because the pipeline would be relatively short and therefore cheaper to construct, but also because it would not cross territory as volatile as the Caucasus region. An unwelcome consequence of this (geopolitically motivated) US Caspian policy was that it fostered an alliance between Russia and Iran.

Iran and Russia Cooperate

In late 1994 Yeltsin decided to intervene in Chechnya with military force. This reinforced what many US policy-makers already suspected, namely that the influence of expansionist-minded politicians was growing in the Kremlin.⁶ In addition, Washington was irritated by Russia's contradictory oil policies in the Caucasus. Russia's Foreign Ministry denounced the legality of the AIOC deal, claiming that the Caspian body of water is not a sea, but rather a giant lake and therefore the joint property of the littoral states. Behind this claim were those forces in Russia that wanted to halt the growing Western engagement in the Caucasus. Simultaneously, however, the more pragmatic cooperative-minded politicians of the Russian Energy Ministry - who had acquired a 10 percent share in the deal - participated in its signing ceremony.

In 1995 these developments culminated in Washington's worst nightmare. The "rogue state" Iran started cooperating with Russia, first in oil, but later also in nuclear matters. The two states discovered that they shared several interests. Both were frustrated by the successes of the US diplomatic efforts in Azerbaijan, which had prevented Russia from monopolizing the pipelines and had excluded Iran from the AIOC deal. Next to this common frustration, both countries had an interest in keeping Azerbaijan weak. Moscow feared that an oil-rich Azerbaijan would be better able to pursue an independent course and would consequently distance itself even further from Russia. Iran, on its side, was afraid that with an oil-rich Azerbaijan as a neighbor, the large group of Azeris that inhabit northern Iran would feel tempted to secede. And so Iran chose Russia's side in the Caspian legal dispute. In return, Russia agreed to provide Iran with nuclear materials and technology. Russia's ongoing economic decline made Moscow all the more willing to use its former Soviet nuclear expertise as an export good.

US policy-makers feared that the Caucasus was starting to serve as a transfer point for Soviet nuclear technology, which was exactly an outcome that the United States had been trying to prevent from the moment the Soviet Union fell apart. Moreover, they wondered whether Russia and Iran were seeking to use a partnership with each other in order to control the countries of the Caucasus that lie between them.⁷ This appeared quite plausible, especially since Russia in 1995 continued its expansionist policies in the Caucasus. It had now established military bases in both Georgia and Armenia and was trying to do the same in Azerbaijan, although it met considerable resistance there.

On 30 April 1995 Clinton announced that the United States would impose an economic embargo on Iran. About a year later Congress adopted the Iran-Libya Sanction Act, a ban that imposed penalties on any US or foreign firm that invests more than \$20 million dollars in the oil and gas sectors of Iran.⁸ This unilateral move partly aimed to ensure that Iran would not in any way profit from the Caspian energy riches.

Washington was more subtle toward Moscow. On several occasions during 1995, US government officials met with the Russians to express their concern about the Russian-Iranian nuclear cooperation. Each time the Russians reassured them, stating that Russia would exclude from any nuclear cooperation all components that Russia believed had the potential for military benefit. But Washington remained highly suspicious of Russia's real intentions. These feelings of mistrust were strengthened all the more when in December 1995 Iran and Russia cemented their alliance by concluding a ten-year cooperation agreement in the specific issues of the military, energy and oil and declaring themselves "partners in cooperation."⁹

A More Energetic US Policy

The first Clinton administration had made the promotion of American economic interests abroad a top foreign policy priority. By expanding the assistance program in the Caucasus, it had helped Georgia and Armenia to establish the kind of legal and financial framework that attracted American trade and investment in the region. However, in Azerbaijan these kinds of market-oriented reforms were slow in coming. But it was in this country that, as a result of the AIOC oil deal, American vested economic interests had increased significantly. This incited the Clinton administration to step up its efforts to repeal Section 907 of the Freedom Support Act, since Section 907 prevented the United States from giving the kind of government-to-government assistance that would ease the activities of American oil companies in the country. These efforts met fierce resistance from the Armenian Diaspora, although it could not prevent Section 907 from being weakened - although not banished - on several occasions in the coming years.

These energetic efforts to redress the balance in the treatment of Armenia and Azerbaijan came at a time when the Azeri leader Aliiev began ruling his country more and more as an autocrat. Around 1995 flawed elections in Armenia also lost this country its democratic image, but - thanks to lobbying by the Armenian Diaspora in the US Congress - this was not reflected in a reduction of US assistance. These developments showed that the American rhetoric on wanting to extend the zone of democracy should not be taken too seriously. When dealing with the Caucasian leaders, Washington preferred predictability. Therefore, as long as these leaders remained Western-oriented, it was willing to close its eyes to their undemocratic practices. What counted more was that the Caucasian countries would move on with market-oriented reforms from which the United States could directly profit.

In the closing years of the first Clinton administration, economic considerations had consequently led to a more active American policy in terms of promoting economic reforms. At about the same time, Russia's expansionist policies in the Caucasus and its nuclear cooperation with Iran directly began to threaten American geopolitical interests in the region. These developments forced Washington to acknowledge that Russia was not the strategic partner it had so eagerly envisioned it to be. By 1996 Russia had therefore fallen back into the role of rival of the United States. Nevertheless, post-Soviet Russian-American relations had changed so fundamentally, that it was impossible for the United States to pursue overtly a neo-containment policy toward the old enemy. Whether Washington liked it or not, Russia had to be dealt with and its claims had to be taken into account. If not, it would risk endangering the evolving post-Cold War security framework in which Russia had come to form an integral part. As a result, American policies have become contradictory when dealing with Russia. This is clearly reflected in the policies that Washington began pursuing during the second Clinton administration.

The Baku-Ceyhan Main Export Pipeline

As part of Washington's Caspian policy, the US continued to favor the construction of multiple pipelines. In line with this policy it had backed the AIOC's decision in 1995 to

transport Azerbaijan's so-called "early oil" through both Russia and Georgia. This decision was partly aimed at showing the Russians that the United States promoted the idea that everybody profits in these economic projects and that cooperation is a "win" for all parties concerned. However, Washington was less flexible with regard to the decision on which pipeline would have to carry the majority of Caspian oil out of Azerbaijan. It put all its diplomatic efforts into convincing the AIOC to let this Main Export Pipeline (as it is known) traverse Georgia on its way to the port of Ceyhan in southern Turkey, a route that bypassed both Russia and Iran.

Washington openly stated that it wanted to ensure that the Caspian states would not be hostage to an Iranian hand on the oil and gas spigot. However, the words of American policy-makers were less frank when dealing with Russia. These never explicitly asserted that the United States wanted the Main Export Pipeline to circumvent Russia. But the fact remained that Washington would throw all its diplomatic weight into ensuring that the bulk of Azeri oil would not be transported through Russia, as this would simply give Moscow the kind of leverage over the West and the Caucasus that the United States did not dare to entrust it with as long as it kept pursuing contradictory policies. Moreover, the Russian outlet was not a reliable one. Russia's political and economic fragmentation made it difficult for Moscow to "deliver" on Russian transit routes. The first pipeline to Russia's Black Sea port Novorossisk illustrates this. From the second half of 1998 onward, it started to be plagued by difficulties, in part because the route crossed several politically unstable regions, including Dagestan and Chechnya.¹⁰

Ultimately, the decision on the routing of the Main Export Pipeline was to be made by the oil companies united in the AIOC. The United States therefore designed a strategy aimed at enhancing the commercial attractiveness of the pipeline. One element in this strategy was the promotion of a trans-Caspian pipeline, in which oil from Kazakhstan on the east side of the Caspian and Azerbaijan on the west side could be combined to provide the large volumes needed. Washington also tried to persuade the Turkish government to create commercially attractive arrangements to reduce the risks that investors were taking in financing the project.

The United States itself announced the Caspian Sea Initiative in May 1998, through which several US trade and investment agencies aimed to coordinate their efforts to promote investment in energy projects in the Caspian. Moreover, in recognition of the growing US interest in the development of the Caspian energy reserves, the White House established the Office of the Special Adviser to the President and Secretary of State on Caspian Basin Energy Diplomacy in July 1998. However, from late 1998 onward the gap between the US government and oil companies active in Azerbaijan began to widen. With oil prices lower than ever and mounting suspicions that oil reserve estimates might prove to be exaggerated, the Baku-Ceyhan route appeared less and less commercially attractive. Consequently, the AIOC started to look at other - less costly - routes to transport the bulk of Caspian oil, while Washington desperately tried to hold on to the Baku-Ceyhan option.

Most energy companies working in the region believed that a transport route through Iran would be highly competitive and probably represent the lowest capital costs. But although the US-Iranian relationship had improved since the relatively moderate Iranian President Khatami visited Washington in early 1998, the United States continued to oppose plans to build a pipeline through Iran. As a result, the AIOC considered expanding the Baku-Supsa pipeline in order to enable it to transport the majority of Caspian oil. But this time the key countries involved in the project - Turkey, Azerbaijan and Georgia - protested. Turkey made it absolutely clear that it would not tolerate the environmental and safety risks arising from a significant increase in oil traffic through the Bosphorus. Azerbaijan and Georgia, on their side, did not want to jeopardize their critical relationships with Turkey by not supporting Baku-Ceyhan.

In mid-October 1998 the US-backed plan for the Baku-Ceyhan route appeared on the brink of failure. At a White House meeting, oil industry executives told US officials that they would not support the US plan. The decision on choosing the Main Export Pipeline was originally scheduled for 29 October 1998,¹¹ but the United States refused to accept the industry's rejection and instead launched a diplomatic offensive to keep the Baku-Ceyhan scheme alive. As a result, the decision on the Main Export Pipeline has been postponed and postponed. With oil prices continuing to drop, US officials adjusted their arguments about the commercial viability of the Baku-Ceyhan pipeline. Instead, they began to stress more and more that companies must recognize the political reasons for the project. This shows that in the eyes of American policy-makers, geopolitical considerations outweigh economic ones and that, in the end, these are the driving force behind American moves in the Caucasus.

Entangling Alliances?

Given the souring of US-Russian relations and the heightened attention given to the region's vast energy reserves, Washington has sought to encourage the Caucasian states to develop alternative (Western) security arrangements to complement the Russian-dominated CIS military agreements.¹² Although the extent of the Caucasian countries' aspiration to do so varied as a result of differing circumstances, by 1997 Armenia, Azerbaijan and Georgia had each joined NATO's Partnership for Peace program.

New blocs seem to be emerging in the Caucasus. Armenia's poor relations with Azerbaijan and its other neighbor Turkey have apparently forced the Yerevan government to pursue close political and military ties with Russia. In addition, as a result of its international isolation, Iran has been eager to establish economic relations with Armenia, which - because of the Turkish-supported Azeri blockade - is desperate for trade partners. Washington fears that a Russia-Armenia-Iran nuclear axis is growing out of these ties.

An opposing block, consisting of Georgia, Azerbaijan and Turkey, feels threatened by Russian neo-imperialist factions. It seeks to contain Russian ambitions in the Caucasus by linking itself closer to Western security frameworks, and more particularly to the United States. While Washington had earlier been reluctant to offer Georgia security assistance, its revitalized aim to balance Russian influence in the Caucasus led to a reversal of this initial policy. Since 1997 it has established active bilateral military relations with Georgia. This new relationship with Georgia and the increasingly close American-Azeri ties show that Washington is in fact contributing to these new blocs appearing.

Concluding Remarks

Despite US claims that its engagement in the Caucasus is motivated by democratic ideals, its policy has in fact been shaped by the nature of the US-Russian relationship, geopolitical and - to a lesser extent - economic considerations. Consequently, Washington has encouraged the emergence of new fault lines in the Caucasus, although it simultaneously claims that its policies are not aimed at undermining Russia's position in the region. The agreement signed at the recent OSCE Summit to build the Baku-Ceyhan pipeline represents yet another blow to Russian influence in the Caucasus.¹³

In the end, however, the United States will probably be reluctant to establish closer security ties with the Caucasian countries if this antagonizes Russia too much and jeopardizes the survival of the evolving security frameworks. But even now Washington's Caspian policy may risk frustrating the sensitive Russian ego to such a degree that it will have the effect of strengthening the already growing influence of anti-Western, expansionist-minded politicians in the Kremlin. These politicians lead the current military campaign in Chechnya. The Russian public appears to be proud that - despite all the Western criticism - the Kremlin

continues its war to fight “the bandits and terrorists” in the breakaway republic. One can only hope that Chechnya is not a precedent for what awaits the independent Caucasian countries.

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Noten

1. Southern Caucasus: Georgia, Armenia and Azerbaijan.
2. “Department Statement Nagorno-Karabakh,” *US Department of State Dispatch*, vol. 3, no. 10, 9 March 1992.
3. In early 1997 Washington agreed to become a co-chair of the group together with its Russian and French counterparts. However, despite numerous mediation attempts, no breakthrough in the negotiations has yet been realized. In Georgia things have gone little better. The situation of no war and no peace continues in both Abkhazia and South Ossetia.
4. American companies: Amoco 17%, Penzoi 9.82%, Unocal 9.52%, McPermott 2.45%. Azerbaijan: SOCAR 20%. United Kingdom: British Petroleum 17.13%. Russia: Lukoil 10%. Norway: Statoil, 8.56%. Scotland: Ramco, 2,08%. Turkey: TPAO, 1.75%. Saudi Arabia: Delta-Nimir, 1.68%. See: R. Forsythe, *The Politics of Oil in the Caucasus and Central Asia* (Oxford: Oxford University Press, 1996) pp. 1-65, at p. 40.
5. “Statement J.F. Collins, Senior Coordinator Office of the Ambassador at Large for the Newly Independent States of the former Soviet Union, US Department of State, before the House International Relations Committee, 14 November 1995,” *Congressional Information Service*, J892-17, pp. 71-90, at p. 79.
6. “Statement J.F. Collins, before the House International Relations Committee, 14 November 1995,” p. 4.
7. “Question for the Record submitted to Ambassador Designate J.F. Collins, Coordinator for the Newly Independent States of the former Soviet Union, by Chairman Gilman, House International Relations Committee, 14 November 1995,” *Congressional Information Service* J892-17, pp. 166-399, at p. 174.
8. C. Recknagel, “Iran: Khatami builds bridges with Europe,” *Internet Site RFE/RL*, 8 March 1999.
9. F. Hill, “Pipeline Dreams in the Caspian, September 1996,” *SDI The Caucasus and the Caspian Seminar Series 1996-1997* (Massachusetts, 1997) pp. 1-9, at p. 7.
10. J. Naegele, “Caucasus: Georgia, Azerbaijan and Ukraine Inaugurate Oil Pipeline,” *Internet Site RFE/RL*, 20 April 1999.
11. M. Lelyveld, “Caspian: Pipeline Plans Becoming Commercially Less Viable,” *Internet Site RFE/RL Caspian Energy Politics Report*, 9 March 1999.
12. “M.B. Olcott, Testimony on Caspian Sea Oil Exports, before the Subcommittee on International Economic Policy, Export and Trade Promotion, Senate Foreign Relations Committee, July 8 1998,” *Internet Site Carnegie Endowment for International Peace*, pp. 1-15, at p. 1.
13. Signed on 18 November 1999 in Istanbul. Analysts, however, say that this accord still does not guarantee that the pipeline will be built. See: M. Lelyveld, “Caspian Pacts Don’t Guarantee Pipeline,” *Internet Site RFE/RL Caspian Energy Politics Report*, 23 November 1999.