billion dollars is still more for the cost if it came through Iran. The Turks themselves have tried to back up their case diplomatically by bringing some of the critical states on board, and I think that it is fair to say that they have received rhetorical support for the building of the pipeline which gives a sort of impression that the pipeline is going to go ahead without being substance and more than rhetorical support. Another key factor here is of course the oil prices. The higher oil price, the more attractive the Caspian oil. But again there is the question of strategic vulnerability. So if we have a serious oil boycott or a serious conflict in the Persian Gulf, as a result of the US action against Iraq, or even action against Iran, that again is going to make Caspian oil and the strategic argument that Baku-Ceyhan contains that which makes the project attractive. People have talking about the project since 1992. The original estimate said the pipeline could be built and become operational by 1995 or 1996. That was obviously six to seven years ago. And still very little has been done towards building of the pipeline and engineering studies and various pre-construction feasibility studies. So I think until the pipeline is actually built, one's assumptions should be one of skepticism.

**Q: The main problem with the pipeline seems to be the lack of enough oil to fill the route. How do you see this issue? There has apparently been also a proposal on taking oil from Kazakhstan for the pipeline.**

A: I think they need a million barrels per day for the line to make it viable. They just have to get that oil from somewhere. And if they do not get it from Azerbaijan, it has to come from Kazakhstan.

## Relation between Saudi Arabia and Russia is very important for cooperation between OPEC and non-OPEC

**Q: we have heard about the shift of oil companies' interests from the southern part of the Caspian Sea toward the northern part, notably the Kazakh oil fields.**

A: I think that the general impression that you give is a correct one that there is increasing concern and skepticism about Azerbaijani reserves, while at the same time increasing in the Kazakh levels of reserve.

**Q: During the recent years OPEC has tried to somehow regulate the market. How do see the cooperation between OPEC and non-OPEC? Can they have coordination in the market or they will more probably resort to share market policy?**

A: I think what is seen is a very important relationship between Saudi Arabia and Russia in terms of levels of oil production and also critical importance in terms of the oil market and levels of price. That relation is going is already very important and is going to be very important in the future. After all Russia and Saudi Arabia are now clearly the major producers. Russia has overtaken Saudi Arabia as a major producer. And therefore the market is going to be on the biggest producers and of course producers that have the highest level of spare capacity, because of importance of this capacity in terms of the impact on the oil market. I think it is probably too early to say what that relation is going to be like. The relations which emerged have been very critical in the last four or five months, we only really one or two potential crises where Moscow -Ryadh relationship has been crucial or potentially crucial. And of course since the end of the last year, we had much firmer prices in the mid of 20's. Therefore the management or the failure of the two countries to manage supply has not been tested. What I think is clear is that there is an interplay between economic interests and general macro-economic well-being. Because both the countries have been under the pressure fiscally in the last few years with political implications of such fiscal pressures. So there is a general structural impetus to have a dialogue and to search for a potential for cooperation. But at the same the issue is complicated in particular on the Russian side because of the privatization of the Russian energy sector which means that it is no longer a case of the prime minister sitting down and deciding what will policy is going to be and that policy automatically in coming through into general oil and foreign policy. So it is going to be a very difficult issue to manage and to micro-manage. But I think in general terms both countries have interest in making sure that revenue streams from oil remain significant. And therefore there is going to be an aversion to a sort of supply war which could pitch oil prices very very low. But as I said, within the general context of that situation, there is going to be a lot of detail to with in supply and of course with political and related matters which may actually make the short term specificities of cooperation much more difficult.

**Q: Thank you very much for the interview.** ■

one and they want to widen their own benefit. From the Turkish point of view, even there are some people who express some concern that there is an emerging over-reliance on Russian gas, for many Turks inside this policy, it is about maintaining what is actually a very advantageous broader commercial relationship with Russia. In the context of all of this and bearing in mind what we just discussed about much lower level of Turkey's demand for imported gas, the whole idea of gas from Turkmenistan and the construction of a pipeline from that country has really rather receded. Yet it remains part of the American vision of lateral pipelines as enunciated in the mid to late 1990's. But that does not seem to be much evidence that is going to be a real movement to go ahead with that.

**Q: What about transit gas through Turkey to Europe?**

A: I think this is something that is much further ahead. Best estimates now say that Baku-Ceyhan will be built by 2007. Further pipelines will presumably take longer to build. After all no body is still absolutely sure what the Caspian potential is going to be. It seems that rather more potential with Kazakhstan but rather less potential with Azerbaijan. So it is still an area of great uncertainty. With the Turkish idea to be a Euroasian bridge between the energy of western Asia and the economies of the Europe. But of course this would definitely benefit Turkish interests, both in terms of guaranteeing their own supply of energy inputs, in terms of transit fees, and giving them leverage both westwards and eastwards in strategic terms. So we can see why it is so attractive to the Turkish state. The big question of course is whether it will be attractive to others. And here two sets of arguments are important. One is the commercial set of arguments. Does it make good economic sense, and this is something that I think will be very much a European set of interests, because after all Europe gets gas from Russia, Algeria and there is going to be a plenty of gas in both countries for the future. And of course pipelines have already been built through Spain, across the Mediterranean, east-west pipelines as well. So there have to be strong commercial reasons for the viability of imports through Turkey. The second set of issues relates to strategic vulnerability. Can states like Iran be sure that sending their gas across Turkey is going to be a safe and secure thing to do? That will of course depend on many factors to do with the nature of bilateral relations. I think for the moment that if one is talking about Iran and Turkey, I think that both countries have been keen to have proper and correct relations. However there has always been a potential for a precipitate decline in relations. But I think that both countries are working very hard to make sure that doesn't happen. I think issues to do with the ideologies of the respective states and also the relations with the United States individually and bilaterally, Iran on one hand, Turkey on the other hand, are ones that maintain a sort of instinctive concern not to be vulnerable.

**There is still a sense in which the companies need to be convinced that the financing of Baku-Ceyhan is going to work**

**Q: how do you see the project of Baku-Ceyhan in terms of western energy needs and diversification issue? Economically speaking, there are many experts that say pipeline through Iran would be much cheaper.**

A: that is right. If people are going to purely look at economics or distance, then Iran would be the preferred route or conceivably Russia would be the preferred route. There are of course objections partly because of environment concerns in terms of the vulnerability of the city of Istanbul. But of course some people are suspicious that Turks use the environmental argument in order to support what is basically a strategic argument. I think one thing is certain and that is the route won't be built unless in can be financed. And if somebody is willing to pay for it, that probably will be built. The oil companies that I think are pretty good benchmarks initially were very skeptical and even hostile to the idea of Baku-Ceyhan because of the high level of cost and also the assumption that they will directly or indirectly will be paying that cost. The oil companies, particularly BP, have moderated their objection to the idea of the pipeline because of their engagement in the North American market. Obviously BP's acquisition of Amoco and Atlantic Richfield made impact in terms of how it was trying to manage its relations with the United States. But even though BP have made the right noises on Baku-Ceyhan, I think there is still a sense in which they need to be convinced that the financing is going to work. The Turks have certainly contested some of the estimates made about the pipeline. The Turks have insisted that the pipe will not cost as much as 4 billion dollars, which has been the upper end of the estimates. The Turks have insisted that the pipeline could be built at a cost of 2.4 billion dollars. But of course even 2.4

this year, but even the estimates of a bounce-back of maybe 4 percent growth this calendar year have been challenged by a number of people who found that too optimistic. Situation in turkey today is that people are highly risk averse because there is no certainty in the exchange rate of the currency. There is very little activity in the economy itself and there have been very big number of unemployed and business failures. We are talking about two million unemployed as a result of the financial crises of November and February of 2000 and 2001. That has been compounded by the --- of an IMF-led strategy which is

So Turkey today has stagflation and it will have low growth this year after massive contraction last year. There will be a general election which will take place sometime before spring 2004. so that brings increased uncertainty. So I think it is not unfair to say that the prospects of the growth of Turkish economy are not going to be good before 2004. and this obviously will have impact on its energy demand.

In addition to this we have to take into account the potential for energy consumption growth in society. If you look at the figures for consumption per head, you find that it is 1/4 to 1/5 of what it is inside the European Union. We are also continuing to see significant moves in migration in Turkey. So the social transformation of Turkey as a result of economic factors. So I think over the next 10 years, whatever in one's prognosis for the convergence of Turkish economic performance and European Union standard performance, notwithstanding the contractions of the last couple of years, we are going to see a general increase in that consumption per head. So the short-term looks bad, but the medium and long term will be a trend in the direction of much greater levels of energy consumption per head.

**Over next 10 years, we are going to see a general increase in energy consumption per head**

**Q: There have been certain reports about Turkey's exploration of oil in northern Iraq. Is there anything confirmed in this regard?**

A: Well, I don't think that there is anything confirmed in this regard, and I am not sure whether there is going to be anything substantial in this regard either. As far as I am aware, there have been a small number of reports that this is the case. But there has been a lack of evidence as far as this is concerned. Of course the oil producing areas in northern Iraq lie outside of those areas that the major concentrations of Iraqi Kurds are to be found in. and second outside areas that the Turkish military has been crossing at will in its war against PKK in northern Iraq. What I think is clear is that whatever the potential for energy development in the Kurdish areas in north of Iraq, I'd be rather skeptical about that. The main reason why Turkey is not to do with interests of energy or energy speculation is so for Turkey they want to do two things, one is to make sure that the PKK no longer can use north of Iraq as a base of operation and insurgency into southeast Turkey. and secondly to make sure that the Iraqi Kurds themselves do not succeed in establishing the beginnings of an embryonic state of Kurdistan which can be a model and a source of emulation and encouragement for the Turkish Kurds.

**Q: There was some news about a pipeline project for transferring Turkmenistan's gas to Turkey. Do you confirm it?**

A: that is a pipeline that has been talked about for a long time. Of course that was a very logical idea which was floated when Turkey was looking very closely at Turkmenistan as a supplier of gas. But I think the attraction of Turkmenistan as a supplier of gas to Turkey was greatly damaged, at very least, by the development of the Blue Stream idea. And the idea, as you recall, is the creation of a second pipeline, instead of a pipeline that goes through Ukraine and Bulgaria which feed Russian gas to Turkey, it carries Russian gas directly to the Turkish port of Samsun. Now that started off as a very controversial idea. There were those who said that this was a reaction just after Turkey's rebuff by the European Union at the Luxembourg Summit in December 1997 and the then Russian Prime Minister, Chernomerdyn, visited Turkey just after the meeting. There were those who said that this was Turkey's reaction against Europe wanting to increase its economic sinews with Russians. There were those who said that the Russian were not serious and did not have the gas. There were also those who said that the corruption was going on inside the deals between big Turkish companies and Russians. But of course what we do know is that the scheme is going ahead. The pipeline is being built, Eni the Italian oil giant came into the operation, so there was a credibility that Eni brought to the whole operation. From the Turkish point of view, the costs were relatively small. The Turks had to build very short section of pipeline to bring the gas onshore. And it seems that this relationship is going ahead with Russians very keen that it should go ahead, because they see the Turkish relationship as a very beneficial a central Asian strategy. First of all, of course, because of the war against terror in Afghanistan. Secondly, the role that the Americans have asked Turkey to play in Afghanistan, in terms of leading the peace keeping mission in Kabul. So much of the military's prestige and much of the importance of Turkish military relations with the United States will be dependent on a job well done in Kabul. And of course thirdly the war against terror has reopened the importance of Central Asian states like Uzbekistan, and Turkmenistan for instance, that before somewhat had been devalued within the Caspian strategy that Turkey had pursued. So, it is of course the early days and we do not know how the things will pan out. We do not know whether this is just a short term extension to Turkish interests. But Turkish interests across Central Asia are now much more important than they were before last September.

**The Turks were concerned with material interests rather than cultural and linguistic affinities**

**Q: About the gas demand of Turkey, there are many different evaluations since Turkey has discussed the issue with many countries, Iran, Russia, Turkmenistan, even Egypt. But some experts think that Turkey cannot absorb all the gas which has been agreed upon with these countries. What is your opinion in this regard?**

A: well, you mentioned a number of countries. Of course, one could also mention Algeria which is the second largest gas supplier to Turkey after the Russian Federation. So, you are absolutely right that there has been the establishment of negotiations with a quite large number of states. So far, the only real tangible developments have occurred, most obviously, with Russia which has been an important supplier of gas since the 1980's. And actually the gas issue has been a very important stabilizer of bilateral relations between Turkey and Russia over the last decade and a half, because it would have been very easy for a whole series of potentially problems, from Bosnia, to access through the straits for the Russian supertankers, for competition in Central Asia to escalate into a real conflict. If it had not been for the gas relationship which maintained a certain stability in the relationship, and which was very definitely to the benefit of both countries, because Turkey needed to import energy and in return exported a range of goods and services to Russia. And those relations particularly in the contracting area in turn resulted in joint venture synergies which again gave a ballast to the bilateral relationship and created a Russian lobby in Turkey and the Turkish lobby in Russia. So this was very very important for developing inter-dependencies and for maintaining stability in bilateral relationship. So, this is important economically, but also more broadly in terms of political and strategic relations. The other two countries Turkey has had tangible energy relationship with is Algeria, as I mentioned, and also Iran, where we have just seen the beginning of the exportation of Iranian gas to Turkey. In terms of Turkey's need to import of energy, I think we have to distinguish between two things, on the one hand the estimates for Turkish demand related to specificities of economic growth and the development of industrial manufacturing. And here of course there were very widely fluctuating estimates of how much gas in particular Turkey needs to import. And those differences in estimates were partly differences based on different scenarios of economic growth. I mean if you had a scenario of 5 or 6 percent annual growth versus a scenario of 2 to 3 percent annual growth compounded over a ten year period, the eventual figure you would get for gas demand will be very different. So there were a normal range of different estimates on gas demand. In addition to that, you also had a lot of ---- coming from invested interests. Those people who wanted to talk up the Turkish demand for their own reasons or in order to argue that Turkey should diversify its gas imports. Of the situation for the energy demand from the Turkish point of view was almost certainly exaggerated right across the board. Because in the year 1999 and 2001 we have seen massive contractions in the Turkish economy. First of all because of the two big earthquakes which took place in 1999 which resulted in a very substantial contraction in the Turkish economy. I think it was more than 6 percent of real contraction of the Turkish economy 1999. in the year 2000 there was a bounce-back, but it was a quite a small bounce-back if you consider such a massive contraction. I think the growth in 2000 was 4 to 5 percent. Then of course in November 2000 and February 2001 we had the double body blow to the Turkish financial adjustment strategy which resulted in two sets of financial crises. And an overall contraction in growth of more than 9 percent. So last year Turkey lost nearly 10 percent of its output which again is a massive amount. Since then again there was the expectation of a bounce-back

INTERVIEW

# Turkey's policy in Caspian Sea, Central Asia

Interview with
Dr. Philip Robins

*Professor Philip J. Robins islecturer at St. Antony's College, University of Oxford, Britain, on international affairs. He was recently in Iran and addressed a gathering of political and oil experts on the current developments in the Caspian region and Central Asia. On the sidelines of the gathering, Energy Economist interviewed him on the same subject. The following is excerpts of the interview:*

**Q: what about the Turkey's policy about the Caspian Sea and Central Asia especially after the September 11th events and Afghanistan developments? How do you see the Turkish priorities in this regard and also the energy policy of this country?**

A: well, I think that the Turkish policy in the early 1990's after the collapse of the Soviet Union began as what one might call a Turkic policy, an attempt to build good relations with all of the states of the region that were defined as being Turkic culturally and linguistically, that is central Asian and Trans Caucasian countries. So that basically includes all countries in the region except Tajikistan, Armenia and Georgia in the Trans Caucasus. However it soon became clear that Turkey did not have the economic capacity, nor the international clout to be the main conduit for the development and the emergence of these states. Moreover states like Kazakhstan and Uzbekistan continued to have to be concerned about the Russian state which constrained them in terms of relations they could develop with Turkey. So, the Turkic strategy very quickly disappeared to be replaced in the mid 1990's from maybe 1995 onwards by what you could call a Caspian strategy. And the Caspian strategy was based on economic interest, or I suppose economic-cum-strategic interest is the best way to put it. The Turks were concerned with material interests rather than cultural and linguistic affinities. The main material interest was of course related to hydrocarbon resources in the Caspian, and in particular in the states of Kazakhstan and Azerbaijan. And of course crucial to the Turkey's interest was the direction in which relevant pipelines would be built. So, hence the Turkish preference for Baku-Ceyhan. This Caspian strategy was reinforced by changes in American policy in late 1995 which were in favor of Baku-Ceyhan and a series of lateral pipelines carrying hydrocarbons. And of course underlying that, from the American perspective, was the importance of diversifying the strategic and economic dependencies of the new states on the Russian state. At the same time, ensuring that their dependencies on Russia were not exchanges with new series of dependencies on Iran. So the Americans wanted to see Turkey prosper as a close and valued ally, and at the same time wanted to make sure that Iran was not a beneficiary of these new strategic developments. But from the Turkish point of view, the attractions of the Caspian strategy was first of all enhanced strategic value as a territory across which the pipelines would go. Secondly, improved energy security, because obviously Turkey is a major energy importing country, particularly for its electric power industry, with gas becoming very important from the mid 1980's onwards. And then thirdly Turkey was also keen to boost its importance through the construction of pipelines with its relations with other groups of states in mind. Here I think the Turkey's relations with European Union was very important, because if Turkey could become strategically important to them, that would make it more attractive to the European Union and it would be of a less d modstate in terms of trying to acquire full membership of the European Union. And it ultimately would not be subject to full range of political conditionalities that the European Union has imposed on all other aspirant members. So, this was the Turkish strategy , I think, from the mid 1990's through till September 11. What I think we have seen since September 11 is the possibility at least that the narrower and more exclusive Caspian strategy may ---- now again into