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REGIONALISM IN THE CASPIAN: THE TURKISH MODEL

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REGIONALISM IN THE CASPIAN:  
THE TURKISH MODEL

A Master's Thesis

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REGIONALISM IN THE CASPIAN: THE TURKISH MODEL

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September 2007

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ABSTRACT

REGIONALISM IN THE CASPIAN: THE TURKISH MODEL

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This thesis analyzes the process of regionalism and argues that the theories in the literature are not able to provide a path for the Caspian littorals to set their own “region.” The method offered here is Turkey’s Three Stage Plan that focuses on sharing the waters of the Euphrates and Tigris with Syria and Iraq. The Plan is based on gathering data on river regimes, analyzing the climate and soil throughout the rivers and allocating the water of the rivers among the riparians on a needs based approach. The study focuses on similarities between water and hydrocarbons, sets why the European Union cannot be a model for the Caspian and explores the applicability of the Three Stage Plan in the Caspian.

Keywords: Regionalism, the Caspian, hydrocarbons, water.

## ÖZET

### HAZAR'DA BÖLGESELÇİLİK: TÜRK ÖRNEĞİ

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Bu çalışma, bölgeselcilik sürecini incelemekte ve literatürde Hazar'a kıyıdaş ülkelerin kendi "bölge"lerini kurmaları için uygun bir model bulunmadığını savunmaktadır. Çalışmada önerilen, Türkiye'nin Fırat ve Dicle sularını Suriye ve Irak'la paylaşmak üzere sunduğu Üç Aşamalı Plan'ın uygulanmasıdır. Plan, nehirlerin rejimlerinin tesbiti, nehir boyu iklim ve toprak yapısının incelenmesi ve edinilen bilgiler ışığında nehirlerin sularının ihtiyaç temelli olarak kıyıdaşlar arasında paylaşılması üzerine kuruludur. Çalışmada, su ile petrol arasındaki benzerlikler üzerinde durulmakta, Avrupa Birliği'nin neden Hazar'a örnek olamayacağı açıklanmakta ve Üç Aşamalı Plan'ın Hazar'da uygulanabilirliği araştırılmaktadır.

Anahtar Kelimeler: Bölgeselcilik, Hazar, hidrokarbon, su.

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The idea to write on the Caspian emanated from two main points: I having interest in energy and the Middle East being over-studied. It was my advisor's idea to analyze regionalism in the Caspian. Special thanks to Nur Bilge Criss for her invaluable patience and support; and to Sheila Pelizzon and Paul Williams for being with me through this hot summer till I pass the defence. Special thanks also to my grandmother and mother for their endless supply of cookies and tea. TÜBİTAK scholarship as well as tolerance of my superiors at the UFT is acknowledged. Thanks also to Arif Nat Riley for the fruitful brainstorming that helped me to settle the outline, to Aaron Ranck, Esra Dođramacı and Karalyn Eide for editing earlier versions, and to Karalyn's mother and Sibel İmren for helping me getting the books I needed. All rights reserved. Nothing in this text can be used, even with open reference, without written permission of the author herself; or can be taken as the official stance of the Undersecretariat for the Foreign Trade.

## TABLE OF CONTENTS

ABSTRACT.....	iii
ÖZET.....	iv
ACKNOWLEDGEMENTS.....	v
TABLE OF CONTENTS .....	vi
CHAPTER I: INTRODUCTION.....	1
CHAPTER II: REGIONALISM.....	12
2.1 General Discussion on Regionalism.....	13
2.2 Specific Discussion on the Security of Natural Resources.....	31
CHAPTER III: WATER AND HYDROCARBONS .....	43
3.1 What is the Caspian? "It's a Sea! It's a Lake! No. It's a Pool of Oil" ..	49
3.2 Where to Go? The Three Stage Plan on Sharing Water of Euphrates and Tigris .....	63
3.3 Whose Needs? Who will gain what? Perspectives of the Parties Concerned .....	72
CHAPTER IV: SNOW WHITE and SEVEN DWARFS.....	75
4.1 The Snow White: “Real” Littorals.....	75
4.2 The Seven Dwarfs: “Virtual” Littorals .....	86

CHAPTER V: CONCLUSION.....	95
BIBLIOGRAPHY .....	113



# **CHAPTER I**

## **INTRODUCTION**

The purpose of choosing the "Caspian" is derived from my interest in energy in general. The topic of "region" is the focus here because every study so far focuses on the Caucasus (Azerbaijan and Georgia), Central Asia (Kazakhstan and Turkmenistan), the Middle East (Iran) and Europe (Russia), but does not take a bird's eye view of the "Caspian region." By trying to apply "regionalism" in this geography, this study hopes to provide an alternative avenue to the futile discussion of whether the Caspian is a sea or lake (see below) and provide an opportunity to think of peace, cooperation, and development instead of an eternally conflict ridden picture, in an era in which energy is likely to be the cause of World War III.

In search for a model for the Caspian, this study starts with a summary of the theories on regionalism, which is a popular topic in the academic literature. The thesis here is that despite the popularity of the very European Union (EU)

experience in academia, history shows us that economy as being a catalyst of region-building is not a new phenomenon. Moreover, economics itself is far from being enough since there are also political, social and geographical reasons that help converting an area into a region. However, it is not easy to work with so many variables, which ends up with lack of an academic definition of the concept “region.” Hence, we adopted the approach of “I-know-when-I-see-one” together with the theory of securitization, which helped us to define what the Caspian is.

The Caspian is indeed the biggest watermass on the earth. The problem with the Caspian is its bigness which makes it close to a sea; yet its closeness to oceans makes it more of a lake. Before the new millennium, there were only two littorals, Russia and Persia, that used the Caspian together for fisheries. They inked a regime through the 1921 Friendship Treaty and 1940 Treaty of Commerce and Navigation, none settling either the limits of respective sea boundaries or the ways to exploit the subsea resources. Because today fisheries gave their seat to hydrocarbons as the crucial source of revenue both for individuals and states, and because since the end of the 20<sup>th</sup> century there have been no longer two but five littorals, there arose the question whether the Caspian was a sea or a lake. Terminology is important here because if it is a sea, then the United Nations Convention on Law of Sea of 1982 (UNCLOS) is applicable, which means that each littoral will have strictly demarcated territorial waters (12 miles from the coast) and exclusive economic zones (an additional 200 miles). The rest of the sea in the middle will be used jointly by

all on first come first served basis. Yet if the Caspian is a lake, there is no international regime that can be applied; and the littorals should negotiate and settle the issue of who controls where.

Here comes Turkey's role as being a state that has something tangible to offer as a solution to the Caspian dispute, a solution which may make it futile to eschew the discussion on “sea or lake.” The offer in this study is the Three Stage Plan formulated originally by Turkey to share waters of Euphrates and Tigris with Syria and Iraq.

One may think it is bizarre to try to implement a version of a water-sharing plan into an oil-related case. Indeed, it is not. The two are quite similar to each other. Both are essential to sustain routine life, both are finite, and scarcity of both increases as population increases. Last but not least, both resources carry transboundary characteristics, bearing ownership disputes.

The proposal, the Turkish Three Stage Plan, is composed of three stages the first of which is dedicated to data gathering. Hydrology, meteorology, volume and quality related data is to be exchanged and verified. At the second stage, land is to be examined in order to identify fertile and irrigable lands as well as suitable crop patterns. The last stage is determining water requirements by finding a formula that makes the data and the needs compatible. As such, the Three Stage Plan is a needs-based approach trying to reach at a win-win solution.

The question here is the players: *Who* will win? Or, *who* is in the Caspian? "The Caspian" as the way we proposed in this study is not made up of the littoral countries. The five littorals, Azerbaijan, Iran, Kazakhstan, Turkmenistan and Russia are just the components of the upstream complex. "The Caspian" embraces transit and downstream countries too. Besides them, the region as being a hydrocarbon reserve is affecting and being affected by global developments of changes in supply, demand, and price; which brings big producers like the Middle East or the Organization of Petroleum Exporting Countries, and international oil companies like Chevron, the British Petroleum and Exxon-Mobile into the picture. Any possible change in the overall security and stability caused by, say, regional and international terror, is an important driving factor too; since within such a turmoil scenario it is not easy to secure pipelines or throughput. This would involve not only great players like the US and China, but also big security organizations like the North Atlantic Treaty Organization take active role in the energy sector as well as in the region. As such, the actors of "the Caspian region," which actually is a "mega-region," turns out to be the littorals and their people and bureaucrats, transit countries, consumers, other big producers, international energy firms, big international actors and organizations.

The next step, which is beyond the scope of this study, is defining who needs what. The littorals obviously need to sell their resources and get money in

return. Yet, to do so, they are in need of the transit countries (for an outlet) and energy firms (for technology). The transit countries and the firms are, too, in need of money, titled as "transport revenue" and "profit," respectively. The money at focus here is a derivation of international markets, which is a derivation of an endless interaction of supply and demand (excluding speculations), hence of an interaction of consumers and producers. Last but not least, big international players like China and the US that are in competition over the getting-scarce resources need to ensure energy security, which, as defined broadly, envelopes international organizations like the NATO as defined in the Riga Summit.

This is indeed how we "knew" that the Caspian was a region "when we saw it." The Caspian has formed a security complex which has been composed of states as well as non-state actors who have an interest in the subsoil treasury of the Caspian. One's move affects the other(s), just as the Baku-Ceyhan project's operationalization has affects on Russia and Iran as bypassed countries; and as Turkmenistan, Kazakhstan and Russia's agreement on 11 May 2007 affected the downstream countries by forming a block vis-à-vis them; and these moves create ground for securitization as the way Barry Buzan defines it (below). The producers securitize the energy sector too, as proven well by the Iranian navy intervening into BP's offshore exploration on behalf of Azerbaijan, and Russia's ongoing Chechnya problem; the consumer countries', especially the US and China's concerns about throughput securitize the supply; and the Organization of Petroleum Exporting Countries (OPEC) members as well as the

MNCs attribute an importance on the production, and hence the price issue is securitized too. Therefore, in the Caspian, *"major security perceptions and concerns are so interlinked that [the states'] national security problems cannot reasonably be analyzed or resolved apart from one another."*<sup>1</sup>

By using the term "regionalism," this study implied a notion of cooperation between, but not limited to, states -- as elaborated above, our level of analysis is "the Caspian region," which actually is a "mega-region."—This thesis agreed with the idea that "statist-nationalist and confessional groups" are war-prone. Motivated by the idea(l) of cooperation, a solution to the ongoing dispute on hydrocarbons was formulated as a basis for mutual understanding and cooperation, which corresponds to the definition of an "international coalition."

Some maintained that the oil and gas of the Caspian could provide a ground for cooperation and serve as coal and steel of Europe in the case of the ECSC, ignoring the fact that in Europe, the parties wanted to contain Germany, the potential cause of World War III; and Germany demanded international recognition in return. In the Caspian, there is no one to be contained as a clear-cut aggressor or catalyst of war; moreover, each and every state in the region enjoys international recognition. Since four of the five littorals are 15-16 year-old-states, they are not ready or willing to give up part of their sovereignty in

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<sup>1</sup> Barry Buzan, Ole Wæver and Jaap de Wilde, *Security: A New Framework for Analysis* (London: Lynne Rienner Publishers, 1998), p. 12; italics original.

return for a joint action scheme under a supranational entity. Also, “European regionalism” pays attention to principles and values like liberal and pluralist democracy, rule of law, and market economy, all of which are alien to the littorals at varying degrees. Last but not least, in the EU example, though there was a "pool" of resources, there was also an agreement on who had what. It is not the case in the Caspian either.

As such, the Turkish Three Stage Plan can open a new era in providing an alternative avenue in the Caspian discussion. Once determined to proceed in line with the plan, the first step will be data gathering and clarifying how much of what does the Caspian contain—which, indeed, has long been done since the end of the Cold War by various governments and companies. The second stage will be defining the actors—which we shall do in this study, though primitively. The last stage will be setting who needs how much of what—which is maybe the most important but cluttered part. The Plan, as being based on needs, would make the sea-or-lake dispute outmoded, because so long as everyone gets what he needs, no one would eschew the futile discussion on the status of the watermass.

### **Looking from the Other Side**

Looking from where we sit, the Three Stage Plan is quite good for solving the status problem, opening the avenue for exploiting the Caspian jointly and peacefully, and setting Turkey as a role model. Nonetheless, looking from the other side, there seems to be three main deficiencies in this study.

One question that may come to mind after reading this study is that the Three Stage Plan had three riparians, but it did not work. The Caspian has five littorals, why do we expect the model to work? The answer is that the Three Stage Plan had an absolute upstream, Turkey, that could and still can completely cut the flow of water to other riparians and deny their share at its own will, hence can demand anything in return for releasing water.<sup>2</sup> In the Caspian, all the five are upstreams, one's exploitation does or can not exclude the others totally.<sup>3</sup> Also, original Three Stage Plan was placed in the Middle East, a region which is regarded to be volatile. Indeed, since the Three Stage Plan was invoked, Iraq involved in three wars (Iran-Iraq, Iraq-Kuwait, Iraq-USA), and Syria in many conflicts most involving Lebanon and Israel, and one war -- Gulf War against Iraq. Since the Caspian is regarded to be an alternative to the Middle East, and since it is regarded to be more stable, hence the Three Stage Plan has more diplomatic, not militarist, space to be implemented.

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<sup>2</sup> From the Iraqi and Syrian sides, the Three Stage Plan has a hidden agenda designed to enable Turkey get more water. The argument went as that the real logic behind the Turkish support for concluding "joint studies for optimal and rational utilization of water and land resources" was "to prove ... that certain agricultural practices in Syria and Iraq are inefficient and uneconomical [for agriculture] and that, therefore, the water needed for these could not be justified." From the Turkish perspective, though, the plan was a revolutionary breakthrough for three points. Firstly, Turkey offered to change its promise to not to cut below 500 m<sup>3</sup>/s annual from a steady flow to a regulated flow, which went up and down depending on the seasonal and agricultural needs. [0]Secondly, the plan introduced the idea of conservation by especially rationalizing and modernizing irrigation. Lastly and most importantly, the Three Stage Plan implied a tacit consent of Turkey as the upstream to embrace joint action, hence renounce full and exclusive sovereignty. Gün Kut, "Burning Waters: Hydropolitics of the Euphrates and Tigris," "Burning Waters: The Hydropolitics of the Euphrates and Tigris," *New Perspectives on Turkey*, No. 9 (Fall 1993), p. 13.

<sup>3</sup> Bernard Mommer, *Global Oil and Nation State* (Oxford: Oxford University Press, 2002), esp. pp. 9-29; J. Samuel Barkin and George E. Shambaugh, "Hypothesis on the International Politics of Common Pool Resources," in J. Samuel Barkin and George E. Shambaugh (eds), *Anarchy and the Environment: The International Relations of Common Pool Resources* (New York: New York State University Press, 1999), pp. 1-25.



Another question is why to try to market hydrocarbons at the age of global warming. Pipeline construction requires leveling land, digging trenches, cutting trees, installing drilling wells; each affecting the environment at various degrees. After construction, operation is harmful too. The oil pumped through the Baku-Tblisi-Ceyhan (BTC) itself is expected to create 160 million, the natural gas pumped through the Baku-Tblisi-Erzurum-Ceyhan (BTE) to 13 million tones of CO<sub>2</sub>. This calculation excludes the affects of possible leakages, Turkish earthquake fault lines parallel to the pipeline routes, and Yumurtalık port at Ceyhan having two annual storms.<sup>4</sup> In the post-operation phase, decommissioning does not put an end to the damage because impact on environment may persist for decades.<sup>5</sup>

As being a member of the generation that experiences the affects of the climate change, melting glaciers and drought here, flood there, we might be supposed to promote alternative energy resources. Nonetheless, we tried to find out ways of marketing the Caspian resources mainly for five reasons. First is that the renewable technology is still infant and expensive. Second, recently popular biofuels bear the risk of creating food scarcity.<sup>6</sup> Thirdly, worldwide industry is

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<sup>4</sup> Greg Muttitt and James Marriott, *Some Common Concerns: Imagining BP's Azerbaijan-Georgia-Turkey Pipelines System* (Lincolnshire: Abbey Print, 1993), pp. 123-35, 159.

<sup>5</sup> Ibid, pp. 13, 91-102.

<sup>6</sup> Idea here is that agriculture sector may find it more profitable to plant seeds to raise fuels instead of food, which will result in getting-scarce food supply and increasing food prices. See Holman W. Jensins, "What's Wrong with Free Trade in Biofuels?," *The Wall Street Journal*, 22 February 2006; Jennifer Weeks, "Building an Energy Economy on Biodiesel," *Biocycle* (July 2005), pp.67-9. For a general discussion see Michael Parfit, "Alternatif Enerji," *National Geography Türkiye* (August 2005), pp. 76-101; for Turkey-based analysis, see Editorial, "HES'lerde AB'ye Uyum Olacak mı?," *Enerji* (July 2005), pp. 44-5. For an alternative

designed for hydrocarbons, converting it to renewables or biofuels brings additional costs that the industry would seek government subsidy which would be reflected to consumers in terms of taxes, or would like to put the burden on the consumers by reflecting the costs on the prices. Fourthly, despite BP is called “Beyond Petroleum,” and Chevron advertises that “it took us 125 years to use the first trillion barrels of oil. We’ll use the next trillion in 30,” both are still in the oil business, proving that the sector is quite profitable. That profit as we shall elaborate below indeed is what the littorals are seeking to run their economies. Lastly, a model to market Caspian resources is argued to put an end to the years long discussion on the legal status of the Caspian. By pooling the resource and allocating it on needs basis, the Three Stage Plan can (i) make the sea-or-lake discussion obsolete, (ii) set an alternative avenue of coziness can be bolstered by trans-Caspian pipeline to internationalize the Caspian wealth, (iii) appease Russia that seeks total control by giving a voice over the future of the Caspian -since the Three Stage Plan is based on joint action and exploitation-, (iv) and ensure that Iran gets its energy needs satisfied either by importing electricity and giving up its nuclear program, or by exporting electricity derived from nuclear power plants in return for technology and investment in its oil sector.

One last point is the model’s apparent focus being away from people. Our model disregards the negative affects of commodification and globalization

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argument that maintains that rising food prices is good for farmers, see Worldwatch Insititute’s *Biofuels for Transportation: Global Potential and Implications for Energy and Agriculture* (London: Earthscan Publishing Ltd, 2007).

which creates new classes, social statuses and values that in most cases goes hand in hand with some dynamics that do not work for the benefit of the native population.<sup>7</sup> Nonetheless, our model does not intend to disregard people. As we shall introduce below, the model is needs-based. The emphasis on needs envelopes needs from, but not limited to, daily consumption, industrial production and petrochemical sector ranging from fertilizers (agriculture—very basics) to cosmetics (aesthetics—appealing to the niche market), plus the treasury of the state. The observation suggests that in case the needs are not satisfied at optimum level, the resource rich country rolls either to complacency as in Saudi Arabia, or to civil war as in Nigeria. In this study, we just illustrated whose needs should the model take into consideration, and left the question of who needs what to another study. As such, we shall first make a literature review, then unveil commonalities between water and hydrocarbons, and afterwards set the Three Stage Plan covering the littoral as well as non-littoral actors.

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<sup>7</sup> Anna Gunter Frank, *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brasil* (New York: Monthly Review Press, 1969); Walter Rodney, *How Europe Underdeveloped Africa* (Washington: Howard University Press, 1974). About an alternative reading of globalization, see Immanuel Wallerstein, *Amerikan Gücünün Gerileyişi: Kaotik Bir Dünyada ABD*, translated from English by Tuncay Birkan (Metis Yayınları: İstanbul, 2004).

## CHAPTER II

### REGIONALISM

It is quite a difficult, if not impossible, task to define what a "region" is. Reference books such as dictionaries and encyclopedias do not have entries for "region" or "regionalism."<sup>8</sup> Applying an "I-know-when-I-see-one" approach<sup>9</sup> is surely the easiest as well as the most useless method to provide a conceptual

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<sup>8</sup> See, inter alia, *Grolier International Americana Encyclopedia* (Danbury, Connecticut, İstanbul: Grolier Incorporated-Sabah, 1993), Vol. 3; *L'Encyclopédie Grolier: Le Livre des Connaissances* (Paris, Montréal: Grolier Limitée, 1985), Vol. 12; *The Hutchinson Unabridged Encyclopedia* (GB: Helicon Publication, 1995), Vol. 6; *Merit Students Encyclopedia* (New York: Macmillan Educational Company, London, New York: P. F. Collier Inc., 1986), Vol. 15; *The Routledge Dictionary of Politics* (London, New York: Routledge, 2004, 3<sup>rd</sup> ed); *The Penguin Dictionary of Politics* (England: Penguin Books, 1993); *The Oxford Companion to Politics of the World* (New York, Oxford: Oxford University Press, 1993); and Alper Sedat Aslandaş and Baskın Bıçakçı, *Popüler Siyasî Deyimler Sözlüğü* (İstanbul: İletişim, 1995). Only Oxford English Dictionary provides a definition, "region" as "an area, space, or place, of more or less definite extent or character; an administrative division of a city or district; an area of the world made up of neighbouring countries that, from an international point of view, are considered socially, economically, or politically interdependent," and "regionalism" as "tendency to, or practice of, regional systems or methods; localism on a regional basis. Also, on a national or international scale: the theory or practice of regional rather than central systems of administration, or of economic, cultural, or political affiliation; the study of such phenomena as they relate to geographic factors." Oxford English Dictionary, <http://oed.com>.

<sup>9</sup> Employed by Hey for small states. Jeanne A. K. Hey (ed), *Small States in World Politics: Explaining Foreign Policy Behavior* (USA: Lynne Rienner Publishers, 2003), p. 2.

framework for an academic study. This, however, by no means implies that a universally valid definition is possible or desirable; rather, it means that we need to have a framework in order not only to limit the study but also to clarify what is meant by using concepts like "region" and "regionalism."

The main purpose of this thesis is to discuss regionalism in the Caspian. The reason for choosing this topic is basically that the Caspian is not explored as well as the Middle East in terms of its energy potential; and the aim is to argue and show that the energy resources may act as a catalyst for the Caspian to become a region. However, the model to be proposed here will not be a modified copy of the European Union (EU); rather, Turkey's Three Stage Plan will be tested in the Caspian. First a literature review is in order. Then the basic deficiencies of the theories of regionalism and regional integration, especially the ink poured on the EU's evolution -which, indeed, encouraged us to develop a new model- will be underlined. The thesis concludes that the Caspian is not just a region, but a mega region that embraces the littorals, the transit countries, consumers and producers of hydrocarbons, as well as the big political and economic players of the international arena. The literature is reviewed below in order to shed some light on this issue.

## **2.1 General Discussion on Regionalism**

To start with, the very word "region" embraces a notion of homogeneity, evaluated in terms of geographic proximity, cultural similarity and amicable

perceptions, as well as cooperation and mutual understanding of sensitivities, interests and policy outcomes. Hence, a region is an entity that is expected to help smooth functioning of international affairs. Once identified, a region also generates means of control besides cooperation. For example, at the intra-state level, as was the case in People's Republic of China, regionalism was perceived as a tool to create administrative units which enabled decentralization.<sup>10</sup> Besides systematizing administration, regionalism can also help develop the economy as the government encourages investment in poor regions while discouraging it in developed ones by diverting governmental spending into the former in order to foster infrastructure and economic growth. As such, the gap between regions is reduced, poor regions gain from investment and jobs, developed regions gain from eased inflation and internal migration.<sup>11</sup>

With globalization, mobilization of labor and capital, and changes in the nature of production, regions became an inter- rather than an intra-state phenomenon.<sup>12</sup> Yet, here is another dichotomy: while realist approaches argue that strong central control is more important to pursue national interests and to

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<sup>10</sup> Howard W. Odum and Harry Estill Moore, *American Regionalism: A Cultural-Historic Approach to National Integration* (New York: Henry Holt, 1938), p. 27, quoted in Bruce M. Russett, "International Relations and the International System," in Richard A. Falk and Saul H. Mendlovitz (eds), *Regional Politics and World Order*, (USA: W. H. Freeman and Company, 1973), p. 184.

<sup>11</sup> Michael Keating, "The Political Economy of Regionalism," in Michael Keating and John Loughlin (eds), *The Political Economy of Regionalism* (GB: Frank Cass, 1997), p. 19. The EU's Nomenclature of Territorial Units for Statistics (NUTS) project is also relevant to the notion of balancing development between regions by subdividing the national territory in line with political will (normative) or geographic and socio-economic criteria (analytical). See the EU's official website: <http://ec.europa.eu>.

<sup>12</sup>Keating, "The Political Economy of Regionalism," p. 25.

reduce any likelihood of an erosion of internal coherence,<sup>13</sup> some theories focus on rising cobweb relations and underline declining relevance of a central government in world politics to represent and pursue common/collective interests. Some even argue that "the term 'national sovereignty' sounds both nostalgic and naïve."<sup>14</sup> Still, it is problematic to delineate regions; "any boundaries which may be drawn will necessarily be arbitrary."<sup>15</sup> During the Cold War, the West and East had totally different meanings than they did before or after the Cold War. "The world does not in fact break easily along neatly perforated lines,"<sup>16</sup> and since the only thing that does not change is change itself, "[r]egions end in transition, seldom in definite boundaries."<sup>17</sup>

Despite the difficulty, the literature keeps offering different perspectives to theorize on regionalism. In his book, *Regionalism and World Order*, Ronald Yalem defines "necessary and sufficient" elements as:

(legal) a treaty for maintenance of peace; (sociological) a treaty based on a particular sociological solidarity embracing racial or ethnic affinities, economic cooperation, mutual defense; (geographic) contiguity of member states and (institutional) an international agency of a permanent character and sovereign equality.<sup>18</sup>

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<sup>13</sup> Ibid, pp. 92-3.

<sup>14</sup> Werner Weidenfeld, "The EU's role in the World: Efficiency and Relevance in Times of Crisis," in Marcin Zaborowski (ed), *Friends Again?: EU-US Relations after the Crisis* (Paris: ISS, 2006), p. 120. See: For complex interdependence Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Scott, Foresman: Little Brown, 1989); for role of sovereignty free actors, see James N. Rosenau, "Patterned Chaos in Global Life: Structure and Process in the Two Worlds of World Politics," *International Political Science Review*, Vol. 9, No. 4 (1988).

<sup>15</sup> National Resource Committee, *Regional Factors*, p. 145 quoted in Bruce M. Russett, "International Relations and the International System," p. 186.

<sup>16</sup> Inis L. Claude, *Swords into Plowshares: The Problems and Progress of International Organization* (New York: Random House, 1984), p. 113.

<sup>17</sup> V. C. Finch, "Geographic Science and Social Philosophy," *Annals of the Association of American Geographers*, pp. 218-9, quoted in Russett, "International Relations and the International System," p. 186.

<sup>18</sup> Ronald Yalem, "Theories of Regionalism," in Richard A. Falk and Saul H. Mendlovitz (eds), *Regional Politics and World Order*, (USA: W. H. Freeman and Company, 1973), pp. 218-9.

Yalem, in criticizing former United Nations Secretary General, B. Boutros-Ghali's definition of region and regional entente as an organism with permanency and geographical closeness as its characteristic feature, which ends up with states establishing an association to preserve peace and security,<sup>19</sup> underlines the trap of proximity by arguing that Germany and France proved to be classic examples of neighboring but enemy states. Likewise, the Middle East, having elements of geographical proximity as well as cultural similarity, could only manage to form a loose Arab League. Hence, regionalism underlies cooperation; a conflict-driven "region" just indicates a place on the map, not a "region" to soften the relations at the international stage.<sup>20</sup>

After discussing the role of closeness, Yalem then raises the question of small states' behavior. Taking George Liska's arguments (below), he claims that "[t]he intrusion or participation of one or more great powers in a regional complex is the strongest factor in altering its narrow geographic scope since the interests of such states are increasingly global."<sup>21</sup> A paraphrase of it comes from the former American President John F. Kennedy who said that no place was immune to US interests.<sup>22</sup> Hence, a regional initiative should figure out ways of accommodating great power demands. This may include methods

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<sup>19</sup> B. Boutros-Ghali, *Contribution à L'etude Des Ententes Regionales*, (Paris, 1949), p. 101, quoted in Yalem, "Theories of Regionalism," p. 221.

<sup>20</sup> For an excellent survey on why the Middle East is not a region, see Paul Aarts, "The Middle East: A Region without Regionalism or the End of Exceptionalism?," *Third World Quarterly*, Vol. 20, No. 5 (1999), pp. 911-25.

<sup>21</sup> Yalem, "Theories of Regionalism," p. 222.

<sup>22</sup> Herbert Parmet, *JFK: The Presidency of John F. Kennedy*, (New York: Dial Press, 1983), p. 328.



ranging from harmonizing agendas with extra-regional powers to enlarging the regional "grouping," "union," or "institution;" but this then backfires by resulting in the loss of geographic sense as well as the shield of regional exclusivity; a shield designed to protect the region from "unwelcomed complexities of the wide world."<sup>23</sup>

While some authors focus on the role of hegemony in creating polarization that contributes to regionalism,<sup>24</sup> some, like Kaiser, state that as integration advances, the likelihood of a superpower joining decreases.<sup>25</sup> George Liska argues that small states face difficulties in harmonizing regionalism, national security, and independence together. He argues that while weak states are keen to preserve their independence, the offer of security by one or more great powers is also a magnet for them even though such a security scheme brings a

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<sup>23</sup> Claude, *Swords into Plowshares: The Problems and Progress of International Organization*, p. 114.

<sup>24</sup> James Mittleman and Richard Falk, "Global hegemony and Regionalism," in Stephan C. Calleya (ed), *Regionalism in the Post-Cold War World*, (England, USA: Ashgate, 2000), pp. 3-22. They argue that the US uses regionalism for its interest, as exemplified in the NAFTA and NATO; although they acknowledge the possibility of using regionalism as a way to react to hegemonic projects, they still underlie the role of the hegemon to create poles composed of either balancers (allies *against* the dominant power) or bandwagoners (allies *with* the dominant power). For a counterargument that maintains that regionalism fosters multilateralism, and hence is unacceptable in line with US interests, see Björn Hettne, "Beyond the 'New' Regionalism," *New Political Economy*, Vol. 10, No. 4 (December 2005), pp. 543-71. For balancing and bandwagoning, see Stephen M. Walt, "Alliance Formation in Southwest Asia: Balancing and Bandwagoning in Cold War Competition," in Robert Jervis and Jack Snyder (eds), *Dominoes and Bandwagons: Strategic Beliefs and Great Power Competition in the Eurasian Rimland* (New York: Oxford University Press, 1991), p. 52.

<sup>25</sup> Writing during the Cold War years, Kaiser maintains that as integration proceeds, small powers hesitate to let big powers be a part since participation may end up with domination. Karl Kaiser, "The Interaction of Regional Subsystems: Some Preliminary Notes and Role of Superpowers," *World Politics*, Vol. 21, No. 1 (October 1968), pp. 84-97, esp. p. 106. According to Hettne, it is not small states' resistance but superpowers' self interest that puts limits on regionalism and the rise of a region to bolster multilateralism. See Björn Hettne, "Beyond the 'New' Regionalism," *New Political Economy*, Vol. 10, No. 4 (December 2005), pp. 543-71.

notion of regional alliance with itself.<sup>26</sup> Yet, though great powers can provide security and politico-economic support that small powers need, initiatives centered on great powers are destined to be dominated by them. Hence, Liska concludes, "regional organizations should be set up among states with approximately equal resources and development, ... [and] concentrate on socio-economic and cultural tasks and stay aloof from Great-Power conflicts"<sup>27</sup> otherwise the great power interests will determine the course;<sup>28</sup> which is likely to be perceived as an extension of imperialism.<sup>29</sup>

While Yalem and Liska focus on the size and equality of states, Etel Solingen looks at the policies pursued and intentions declared. She divides coalitions into two groups: the first group, "internationalist coalitions," comprises states prone to economic liberalization, which involves integration to "not merely global markets but also international institutions operating in economic, security, and other political realms."<sup>30</sup> The second group, "statist-nationalist and confessional coalitions," includes states with tendencies to "oppose economic liberalization and [become] prone to create and reproduce zones of war and militarized disputes."<sup>31</sup> According to her, the notion of cooperation is harmonious with international coalitions, because

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<sup>26</sup> George Liska, "Geographic Scope; The Pattern of Integration," p. 232 in Falk and Mendlovitz (eds), *Regional Politics and World Order*, pp. 232-46.

<sup>27</sup> Ibid, p. 233.

<sup>28</sup> Liska, "Geographic Scope; The Pattern of Integration," pp. 236-7.

<sup>29</sup> Ibid, p.243.

<sup>30</sup> Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy*, (Princeton, New Jersey: Princeton University Press, 1998), p. 3

<sup>31</sup> Ibid.

a prospective cooperative order often endangers statist-nationalist and confessional coalitions, because such an order undermines the viability of state agencies and enterprises associated with military functions and production, threatens with extinction the state's ability to disburse unlimited resources among statist-nationalist and confessional rent seekers, and deprives populist leaders (secular and confessional) of a rich fountain of myths.<sup>32</sup>

Such an approach gives her the opportunity to analyze internal and external dimensions of a great strategy as well as to abstain from dealing with regions. As she confesses, "a coalitional analysis *alleviates the otherwise elusive task of defining regions.*"<sup>33</sup>

Still, her model is quite useful not only for identifying which coalitions are doomed to fail, but also for embracing "inside-out" and "outside-in" approaches. The inside-out approach focuses on culture and perceptions, and analyses integration as being the result of the mere existence of a social entity. The latter approach underlies the need to not get involved in the existence of an entity which can explain another phenomena, but to take the international system and great power interests as independent variables that lead to regional cooperation (or not).<sup>34</sup> Her model focuses at first on stimuli coming from the outside, and then on internal structures taking those stimuli as inputs and producing a grand strategy as an output. Another advantage is her acknowledgement of the domestic context affecting each step, which enables us to understand the role of mythmaking, hesitancy to delegate sovereignty for

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<sup>32</sup> Ibid, p. 11.

<sup>33</sup> Ibid, p. 8, 270; italics original.

<sup>34</sup> Iver B. Neumann, "Regions in International Relations Theory: The Case for a Region-Building Approach," *NUPI*, No. 162 (November 1992), pp. 38-9, note 23.

the sake of a "virtual state," nuclear behavior, war and personality cult.<sup>35</sup> In a region of revolutionary and newly independent states, like the Caspian,<sup>36</sup> her model provides us with the required framework as well as the flexibility, though it lacks a clearcut definition.

Despite the lack of consensus in the literature on the term, "regionalism" became a popular topic of research, especially in the 1960s. The boom in interest was due to the European experience in regionalism, then being equated with economic integration.<sup>37</sup> The dominant theory in this realm has been functionalism. The idea was that integration in one area would require integration in another, and encourage the development of regional institutions as well as political cooperation.<sup>38</sup> By embracing interests of each nation, the functionalist approach promotes gradual integration through efficient yet

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<sup>35</sup> Solingen, *Regional Orders at the Century's Dawn*, esp. p. 43, 46, 258-60.

<sup>36</sup> Here in the sense that all have experienced revolutions. The four ex-USSR littorals lived under the communist regime for three quarters of the last century, and since 1991, all one way or another have handled state and nation building. The fifth, Iran, is under a revolutionary rule since 1979, but has a deep seated and centuries-long state tradition.

<sup>37</sup> Integration is a relationship of units that underlie a notion of interdependence. Deutsch argues that integration is about harmonizing policy behavior; and for Schmitter, the study of regional integration equals study of an emerging international organization in the sense that integration means sharing decisionmaking authority. However, Mattli thinks that integration is not a political but an economic issue since integration is "the voluntary linking in the economic domain of two or more formerly independent states to the extent that authority over key areas of domestic regulation and policy is shifted to the supranational level." Karl W. Deutsch, *The Analysis of International Relations* (USA: Prentice Hall, 1988, 3<sup>rd</sup> ed), p. 212; Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (UK: Cambridge University Press, 1999), p. 41; Philippe C. Schmitter, "A Revised Theory of Regional Integration," *International Organization*, Vol. 24, No. 4 (Autumn 1970), p. 836.

<sup>38</sup> Edward D. Mansfield and Helen V. Milner, "The Political Economy of Regionalism: An Overview," in Edward D. Mansfield and Helen V. Milner (eds), *The Political Economy of Regionalism* (USA: Columbia University Press, 1997), p. 6; Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford University Press: Stanford, 1964); Philippe C. Schmitter, "Three Neo-Functional Hypotheses about International Integration," *International Organization*, Vol. 23, No. 1 (Winter 1969), pp. 161-6.

interlinked institutions, which are likely to start with cooperation in low-politic spheres, in other words, the economy.<sup>39</sup>

Moving on to the European case, and seeing that the European Coal and Steel Community (ECSC)/ European Economic Community (EEC)/ European Community (EC) did not turn out to be dead-letter regimes, but rather became further installed with the creation of the single market and single currency,<sup>40</sup> attention then turned to find out the “gain” in return for which a country would sacrifice its economic sovereignty derived from the authority to issue the national currency. The basic answer was, of course, welfare and efficiency that would unfold as economic development. However, according to Cohen, some national currencies were used abroad both as a medium of international trade and as a substitute currency to drive off national currency.<sup>41</sup> The American dollar has been a currency of choice around the world, including the EC of the 1960s.<sup>42</sup> Cohen argues that it was not economy- but sovereignty-related concerns that mattered in terms of realization of national economic policies.<sup>43</sup>

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<sup>39</sup> Mattli, *The Logic of Regional Integration*, p. 22.

<sup>40</sup> Weidenfeld, "The EU's Role in the World: Efficiency and Relevance in Times of Crisis," p. 112.

<sup>41</sup> Benjamin J. Cohen, "The Political Economy of Currency Regions," p. 52 in Edward D. Mansfield and Helen V. Milner (eds), *The Political Economy of Regionalism* (New York: Columbia University Press, 1997).

<sup>42</sup> *Ibid*, pp. 69-70.

<sup>43</sup> For alternative approaches to economic integration: for an analysis of pluralism, economic power and transaction rate as variables of integration, see Mario Barrera and Ernst B. Haas, "The Operationalization of Some Variables Related to Regional Integration: A Research Note," *International Organizations*, Vol. 23, No. 1 (Winter 1969), pp. 150-60; and for a discussion on inadequacy of integration to provide regional competition unless accompanied by infrastructural-suprastructural development, synergy-network connectivity and competitive economy, see Peter Nijkamp, "Infrastructure and Suprastructure in Regional Competition: a Deum ex Machina?," in Peter W. J. Batey and Peter Friedrich (eds), *Regional Competition* (Germany: Springer-Verlag Berlin, 2000).

Though economic integration dates back to centuries ago (like the 12-17<sup>th</sup> century Hanseatic League, 17<sup>th</sup> century French customs union and 19<sup>th</sup> century Zollverein), the EU model, the EU's success and consecutive enlargements have made the idea of regionalism dominate as a device for development, especially for developing countries.<sup>44</sup> Though plenty of regional integration attempts have failed,<sup>45</sup> and though the EU is *sui generis*,<sup>46</sup> the aim was to improve economic and political conditions by imitating the EU case, starting with the economic sphere. Regions as economic initiatives generally (but not always) have positive effect by increasing the trade volume between members, and by bolstering foreign direct investment.<sup>47</sup> Nonetheless, whether regional arrangements "create" or "divert" trade,<sup>48</sup> or whether they promote rational investment deserves attention as well, because "additional investment may be attracted into efficient sectors which benefit from the RIA's [regional integration agreements] high external trade barriers."<sup>49</sup> Moreover, a customs

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<sup>44</sup> Maurice Schiff and L. Alan Winters, *Regional Integration and Development* (Washington: World Bank, Oxford University Press, 2003), pp. 4-5.

<sup>45</sup> Edward D. Mansfield and Helen V. Milner, "The Political Economy of Regionalism: An Overview," in Edward D. Mansfield and Helen V. Milner (eds), *The Political Economy of Regionalism* (New York: Columbia University Press, 1997), p. 1.

<sup>46</sup> The EU experience differs from other regional systems because in the EU case, we see (i) an efficient interaction between governmental and institutional bodies, (ii) pragmatism, (iii) evolutionary approach, (iv) established and re-established long run targets and (v) importance of the legal dimension. See Eberhard Rhein, "European Regionalism- Where is the European Union Heading?," esp. pp. 26-30, in Calleya, *Regionalism in the Post-Cold War World*, pp. 25-44. This uniqueness is reflected as N=1 problem, Alex Warleigh, "In Defence of Intra-disciplinarity: 'European Studies', the 'New Regionalism', and the Issue of Democratization," *Cambridge Review of International Affairs*, Vol. 17, No. 2 (July 2004), p. 302, 9.

<sup>47</sup> Schiff and Winters, *Regional Integration and Development*, p. 13, 18.

<sup>48</sup> Regional agreements may "create" trade by increasing the volume of cheaper products traded inside the block as a substitute to domestic and relatively more expensive products; or may "divert" trade from outside to inside of the block. Diversion happens in case the close substitutes produced inside will enjoy an advantage over outside goods, which, without the block policies, would be cheaper. Hence, diversion affects welfare negatively. Schiff and Winters, *Regional Integration and Development*, p. 13.

<sup>49</sup> Schiff and Winters, *Regional Integration and Development*, p. 18.

union or a free trade agreement is not enough. An economic integration forms a trade bloc, but it still needs policy integration to form a regional integration, to increase gains from trade bloc, and to cope with and if possible avoid market failures.<sup>50</sup> To take this one step further, the initial trend of regionalism based on economic integration was to give its place to a new-regionalism based not on bi- but multi-polarity, eroding the Westphalian-style state system and high-tide of liberalism.<sup>51</sup>

It is not only economic benefits, but also the political interests that may lead to regional integration. In the Cold War years, for example, the US president had the authority to declare a Soviet bloc state as a most-favored-nation state by looking at its human rights record.<sup>52</sup> As such, contrary to functionalism that gives the floor first to economics and then other areas via "spillover," noneconomic arguments claim that maintenance of peace and security may actually be more important than material concerns. Cooperation also bolsters a small state's international position "by lowering negotiation costs and increasing bargaining power in dealings with the rest of the world."<sup>53</sup>

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<sup>50</sup> Ibid, p. 20.

<sup>51</sup> Björn Hettne and Fredrik Söderbaum, "Theorising Rise of Regionness," *New Political Economy*, Vol. 5, No. 3 (2000), p. 457; Björn Hettne, "The Fate of Citizenship in Post-Westphalia," *Citizenship Studies*, Vol. 4, No. 1 (2000), pp. 42-3, Björn Hettne, "Beyond the 'New' Regionalism."

<sup>52</sup> Raymond Vernon and Debora L. Spar, "Preparing for the New Game," in Raymond Vernon and Debora L. Spar, *Beyond Globalism: Remaking American Foreign Economic Policy* (USA: Free Press, Macmillan, 1989), p. 198.

<sup>53</sup> Schiff and Winters, *Regional Integration and Development*, pp. 187-8.

Despite these incentives such as planting seeds of security, peace and development, regional integration agreements may also lead to social disruptions due to migration. Although classical economic theories of trade argue that as the level of trade increases, migration declines as a result of reducing income and/or wage gaps, recent data suggests that increasing trade causes increases in migration of especially unskilled labor towards developed partners. If we assume that regional integration increases overall welfare, we may then suppose that rising income would make migration relatively cheaper not only for unskilled, but also for skilled labor in the form of brain drain. Even if we assume that no dramatic welfare changes occur, competition may impose some structural changes resulting in people risking unemployment to migrate within as well as outside the region.<sup>54</sup>

Besides theories that define or abstain from defining "region" and "regionalism," and those that focus on economic cooperation, there are approaches which put security at the epicenter. The logic here is that "all states, the weak as well as the strong, the new as well as the old, share the aspiration of people for concerted policies that serve to protect their collective well-being and physical security" and all states are concerned with at least four common

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<sup>54</sup> Ibid, pp. 196-8. On migration towards the West, it is argued that in Europe the need for unskilled labor is met by foreigners who can be "shipped home if necessary; but in the United States, most in the unskilled pool are permanent U.S. residents." Raymond Vernon and Debora L. Spar, "Preparing for the New Game," in Raymond Vernon and Debora L. Spar, *Beyond Globalism: Remaking American Foreign Economic Policy* (USA: Free Press, Macmillan, 1989), p. 204.



issues, namely, sovereignty, authority, territorial integrity and socioeconomic welfare.<sup>55</sup>

Two relatively recent developments can be identified as milestones for the "state": One was the end of World War II, which was followed by the wind of decolonization. More than a hundred entities turned out to be independent and were recognized as states, enjoying sovereign equality in the world-wide arena of politics. However, according to James Rosenau, many of them did not have adequate state mechanisms to enable effective government. He observes that "[t]he rush to independence was too powerful for attention to be paid to the question of whether the boundaries, resources, coherence, and sense of community appropriate to the operation of an effective state were available."<sup>56</sup> On the one hand, regionalism turned out to be a tool for national independence in the first place, followed by an alignment with a Cold War bloc, or a policy of nonalignment. In this sense, the Arab League and the Organization of African Union were tools like the South-East Asia Treaty Organization (SEATO) and Central Treaty Organization (CENTO): the difference being only that the first two bolstered independence and the latter two bolstered non-alignment.<sup>57</sup> On the other hand, regional integration means reduced sovereignty

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<sup>55</sup> James N. Rosenau, *Along the Domestic-International Frontier: Exploring Governance in a Turbulent World* (Cambridge: Cambridge University Press, 1997), p. 345. Also see Brian L. Job, "The Insecurity Dilemma: National, Regime, and State Securities in the Third World," in Brian L. Job, *The Insecurity Dilemma: National Security of Third World States* (Boulder: L. Rienner Publishers, 1992), pp. 11-35.

<sup>56</sup> Rosenau, *Along the Domestic-International Frontier: Exploring Governance in a Turbulent World*, p. 347.

<sup>57</sup> Lynn H. Miller, "The Prospect for Order Through Regional Security," in Richard A. Falk and Saul H. Mendlovitz (eds), *Regional Politics and World Order*, p. 58.

and autonomy in return for increasing prosperity and control over other member states. Depending on the odds, developing countries may lose autonomy more than gaining external legitimacy.<sup>58</sup>

If the first milestone for the "state" was decolonization, the second was the end of the Cold War: Just like decolonization, the post-Cold War era witnessed a proliferation of states. The dismemberment of the USSR, Yugoslavia and Czechoslovakia created twenty two new states. At first, it seemed that the end of the Cold War also marked the beginning of a new era free from ideological competition,<sup>59</sup> nuclear arms race and block policies. This, however, required a *carte blanche* in terms of adaptation to the new rules of the game. That is to say, "[f]or those states whose internal cohesiveness had long been highly dependent on domestic political and economic mobilization against threats- what has been called the 'national security state',"<sup>60</sup> the end of the Cold War was an awkward feeling as the one felt by a medieval cavalier who wore his armor, took his shield and joust, climbed on his horse and rode towards the jousting arena, with plans in his mind to lead him to victory, and probably, a kiss from the princess; yet faced a deserted arena.

However, it does not always take two "cavaliers" to have a dispute. Sometimes, one is enough. That is to say, a regional conflict does not always have to be an

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<sup>58</sup> Mattli, "Sovereignty Bargains in Regional Integration."

<sup>59</sup> Francis Fukuyama, *End of the History and the Last Man* (New York: Free Publications, 1992).

<sup>60</sup> Rosenau, *Along the Domestic-International Frontier: Exploring Governance in a Turbulent World*, p. 352.

interstate one, it may take the form of civil war, border war or intervention.<sup>61</sup> The conflict itself may even be the ramification of an interest in the global game, i.e. the "kiss of the princess." There are two alternative scenarios, both taking the Cold War as their reference point: The optimists argue that the end of the Cold War enables the world to link together under the umbrella of "perpetual peace."<sup>62</sup> Accordingly, "without superpower kindling, regional disputes die down."<sup>63</sup> The pessimists, in return, maintain that the Cold War simply suppressed many tensions that surfaced as intra- and inter-state conflicts. The idea is that the superpowers kept their clients under control instead of bolstering them against the other bloc; and the end of the Cold War and the bloc structure simply means those states with ambitions are unleashed. The conclusion Stein and Lobell reach after analysis of many conflicts is that the post-Cold War world, be it uni- or multi-polar, "will produce neither a global policeman nor a global concert but a localization of security relations."<sup>64</sup>

Regardless of the lack of a jousting partner, the state as the cavalier has always been successful in defining something as the threat, if not as the enemy. This is

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<sup>61</sup> See Raimo Väyrynen, "Regional Conflict Formations: An Intractable Problem of International Relations," *Journal of Peace Research*, Vol. 21, No. 4 (November 1984), p. 345.

<sup>62</sup> Immanuel Kant, *Ebedi Barış Üzerine Felsefi bir Deneme*, (Ankara: Ajans Türk Matbaası, 1960).

<sup>63</sup> Arthur A. Stein and Steven E. Labell, "Geostructuralism and International Politics: The End of the Cold War and the Reorganization of International Security," in David A. Lake and Patrick M Morgan, (eds), *Regional Orders: Building Security in a New World* (Pennsylvania: Pennsylvania State University Press, 1997), p. 105.

<sup>64</sup> Stein and Lobell, "Geostructuralism and International Politics: The End of the Cold War and the Reorganization of International Security," pp. 101-22. The same result is reached in the post 9-11 world with the argument that the US war on terror may unleash old tensions, because the US campaign in Afghanistan and Iraq, now in Sudan, restricts the US in responding to intra- or inter-state conflicts. See Oksana Antonenko, "Putin's Gamble," *Survival*, Vol. 43, No. 4 (Winter 2001-2), pp. 49-60.

exactly the point where Buzan's securitization and regional security complex theories take the stage. Formulated originally in *People, States and Fear*,<sup>65</sup> and later developed into a larger volume *Regions and Powers*,<sup>66</sup> co-authored with Wæver, the theory is based on the idea that regional security complexes as "a set of units whose major processes of securitization, desecuritization, or both are so interlinked that their security problems cannot reasonably be analyzed or resolved apart from one another."<sup>67</sup> Buzan and Wæver argue that the regional security complexes are not arbitrarily defined; but regions are there because regions are social constructions reproduced by (de)securitization.

Throughout the book, they analyze the regional security complexes composed of North America, South America, Europe, Middle East, South Asia, East Asia, Southern Africa, Central Africa and post-Soviet space. Some, like South and East Asian Regional Security Complexes form a greater unit, called the Asian Supercomplex; and some, like the post-Soviet Regional Security Complex, are divided into subcomplexes. According to the authors, the post-Soviet complex centers on Russia, which is a country diminished to "great" from "super" power status;<sup>68</sup> and which is challenged by GUAM (Georgia-Ukraine-Azerbaijan-Moldova Organization for Democracy and Economic Development). If

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<sup>65</sup> Barry Buzan, *People, States and Fear: The National Security Problem in International Relations* (Chapel Hill: North Carolina Press; Brighton: Harvester Press, 1983). Also see Barry Buzan, Ole Wæver and Jaap de Wilde, *Security: A New Framework for Analysis* (London: Lynne Rienner Publishers, 1998).

<sup>66</sup> Barry Buzan and Ole Wæver, *Regions and Powers: The Structure of Regional Security* (Cambridge: Cambridge University Press, 2003).

<sup>67</sup> Ibid, p. 44, 419; Buzan, Wæver and de Wilde, *Security: A New Framework for Analysis*, p. 201.

<sup>68</sup> Buzan and Wæver, *Regions and Powers: The Structure of Regional Security*, p. 398.

GUAM could achieve to act and rise as a block, it "might lift at least Ukraine to the status of regional power," pulling Russia down to the same status.<sup>69</sup> Hence, the region is far away from being and acting as a monolith. The authors, as a result, divide the post-Soviet regional security complex into four subcomplexes as the Baltics, western states, Caucasus and Central Asia. Despite the fact that their security concerns are structured around their subcomplexes plus Russia, they are all categorized under one regional security complex for two reasons. One is the role of Russia and the Commonwealth of Independent States in their formula of securitization, while the other is the need to curb Russian power and influence.<sup>70</sup>

According to Buzan and Wæver, as a security complex, the post-Soviet region has many problems on its agenda. At the domestic level, those are political and economic transition, identity building and terror, fed especially by radical Islam. At the subregional level, separatism and border conflicts rank first (Nagorno-Karabakh, Abkhazia, Adjara and Chechnya). Then comes the inter-subcomplex level, comprising the importance attributed by Russia and the race towards exploiting and transporting natural resources. The last is the global level, at which Russian relations with the USA, organizations like GUAM, Commonwealth of Independent States (CIS), the European Union (EU) and Organization for Security and Co-operation in Europe (OSCE), and the post-9-11 context are at the focal points.

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<sup>69</sup> Buzan, Wæver and de Wilde, *Security: A New Framework for Analysis*, p. 344.

<sup>70</sup> *Ibid*, p. 397.

If one is to follow Buzan and Wæver's conceptualization, there is a problem: No region or subregion as the Caspian exists. All littorals fall into different security complexes. Russia is in the post-Soviet regional security complex, Iran in the Middle Eastern, Azerbaijan in the Caucasus subcomplex while Kazakhstan and Turkmenistan are in the Central Asian subcomplex. Still, it would be a considerable injustice to attribute this problem to the authors. They make a great contribution by approaching regions as security complexes, allowing room for flexibility; which, in return, allows one not to take their mapping of the regions as they are. Perhaps one can take the security complexes the littorals belong to, and formulate a Caspian "super-complex." This complex would be composed also of great powers (the US, the EU and China), pipeline transit routes (Turkey, Georgia, and Black Sea), rival exporters (Middle East and OPEC); all of which affect regional stability, economic and political transformation, and pricing and marketing of natural resources, a point in focus to securitize. Hence, one can securitize the national resources and accommodate existing<sup>71</sup> and forecasted<sup>72</sup> conflicts into the regional framework by using the regional security complex theory.

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<sup>71</sup> Abkhazia, Chechnya, Nagorno-Karabakh and South Ossetia.

<sup>72</sup> For a predicted Iran-Azerbaijan clash, see Daniel Yergin and Thane Gustafson, *Rusya 2010 ve Dünyadaki Yeri* (İstanbul: Sabah Press, 1994), pp. 243-4, and Väyrynen, "Regional Conflict Formations: An Intractable Problem of International Relations," p. 347; and for a scenario of Iran-Arab war spreading into Caucasus and Central Asia, see Barry Buzan and Gerald Segal, *Anticipating Future* (Austria: Simon and Schuster, 1998), pp. 240-2.

## 2.2 Specific Discussion on the Security of Natural Resources

The security aspect of natural resources is manifold. The first and most current one is terror.<sup>73</sup> Leaving aside the global network of al-Qaeda, which is claimed to focus on an Islamic order, remove infidels (read the US) from the holy lands, without forgetting to correct the bleak picture in the Muslim world,<sup>74</sup> there are many relatively small-scale terrorist organizations that are just keen to disrupt if they are not able to destruct. In Colombia, for example, the Cano Limon-Covenas oil pipeline has been attacked so frequently that the line is notoriously called as "the flute." Burma, Indonesia and Sudan are other examples of

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<sup>73</sup> Much has been written on terror and terrorism, especially after 9-11. For a survey of definitions, see James D. Kiras, "Terrorism and Irregular Warfare," in John Baylis, James Wirtz, Eliot Cohen and Colin Gray, *Strategy in Contemporary World* (UK: Oxford University Press, 2003), pp. 208-32. While Colin Gray argues that terrorism is a low intensity war, hence there is no need for "asymmetric threat"-like concepts; war against terror is possible within the framework of irregular warfare. Crevelld thinks that Clausewitzian war is outmoded since wars are not inter- but intra-state; targeting private and public property as well as civilian lives. At this point, Mary Kaldor maintains that "old wars" came to an end with World War II. According to her, the Cold War was an imaginary war, yet war on terror is real; and war on terror fails since the new war is played with the rules of the old wars. T. V. Paul also agrees by saying that classical means are not adequate to cope with terror. Offense is inadequate due to the absence of a clear target, defense to vulnerability to surprise attacks, and deterrence to suicide attacks. Martin van Creveld, *The Transformation of War* (New York: The Free Press, 1991); Colin S. Gray, *Another Bloody Century* (London: Weidenfeld and Nicholson, 2005); Mary Kaldor, "Old Wars, Cold Wars, New Wars, and the War on Terror," *International Politics*, Vol. 42, No. 4 (December 2005), pp. 490-8; T. V. Paul, "The National Security State and Global Terrorism: Why the State is not Prepared for the New Kind of War," in Ersel Aydinli and James Rosenau (eds), *Globalization, Security and the Nation-State: Paradigms in Transition* (New York: SUNY, 2005), pp. 49-64. Also see Carl von Clausewitz, *On War* (Princeton: Princeton University Press, 1979).

<sup>74</sup> Serhat Erkmen, "ABD'nin Orta Doğu'dan [sic] Değişim İhtiyacının Nedenleri," in Ümit Özdağ, Sedat Laçiner and Serhat Erkmen (eds), *Irak Krizi (2002-2003)*, (Ankara: ASAM, 2003); Fawaz A. Gerges, *The Far Enemy: Why Jihad Went Global?* (Cambridge: Cambridge University Press, 2005); Ahmed S. Hashim, "The World According to Usama bin Laden," *Naval War College Review*, Vol. LIV, No. 4 (Autumn 2001); Bhikhu Parekh, "Why Terror?," *Prospect*, Issue 97 (April 2004).

transport routes being sabotaged frequently, leaving Iraq aside.<sup>75</sup> The picture is so bleak because a small scale sabotage may result in weeks long repair, meaning weeks long closure of the pipeline.

The attacks targeting consumers directly (like the 9-11) or indirectly (like pipeline sabotages) are just one piece of the energy security puzzle. The security of the producers, or of the upstream, is another. One such problem area is Nigeria, where masses try to survive on less than a dollar a day<sup>76</sup> despite the fact that the country has 25-30 million barrels of oil reserves.<sup>77</sup> Since the day oil was discovered in 1956, the country has rarely been stable. It was not only sharing oil revenues on a just basis, but also religious and ethnic hatred that added fuel to the civil war.<sup>78</sup> Though the civil war ended in the 1970s,<sup>79</sup> and the government nationalized BP's assets in Nigeria during the Oil Price Crisis to be sold at higher prices,<sup>80</sup> the country is still in turmoil. The government set a 4.1 mb/d production target for 2006,<sup>81</sup> yet as of 2005 the production was nearly 2.5

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<sup>75</sup> Philippe LeBillon, "Fuelling War: Natural Resources and Armed Conflict," *Adelphi Paper*, No.373 (March 2005), p. 26; for such a current threat, Bruce Riedel, "Al Qaeda Strikes Back," *Foreign Affairs*, (May-June 2007).

<sup>76</sup> Xavier Sala-i-Martin and Arvind Subramanian, "Addressing the Natural Resource Curse: An Illustration from Nigeria," *National Bureau of Economic Research Working Paper*, No. 9804 (2003), p. 3, 34.

<sup>77</sup> Official website of the Nigerian National Petroleum Corporation, [www.nigerianoil-gas.com](http://www.nigerianoil-gas.com), 6 February 2007. Also see *Shell Nigeria Annual Report 2005*, available at Shell's official website [www.shell.com](http://www.shell.com).

<sup>78</sup> Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (USA: Touchstone Book, 1993), p. 527, 555-6.

<sup>79</sup> *Ibid*, p. 568.

<sup>80</sup> *Ibid*, p. 696.

<sup>81</sup> *World Energy Outlook* (Paris: IEA, 2004), p. 113.



mb/d<sup>82</sup> because due to instability and corruption, investors drag their feet to finance Nigerian output goals.<sup>83</sup>

If pipelines and upstream are two pieces of the energy security puzzle, the transit country is the third. A transit (host) country is merely a bridge between the upstream and downstream. That country benefits from extra job opportunities during the construction of pipelines,<sup>84</sup> and transit fees after construction. Pipelines are costly to construct, and once constructed, they do not provide flexibility. Hence, as the pipeline becomes ready to be operational, almost all bargaining power becomes transferred to the transit country, because there is no legal regime or customary rule to regulate cross-border pipelines.<sup>85</sup> The case in point here is, "what a government should ask" in return for letting the pipeline run through its country. Though there are success stories that had few, if any, heated discussions on cross-border pipelines, the stories of disputes dominate. Take the Iraq-Syria pipeline, for example. Built in 1934, the pipeline was agreed to serve up until 2004. Initial deviance took place in mid 20th century, with the introduction of the "50-50 upstream profit share" into the jargon. In the late 1960s, another deviance occurred with the Syrian Baathist

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<sup>82</sup> British Petroleum, *Strategic Review of World Energy 2006* (UK: Beacon Press, 2006).

<sup>83</sup> *World Energy Outlook 2004*, p. 113. One example of corruption is General Sani Abacha, who committed fraud with \$2.2bn within his tenure as president between November 1993 and August 1998. Paul D. Ocheje, "Refocusing International Law on the Quest for Accountability in Africa: The Case Against the "Other" Impunity," *Leiden Journal of International Law*, Issue 15 (2002), p. 756, and LeBillon, "Fuelling War: Natural Resources and Armed Conflict."

<sup>84</sup> Rasizade claims that end of the construction would mean jobless people, while Karagiannis focuses on jobs created by maintenance activities. Emmanuel Karagiannis, *Energy and Security in the Caucasus* (London: Routledge Curzon, 2002), p. 4; Alec Rasizade, "Azerbaijan after Heydar Aliyev," *Nationalist Papers*, Vol. 32, No. 1 (March 2004), p. 154.

<sup>85</sup> Defined as comprising of usage of pipelines, of cross-border trade and, in some cases, of transit countries. Paul Stevens, *Cross Border Oil and Gas Pipelines: Problems and Prospects*, UNDP/WB joint project, June 2003, WB database, pp. xiii, 11.

coup, which proceeded with cuts in pumping, and ended with the re-negotiation of allocation of profits. During the Iran-Iraq war of the 1980s, out of political preferences, Iraq kept exports to Syria low while Syria sought ways of importing oil from Iran.<sup>86</sup> As such, desires of the transit country paved the way for the demise of a pipeline.

Besides transit countries' political stances at the governmental level, politics at the grassroots also do matter. Pipelines represent a chessboard on which each move will fuel disputes; and the following three examples are sufficient to explain how and why.

The first example is the Chechen conflict that puts pressure on the functioning of the Baku-Novorossiysk pipeline.<sup>87</sup> As Moscow's control over Chechnya declined, so did its ability to sustain the pipeline monopoly. As instability became the status quo which enveloped even Dagestan, the Baku-Tblisi-Ceyhan (BTC) route, the second example for the chessboard analogy, emerged as the main export pipeline option. Hence, some like Karagiannis argue that the Chechen war served Turkish interests, thus Turkey helped the Chechens.<sup>88</sup> As retaliation for this help, Russia scratched the Kurdish conflict in Turkey by supporting the PKK<sup>89</sup> and ERNK; and tolerating a convention of a Kurdish

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<sup>86</sup> Ibid, pp. 18, 72-7.

<sup>87</sup> Jenniffer DeLay, "The Caspian Oil Pipeline Tangle: A Steel Web of Confusion," in Michael P. Croissant and Bülent Aras (eds), *Oil and Geopolitics in the Caspian Sea Dispute* (USA: Praeger, 1999), pp. 43-81.

<sup>88</sup> Karagiannis, *Energy and Security in the Caucasus* (London: Routledge Curzon, 2002), p. 67, 70.

<sup>89</sup> Ibid, pp. 101-10.

pseudo-"Parliament in Exile" in Moscow.<sup>90</sup> The last example worth mentioning here is Georgia. With the advancement of Baku-Supsa pipeline to carry Azerbaijani oil to the Georgian coast, the Abkhaz threat loomed. Even without the support of Russia, which is fearful of losing its superiority in pipeline politics, the Abkhaz groups perceived the pipeline as a threat to Abkhaz independence and in turn threatened with sabotage.<sup>91</sup>

One last component of the energy security jigsaw elaborated here is the market. The global demand for energy is expected to rise especially under the pressure of developing Asia, mainly India and China. This might lead to "soft" wars, such as China investing in Kazakhstan and willing to pay more than the market price; or "hard" wars, as was allegedly the case in the Balkans, Afghanistan, and now, Iraq.<sup>92</sup> So long as (i) the general practice is to have take-or-pay agreements to guarantee the long term demand, (ii) we are unsure about the correlation between technology and consumption, in other words, whether more technology make us more energy efficient or more energy intensive, or alternatively both at the same time, and (iii) it is unclear whether education and

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<sup>90</sup> Suha Bolukbasi, "The Controversy of the Caspian Sea Mineral Resources: Conflicting Perceptions, Clashing Interests," *Europe-Asia Studies*, Vol. 50, No. 3 (May 1998), p. 401.

<sup>91</sup> Ibid, 83-7.

<sup>92</sup> Joe Barnes and Amy Myers Jaffe, "The Persian Gulf and the Geopolitics of Oil," *Survival*, Vol. 48, No. 1 (Spring 2006), pp. 150-3; Mert Bilgin, "ABD'nin Irak'taki Stratejik Açılımları: Petrol, Rejim, Güvenlik ve Ötesi," *Avrasya Dosyası*, Vol. 12, No. 2 (May-August 2006), pp. 153-84; Bulent Gökay, "Introduction: Oil, War and Geopolitics from Kosovo to Afghanistan," *Journal of Southern Europe and the Balkans*, Vol. 4, No. 1 (2002), pp. 5-13; Richard Heinberg, *The Party is Over: Oil, War and the Fate of Industrial Societies* (Canada: New Society Publishers, 2003), esp. chapter 3; Stephen J. Randall, *United States Foreign Oil Policy Since the World War I: For Profits and Security* (London, Ithaca: McGill-Queen's University Press, 2005). For an excellent pre-September 11, 2001 analysis of oil, firms, the US and Taliban, see Ahmed Rashid, *Taliban: İslamiyet, Petrol ve Orta Asya'da Yeni Büyük Oyun* (İstanbul: Everest, Mozaik, 2001). For an interesting alternative argument against all above, see Simon Nixon, "It's not the Oil, Stupid," *The Spectator*, Vol. 292, Issue 9124 (21 June 2003), p. 18.

consciousness make us more energy conservative or complacent, we can disregard the possibilities of dramatic falls in demand. Instead, what we should focus here is how to satisfy that demand.

The road to satisfy the demand passes through securing supply. Supply should be secure, uninterrupted, affordable, reliable and timely; so that quality of life can be sustained and improved as well as economic and social development can be achieved. The overall-accepted assumption is that the earth's total energy resources are more than enough to satisfy the demand in the upcoming decades;<sup>93</sup> nonetheless, the notion of supply security takes us back to the issue of security and stability in both upstream and transit countries. Quite recent examples include Iraq as upstream, and Ukraine and Belarus as transits. As the situation is deteriorating towards civil war, neither Iraqi production nor exports are stable. While this can be attributed to the ongoing sabotages, the case with Ukraine and Belarus are highly political. Russian demands to raise the price of gas it supplied to Ukraine in late 2005, and of oil to Belarus in late 2006 –all derived from the Russian desire to sustain control over former-USSR territories. This resulted in subsequent cuts of supplies to Europe; attributable to both upstream's cut and transits' siphoning. In any case, politics and economics go hand in hand; political moves targeting to prevent one sect or leader from rising end up in economic problems that distort supply security.

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<sup>93</sup> International Energy Agency, *World Energy Outlook 2004*, p. 29.

When demand and supply interact, we reach another component of market mechanism: price. There is a general tendency to assume that when oil, and hence gas, prices turn upwards, it is the producers that benefit most. This is no more than a myth. As Bassim A. Al-Ibrahim, member of the Saudi Consultative Council, indicates, neither low nor high, but fair prices are preferable.<sup>94</sup> A historical example to refute the myth is the 1970s Oil Price Shock, during which the OPEC, especially the Arab members of the Organization, decided to cut production in order to raise the prices; nonetheless the result was contracting demand and search for alternative energy resources.<sup>95</sup> As the 1970s OPEC cut was absorbed by consumers reacting to the signals, the last few years' record high prices are absorbed by multinational oil companies seeking to maximize their profit,<sup>96</sup> and reward their shareholders.<sup>97</sup> The price of oil is important because it is and will for the foreseeable future be the most important fuel, and so has the capability to determine economic fate.<sup>98</sup> Additionally, the lack of an immediate substitute "allows consumer governments to impose high levels of sales taxes"-- a contribution to the treasury.<sup>99</sup> Hence, it is not only the "invisible hand" of Adam Smith, but also

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<sup>94</sup> Bassim A. Al-Ibrahim, conference at Bilkent University, 29 January 2007. Yet, it should be noted that he abstained from defining what a fair price is.

<sup>95</sup> For a similar story in 2005, Neil Ford, "OPEC: Much Ado about Nothing?," *The Middle East*, Issue 361 (November 2005), pp. 34-5.

<sup>96</sup> Frank Ahrens, "Oil Doesn't Want Focus on Big Profit," 26 October 2005, *The Washington Post*, [www.washingtonpost.com](http://www.washingtonpost.com); Paul Salopek, "A Tank of Gas, A World of Trouble," *Chicago Tribune*, 29 July 2006, [www.chicagotribune.com](http://www.chicagotribune.com), p.8.

<sup>97</sup> Pamela Ann Smith, "Oil Price Impact: Who Wins, Who Loses," *The Middle East*, Issue 361 (November 2005), pp. 30-4.

<sup>98</sup> Judith Miller and Laurie Mylroie, *Saddam Hussein and the Crisis in the Gulf* (USA: Times Books, 1990), p. 177.

<sup>99</sup> Stevens, *Cross Border Oil and Gas Pipelines: Problems and Prospects*, p.12

multiple interests of upstream, downstream, multinational companies (MNCs), governments and citizens that have a role as well as a stake in pricing.

The price also affects the cross-border pipelines. As is the case with business enterprises, operation of pipelines entails a variable cost. If a pipeline cannot generate revenues to cover that cost, it is not financially feasible to keep it running. However, one should also bear the fixed costs of the line in mind. Closing the pipeline would mean all those fixed costs will turn into sunk costs; and after a while one will not be able to reopen it, because if you do not let maintenance level of oil pass through, the pipes suffer from corrosion and corroding. In 1998, for example, international companies gathered under the umbrella of Azerbaijan International Oil Consortium, abandoned the then-project of the Baku-Ceyhan pipeline, arguing that oil prices would fall below \$10 per barrel.<sup>100</sup> That threshold is said to be \$13 for the BTC today.<sup>101</sup>

### **Conclusion:**

Despite all the ink poured into the literature, we have no definition of "region" or "regionalism" available at hand. It seems that, regardless of the fact that it is not academic at all, the best way is to adapt an "I-know-when-I-see-one" approach. Based on this vague approach, this thesis shall apply Buzan's security complex theory into the Caspian. We will "know" that Caspian is a

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<sup>100</sup> Steve LeVine, "Caspian: 'It is Getting Sticky'," *Newsweek*, 7 December 1998, p. 23.

<sup>101</sup> Alec Rasizade, "Azerbaijan Descending Into the Third World After a Decade of Independence," *Journal of Third World Studies*, Vol. 21, No. 1 (Spring 2004), p. 207.

region "when we see it," because it forms a security complex which is composed of states who have an interest in subsoil treasury of the Caspian. A move of one affects the other, as the BTC affects Russia and Iran as bypassed countries. Also, as proven by the Iranian navy intervening into BP's offshore exploration on behalf of Azerbaijan,<sup>102</sup> the case is highly securitized. Hence, in the Caspian, *"major security perceptions and concerns are so interlinked that [the states'] national security problems cannot reasonably be analyzed or resolved apart from one another."*<sup>103</sup>

Nonetheless, "the Caspian" as the way we understand it is not made up of the littoral. The five littorals, Azerbaijan, Iran, Kazakhstan, Turkmenistan and Russia are just the upstream complex. "The Caspian" embraces transit and downstream countries, too. Besides them, our region is affected by global developments of changes in supply, demand, and price; and changes in overall security and stability caused by, say, terror. As such, our level of analysis is "the Caspian region," which is actually a "mega-region."

By using the term "regionalism," this study implies a notion of cooperation between, but not limited to, states. It agrees with Solingen that "statist-nationalist and confessional groups" are war-prone. Motivated by the idea(l) of cooperation, a solution to the ongoing dispute on hydrocarbons will be

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<sup>102</sup> Gawdat Bahgat, "Pipeline Diplomacy: The Geopolitics of the Caspian Sea Region," *International Studies Perspectives*, Vol. 3, No. 3 (2002); Alec Rasizade, "The Great Game of Caspian Energy: Ambitions and Realities," *Journal of Southern Europe and the Balkans*, Vol. 7, No.1 (April 2005), p. 15.

<sup>103</sup> Buzan, Waever and de Wilde, *Security: A New Framework for Analysis*, p. 12; italics original.

formulated as a basis for mutual understanding and cooperation, hence an "international coalition." Though there are narratives depicting oil and gas of the Caspian as coal of the European Coal and Steel Community (ECSC), and create another EU; this study shall take Turkey's Three Stage Plan as a common ground to allocate resources in a fair manner.

The Turkish Three Stage Plan can open a new window towards the solution of the Caspian discussion. Once the littorals are determined to proceed in line with the plan, the first step will be data gathering and clarifying how much hydrocarbon resources does the Caspian contain. We think that this is relatively the easiest part since the governments and companies have long been active to unveil what the Caspian hides under its waters. The second stage will be defining the actors—which we attempt to do in this study in below chapters. The last stage will be setting who needs how much of what—which is beyond the scope of this study. The Plan, as being based on needs, would make the sea-or-lake dispute outmoded, because so long as everyone gets what he needs, no one would eschew the futile discussion on the status of the watermass.

No rational actor will even sit on the table unless there is a benefit. We argue that the Three Stage Plan offers everyone something to gain. By pooling the resource and allocating it on needs basis, the Three Stage Plan can (i) make the sea-or-lake discussion obsolete, (ii) set an alternative avenue of coziness can be bolstered by trans-Caspian pipeline to internationalize the Caspian wealth, (iii) appease Russia that seeks total control by giving a voice over the future of the



Caspian -since the Three Stage Plan is based on joint action and exploitation-, (iv) and ensure that Iran gets its energy needs satisfied either by importing electricity and giving up its nuclear program, or by exporting electricity derived from nuclear power plants in return for technology and investment in its oil sector. Not only the littorals, but also transit countries will benefit from the plan, because as the resources are decided to be marketed in the international arena regardless who controls what section of the Caspian, the transit countries will earn transit revenues. The consumer countries, whose industries are designed for hydrocarbons will earn since the Caspian will provide alternative supply. The MNCs will earn their profit derived from the process of exploitation, transport, refining and marketing. Even NATO has something to earn by being in the Caspian: the role of securing the energy supply, the role in an era of ink poured on demise of the Alliance.<sup>104</sup>

The purpose of choosing the "Caspian" is derived from interest in energy in general. The topic of "region" is the focus here because every study up until now has focused on on the Caucasus (Azerbaijan and Georgia), Central Asia (Kazakhstan and Turkmenistan), the Middle East (Iran) and Europe (Russia), but has not taken a bird's eye view of the "Caspian region." By trying to apply "regionalism" to this geography, this study hopes to provide an alternative avenue to the futile discussion of whether the Caspian is a sea or lake (see

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<sup>104</sup> See, inter alia, Michael E. Brown, "The Flawed Logic of NATO Expansion," *Survival*, Vol. 37, No. 1 (Spring 1995), pp. 34-52; and Rebecca Johnson and Micah Zenko, "All Dressed Up and No Place to Go: Why NATO," *Parameters* (2002-2003), pp. 48-63.

below) and provide an opportunity to think of peace, cooperation, and development instead of an eternally conflict ridden picture, in an era in which energy is likely to be the cause of World War III.<sup>105</sup>

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<sup>105</sup> Lutz Kleveman, *The New Great Game: Blood and Oil in Central Asia*, (New York: Atlantic Monthly Press, 2003); Ali Külebi, “The New Cold War on Energy- and The Russian Roulette,” *Turkish Daily News*, 21 March 2007; Nikolai Sokov, “The Not-So-Great Game in Central Asia,” *PONARS Policy Memo*, No. 403 (December 2005).

## CHAPTER III

### WATER AND HYDROCARBONS

It is not possible to deny the welfare<sup>106</sup> and peace<sup>107</sup> present in the EU geography. The origins of the EU can be traced back to the 20th century. The first half of the century saw two world wide wars -though the second war is acknowledged to be a continuation of the first, in other words, to be fought to finish what the first left incomplete.<sup>108</sup> Being even more catastrophic than the first one, the second war also divided Europe into two blocks. This division contributed considerably to identity building. "The other," or the Soviet block, and a possible reincarnation of the German threat, helped the Western

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<sup>106</sup> Defined in terms of GDP of the EU-25, as 10816.9 bn €. EU webpage, Key Facts and Figures about Europe and the Europeans 2006; available from [www.europe.eu](http://www.europe.eu); Weidenfeld, "The EU's Role in the World: Efficiency and Relevance in Times of Crisis," p. 112. Nonetheless there are sceptics like Gillingham who argue that Europe, given its low rate of growth, "is shrinking in an expanding world." John Gillingham, *Design for a New Europe* (Cambridge, New York: Cambridge University Press, 2006), pp. 55-110.

<sup>107</sup> Defined here simply as "absence of war." For a broad conceptualization, see Mary Kaldor, "La Sécurité Humaine: Un Concept Pertinent," *Politique Étrangère*, Issue 4 (November 2006), pp. 901-14.

<sup>108</sup> Oral Sander, *Siyasi Tarih: 1918-1994*, 9<sup>th</sup> ed (Ankara: İmge, 2001), pp. 14-5.

European countries to drop their nationalist narratives and cooperate.<sup>109</sup> Cooperation started with the Benelux customs union and Organization for European Economic Co-operation (1948, later on the Organization for Economic Cooperation and Development), and evolved with the idea of pooling coal and steel resources, and establishing the European Coal and Steel Community (ECSC) in 1951, which became operational by 1952. The founding father of the ECSC, Jean Monnet, spoke of a United States of Europe to be realized through the Action Committee in the belief that the post-war cooperation was planting the seeds of further unification; a unification of people, not of states.<sup>110</sup>

The ECSC served a couple of aims: it helped (i) France to have a say over Western German resources, (ii) West Germany to gain recognition and tied "the Federal Republic firmly to Western Europe," and (iii) to ensure both national security and economic recovery of the respective countries.<sup>111</sup> According to Peter Katzenstein, a relatively hidden but fourth aim was to secure US engagement in Europe against the USSR. The logic here was to help Germany reconstruct itself as well as contain its potential aggression, and avoid Soviet infiltration into the country. Hence, "[a]cquiescence in German

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<sup>109</sup> Derek W. Urwin, "The European Community: From 1945 to 1985," in Michelle Cini (ed), *European Union Politics*, (Oxford, NY: Oxford University Press, 2003), pp. 12-4. Still, countries like Lithuania define the EU as "what Russia is not." Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, London: Cornell University Press, 2005), p. 84.

<sup>110</sup> Jean Monnet, *Mémoires* (Paris: Fayard, 1976), esp. pp. 475-504. The very beginning of the book reads as: "Nous ne coalisons pas des États, nous unissons des hommes." Also see, Douglas Brinkley and Clifford Hackett (eds), *Jean Monnet: The Path to European Unity* (New York: St. Martin's Press, 1991).

<sup>111</sup> *Ibid*, p. 17; Desmond Dinan, *Ever Closer Union: An Introduction to European Introduction*, 3<sup>rd</sup> ed (UK: Palgrave, Macmillan, 2005), p. 11.

reconstruction became a bargaining chip for France and Britain to secure a long term US commitment to the defense of Western Europe.”<sup>112</sup> Despite all the agendas that had concerns over peace, politics, and security, the founding fathers had a faith in “unity” as the *raison d’être* of the post-war scheme. Just like Monnet who wanted European evolution towards federalism for example, Robert Schuman, the architect of the ECSC, saw the ECSC as a step on further cooperation to be realized *in time*,<sup>113</sup> which, indeed, took place six years later with the Treaty of Rome.

1957 Treaty of Rome established the European Economic Community in lieu of the ECSC. The basic aim was to establish a common market to ensure the smooth functioning of economic cooperation. The move forward was blocked by the empty chair crisis provoked by the then-French president Charles de Gaulle, who was concerned with protecting French sovereignty. To solve the crisis, the EEC adopted Luxemburg Compromise giving the right of veto to each member state. This meant that progress had to wait till he retired in 1969.<sup>114</sup>

Following that year, Economic and Monetary Union (EMU) was established to set an overall exchange system and a political unity. However, currencies were let floating by 1976, three years after 1973, a year corresponding to the UK,

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<sup>112</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, p. 47.

<sup>113</sup> Mark A. Kishlansky, *Societies and Cultures in World History* (New York: Harper Collins College Pub., 1995), "Recovery and Crisis in Europe, 1945 to the Present," pp. 1044-81, Ernest Wistrich, *The United States of Europe* (London, New York: Routledge, 1994), p. 153.

<sup>114</sup> Kishlansky, *Societies and Cultures in World History*, pp. 19-22.

Denmark and Ireland's membership to the Community and the Oil Price Crisis. Inflation and monetary instability resulted in a delay in realizing the EMU; nonetheless in 1979, with the aim of stabilizing the currencies, the European Monetary System (EMS) was established. The EMS turned out to be successful, and in 1989, the EMU made a comeback<sup>115</sup> following the German unification that created "a sense of political urgency that [the negotiations] lacked before."<sup>116</sup> Combined with the Single European Act, the EMU helped the establishment of the single market based on free movement of goods, capital, services and labor.<sup>117</sup> The Single European Act of 1986 also set the framework for Common Foreign and Security Policy, which was detailed in the Treaty of European Union (TEU), or the Maastricht Treaty of 1992.<sup>118</sup> The Community became the European Union (EU) as of 1 November 1993.

At the 1996 review conference, unanimity gave place to qualified majority vote with the aim of avoiding paralysis in decisionmaking.<sup>119</sup> The review conference also led to the Treaty of Amsterdam (ToA), which paved the way to the Petersberg Tasks designed to handle humanitarian tasks and crisis management.<sup>120</sup> The "Amsterdam leftovers," the issue of weight of votes, etc. were concluded in the 2000 Nice Treaty.<sup>121</sup>

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<sup>115</sup> Ibid, pp. 23-4; Wistrich, *The United States of Europe*, p. 154.

<sup>116</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, p. 32.

<sup>117</sup> Michelle Egan, "The Single Market," in Michelle Cini (ed), *European Union Politics*, (Oxford, NY: Oxford University Press, 2003), p. 36.

<sup>118</sup> Ibid.

<sup>119</sup> David Phinnemore, "Towards European Union," in Michelle Cini (ed), *European Union Politics*, (Oxford, NY: Oxford University Press, 2003), p. 52.

<sup>120</sup> Ibid, pp. 53-4.

<sup>121</sup> Ibid, p. 55.

Nonetheless, this rosy picture also has its horns. That is to say, ECSC/EEC/EC/EU has been a crisis triggered entity. For example, a European federation idea was there five centuries ago, but was realized only with the catastrophe of World War II.<sup>122</sup> The desire to deepen and widen was blocked, sparking an empty chair crisis, and leading to the notorious Luxemburg Compromise.<sup>123</sup> The EMU was initiated as a cure to the Oil Price Crisis; and the Union further integrated by the TEU as member states saw their inadequacy in the Yugoslav crisis. The following move, ToA came after the Kosovo crisis, deriving from a need to have a European force in case NATO drags its feet to intervene.<sup>124</sup> And the Single European Act established a single market which excluded "[n]ationally important sectors such as utilities (gas and postal services, for example) ... on the basis of social and economic arguments that 'universal services' must be provided, resulting in natural monopolies and limited competition."<sup>125</sup> The last crisis, which is still unsolved, is the 2005 French and German "no"s to the European constitution. For some, this reflected a fatigue and a need to leave things to time; for others, it reflected EU's legitimacy crisis and a need to redesign its institutional pattern for more democracy, more cooperation, and more efficiency.<sup>126</sup>

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<sup>122</sup> Hazel Smith, *European Foreign Policy: What It Is and What It Does* (London, Sterling, Va.: Pluto Press, 2002).

<sup>123</sup> The Luxemburg Compromise was the result of de Gaulle rejecting the EC institutions become more powerful, abstaining from joining the decisionmaking processes, and forcing the community accept an equal position of member states in terms of decisionmaking vis-à-vis the European Commission. Ibid, p. 50.

<sup>124</sup> Ibid, p. 19.

<sup>125</sup> Egan, "The Single Market," p. 39.

<sup>126</sup> Gillingham, *Design for a New Europe*.

No matter how difficult it was for the EU to progress and survive up to now, decisionmaking at the EU level affects decisionmaking at the national level, which ends up with "Europeanization,"<sup>127</sup> hence the case is regarded to be a success story. Some like Süleyman Demirel, the ninth President of Turkey, argued that oil and gas of the Caspian could serve as coal and steel of Europe,<sup>128</sup> ignoring the fact that in Europe, the parties wanted to contain Germany, "seen as the potential cause of World War III;"<sup>129</sup> and the one to be contained wanted international recognition in return.<sup>130</sup> In the Caspian, there is no one to be contained as an aggressor or catalyst of war; moreover, each and every state in the region enjoys international recognition. Since four of the five littorals are 15-16 years-old-states, they are not ready or willing to give up part of their sovereignty in return for joint action scheme under a supranational entity. Also, "European regionalism" pays attention to principles and values like liberal and pluralist democracy, rule of law, and market economy,<sup>131</sup> all of which are alien to the littorals to varying degrees. And in the EU example, though there was a "pool" of resources, there was also an agreement on who had what. It is not the case in the Caspian. The only thing the EU can be a model for is the crisis-triggered mechanism, since the Caspian is not settled after the break-up of the USSR. There is a dispute, which, from time to time,

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<sup>127</sup> Kenneth Hanf and Ben Soetendorp (eds), *Adapting to European Integration: Small States and the European Union* (London, New York: Longman, 1998), pp. 1-13.

<sup>128</sup> Quoted in Temel İskit, "Turkey: A New Actor in the Field of Energy Politics," *Perceptions*, Vol. 1, No. 1 (March-May 1996), p. 66.

<sup>129</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, p. 45.

<sup>130</sup> Even as the Cold War was ending, the then-German Chancellor Helmut Kohl wanted not only to unite two Germanies but also to unite Germany with Europe. *Ibid*, p. 32.

<sup>131</sup> *Ibid*, pp. 69-70.



evolves into conflict over the status of the Caspian. The following will explore what it is all about, what the littorals argue, and how to solve it.

### **3.1 What is the Caspian?**

#### **"It's a Sea! It's a Lake! No. It's a Pool of Oil"<sup>132</sup>**

The Caspian is the biggest inland watermass in the world. Though it provides the world's most precious caviar,<sup>133</sup> the matter of sharing the Caspian is far away from fisheries. The real issue is related with what lies beneath the water: hydrocarbons. Throughout the Cold War years, two littorals, Iran and the USSR, shared and exploited the Caspian basing on 1921 and 1940 agreements. However, with the dismemberment of the USSR in late 1991, the number of the littorals increased to five: Azerbaijan, Kazakhstan and Turkmenistan were new-comers, Russia was the successor of the USSR, and Iran was on the stage in lieu of Persia. Hence, there appeared a need to define the status of the watermass.

The newly independent countries have been struggling to stand on their feet. Energy resources have been perceived as the cash machines that could solve economic problems; hence the struggle to get a bigger piece from the pie was

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<sup>132</sup> Elaine Sciolino, "It's a Sea! It's a Lake! No. It's a Pool of Oil," *New York Times*, 21 June 1998.

<sup>133</sup> The United Nations is especially concerned about the topic and set quotas for exports of caviar from the Caspian. The quota is recently increased, showing a sign of ease in terms of environmental concerns. See, UN Press Release ECO/36, 5 September 2003; and UN News Agency, "UN-backed Body Lowers Export Quotas for Caviar," 2 January 2007; both available from [www.un.org](http://www.un.org).

fierce. The ideas of both "Caspian elDorado" and the "New Great Game" mushroomed quickly.<sup>134</sup> Nonetheless, there are some who kept arguing that the cake, leave aside the pie, is not big at all. Alec Rasizade, a persistent objector to exaggerating Caspian reserves, argues that all of the current oil reserves had been discovered before 1991 and the Soviets (now Russians) turned to Siberia not because of lacking technology to drill deeper, but of calculating that further exploitation would not be economical.<sup>135</sup> Mamdouh G. Salameh of the World Bank, on the other hand, claims that Caspian's reserves are over-promoted; and despite high oil prices will "encourage investment in high-cost regions," the Caspian is far away from major energy markets, the region lacks legally reliable environment as well as modern technology.<sup>136</sup> Keith Fischer also adds the problem of knitting the once-totally integrated infrastructure of Eurasia back.<sup>137</sup> Some others focus on environmental problems related with exploring and transporting oil.<sup>138</sup> Indeed, towards the end of the decade, the estimates about the oil reserves declined more than a half to 123 bbl.<sup>139</sup> In such circumstances, one would expect the struggle to soften down, because given

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<sup>134</sup> Kirill Nourzhanov, "Caspian Oil: Geopolitical Dreams and Real Issues," *Australian Journal of International Affairs*, Vol. 60, No. 1 (March 2006), p. 59; Mehdi Parvizi Amineh, *Towards the Control of Oil Resources in the Caspian Region* (New York: St Martin's Press, 1999), p. 26; Kleveman, *The New Great Game: Blood and Oil in Central Asia*.

<sup>135</sup> Rasizade, "Azerbaijan after Heydar Aliev," pp. 151-2. For an opposite view, see Bülent Gökay, "History of Oil Development in the Caspian Basin," in Michael P. Croissant and Bülent Aras (eds), *Oil and Geopolitics in the Caspian Sea Dispute* (USA: Praeger, 1999), pp. 3-19.

<sup>136</sup> Mamdouh G. Salameh, "Caspian Oil is no Middle East," *Minerals&Energy*, Issue 17 (2002), pp. 37-8.

<sup>137</sup> Keith Fisher, "A Meeting of Blood and Oil: The Balkan Factor in Western Energy Security," *Journal of Southern Europe and the Balkans*, Vol. 4, No. 1 (2002), p. 82.

<sup>138</sup> Philip D. Rabinovitz, Mehdi Z. Yusifov, Jessica Arnoldi and Eyal Hakim, "Geology, Oil and gas Potential, Pipelines, and the Geopolitics of the Caspian Sea Region," *Ocean Development&International Law*, Issue 35 (2004), pp. 19-40. For a contrary view, see Gawdat Bahgat, "Energy Security: The Caspian Sea," *Minerals&Energy*, Issue 2 (2005), pp. 3-15.

<sup>139</sup> Shah Alam, "Pipeline Politics in the Caspian Sea Basin," *Strategic Analysis*, Vol. 26, No.1 (2002), p. 8.

the Asian currency crisis; the inefficient, integrated and dependent economies; the lack of political will to reform countries as well as lack of know-how to exploit the resources,<sup>140</sup> the Caspian would not seem as big a cake as to cure every illnesses. Moreover, the current estimates swing between 17 and 44 bbl,<sup>141</sup> and the projections expect the Caspian output reach at 4 mbd level in a decade<sup>142</sup> (to compare, it is half of current Saudi Arabian and equal to that of Iranian production<sup>143</sup>). Indeed, the vagueness of the status of the Caspian itself is a problem, giving birth to (in)security related complications. In one case, for instance, Iran used its naval power to prevent Azerbaijan exploit offshore oil reserves.<sup>144</sup> All littorals, even the UN-registered neutral country Turkmenistan, built up a navy in order to have a strong hand in case of a dispute over contested reserves. This creates an arms race as well as possibility of great powers to get involved in hot conflicts.<sup>145</sup>

Yet, contrary to the casual determinism that makes us expect tensions to ease as the cake got smaller, none of the above problems made the Caspian lose its importance in the regional as well as international arena. There are mainly two

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<sup>140</sup> Tuncay Babalı, *Caspian Energy Diplomacy Since the End of the Cold War* (Ankara: Dış Politika Enstitüsü, 2006), p. 8.

<sup>141</sup> Energy Information Agency, *Caspian Sea Region, Key Oil and Gas Statistics*, available from [www.eia.doe.gov](http://www.eia.doe.gov).

<sup>142</sup> Energy Information Agency, *Caspian Sea: Background*, available from [www.eia.doe.gov](http://www.eia.doe.gov).

<sup>143</sup> British Petroleum, *Statistical Review of World Energy*, p. 6; Salameh, "Caspian Oil is no Middle East;" and Amineh, *Towards the Control of Oil Resources in the Caspian Region*, pp. 38-9.

<sup>144</sup> Andreas Andrianopolis, "The Economics and Politics of Caspian Oil," *Journal of Southeast European and Black Sea Studies*, Vol. 3, No.3 (September 2003), p.85; Bahgat, "Pipeline Diplomacy: The Geopolitics of the Caspian Sea Region;" and Rasizade, "The Great Game of Caspian Energy: Ambitions and Realities," p. 15.

<sup>145</sup> Nourzhanov, "Caspian Oil: Geopolitical Dreams and Real Issues," p. 64; and Bahgat, "Energy Security: The Caspian Sea," p. 7.

reasons of it. One is economic, having four legs. Firstly; gas, and more importantly, oil reserves are finite and supply is getting scarce day by day.<sup>146</sup> Secondly; resources are unevenly distributed on the earth and the main supplier, namely the Middle East is regarded to be highly volatile to secure throughput especially after 9-11.<sup>147</sup> Thirdly; there is a general upwards pattern in world energy consumption curve, which implies that the demand is rising.<sup>148</sup> Lastly, the rise in energy prices (though the current trend is towards fall) make investing into and exploiting the Caspian feasible.<sup>149</sup>

The other is political, having three legs. On the business side, while companies like Exxon-Mobil and Lukoil withdrew from projects in Azerbaijan as being unable to find feasible reserves,<sup>150</sup> others like BP dived into the region because new investments increased the company's stock-exchange value.<sup>151</sup> On the state side, even if the littorals themselves know that scientific and economic indicators show no commercially mammoth oil or gas, they tend to hide this information because "the greater the oil reserves, the more tolerant the West towards the lack of respect for human rights and democracy." Finally, at the

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<sup>146</sup> See, for example, Vaclav Smil, *Energy in Crossroads: Global Perspectives and Uncertainty* (Cambridge: MIT Press, 2003); Heinberg, *The Party's Over: Oil, War and the Fate of Industrial Societies*; and Thomas F. Homer-Dixon, *Environment, Scarcity and Violence* (Princeton: Princeton University Press, 1999).

<sup>147</sup> Michael T. Klare, *Resource Wars: The New Landscape of Global Conflict* (USA: Metropolitan-Owl, 2002), esp. pp. 51-80.

<sup>148</sup> International Energy Agency, *World Energy Outlook 2006* (France: IEA, OECD, 2006), esp. pp. 65-83.

<sup>149</sup> International oil companies perceive the threshold for new investments be the price of oil swinging between \$25-35 per barrel. International Energy Agency, *World Energy Outlook 2006*, p. 107.

<sup>150</sup> Rasizade, "Azerbaijan after Heydar Aliev," p. 150; and LeVine, "It is Getting Sticky."

<sup>151</sup> Rasizade, "Azerbaijan Descending into the Third World After a Decade of Independence," pp. 208-9.

bureaucracy side, there is also what is called as *kleptocracy*. The bureaucracy, drawn into the mob of corruption, does not want to lose its revenues from bribes under "signing bonuses." <sup>152</sup>

Indeed, beneath this whole story lies one single question: What is the Caspian? Sea or lake? Throughout the 19<sup>th</sup> century, Russia and Persia used the watermass together for fisheries; and they inked this regime as 1921 Friendship Treaty and 1940 Treaty of Commerce and Navigation, none of which settled either the limits of respective sea boundaries nor the ways to exploit the subsea resources.<sup>153</sup> Because today fisheries gave place to hydrocarbons as the crucial source of revenue both for individuals and states, and because there is no longer two but five littorals, there arose the question whether the Caspian was a sea or a lake. The answer would determine how to divide and allocate the Caspian.

Given the hugeness of the water-mass and the conventional reference of geographic atlases as "Caspian Sea," its flora, fauna, and salinity,<sup>154</sup> the Caspian is a sea. However, it has no links with oceans, which makes it more like a big lake. Terminology is important here because if it is a sea, then the

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<sup>152</sup> Rasizade, "Azerbaijan after Heydar Aliev," pp. 153-4.

<sup>153</sup> Gawdat Bahgat, "Central Asia and Energy Security," *Asian Affairs*, Vol. XXXVII, No.1 (March 2006), p. 4. It should also be underlined that although Azerbaijan, Kazakhstan and Turkmenistan were and are not signatory parties to these treaties, via 1991 Minsk Agreement, and its extended version the Alma Ata Declaration, they agreed to respect treaties signed by the USSR. Cynthia M. Croissant and Michael P. Croissant, "The Legal Status of the Caspian Sea: Conflict and Compromise," in Croissant and Aras (eds), *Oil and Geopolitics in the Caspian Sea Dispute*, p. 25; and Witt Raczka, "A Sea or a Lake? The Caspian's Long Odyssey," *Central Asian Survey*, Vol. 19, No. 2 (2000), p. 206.

<sup>154</sup> Raczka, "A Sea or a Lake? The Caspian's Long Odyssey," p. 190.

United Nations Convention on Law of Sea of 1982 (UNCLOS) is applicable, which means that each littoral will have strictly demarcated territorial waters and exclusive economic zones; which are 12 miles from the coast, and additional 200 miles, respectively. The rest of the sea in the middle will be used jointly by all. Yet if the Caspian is a lake, there is no international regime that can be applied; and the five littorals should negotiate and settle the issue of who controls where.<sup>155</sup>

In the aftermath of the Cold War, experts expected to have enormous hydrocarbon reserves.<sup>156</sup> This idea emanated from the optimistic interpretations of the fact that the Soviets lagged behind the technology to do offshore drilling and to exploit subsea Caspian or lacked willingness to drill efficiently,<sup>157</sup> as well as they “wished to keep them as a “strategic reserve”.”<sup>158</sup> Hence, the initial estimates swung around 270 bbl of oil, corresponding roughly to 16% of the then-world reserves.<sup>159</sup>

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<sup>155</sup> The United Nations, United Nations Convention on Law of Sea of 1982, available from [www.un.org](http://www.un.org); Baghdad, “Central Asia and Energy Security,” Bahman Aghai Diba, “The Legal Regime of the Caspian Sea and Recent Incident between Azerbaijan and Iran,” available from [www.gasandoil.com](http://www.gasandoil.com), 19 September 2001; Kamyar Mehdiyoun, “Ownership of Oil and Gas Resources in the Caspian Basin,” *The American Journal of International Law*, Vol. 94, No. 1 (2000); and Irina Paliashvili and Richard Smith, “Caspian Basin Delimitation and Joint Development Options and Constraints,” *International Energy Agency*, available from [www.iea.org](http://www.iea.org), 11 November 2002.

<sup>156</sup> Gawdat Bahgat, “The Caspian Sea Geo-political Game: The United States versus Iran,” in Bjorn Moller, *Oil and Water: Cooperative Security in the Persian Gulf* (London: I.B. Tauris, 2001), p. 117.

<sup>157</sup> Gökay, “History of Oil Development in the Caspian Basin,” p. 15; Emmanuel Karagiannis, *Energy and Security in the Caucasus* (London: Routledge Curzon, 2002), p. 18.

<sup>158</sup> Babalı, *Caspian Energy Diplomacy Since the End of the Cold War*, p. 39.

<sup>159</sup> Alam, “Pipeline Politics in the Caspian Sea Basin,” p. 8.

Russia knew that it meant trillions of dollars, whose fate depended heavily on the Caspian's status.<sup>160</sup> Also, some Russian officials argued that the Caspian states are indebted to Russia for developing region's resources under the USSR period.<sup>161</sup> Basing on this historical presence in the region and on the 1921 and 1940 agreements, Russia initially pushed for the idea of joint-use. The argument was that the Caspian was one solid ecosystem and the infrastructure to be used was consolidated by the USSR; hence unilateral exploitations cannot be accepted.<sup>162</sup> This idea was backed by Turkmenistan and Iran, who thought that the UNCLOS was not valid in the Caspian. Yet in time, as the reserves started to be exploited, Russia changed its stance realizing that it was not able to prevent the division of the sea. Hence, the then-question for Russia was how to translate the *de facto* division into *de jure*.<sup>163</sup> In 1996, Russia declared that it was prepared to recognize a 45-mile off-shore economic zone for each state, and the part in the middle would be exploited via a joint stock company of the littorals.

In contrast to the Russian stance, the Azeris maintained that the Caspian should be divided into five national sectors according to the median-line method,

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<sup>160</sup> Stephen J. Blank, "The United States: Washington's New Frontier in the Transcaspian," in Croissant and Aras (eds), *Oil and Geopolitics in the Caspian Sea Dispute*, esp. pp. 260-5; Croissant and Croissant, "The Legal Status of the Caspian Sea: Conflict and Compromise," p. 28; and Brent Griffith, "Back Yard Politics: Russia's Foreign Policy Toward the Caspian Basin," *Demokratizatsiya*, Vol. 6, No. 2 (Spring 1998), pp. 426-41.

<sup>161</sup> Rosemarie Forsythe, "The Politics of Oil in the Caucasus and Central Asia: Prospects for Oil Exploitation and Export in the Caspian Basin," *Adelphi Paper*, No. 300 (March 1996), p. 55.

<sup>162</sup> John Lloyd, "Moscow Claims Caspian Energy Deals Veto," *Financial Times*, 9 November 1994.

<sup>163</sup> Babali, *Caspian Energy Diplomacy Since the End of the Cold War*, p. 81.

which advocates using equidistance and drawing a line dividing the seabed.<sup>164</sup> The Azeri argument is backed by the Kazakhs<sup>165</sup> because if it was to be implemented, Kazakhstan and Azerbaijan would enjoy the largest shares of proven reserves.<sup>166</sup> In time, Russia found a way to distort this "brotherhood" between Azerbaijan and Kazakhstan: It supported Turkmen claims on disputed Kyapaz/Serdar area, and bolstered the idea of joint use in reserves lying on disputed border zones.<sup>167</sup> As such, with Astana, Moscow managed to implement a version of the median line principle which divided the seabed between the two sovereigns but left everything else under joint ownership. Four years later, in 2002, they even agreed to exploit Khvalynskoye, Kurmangazy and Tsentralnoye gas fields on an equal basis.<sup>168</sup> Interestingly, with Baku, Moscow agreed to allocate the Caspian in line with "border-lake" concept, which is just the opposite of "median line," in late 2002.<sup>169</sup>

The other two littorals, namely Turkmenistan and Iran, are not parties to any bi- or multi-lateral agreement that divides the Caspian. In the early 1990s, Turkmenistan, being a natural-gas rich country, prodded for 45 mile zone proposal, but then shifted towards the median-line approach. Yet, implementation has not given any fruit,<sup>170</sup> especially on the Azeri border, where Kyapaz/Serdar area, whose oil reserves are currently exploited under

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<sup>164</sup> Baghdad, "Central Asia and Energy Security," p. 13; Raczka, "A Sea or a Lake? The Caspian's Long Odyssey," p. 207.

<sup>165</sup> Raczka, "A Sea or a Lake? The Caspian's Long Odyssey," p. 207.

<sup>166</sup> Babalı, *Caspian Energy Diplomacy Since the End of the Cold War*, p. 86.

<sup>167</sup> Raczka, "A Sea or a Lake? The Caspian's Long Odyssey," p. 210.

<sup>168</sup> Baghdad, "Central Asia and Energy Security," p. 5.

<sup>169</sup> Babalı, *Caspian Energy Diplomacy Since the End of the Cold War*, p. 83.

<sup>170</sup> Baghdad, "Central Asia and Energy Security," p. 7.



Azeri sovereignty, is cut by a median-line. Though Baku and Ashgabat in principle agreed to find a solution, no solid offer has been made on how to do it so far. However, consistent objections of Turkmenistan on accepting pipeline proposals before reaching a concrete solution on the Caspian disputes cost Turkmens independence provided by alternative pipelines since the only gateway to the international markets pass through Russia.<sup>171</sup>

If it was the individual countries and their national positions that prevented the above four littoral countries, it was also an external actor, namely the US, that hindered progress when it came to Iran. The Iranian national interest tilts towards promoting the validity of the 1921 and 1940 agreements and towards adoption of the condominium model; i.e. 20% to each littoral, instead of the equidistance model under “border-lake” concept, which allots 13% to Iran.<sup>172</sup> This is because Iran’s economic condition keeps deteriorating, and exploitation of hydrocarbons in the Caspian is claimed to help economic development.<sup>173</sup> Hence, Iran opposes any deal that does not fit into this pattern. The US, however, is against this model mainly for two reasons. The first is that, Iran is a country whose regime has been perceived to be hostile towards the US.<sup>174</sup> Iran in the eyes of the US is a “rogue state,” a part of the “axis of evil” and a

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<sup>171</sup> Ibid, p. 8, 84.

<sup>172</sup> Ibid, p. 85; Andrianopolis, “The Economics and Politics of Caspian Oil,” p. 84; and Hossein Askari, and Roshanak Taghavi, “Iran’s Financial Stake in Caspian Oil,” *British Journal of Middle Eastern Studies*, Vol. 33, No. 1 (May 2006), p. 3.

<sup>173</sup> Baghad, “Central Asia and Energy Security,” p. 6.

<sup>174</sup> This issue, among many others, bolsters a cooperation between Russia and Iran. See Adam Tarock, “Iran and Russia in ‘Strategic Alliance’,” *Third World Quarterly*, Vol. 18, No. 2 (1997).

“nuclear weapon seeking country.”<sup>175</sup> Thus, the US does not want to play into the hands of Iranian governments. Secondly, there is Iran-Libya Sanctions Act,<sup>176</sup> which blocks American firms from investing in oil and gas sectors of Iran. In case Iran gets its 20%, they will not be able to participate each and every project in the Caspian.<sup>177</sup>

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In one instance, Nasreddin Hoca is quoted to be asked:

- Hoca, where should I walk during the funeral ceremony?  
From the left, right, back or front of the coffin?

Hoca answers:

- No matter as long as you are *not* inside the coffin.

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The condition of the Caspian shows that currently we have a stalemate. Hence, we have a premature list of what *not* to do: Not to be so adventurous to overbid Saudi Arabia (i.e. be rational), not to get stuck on to zero-sum affairs (i.e. focus on win-win issues), and not to sustain the status quo (i.e. find a peaceful solution). Below is an elaboration of this not-to-do list.<sup>178</sup>

*Don't be exclusivist, yet don't be borderless.* The end of the Cold War lifted the bloc-pressure and accelerated regionalization because it provided the governments an avenue to improve their regional positions, collect fruits of

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<sup>175</sup> The White House, *The United States National Security Strategy*, 2001 and 2006 documents, available from [www.whitehouse.gov](http://www.whitehouse.gov).

<sup>176</sup> The Act was first passed in 1996 and renewed in 2001. Sanctions on Libya were eased in 2004 as it quitted its WMD projects; however the Act was valid for Iran till June 2006. The hearings for renewal propose new embargoes; but the US waits for a United Nations resolution for international sanctions. The bill as well as hearings are available from [www.loc.gov](http://www.loc.gov).

<sup>177</sup> Babalı, *Caspian Energy Diplomacy Since the End of the Cold War*, p. 87.

<sup>178</sup> Inspired by Baogang He, "East Asian Ideas of Regionalism: A Normative Critique," *Australian Journal of International Affairs*, Vol. 58, No. 1 (March 2004), pp. 105-25; and Ernst B. Haas, *When Knowledge is Power: Three Models of Change in International Organizations* (USA: University of California Press, 1990), pp. 51-61.

their neighborhood, and benefit from regional economies of scale.<sup>179</sup> Together with internationalization,<sup>180</sup> globalization<sup>181</sup> makes contemporary regions porous. It is hard to exclude, especially those that may not necessarily be in the region in terms of geography, but certainly in it in terms of interest. As Inis Clause observes, it is not easy to set borders;<sup>182</sup> nonetheless there is a need to do so both so as not to lose cohesion and to protect the "inside" from the "outside."<sup>183</sup>

*Don't avoid transparency, yet beware of the transaction costs.* An attempt to create a region of states requires credibility, which, in turn, requires explicitness. Operating within Soviet heritage of playing with statistics, littorals should understand that there is more to gain from cooperation because effective regional groupings can help politically, fiscally, and structurally.<sup>184</sup> This, of course, creates transaction costs. States should be aware of the costs of

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<sup>179</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, p. 23.

<sup>180</sup> Defined "as a process that refers to territorially based exchanges across borders. It refers to basic continuities in the evolution of the international state system," and "is shaped by the actions of national governments." Ibid, p. 13, 149.

<sup>181</sup> Defined "as a process that transcends space and compresses time. It has novel transformative effects on world politics." An exception to this perspective comes from Wallerstein, who maintains that globalization has actually been with us for the last five hundred years, instead of being a quite recent phenomenon. Ibid, p. 13; Immanuel Wallerstein, *Amerikan Gücünün Gerileyişi: Kaotik Bir Dünyada ABD*, translated from the English by Tuncay Birkan (Metis Yayınları: İstanbul, 2004), pp. 25-6.

<sup>182</sup> Claude, *Swords into Plowshares: The Problems and Progress of International Organization*, p. 113.

<sup>183</sup> Ibid, p. 114.

<sup>184</sup> It is the "spill over" effect of economic cooperation that helps politically. Fiscal help comes since cooperation enhances trade taxes (through a reform in domestic tax system to compensate declines in tariff revenues) and customs duties (by reducing smuggling). Structurally, regional cooperations can bolster economic and political reforms by increasing costs of noncompliance or backsliding. Notice also that no regional scheme or economic cooperation is able to attract investment to a country in which the very basics like property rights and macroeconomic stability are absent. Maurice Schiff and L. Alan Winters, *Regional Integration and Development* (Washington: World Bank, Oxford University Press, 2003), pp. 263-5.

sharing information or implementing joint decisions.<sup>185</sup> Moreover, states, especially the non-littorals, should also be aware of some "invisible" barriers, like "kleptocracy."<sup>186</sup>

*Don't be crisis-driven, yet don't be cosmetic in finding solutions.* The "region" that we want to tailor for the Caspian will be crisis-triggered, not crisis-driven. As the former can be exemplified in case of the EU in which a crisis results with an improvement in institutions or policies, the latter can be exemplified by the Gulf Cooperation Council, whose efficiency peaks with crisis and slumps with peace and stability; owing merely to the intra-group pulls and pushes that surface under tranquility.<sup>187</sup> The "region" should not be a cosmetic cover; it should really sustain cooperation by regulating social and cognitive issues like reducing corruption, distrust, and misunderstanding; and economic and technical issues like reducing inefficiency and overexploitation.

*Don't get stuck to the past and stereotypes, yet don't avoid criticism.* Stereotypes and cultural distrust bolsters mythmaking at the expense of confidence building. The suspicions of imperialism, communism or fundamentalism do not help establish mutual trust by any means. However, trust here is not a blank check for the other side to exploit. It is just a common ground that not only abstains from accusing each other, but also helps realizing elite socialization as well as making constructive criticism.

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<sup>185</sup> Ibid, pp.262-6.

<sup>186</sup> Rasizade, "Azerbaijan after Heydar Aliev," pp. 153-4.

<sup>187</sup> Aarts, "The Middle East: A Region without Regionalism or the end of Exceptionalism?," p. 913.

*Don't exclude external powers, yet don't let them set the game.* Some are always more equal.<sup>188</sup> Great powers, especially those having an interest, find a way to get what they want. They do it sometimes by carrots (like establishing consortiums with Azerbaijan and Kazakhstan) or by stick (like waging war in Afghanistan and Iraq). Besides, region formation indeed underlines politicization of a geographical space vis-à-vis the power of the hegemon. As no hegemon wants "to encourage a balancing coalition against its dominant position,"<sup>189</sup> it does not hesitate to use its capacity to set the rules of the game for the "region."<sup>190</sup> Hence, one should find a way to engage them; yet it by no means implies a subordination that eradicates the *raison d'être* of region formation.

*Don't breach the Westphalian state conceptualization, yet don't forget its obsolescence.* The Westphalia Peace Treaty of 1648 not only ended the Thirty Years War, but also created a new era for states, which, from then on would be taken as the sole political unit in the world system. As such, state would have exclusive sovereignty, and enjoy sovereign equality –provided, of course, that it was not a polity within an empire like the Holy Roman Empire. Today,

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<sup>188</sup> George Orwell, *Animal Farm* (London: Penguin Books, 1989). Originally published in 1945, Orwell's book criticizes the Soviet revolution, and concludes that some are more equal than others. Also, Katzenstein argues that the regions are outlined mainly by the US, and "[w]orld politics is now shaped by the interaction between porous regions and America's imperium." Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, p. 42.

<sup>189</sup> M. Mastaduno, "Incomplete Hegemony: The United States and Security Order in Asia," in M. Alagappa (ed), *Asian Security Order: Instrumental and Normative Features* (Stanford, CA: Stanford University Press, 2003).

<sup>190</sup> G. O. Tuathail and J. Agnew, "Geopolitics and Discourse: Practical Geopolitical Reasoning in American Foreign Policy," *Political Geography*, Issue 11 (1992), pp. 190-204.

however, states are no longer able to dominate the system by themselves. Despite some shared interest like diplomatic immunity remains, the NGOs, MNCs as well as counter-government and terrorist groups undermine "the capacity of Westphalia to provide minimum boundaries."<sup>191</sup> Besides, region formation in the Caspian case requires cooperation and collective thinking rather than an endless appetite for self-help, though one should not underestimate the role of sovereignty in such young states as well as their centuries-old neighbor. However, "[r]egionalism is a form of international organization that is needed to deal with regional problems that the nation-states are unable or lack resources to solve. It is an imaginative community, and an intellectual and political invention,"<sup>192</sup> which makes the Westphalian approach partially obsolete.

We now have a manual able to provide room for "not being in the coffin." However, we still need to identify where we want to be, because just anywhere outside the coffin is not necessarily a good place:

“Cheshire Puss,” [Alice] began, .... “Would you tell me, please, which way I ought to go from here?”  
“That depends a good deal on where you want to get to,” said the Cat.  
“I don't much care where,” said Alice.  
“Then it doesn't matter which way you go,” said the Cat.  
“--so long as I get somewhere,” Alice added as an explanation.  
“Oh, you're sure to do that,” said the Cat, “if you only walk long enough.”<sup>193</sup>

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<sup>191</sup> Richard A. Falk, *A Study of Future Worlds* (New York: Free Press, 1975), p. 60.

<sup>192</sup> He, "East Asian Ideas of Regionalism: A Normative Critique," p. 119.

<sup>193</sup> Lewis Carroll, *Alice's Adventures in Wonderland* (US: Checkerboard, 1972), p. 55.

### 3.2 Where to Go?

#### The Three Stage Plan on Sharing Water of Euphrates and Tigris

It may sound odd to try to implement a modified version of a water-sharing plan into an oil-related case. It is not. Indeed, despite the fact that in daily life water is vital and hence more valuable,<sup>194</sup> and despite the fact that in the literature oil is regarded much more valuable,<sup>195</sup> the two resources are quite similar to each other. Both are essential to sustain routine life, both are finite, and scarcity of both increases as population increases. An additional problem is that usually both resources carry transboundary characteristics, bearing ownership disputes.<sup>196</sup>

If the Caspian is one such disputed oil region, the Euphrates-Tigris is another disputed water region. Like the Caspian, there are optimists and pessimists that voice their views with regard to the size of the resource. Optimists claim that water is like smoking, i.e. the consumption pattern can change, technological developments will allow efficient use of water, and the "virtual water"<sup>197</sup> will

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<sup>194</sup> Vedat Durmazucar, *Ortadoğu'da Suyun Artan Stratejik Değeri*, 2<sup>nd</sup> ed (İstanbul: IQ Kültür Sanat, 2003), p. 23.

<sup>195</sup> Robert L. Paarlberg, "Food, Oil, and Coercive Resource Power," *International Security*, Vol. 3, No. 2 (Autumn 1978), pp. 3-19.

<sup>196</sup> Klare, *Resource Wars: The New Landscape of Global Conflict*, p. 142. For debates on scarcity and role of population, see Ewan W. Anderson, "Water: The Next Strategic Resource," in Joyce R. Starr and Daniel C. Stoll (eds), *The Politics of Scarcity: Water in the Middle East* (Boulder, London: Westview Press, 1988), pp. 1-21; Homer-Dixon, *Environment, Scarcity and Violence*, pp. 29-30; Smil, *Energy in the Crossroads: Global Perspectives and Uncertainty*, p. 95.

<sup>197</sup> Water is classified into three facets. One is "evident water," the water of surface and ground reserves that users can easily reach and use. The other is "non-evident (brown) water," that lies in the soil and can only be used by plants. The third is "virtual water," referring to the water in

ease the tension. Pessimists, in return, focus on inflexible food consumption patterns, increasing population, and ineffective trade system and institutions.<sup>198</sup> Nevertheless, in the Middle East, there is rising pressure on all the available resources.<sup>199</sup>

In case of water, we have, just like we had for the Caspian, multiple approaches related to the allocation of the resource. One is the Harmon Doctrine, promoting the idea of absolute sovereignty of the upstream country over every aspect of the river. This approach is totally unfashionable today at the international arena since it disregards possible negative externalities to the downstream countries.<sup>200</sup> The other doctrine is absolute integrity that prohibits any kind of distortion to the natural flow of the river. It is highly popular among downstream countries, since historically they are the first ones to come and use the river; yet it restricts the upstream country from making free use of its own resources, due to the fact that any utilization is likely to distort either quality or quantity of the water. Among those that lie in between, a relatively moderate approach that aims to settle on a golden medium between absolute sovereignty and absolute integrity is the restricted territorial sovereignty

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agricultural products. See Tony Allan, *The Middle East Water Question: Hydropolitics and the Global Economy* (London, New York: I.B. Tauris, 2001), pp. 32-3, 41-52.

<sup>198</sup> Ibid, pp. 11-2.

<sup>199</sup> Ibid, p. 10.

<sup>200</sup> The doctrine is used by the US against Mexico on sharing the Colorado River and building the Boulder Dam. The US Department of State maintained that the dam controls and regulates the flow, and provides a reliable (though just 42% of what Mexico wanted) amount to the downstream; the US even argued that Mexico should be grateful to the US for regulating the river flow instead of blaming the US for reducing quality and quantity of water. The US added that it would not demand burden sharing for construction and maintenance costs in return for the water let for downstream's usage. Durmazuçar, *Ortadoğu'da Suyun Artan Stratejik Değeri*, p. 43.



approach. This approach promotes the idea of upstream use of the resource without posing harm to downstream countries.<sup>201</sup>

Besides doctrine-building, there are serious efforts for codification. The International Law Commission under the UN umbrella drafted a legal text titled "Law of the Non-Navigational Uses of International Watercourses," and opened it for signature in 1982. On 21 May 1997, completing ratification requirement of 60 signatures, the text entered into force. Nonetheless, Turkey voted against it. Among the reasons of Turkish objection were that the wording adopted in the text obliged upstream to inform downstream, and it created a legal ground for classifying Euphrates-Tigris<sup>202</sup> as international waters. The part on informing was problematic, because in case the downstream country demands, the upstream had to halt all its projects for a year (six plus six months) after the initial six month period given to the downstream to elaborate on the upstream's project.<sup>203</sup> For the sake of classifications, Turkey maintained that Euphrates and Tigris are not international but transboundary rivers since the former had to be approached as a single integrated entity all along its basin, while the latter means there is a single hydrological system that allows reasonable usage instead of inherent rights of the downstream. In other words, *equitable* instead of *equal* usage was the jargon.<sup>204</sup> The Turkish argument also

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<sup>201</sup> Durmazuçar, *Ortadoğu'da Suyun Artan Stratejik Değeri*, pp. 39-62.

<sup>202</sup> Since Saudi Arabia and Iran neither contributes to or benefits from the flow of Euphrates and Tigris to a significant extent, they are usually left out in studying the rivers. Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 72.

<sup>204</sup> Gün Kut, "Burning Waters: The Hydropolitics of the Euphrates and Tigris," *New Perspectives on Turkey*, No. 9 (Fall 1993), pp. 10-12. PP: 1-17.

stated that Euphrates and Tigris made a single hydrological system, which implies that deficiencies in the flow of Euphrates can be substituted by Tigris, or vice-versa. The target was to ease pressure on the Euphrates, and on Turkey's projects to develop Euphrates' basin.<sup>205</sup>

One could hardly expect Turkey to vote for the Convention, given the country's water projects dating back to 1936; its energy, irrigation, and drinking water needs;<sup>206</sup> as well as its priority to supply water to industrial complexes.<sup>207</sup> Hence it developed the Southeast Anatolian Project, or GAP with its Turkish acronym. Composed of 11 dams, 11 hydropower plants on the Euphrates, and 8 dams and 8 power plants on Tigris, the GAP is an integrated regional development project enveloping energy, irrigation, agriculture, industrialization, urbanization and infrastructure. It also embraced social aspects like social structure, participation and organization, education, employment, migration and health care.<sup>208</sup>

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<sup>205</sup> Ibid, pp. 10-1. Demirel argues that Euphrates can feed ten Keban Dam-scale power plants and prohibit the water flow into the deserts of Iraq and Syria. The control of flow also prevent casualties, as reflected in a banner in his inauguration of laying the groundwork of Keban Dam in 1966, which reads as "Fırat, bin Süleyman boğdu; bir Süleyman, Fırat'ı boğdu." Süleyman Demirel, *Bir Ömür Suyun Peşinde* (İstanbul: ABC, 2005), vol.1, pp 179, 183.

<sup>206</sup> Korkut Özal, H. Doğan Altınbilek, "Water and Land Resources Development in South Eastern Turkey," in Mehmet Ergin, Doğan Altınbilek and Mouneef R. Zou'bi (eds), *Water in the Islamic World: An Imminent Crisis* (Turkey: The Islamic Academy of Sciences, 1995), pp. 197-206; Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 32.

<sup>207</sup> Michael Schulz, "Turkey, Syria and Iraq: A Hydropolitical Security Complex," in Leif Ohlsson (ed), *Hydropolitics: Conflicts Over Water as a Development Constraint* (Dhaka: University Press, 1995), p. 99.

<sup>208</sup> Özal and Altınbilek, "Water and Land Resources Development in South Eastern Turkey," p. 197; Durmazuçar, *Ortadoğu'da Suyun Artan Stratejik Değeri*, pp. 103-6; Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 72; Abdullah Kıran, *Ortadoğu'da Su: Bir Çatışma ya da Uzlaşma Alanı* (İstanbul: Kitap Yayınevi, 2005), pp. 85-7. The project included a security aspect, too. Demirel notes that the May 26, 1998 National Security Council meeting advised necessary measures to be taken for the GAP project be

The GAP is a mammoth project which was expected to cost \$30-32 billion.<sup>209</sup> This means there was a need for international credit, which was not easily available due to absence of settlement on the water regime.<sup>210</sup> The main dispute arose from sharing the water; but beneath the iceberg lies multiple problems ranging from religious, ethnic and ecological concerns to disputes between the government and farmers.<sup>211</sup> Indeed, the Euphrates-Tigris river basin became one of the places expected to experience war sooner or later.<sup>212</sup> The tensions were high especially with Syria, a country with a record of resorting to

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completed at latest by 2010, and that he wrote to the then-prime minister Mesut Yılmaz on what should be done not to drag the construction. This shows "securitization" of the project, since the socio-economic results of the project was expected to reduce regional sympathy with PKK. One should note that the "advises" of the National Security Council are taken into consideration by the Cabinet in line with Turkish constitution. Demirel, *Bir Ömür Suyun Peşinde*, vol. II, pp. 177-83; Turkish Constitution (1982), Ar. 118; Schulz, "Turkey, Syria and Iraq: A Hydropolitical Security Complex," pp. 91-121.

<sup>209</sup> Lower number from Klare, *Resource Wars: The New Landscape of Global Conflict*, p. 178; higher number from Kıran, *Ortadoğu'da Su: Bir Çatışma ya da Uzlaşma Alanı*, p. 85.

<sup>210</sup> Schulz, "Turkey, Syria and Iraq: A Hydropolitical Security Complex," p. 99. The World Bank supported water related projects with an aim to reduce food prices but abstained from extending credits to riparians who have not settled their disputes. As such, in line with Syrian objections, the Bank declined Turkish request for credits. However, the experience of other countries with the World Bank reveals an interesting story about water. As a conditionality, the Bank demands privatization of water resources, which, in most cases resulted in concentration of water resources into the hands of a few international corporations like Bechtel Suez and RWE. What is more the companies restrict usage of water emanating from other resources. In Bolivia, for example, the water company started to price water more than the local population can afford. As a result, people started to collect rain water; however, the company, basing on the concession contract, demanded money for it too. A. Argun Akdoğan, "Latin Amerika'da Su Özelleştirmeleri," in Tayfun Çınar and Hülya K. Özdiç (eds), *Su Yönetimi: Küresel Politika ve Uygulamalara Eleştiri* (Ankara: Memleket Yayınları, 2006), p. 193; Kıran, *Ortadoğu'da Su: Bir Çatışma ya da Uzlaşma Alanı*, p. 79, 81, 84.

<sup>211</sup> Widstrand quoted in Schulz, "Turkey, Syria and Iraq: A Hydropolitical Security Complex," p. 102. Shiva here mentions about an interesting perception of a linkage in Turkey between separatism and opposition. According to her, native population could not oppose Ilısu Dam that would uproot them and destroy historic heritage at Hasankeyf simply because the authorities took any opposition equal to ethnic separatism. Vandana Shiva, *Su Savaşları*, translated from English by Ali Kerem (İstanbul: Aram, 2003; Ali Kerem, trans.), p. 90.

<sup>212</sup> Waltina Scheumann, "Conflicts on the Euphrates: An Analysis of Water and Non-Water Issues," in Waltina Scheumann and Manuel Schiffler (eds), *Water in the Middle East: Potential for Conflicts and Prospects for Cooperation* (Germany: Springer, 1998), p. 113. Kıran disagrees with the notion of "water war" since for him, a Syrian or Iraqi attack on Turkish dams can easily be retaliated via an attack on refineries, key infrastructures and power plants. Kıran, *Ortadoğu'da Su: Bir Çatışma ya da Uzlaşma Alanı*, pp. 99-100.

violence over water.<sup>213</sup> Avoiding direct confrontation with the NATO ally Turkey, Syria played on the card of ethnicity and supported the Kurdish terrorist organization, PKK.<sup>214</sup> Iraq, too, threatened to bomb dams on the Euphrates,<sup>215</sup> yet in line with the fact that it both supplied oil to Turkey and had a commensurable Kurdish policy that was against separatism, Iraq enjoyed relatively better relations with Turkey.<sup>216</sup> The military side of the story faded with the decline of arms supply to Syria as a natural outcome of the collapse of

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<sup>213</sup> Syria did not hesitate to use military means against Israel in the 1940s and 60s for water related issues. Schulz, "Turkey, Syria and Iraq: A Hydropolitical Security Complex," p. 105, 108; and Thomas Naff and Ruth C. Matson (eds), *Water in the Middle East: Conflict on Cooperation* (Boulder, London: Westview Press, 1984), pp. 92-5.

<sup>214</sup> Indeed, in 1987, two protocols between Syria and Turkey were signed, one on economic cooperation that made Turkey ink its unilateral promises not to reduce flow of Euphrates by more than half of its normal flow up until a permanent agreement was reached. The other protocol was kept veiled, and the rumor says this time Syria inked a commitment to put an end to supporting PKK. However, Kut assumes that both Turkey and Syria were rational actors that would not link water to other topics. He argues that Turkey could not acknowledge that terror could be used as a blackmail on itself since it "did not need to give something in return for asking Syria not to shelter terrorist organizations;" and Syria could not risk that such a bargain would make water released today, but cut in the future simply by basing on the terms of the agreement. Despite that, Shiva underlines the linkage of water and terror as the then-President Özal in 1989 threatened to cut water to Syria unless it put an end to PKK activities in its territory. Kut, "Burning Waters: The Hydropolitics of the Euphrates and Tigris," pp. 8-9; Shiva, *Su Savaşları*, p. 90; Durmazucar, *Ortadoğu'da Suyun Artan Stratejik Değeri*, p. 106; Klare, *Resource Wars: The New Landscape of Global Conflict*, p. 79; Schulz, "Turkey, Syria and Iraq: A Hydropolitical Security Complex," pp. 107-9..

<sup>215</sup> Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 73; Anderson, "Water: The Next Strategic Resource," p. 13. Also, basing on the Friendship and Good Neighborhood Agreement of 1946, Turkey and Iraq agreed on he need to regulate the flow of the Euphrates, on Turkey being the best place for such a regulation, and on Iraq bearing the costs of any related expenses. Kiran, *Ortadoğu'da Su: Bir Çatışma ya da Uzlaşma Alanı*, p. 88; Scheumann, "Conflicts on the Euphrates: An Analysis of Water and Non-Water Issues," p. 120.

<sup>216</sup> Indeed, Iraq is the first country to start "hydraulic mission" on the Euphrates by building barrages just before World War I. Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 28, 72; Naff and Matson (eds), *Water in the Middle East: Conflict or Cooperation*, pp. 89-90. Despite the fact that it cannot be analyzed here in a footnote but in a separate research, now the status quo in Iraq does not allow the country to focus on water. In the future, however, whom Turkey will find as an interlocutor on the table, the US, Iraqi national government, or a separate/separatist North Iraq entity is a matter of question as to their respective positions. For an alternative perception which argues that the Kurdish federal government will act together with Turkey as being upstream relative to Syria and Arab Iraq, see Kiran, *Ortadoğu'da Su: Bir Çatışma ya da Uzlaşma Alanı*, p. 99.

the USSR and worsening of the military power of Iraq following the Gulf War.<sup>217</sup>

Despite the fact that Iraq's water-related concerns slumped following the 1980-88 Iran-Iraq and 1991 Gulf Wars,<sup>218</sup> it voiced its opposition in the mid-1970s when the Turkish Keban and Syrian Tabqa (or al-Thawrah, "the Revolution") Dams were completed, and filling process started in 1973. Following the first tripartite meeting in 1965 that lead almost nowhere given that the aggregate needs of three countries exceeded what the rivers could supply,<sup>219</sup> the parties kept negotiating on a bilateral basis, which lead to a second tripartite meeting in 1990. In January of the same year, Turkey started to fill GAP's cornerstone, the Atatürk Dam. Although the Arab League acted against Turkey and threatened to resort to an embargo against companies co-operating with Turkey on building dams on the Euphrates, the Ministry of Foreign Affairs declared that Turkey informed Syria and Iraq in a timely manner and explained the technical reasons of total cut of the Euphrates' flow during one single month.<sup>220</sup> At this meeting, Turkey put the Three Staged Plan for Optimum,

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<sup>217</sup> Alan Makovsky, "The New Activism in Turkish Foreign Policy," *Insight Turkey*, Vol. 1, No. 2 (April-June 1999), p. 13.

<sup>218</sup> Durmazuçar, Ortadoğu'da Suyun Artan Stratejik Değeri, p. 106.

<sup>219</sup> Naff and Matson, *Water in the Middle East: Conflict or Cooperation*, p. 93; Schulz, "Turkey, Syria and Iraq: A Hydropolitical Security Complex," pp. 117-8.

<sup>220</sup> Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 73. The interesting point here is that Iraq and Syria attempted to extract compensation, too. Yyet the Euphrates and Tigris both have large annual and seasonal fluctuations in flow, hence the upstream's dam building controls floods too. Indeed, Iraq, having concerns on hydroelectricity generation, demanded Turkey finish fill-up process within two instead of four weeks, and threatened to cut oil trade to Turkey unless otherwise. Maybe as a proof that it was not a bluff, Iraq did not sign an oil treaty with TÜPRAŞ, Turkish Petroleum Refining Company. Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 71; Anderson, "Water: The Next Strategic Resource," p. 11; Kıran, *Ortadoğu'da Su: Bir Çatışma ya da*

Equitable and Reasonable Utilization of the Transboundary Watercourses of the Tigris-Euphrates Basin on the table, the Plan the country originally initiated in 1984.<sup>221</sup>

The proposal, as its name reveals, was composed of three stages. The first was dedicated to data gathering. Hydrology, meteorology, volume and quality related data was to be exchanged and verified. At the second stage, land was to be examined. By doing so, fertile and irrigable lands as well as suitable crop patterns were to be identified. The last stage was reserved for determining water requirements.<sup>222</sup> As such, the Three Stage Plan was a needs-based approach trying to reach at win-win solution.<sup>223</sup>

From the Iraqi and Syrian sides, the Three Stage Plan has a hidden agenda designed to enable Turkey get more water. The argument went as that the real logic behind the Turkish support for concluding "joint studies for optimal and rational utilization of water and land resources" was "to prove ... that certain agricultural practices in Syria and Iraq are inefficient and uneconomical [for agriculture] and that, therefore, the water needed for these could not be

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*Uzlaşma Alanı*, p. 91; Scheumann, "Conflicts on the Euphrates: An Analysis of Water and Non-Water Issues," p. 123.

<sup>221</sup> A relatively linked project is the Peace Pipeline, voiced by the then-President Özal in 1987. The idea is to sell un-used water of the Ceyhan and Seyhan rivers that simply flow into the Mediterranean. The project is economically feasible compared to desalination, yet suffers from political problems like lack of commitment. Masahiro Murakami, *Managing Water for Peace in the Middle East: Alternative Strategies* (Tokyo, New York, Paris: United Nations University Press, 1995), p. 45.

<sup>222</sup> Özal and Altınbilek, "Water and Land Resources Development in South Eastern Turkey," pp. 218-9.

<sup>223</sup> Ayşegül Kibaroglu, "Water for Sustainable Development in Euphrates-Tigris River Basin," Conference Proceedings, 2<sup>nd</sup> Asia-Pacific Association of Hydrology and Water Resources, 5-8 July 2004, Singapore.

justified."<sup>224</sup> From the Turkish perspective, though, the plan was a revolutionary breakthrough for three points. Firstly, Turkey offered to change its promise to not to cut below 500 m<sup>3</sup>/s annual from a steady flow to a regulated flow, which went up and down depending on the seasonal and agricultural needs. Secondly, the plan introduced the idea of conservation by especially rationalizing and modernizing irrigation. Lastly and most importantly, the Three Stage Plan implied a tacit consent of Turkey as the upstream to embrace joint action, hence renounce full and exclusive sovereignty.<sup>225</sup>

As such, the Three Stage Plan, though still on paper for the Euphrates and Tigris, can serve as a model for the Caspian. A needs-based approach will make the "sea or lake" debate obscure; hence the pullings and haulings over the status of the Caspian will be irrelevant. As the Caspian will be a pool of all, sovereignty-related violations, securitizations and mobilizations will be futile. Nevertheless, a joint exploitation will avoid the resources turn into a common good<sup>226</sup> by making burden-and profit-sharing a collective activity. It will rationalize exploitation as well as prevent a race to the bottom. Moreover, such

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<sup>224</sup> Kut, "Burning Waters: Hydropolitics of the Euphrates and Tigris," p. 13. Agriculture is quite a dominant consumer of water. It consumes ten times of water consumed by industrial and municipal sectors together; corresponding roughly to 90% of all national water consumption. Allan, *The Middle East Water Question: Hydropolitics and the Global Economy*, p. 6.

<sup>225</sup> Kut, "Burning Waters: Hydropolitics of the Euphrates and Tigris," p. 13.

<sup>226</sup> On the "tragedy of commons," see J. Samuel Barkin and George E. Shambaugh, "Hypothesis on the International Politics of Common Pool Resources," in J. Samuel Barkin and George E. Shambaugh (eds), *Anarchy and the Environment: The International Relations of Common Pool Resources* (New York: New York State University Press, 1999), pp. 1-25.

an approach will ensure everyone's satisfaction, without falling behind its needs. The point here is to define whose needs.

### **3.3 Whose Needs? Who will gain what?**

#### **Perspectives of the Parties Concerned**

As has been stated, the Caspian is not a Middle East-scale reserve of hydrocarbons. If an analogy is needed, the Caspian can be a counterpart only to the North Sea. It is not to say the Caspian is not important, especially given the finite character of hydrocarbons, world-wide dependence on them, in addition to rising prices<sup>227</sup> and never-settled dust in the Middle East.<sup>228</sup> Hence, the Caspian is a good candidate to “play a major role in issues central to current and future international relations.”<sup>229</sup> This role will affect and be affected by Russia's and Turkey's economic and political futures, China's and Iran's regional policies and the latter's relations with the West, global dependence on

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<sup>227</sup> Crude oil price, averaging \$50 in 2005, was four times of 1998 and twice of the 2002 nominal price. International Energy Agency, *World Energy Outlook 2006*, p. 269.

<sup>228</sup> Especially in the post-9-11 era, eyes get focused on Saudi Arabia as home state of al Qaeda instead of reliable swing producer of oil. Nonetheless, the action was directed towards Iraq in 2003, and since then, the country has been evolving into a civil war. Another state of concern has been Iran, owing to its nuclear Project. According to Katzenstein, the war against Iraq is for creating a US-client country in the Middle East, just like Germany and Japan had once served as “U.S. anchors in Europe and Asia.” Hence, Katzenstein goes on, the creation of a democratic, capitalist and pro-US Iraq might have been thought to be a good start to reorient the Middle East. He, probably under affect of the US “success” in Iraq, diverts a paragraph for listing the differences between Iraq and post-World War 2 Japan and Germany. James Dobbins, John G. McGinn, Keith Crane, Seth G. Jones, Rollie Lal, Andrew Rathmell, Rachel Swanger, Anga Timilsina, *America's Role in Nation-Building: From Germany to Iraq* (California: RAND, 2003); Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, esp. pp. 238-44.

<sup>229</sup> Amineh, *Towards the Control of Oil Resources in the Caspian Region*, p. 23.



Persian Gulf oil as well as prevalence of radical Islam.<sup>230</sup> In addition, the Caspian's fate as being a landlocked sea is tied to infrastructural networks heading towards international markets, which requires a commitment from what Amineh defines as "industrialized core powers, especially the United States, Great Britain, Japan, and France, as well as transnational actors."<sup>231</sup> The competition for alternative routes scared both the countries and oil companies. The countries were afraid of lack of an efficient and satisfying/sufficient competition which may end up with a monopoly that can easily be translated into political leverage (see Ukraine and Russia below). In contrast, the oil companies were concerned with the plethora of competition which risks minimizing tariffs.<sup>232</sup> Indeed, given the billions of dollars flowing from oil companies into the Caspian,<sup>233</sup> the MNCs deserve to be treated as actors of the region. Despite the fact that they put money in foreign direct investment form<sup>234</sup> and create joint ventures; the ventures are used just extracting and exploiting raw materials; lacking the aspect of sharing know-how.<sup>235</sup> "It is thus no coincidence that research and development remains concentrated in home markets of the world's largest corporations."<sup>236</sup>

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<sup>230</sup> Forsythe, "The Politics of Oil in the Caucasus and Central Asia: Prospects for Oil Exploitation and Export in the Caspian Basin," p. 7.

<sup>231</sup> Amineh, *Towards the Control of Oil Resources in the Caspian Region*, p. 23.

<sup>232</sup> Forsythe, "The Politics of Oil in the Caucasus and Central Asia: Prospects for Oil Exploitation and Export in the Caspian Basin," p. 44.

<sup>233</sup> Amineh, *Towards the Control of Oil Resources in the Caspian Region*, pp. 158-84.

<sup>234</sup> Oil industry requires serious and large-scale fixed cost investment, which, if the reservoir is not feasible, turns into sunk cost. Besides, as will be elaborated below, there is the problem of Dutch disease that makes non-oil sector non-functional, if not absent. Hence, there is no profitable non-oil area for hot money.

<sup>235</sup> Amineh, *Towards the Control of Oil Resources in the Caspian Region*, p. 183.

<sup>236</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, p. 218.

In this context, the Caspian game turns into the fairy tale of the Snow White and the seven dwarfs: The main actor, Snow White, is the littorals, namely, Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. The assistant but sine qua non actors role-playing seven dwarfs are the transits, consumers, other producers, MNCs, the US, the EU and China. As is the case in every fairy tale, we have a villain: structural problems feeding corruption and insecurity. The *deus ex machine*, or the prince with white horse, may be the Three Stage Plan. The cast is as follows:

## **CHAPTER IV**

### **SNOW WHITE and SEVEN DWARFS**

The landmass surrounding the waters of the Caspian is divided into five in post-Cold War era as Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. In our cast, all five make up Snow White as the main and indispensable actors. Other non-littoral actors of the Caspian are Georgia, Turkey, China, the US, the EU, the OPEC and the MNCs, which make up the Seven Dwarfs.

In this chapter, we shall first elaborate on “real” littorals, and then turn to “virtual” littorals.

#### **4.1 The Snow White: “Real” Littorals**

One common theme among the corrupt Azerbaijan, wavering Kazakhstan, nuclearizing Iran, “Putin”izing Russia, and ambiguous Turkmenistan is their need of cash to fuel their economies. A state naturally seeks to improve its

economic status, but when it comes to doing so by extracting natural resources, it risks to cause more problems than it actually solves. The situation is, to employ the then Russian Foreign minister deputy Boris Pastukhov's analogy, like "a patient who, while avoiding critical illness, has nonetheless been stricken with fever."<sup>237</sup> This is actually what is called as the Dutch Disease. The literature maintains that a resource-rich country gets financially rich by exporting the resource. Exports make the national currency get stronger, reducing incentives for domestic producers to produce because importing turns out to be a cheaper way to satisfy the domestic demand. Since the future of the resource sector is more profit promising, the investors prefer to put their money in this sector, which "crowds out" non-resource sectors. The state follows suit too, resulting in a decline in social spendings. Since the state relies on oil revenues rather than on taxes; it turns out to be a non-democratic, non-accountable and a corrupt one.<sup>238</sup>

In three of the five littorals, namely Azerbaijan, Kazakhstan and Turkmenistan, we see all of the symptoms. For Iran and Russia, same can hardly be argued. Though Iranian budget relies heavily on resource revenues, the country cannot realize its full-production capacity since it has been under embargo for a decade and is unstable for big companies to invest due to the nuclear debate. The Russian budget also relies on natural resources; but for Putin, resources are

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<sup>237</sup> *Russiiskie vesti*, 6 March 1998, quoted in Richard Sakwa and Mark Webber, "The Commonwealth of Independent States, 1991-1998: Stagnation and Survival," *Europe-Asia Studies*, Vol. 51, No.3 (May 1999), p. 379.

<sup>238</sup> Thorvaldur Gylfason, "Lessons from the Dutch Disease: Causes, Treatment, and Cures," *Working Paper Series*, www.ioes.hi.is, August 2001, pp. 2-8; also see Michael Ross, "The Political Economy of the Resource Curse," *World Politics*, Vol. 51, Issue 2 (January 1999).

political, rather than economical, tools. He regards them more as a muscle on arm than cash in the pocket.

Azerbaijan, one of the remaining three littorals, could not have reached at its current economic status without benefiting from oil. Owing to oil, the Azeri *manat* gets stronger against other currencies; however a strong *manat* has a deep adverse effect on domestic production. As long as the state continues to make use of oil revenues to turn the cogs of the economy, non-oil sectors will soon be crowded-out.<sup>239</sup> Moreover, the increasing reliance on petro-money ends up in kleptocracy, corruption and ignorance of public opinion. kleptocracy, which includes distributing bribes along the steps of the hierarchy and buying state positions.<sup>240</sup> The state-led efforts to reduce misallocation and bolster transparency have all proved to be futile. The State Oil Company of Azerbaijan Republic (SOCAR), main contributor to the State Oil Fund itself also engages in corrupt activities.<sup>241</sup> No doubt, these “incomes” went into the pockets of inner-circles, never reaching the poor masses, and adding one more chain to the “corruption-misallocation-poverty” vicious cycle.

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<sup>239</sup> Bilgin, *Hazar'da Son Darbe*, pp. 136-8.

<sup>240</sup> Rasizade, “Azerbaijan Descending into the Third World after a Decade of Independence,” p.197.

<sup>241</sup> Under Ilham Aliyev’s vice-presidency, for example, the company was reported to have smuggled \$1 billion worth of Azeri oil annually to Georgia. Ibid, p. 199. About Aliyev Sn’s appointment of his close family members to high positons, Memmed İsmail says: “her kes [sic] bilir ki, Aliyev neyi becermese de tebligat maşınıni işletmeyi herkesten iyi becerir [everyone knows that Aliyev can operate telegram machine better than anyone].” Quoted in Bozalğanlı, *Şah-Mat: Bir Yarbayın Kaleminden Azerbaycan Gerçeği*, p. 312.

The situation in Kazakhstan also signals structural problems related with oil revenues. Upon its independence, foreign investment on oil sector boomed; more than a dozen big international companies, including BP, Shell and Exxon-Mobil, following the Chevron, have then been active in offshore drilling.<sup>242</sup> The government's target is to triple oil production in a decade,<sup>243</sup> which results in the necessity of new export routes. Nonetheless, the petro-money boom also crowds-out other sectors and enables the government cover budgetary and structural deficits by using petro-money instead of structural reforms. Indeed, company representatives are reported to say that investing in Kazakhstan may not generate profit, given high costs and high risks besides the chronic problem of arbitrary changes in "what Western companies thought were inviolable contracts ... at the will of governments."<sup>244</sup> As a matter of fact, in 2003, for example, the country declared a new Caspian development program to be valid by 2004 while in the following year, it made multiple changes in its national law and regulations including introduction of new taxation systems that increases the government's oil income.<sup>245</sup> The main reason for this move is the Kazakhstani belief that they were too generous; they wanted to reverse this by changing the terms of the contracts *unilaterally*. The reality is that, regardless increasing oil revenues, one third of the population still tilts poverty line.<sup>246</sup>

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<sup>242</sup> Nursultan Nazarbayev, *Kritik On Yil* (Ankara: ASAM, 2003), p. 109.

<sup>243</sup> Energy Information Administration, "Kazakhstan," [www.eia.doe.gov](http://www.eia.doe.gov).

<sup>244</sup> Crandall, *Energy, Economics and Politics in the Caspian Region: Dreams and Realities*, p. 85.

<sup>245</sup> Energy Information Administration, "Kazakhstan."

<sup>246</sup> Bilgin, *Hazar'da Son Darbe*, pp. 238-42.

In Turkmenistan, the picture is not different - just substitute “oil” with “natural gas.” Turkmenistan is a country evolving into status of “the wealthiest less developed state.” The natural gas reserves can enable the country survive without IMF or World Bank directives, yet the state drags its feet to spark development of non-gas sectors. Paradoxically, there is also a lack of willingness to develop gas sector: Though the country is in dire need of diversifying export routes, the ubiquity of Turkmenbashi<sup>247</sup> had not matched with modus operandi of international companies, which wanted liberalization. As it is the case with Azerbaijan and Kazakhstan, government exports natural resource for revenue; taxation is not proper and state is autocratic.<sup>248</sup>

All in all, the Caspian promises “rewards for all those far-sighted to invest: diversification of energy resources away from the turbulent Persian Gulf, development and marketization of the former Soviet states of the region, and vast profits.”<sup>249</sup> The Three Stage Plan will be an alternative avenue in front of

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<sup>247</sup> Turkmenbashi even controls agriculture, which is the second most important component of GDP (4.5%) after energy (30%). Top agricultural product is cotton; however, just like it is the case with energy sector, agricultural sector is heavily depended on Turkmenbashi’s mood. Reuters reports frequent crop failures “due to Niyazov’s decision to sow [cotton] seeds according to a set schedule without consideration of weather.” International Crisis Group, “Repression and Regression in Turkmenistan: A New International Strategy,” p. 15.

<sup>248</sup> Bilgin, *Hazar’da Son Darbe*, pp. 287-9. Niyazov era witnessed many cases incompatible with rational state administration. The important point here is whether it will go on or not: Gurbanguli Berdimuhamedov (as his recent signature on 11 May 2007 with Russia indicates) does not have the luxury to start *a priori*, but still has the option to change the status quo.

<sup>249</sup> Douglas Blum, “Sustainable Development and the New Oil Boom: Cooperative and Competitive Outcomes in the Caspian Sea,” May 1998, [www.csis.org](http://www.csis.org). For alternative approaches to the concepts of marketization and commodification, see Anna Gunter Frank,

Azerbaijan and Turkmenistan to break through the “villain” images of each other and to set a cooperative environment. This coziness can be bolstered by demises of Haydar Aliyev and Saparmurat Niyazov. If trans-Caspian pipelines can be realized between Turkmenistan and Azerbaijan, this can serve as a precedent for Kazakhstan, and provide an alternative outlet to international markets by linking Kazakh oil to the BTC.

The two other players in the Caspian region at the littorals’ level are Russia and Iran. Despite the fact that both have been on the scene of history for centuries, Russia as in the form of the Russian Federation is a new member to the international system of states. Facing a reduced “shore-length on the Caspian,” which has carried the side affect of reduced “share from the Caspian,” some Russian officials claimed that the Caspian states owe Russia for developing the region’s resources under the Soviet era.<sup>250</sup> This mentality, combined with rising energy prices and lack of alternative pipelines or sea routes, resulted in a Russia that settled its policies successfully around monopolizing and monopsonizing. As such, Russia accomplished controlling up- and downstream, something that we can define as becoming *monopoly* and *monopsony*; yet also triggered alarm bells especially for the downstream like the EU, as in the case of the Russian-Ukrainian dispute in 2006 and Russian-Belarusian

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*Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brasil* (New York: Monthly Review Pres, 1969); Walter Rodney, *How Europe Underdeveloped Africa* (Washington: Howard University Pres, 1974); EricWolf, *Europe and the People without History*, (Berkeley: University of California Pres, 1997); Walt W. Rostow, *Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Pres, 1960).

<sup>250</sup> Forsythe, “The Politics of Oil in the Caucasus and Central Asia: Prospects for Oil Exploitation and Export in the Caspian Basin,” pp. 55-6.



dispute in 2007. In line with this, a Russia participating into the Caspian version of the Three Stage Plan will earn a say over the future of the Caspian since the Three Stage Plan is based on joint action and exploitation. As such, Russia will both appease its “strategic imperative to control [Caspian] resources”<sup>251</sup> and accept that the Caspian here is at least a *penta*-poly/psony game.

While Russia focuses on controlling the upstream and downstream, Iran prefers to nuclearize itself with its hydrocarbon revenues. This makes Iran a hot topic on the international agenda. Despite the fact that Iranian authorities constantly reiterate that the quest for nukes is solely for generating energy, the international organizations like the International Atomic Energy Agency and the United Nations are concerned about proliferation.<sup>252</sup> Indeed, as a proof of the link between the Caspian and the OPEC (below), the Saudi Arabia allocated \$50 billion in line with its “strategy program to boost not only their [Saudi] production but their control over that thin margin of spare capacity in the global market that gives them a huge influence on prices.” If everything goes as planned, by 2009, they will be able to have 3 million barrels in reserve; which will be able to offset price effects of Iranian production level, and hence, “Iran will be much more vulnerable to international pressure.”<sup>253</sup> If Iranian declarations are not bluffs and Iran *bona fide* thinks that since oil reserves will

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<sup>251</sup> Ibid.

<sup>252</sup> George Perkovich, “Changing Iran’s Nuclear Interests,” *Policy Outlook*, available from [www.carnegieendowment.org](http://www.carnegieendowment.org), May 2005.

<sup>253</sup> Christopher Dickey, “The Oil Shield,” *Foreign Policy*, May-June 2006, p. 39.

dry off sooner or later<sup>254</sup> it is logical to sell them outside to generate cash instead of consuming inside and generate electricity. As such, a needs-based approach will make Iran either give up its nuclear project and import electricity, or go on building nuclear powerplant and export electricity to the Caspian littorals so that the region's hydrocarbon reserves can be translated into financial assets without being "wasted" domestically.<sup>255</sup>

To summarize, in line with the littorals' energy policies and approach to the Caspian dispute, a joint action model like the Three Stage Plan might be offered as a blueprint for cooperation. The implementation of the Plan will not only make a sea-or-lake dispute outmoded, but also fight with corruption at least at inter-state level. That is because once needs are defined, transparency will be indispensable for ensuring that everyone is satisfied, assuming that sharing the Caspian reserves will require scientific methods to be employed not only for a fair share but also for the maximum benefit from the reserve. The cooperation scheme will remove the pretext for the Caspian littorals (read Iran) seek nuclears to generate electricity – or, if the life of the reserve is not as much as it is predicted of desired, then all littorals may seek nuclears jointly, which is also a security valve against instabilities because in line with John Mearsheimer's theory, that is, nuclear proliferation can guarantee peace.<sup>256</sup>

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<sup>254</sup> According to BP, the Iranian reserves will be available for 93 more years given current level of production. British Petroleum, *Quantifying Energy: BP Statistical Review of World Energy*.

<sup>255</sup> If Iran wants to have nuclear weapon(s) in any case, that might be beneficial again with Iran trading nuclear technology with drilling technology.

<sup>256</sup> See his "Back to the Future: Instability in Europe after the Cold War," *International Organizations*, Vol. 15, No. 2 (Summer 1990), pp. 5-56.

Such a joint action scheme will require medium- and long-run plans to cover the life span of the reserve; hence it will exclude possibility of personifying the policies and of ambiguity in case of a leader change.

Above assumptions imply a kind of joint decisionmaking in terms of reserve development and exploitation; but do not presume a supranational entity to be created to replace the nation-state; nor a kind of regime change towards democracy. In international relations theory, states are still regarded to be the main actor, and their leaders are still predominantly perceived as the representatives of them. Instead, what we propose is that, since short-run is no longer the period for policymaking, acting on ad hoc basis will no longer be possible. While leaving fine-tuning options open, medium- and long-term policy making closes doors for wavering, which bolsters stability, and an investment friendly environment.

Within this scheme, one exemplory cooperation effort is the establishment of a gas-OPEC.<sup>257</sup> Though in April the Gas Exporting Countries' Forum met in Qatar with Russia, Iran and Turkmenistan being participants from the Caspian, natural gas is different from oil, and by nature, a gas-OPEC would be different from OPEC itself. Main reason behind this is that oil market is more flexible than that of natural gas since the latter is conventionally traded via fixed and inflexible pipeline routes. The liquefied natural gas (LNG) is traded too, but

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<sup>257</sup> For earlier attempts of Gas Exporting Countries' Forum, established in 2001, see Hadi Halouche, "The GECF: Is It Really a gas-OPEC in the Making?," *Oxford Institute for Energy Studies*, NG: 13 (June 2006).

cooled down to -160 degrees Celsius, it requires special cryogenics containers for transportation, and a regasification process; all of which make LNG 30% more costlier than pipeline gas.<sup>258</sup> Moreover, pipeline gas is traded in line with agreements covering 20-25 year-long period; hence sudden changes are not allowed without disregarding the principle of *pacta sunt servanda*.<sup>259</sup> Another point raised by Vladimir Socor, of Jamestown Foundation, is that Russia might oppose the idea of gas-OPEC in case it requires “ceding market share in Europe.”<sup>260</sup>

To avoid such a possibility of losing European markets, Russia led to establish a Central Asian gas OPEC., Russia inked a deal with Kazakhstan and Turkmenistan on 11 May 2007 for cooperation on hydrocarbons; and given the Iranian calls for creating a worldwide gas cartel embracing Venezuela and Bolivia,<sup>261</sup> Iran can be expected to join the cartel. The littoral left outside is Azerbaijan which, tilting towards the Western position, opposes the idea of a Russia-controlled cartel.<sup>262</sup> According to Socor, “Russia would be strongly placed to set cartel rules for allocating gas markets by capitalizing on Russia’s far superior export potential, its entrenched dominance in European countries,

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<sup>258</sup> Personal interview with Necil Kurtkaya, a BOTAŞ retiree, at World Energy Council Turkish National Committee Youth Workshop on Energy, Midi Hotel, Ankara, 19 May 2007. Also see Christopher Helman, “Shell Shocked,” *Forbes*, Vol. 178, No. 3 (14 August 2006), p. 104.

<sup>259</sup> *International Herald Tribune*, “Natural Gas Producers Take Step toward OPEC-like Carter,” 9 April 2007; and *Petroleum World*, “Russia Dismisses ‘gas-OPEC’ plans,” 9 April 2007.

<sup>260</sup> Vladimir Socor, “Gas Suppliers’ Cartel: Not an ‘OPEC,’ but Cartel All the Same,” *Eurasian Daily Monitor*, Vol. 4, No. 62 (29 March 2007).

<sup>261</sup> *Ibid.*

<sup>262</sup> Vladimir Socor, “Russia Poised to Lead an Evolving Cartel of Gas-Exporting Countries,” *Eurasian Daily Monitor*, Vol. 4, No. 70 (10 April 2007).

and its control of major existing transit systems and routes to Europe.”<sup>263</sup> According to us, if a Caspian OPEC is desired not to ensure Russian control within the cartel but to consider everybody’s interests; the cartel output might be pumped through BTC/BTE. This option not only enables the Baku-Tblisi-Erzurum (BTE) pipeline reach at its potential but also bring transit-country revenues to Azerbaijan as well as Georgia and Turkey, ensure supply security by diffusing upstream monopoly from Shah Deniz to other littorals. This option will not only provide and alternative (read non-Russian) outlet for Turkmenistan and Kazakhstan, both of which are depended heavily on Russian will; but also engage Iran into the Western theatre of energy.<sup>264</sup>

Hence, pooling the resources together will enable the littorals step beyond eschewing the futile discussion on the status of the Caspian; and start exploiting the subject of the discussion: hydrocarbons. For sure, littorals are the first ones to benefit from a needs-based approach demonstrated in Chapter 2. Contemporary energy economics suggest that with prices at \$60 on average, it is irrational to leave reserves uninvested and unexploited. It is contemporary politics’ role to embrace all littorals together at once to agree on a division-scheme and ensure all get what they need from the Caspian pie.

Agreeing that satisfaction of the littorals is the most sophisticated dimension, our model suggests that the picture would be far from complete without the

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<sup>263</sup> Socor, “Gas Suppliers’ Cartel: Not an “OPEC,” but Cartel All the Same.”

<sup>264</sup> One should remember that Iran in 2004 signed a deal with Austria to join Nabucco, but the deal has not been materialized yet.

transits, consumers, producers and MNCs, all of which we shall analyze in the next part.

#### **4.2 The Seven Dwarfs: “Virtual” Littorals**

As the “Snow White” section above elaborated on real littorals of the Caspian region, “Seven Dwarfs” section below will elaborate on virtual littorals, namely the transit countries, downstream countries and other producers, as well as big international players like MNCs, the US, the EU and China.

As mentioned above frequently, the Caspian is a landlocked reserve; and the deal is not related merely with the difficulty of discovering the reserve and exploiting it but also with finding a gateway that enables the crude as well as the processed hydrocarbon products reach international markets.<sup>265</sup> Two of the countries we shall examine as transit countries are Georgia and Turkey.<sup>266</sup>

Selection of a transit country requires sophisticated and time consuming analysis of multiple variables. One is economics. In each and every project, there is an associated feasibility survey that formulates under which conditions the project will be able to pay itself back. Though the energy industry is capital

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<sup>265</sup> Marcus Samuel, quoted in Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, p. 114

<sup>266</sup> For time and space considerations, we studied only on Georgia and Turkey despite the host status is not and cannot be limited to them. Afghanistan, Armenia, Bulgaria, China, Greece, Iran, and Pakistan can be considered as hosts. For further, see Mustafa Aydın, “Political (In)stability in the Caucasus,” p. 159, in Antonio Marquina and Hans Günter Brauch (eds), *Political Stability and Energy Cooperation in the Mediterranean* (Madrid: UNISCI, Mosbach: AFES-PRESS, 2000).

intensive, economics is the least important aspect for investment compared to reliability and security.

Pipeline construction is a once-and-for-all adventure; once a pipeline is built up, there is no room to provide flexibility in terms of increasing or decreasing the volume, or changing the route. That is to say, from the time the pipeline gets ready to be operational on, almost all of the bargaining power lies in the hands of the transit country. Besides lack of flexibility, there is also lack of an internationally agreed regime, doctrine or a customary rule. History is full of stories related with the desires of ambitious transit countries resulting in demise of pipelines,<sup>267</sup> making reliability the top precondition.

Besides reliability, security is more important than economics in choosing the transit country. Ensuring the safety of the pipelines is important because throughput is important. In case a certain level passing through the line cannot be guaranteed, then the entire *raison d'être* of a pipeline, i.e. to supply, becomes null and void. That is because, inter alia, “energy security can mean a *reliable* and *adequate* supply.”<sup>268</sup> The Dagestan bypass, Blue Stream and North European Gas Pipeline prove the hypotheses that uninterrupted supply dominates over economic concerns related with the amount of sunk costs expended under titles of line-pipes, pump stations, and control units.

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<sup>267</sup> Stevens, *Cross Border Oil and Gas Pipelines: Problems and Prospects*,.

<sup>268</sup> Crandall, *Energy, Economics and Politics in the Caspian Region: Dreams and Realities*, p. 21.

Given the information above, selection of Georgia and Turkey as transit countries for the Caspian reserves is not a surprise. Both provide a good alternative as being non-Russian and non-Iranian; meaning “relatively more reliable” in the eyes of the main consumer, the West. The route passing Georgia and Turkey bypasses Armenia owing to the conflict between Azerbaijan over Nagorno-Karabakh, and Turkey’s South East Anatolia owing to the PKK insurgency in addition to the difficult terrain -despite the fact that terrain, regarded as a burden to the economic budget, will by definition be the least important aspect.

Security of the pipeline routes is not enough to guarantee throughput. There is also the problem of ensuring uninterrupted supply. One recent example is January 2007, Georgia turned out to be a replica of Ukraine in 2006 when Russia threatened to cut supply of natural gas to Georgia unless the latter agrees to increase the price. Georgia sought Iranian gas to overcome its independence on Russia, but as a part of a long-run solution, it also signed a tripartite treaty with Turkey and Azerbaijan on sharing the gas from Shah Deniz field that flows into Turkey via a BTC-parallel pipeline. Turkey welcomed the idea of sharing the gas not only because it has been supporting all post-Soviet countries on their way to acquire total independence, but also because Turkish gas markets have already been overbooked.<sup>269</sup>

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<sup>269</sup> On the recent developments related with Shah Deniz Project and related take-or-pay agreements, see Firat Gazel, “Şahdeniz Skandalı,” *Bugün*, 29 June 2007.



As Turkey suffers from oversupply, China suffers from overdemand. Chinese oil demand is expected to double itself by 2030. To ensure its supply security, China engages in a bilateral diplomacy with upstream countries. One example here is Kazakhstan, and Kazakhstani oil has been flowing into China since mid2006 through Atrou-Daqing pipeline; which passes all the way through instable Xingjian region. One can argue here that China consciously made the pipeline pass through Xingjian since security of the pipeline will serve as a pretext for China to militarize the region further and suppress separatist Uygurs.

In any case, increasing Chinese demand is going to create an additional pressure on the international energy markets, which is a fact seen well by the US. The US imports two thirds of its oil consumption; and this level is expected to increase by 32% according to the 20 year period projection of the US National Energy Policy.<sup>270</sup> This ever increasing dependency makes the US, like others, securitize energy supply.<sup>271</sup> Hence, just like the US firms which have the technology and capital required by the upstream countries to exploit their own reserves,<sup>272</sup> the US government is quite active in behind-the-curtain diplomacies that influence the determination of the routes of the pipelines, as well as on-the-scene show that protects the line by training national security

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<sup>270</sup> The United States National Energy Policy, available from [www.whitehouse.gov](http://www.whitehouse.gov), May 2001, p. 1-1.

<sup>271</sup> Baghdad, "The Caspian Sea Geo-Political Game;" and Clawson (ed), *Energy and National Security in the 21st Century*.

<sup>272</sup> Fisher, "A Meeting of Blood and Oil: The Balkan Factor in Western Energy Security," Rashid, *Taliban: Islamiyet, Petrol ve Orta Asya'da Yeni Büyük Oyun;* and Aydın, "Political (In)stability in the Caucasus," p. 159.

forces of Georgia<sup>273</sup> and ensuring that Ceyhan terminal in Turkey is just 130 kilometers away from Incirlik airbase.<sup>274</sup>

The case with the Europe is no different from the US. With the current trend, the EU's energy needs is expected to be met by imports up to 70% in coming two or three decades, in contrast with 50% ratio today.<sup>275</sup> The *Green Paper* defines the case as "Gulliver in chains;" meaning that the EU has a serious potential that can hardly be realized without adequate energy supplies. The Europeans on the one hand sign new agreements to ensure their own national supply, like the Baltic Pipeline, or Northern Europe Gas Pipeline, which increases Germany's, hence the Union's dependence on Russia; on the other hand they want to reach at the Central Asia through projects like Interstate Oil and Gas to Europe (INOGATE) and Transport Corridor Europe-Caucasus-Asia (TRACECA), which target to reduce asymmetrical and intolerable dependence on one external, i.e. non-EU, supplier.<sup>276</sup> In this picture, Turkey has a special place by being able to act as a bridge for Central Asian resources through the BTC and the BTE, and for the Russian resources through the Blue Stream and proposed Samsun-Ceyhan pipeline.<sup>277</sup>

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<sup>273</sup> Klare, *Resource Wars: The New Landscape of Global Conflict*. For a contrary argument that claims that the MNCs might not rely on government support, see Theodore H. Moron, "Transnational Strategies of Protection and Defence by Multinational Corporations: Spreading the Risk and Raising the Cost for Nationalization in Natural Resources," *International Organization*, Vol. 27, No. 2 (Spring 1973).

<sup>274</sup> Greg Muttitt and James Marriott, *Some Common Concerns: Imagining BP's Azerbaijan-Georgia-Turkey Pipelines System* (Lincolnshire: Abbey Print, 1993), p. 38.

<sup>275</sup> European Commission Green Paper, *A European Strategy for Sustainable, Competitive and Secure Energy*, 8 March 2006, available from <http://ec.europa.eu>.

<sup>276</sup> About INOGATE and TRACECA, see [www.inogate.org](http://www.inogate.org), and [www.traceca.org](http://www.traceca.org).

<sup>277</sup> John Roberts, "The Turkish Gate: Energy Transit and Security Issues," *CEPS*, No. 11 (October 2004), available from [www.ceps.be](http://www.ceps.be).

As the EU is no US to enjoy and sustain military presence in diverse parts of the world,<sup>278</sup> it consolidates itself through a *mission civilisatrice*, and points governmental mismanagement and lack of democracy as the root of all problems. But this method seems to be futile since the reliance on oil revenues and the lack of proper taxation make the Caspian littorals roll towards autocracy, with the welfare state notion being highly ignored.<sup>279</sup> Today, most of the population around the Caspian live below the poverty line,<sup>280</sup> the capital cities got used to go on with energy shortages,<sup>281</sup> and the state budgets became more and more tied to hydrocarbon revenues. As mentioned above, despite we do not have resource-related intra-state conflicts like those in Angola or Sierra Leone<sup>282</sup> in the Caspian, there is no reason that prevents us from thinking that this will not be the case unfolding in the Caspian. In Caspian, we might be more likely to witness evolution of “a state within a state,” revolting against the inner bureaucracy, who widely practices kleptocracy, and enjoys prevalent supply of signing bonuses.<sup>283</sup> Moreover, there are also (i) the problem of lack

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<sup>278</sup> See Klare, *Resource Wars: The New Landscape of Global Conflict*, esp. chap. 4.

<sup>279</sup> The littorals, even when they know there is no commercially mammoth oil or gas in the reserves, they tend to hide or ignore this information because "the greater the oil reserves, the more tolerant the West towards the lack of respect for human rights and democracy." Rasizade, "Azerbaijan after Heydar Aliev," pp. 153-4. For a contrary argument, see Michael Ross, "Does Oil Hinder Democracy?," *World Politics*, No. 53 (2001), pp. 235-61.

<sup>280</sup> Bilgin, *Hazar'da Son Darbe*; Rasizade, "Azerbaijan Descending Into the Third World After a Decade of Independence," p. 191; and Politkovskaya, *Putin'in Rusyası*.

<sup>281</sup> Bilgin, *Hazar'da Son Darbe*, p. 157; and Rasizade, "Azerbaijan Descending Into the Third World After a Decade of Independence," p. 193.

<sup>282</sup> Pegg, "Globalization and Natural-Resource Conflict."

<sup>283</sup> Rasizade, "Azerbaijan Descending Into the Third World After a Decade of Independence," p. 195, 197. The article also points out interesting data about SOCAR smuggling oil through Georgia.

of investment which sets the ground for the Dutch Disease,<sup>284</sup> and (ii) the problem of accountability which makes the state, in Scott Pegg's terminology, internationalized, centralized as well as privatized.<sup>285</sup>

These problems are not peculiar to the Caspian; the OPEC members also suffer from problems emanating from having a resource rich territory. Nonetheless, the OPEC, holding roughly 37% of world oil reserves, has a powerful role to play to affect the world oil prices. The Organization's move in 1970s was successful in driving the prices up, but the "group spirit" dissipated quickly, resulting in the literature employing prisoners' dilemma type of game theories. However, even if the opposite was true, even if the OPEC had a serious ability to observe production quotas and keep the non-OPEC producers in line with the OPEC policy,<sup>286</sup> the increasing prices would encourage investment in other parts of the world to find new reserves, and improvements in technology made costs of exploring and drilling relatively reduced and individual consumers more energy efficient.<sup>287</sup>

It is not only the Caspian that is affected from the prices (which are now not only under the influence of supply and demand, but also of government

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<sup>284</sup> Bilgin, *Hazar'da Son Darbe*, p. 136-7.

<sup>285</sup> State gets internationalized because it increasingly becomes dependent on international markets for oil revenues. It becomes centralized because the state claims "exclusive ownership" over natural resources. Lastly, it evolves to be a privatized state because it uses oil resources to generate political influence. Pegg, "Globalization and Natural-Resource Conflict," pp. 86-7.

<sup>286</sup> Chalabi, "Gulf Oil vs. The Oil of the Caspian Sea," p.158. For OPEC's production-cut attempts after 1998 Asian Crisis, its success in pushing price but failure to stop at a reasonable level so that price rise do not reduce demand, see Kohl, "The Perfect Storm: OPEC and the World Oil Market," pp. 68-72.

<sup>287</sup> Chalabi, "Gulf Oil vs. The Oil of the Caspian Sea," pp. 156-7,.

taxation and subsidization policies, and of speculation<sup>288</sup>), but also energy firms.<sup>289</sup> Overall, energy industry enjoyed a 10% increase in its revenue in comparison with last year owing largely to the price level expected to swing around \$60 throughout 2007.<sup>290</sup> The high prices and high profit means yesterday's risks turning into today's opportunities. This reality turned once-theoretical pipelines from the Caspian into practice. Despite there are arguments that say the companies have been in the Caspian not because the Caspian is a huge potential,<sup>291</sup> but because there is merely nowhere else to go;<sup>292</sup> the littorals of the Caspian present a relatively more investor-friendly environment than do their Middle Eastern interlocutors.<sup>293</sup> Azerbaijan, Kazakhstan, and Turkmenistan all ratified the European Energy Charter which creates a legal environment to protect investment and investor.<sup>294</sup> Yet, more investment may mean more hydrocarbon revenues, which means increasing likelihood to drawn into the resource curse quagmire by misallocating the revenue, or more spending on arms.<sup>295</sup>

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<sup>288</sup> Emerson, "The Relevance of Caspian Oil for the World Market," p. 182.

<sup>289</sup> For an interesting article arguing that it is the US that benefits from high oil prices, see Rutledge, "Profitability and Supply Price in the US Domestic Oil Industry: Implications for the Political Economy of Oil in the Twenty-First Century."

<sup>290</sup> This number is calculated by taking 2005 as index year and \$51 per barrel as index price. See *World Energy Outlook 2006*, p. 61.

<sup>291</sup> British Petroleum, *Statistical Review of World Energy*, p. 6; Salameh, "Caspian Oil is no Middle East;" and Amineh, *Towards the Control of Oil Resources in the Caspian Region* (New York: St Martin's Press, 1999), pp. 38-9.

<sup>292</sup> Nanay, "The Industry's Race for Caspian Oil Reserves," pp. 115-7.

<sup>293</sup> Ibid.

<sup>294</sup> Kohl, "The Development of Caspian Sea Oil: Implications for OPEC," p. 130.

<sup>295</sup> Michael T. Klare, "The Arms Trade in the 1990s: Changing Patterns, Rising Dangers," *Third World Quarterly*, Vol. 17, No. 5 (1996), esp. p. 871; and John Mitchell, *The New Economics of Oil: Impacts on Business, Geopolitics and Society* (London, Earthscan, 2000), pp. 185-89.

To conclude, it is not only the littorals that constitute the Caspian region. The Caspian as the way we understand here is not made up of five littorals, which just build the upstream complex. The Caspian region embraces the transit and downstream countries too because without them, the resources cannot be supplied to the international markets. Besides them, our region is heavily affected by global developments of changes in supply, demand, and price; hence big consumers like China, the US and the EU as well as big suppliers like the OPEC and the MNCs have an influence over the Caspian. Moreover, changes in overall security and stability caused by an intra-regional strife, or an extra-regional movement like terror is important too --which, in time, may lead to establishment of a region-wide security organization (see below, footnote 313). As such, our level of analysis is "the Caspian region," which actually turns out to be a "mega-region," ranging from, but not limited to, upstream, downstream, transit countries (and pullings and haulings among the lobbies) as well as MNCs.

## CHAPTER V

### CONCLUSION

“Since future prices cannot be known so reserves cannot be quantified”<sup>296</sup> and “[y]ou cannot extract what you have not discovered;”<sup>297</sup> we do not know how much oil and gas is exactly available in the world, leave aside the Caspian. Yet, hydrocarbons are finite resources. Basing on data on proven reserves and on reserves-to-production ratios, mankind has roughly 40 more years of oil, 65 of natural gas, and 155 of coal.<sup>298</sup> Nonetheless, increasing scarcity of conventional sources will make non-conventional sources (like tar sands or heavy oil, or alternative and renewable energy) more feasible. As the frequently quoted phrase says: “Just as the stone age did not end because men

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<sup>296</sup> Andrews-Speed, Liao and Dannreuther, “The Strategic Implications of China’s Energy Needs,” p. 76.

<sup>297</sup> Julian Darley, *High Noon for Natural Gas: The New Energy Crisis* (White River Junction, Vermont: Chelsea Green Publishing Company, 2004), p. 91.

<sup>298</sup> Ibid, pp. 91-120; British Petroleum, *Quantifying Energy: BP Statistical Review of World Energy*, p. 6, 22, 32; Kenneth S. Deffeyes, *Beyond Oil* (New York: Hill and Wang, 2005), pp. 3-12; Smil, *Energy in Crossroads: Global Perspectives and Uncertainty*, esp. pp. 180-238.

ran out of stones, so the oil [read: hydrocarbons] age will not end because man runs out of oil [again, read: hydrocarbon] reserves.”<sup>299</sup>

Still, we are in the “Hydrocarbon Era,” and one of the promising areas for resource seeking is the Caspian; however, the problem is lack of a legal status. Throughout the 19<sup>th</sup> century, Russia and Persia used the watermass together for fisheries; and they inked a regime through the 1921 Friendship Treaty and 1940 Treaty of Commerce and Navigation, none of which settled either the limits of respective sea boundaries or the ways to exploit the subsea resources.<sup>300</sup> Because today fisheries gave their seat to hydrocarbons as the crucial source of revenue both for individuals and states, and because there is no longer two but five littorals, there arose the question whether the Caspian was a sea or a lake, the answer of which will determine how to divide and allocate the Caspian. The argument in this thesis was that the Turkish Three Stage Plan designed to share waters of the Euphrates and Tigris could serve as a blueprint for the littorals to solve this dispute. In doing so, the thesis first introduced different approaches of regionalism, then analyzed the problem in the Caspian, and afterwards introduced the Turkish Three Stage Plan as a model to solve the problem.

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<sup>299</sup> Andrews-Speed, Liao and Dannreuther, “The Strategic Implications of China’s Energy Needs,” p. 76.

<sup>300</sup> Bahgat, “Central Asia and Energy Security,” p. 4. It should also be underlined that although Azerbaijan, Kazakhstan and Turkmenistan were and are not signatory parties to these treaties, via 1991 Minsk Agreement, and its extended version the Alma Ata Declaration, they agreed to respect treaties signed by the USSR. Croissant and Croissant, “The Legal Status of the Caspian Sea: Conflict and Compromise,” p. 25; Raczka, “A Sea or a Lake? The Caspian’s Long Odyssey,” p. 206.



In the first chapter, which served as a theoretical framework and was dedicated to the literature, we reached to the conclusion that despite all the ink poured, we have no all-inclusive or universal definition of "region" or "regionalism" available at hand. It seems that the best way is to adopt an "I-know-when-I-see-one" approach. Basing on this vague approach, this thesis applied Buzan's security complex theory into the Caspian. We "knew" that the Caspian was a region "when we saw it," because it has formed a security complex which has been composed of states as well as non-state actors who have an interest in the subsoil treasury of the Caspian. A move of one affects the other, as the BTC affects Russia and Iran as bypassed countries, and as Turkmenistan, Kazakhstan and Russia agreement affected downstream, and also upstream, countries by forming a block vis-à-vis them. Furthermore, the producers securitize the energy sector as proven well by the Iranian navy intervening into BP's offshore exploration on behalf of Azerbaijan, and Russia's ongoing Chechnya problem; the consumer countries', especially the US and China's concerns about throughput securitize the supply; and the OPEC members as well as the MNCs attribute an importance on the production, and hence the price issue is securitized too. Therefore, in the Caspian, *"major security perceptions and concerns are so interlinked that [the states'] national security problems cannot reasonably be analyzed or resolved apart from one another."*<sup>301</sup>

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<sup>301</sup> Buzan, Waever and de Wilde, *Security: A New Framework for Analysis*, p. 12; italics original.

By using the term "regionalism," this study implied a notion of cooperation between, but not limited to, states -- as elaborated above, our level of analysis is "the Caspian region," which actually is a "mega-region."—This thesis agreed with Etel Solingen that "statist-nationalist and confessional groups" are war-prone. Motivated by the idea(l) of cooperation, a solution to the ongoing dispute on hydrocarbons was formulated as a basis for mutual understanding and cooperation, which corresponds to her definition of an "international coalition."

As such, some argued oil and gas of the Caspian could provide a ground for cooperation and serve as coal and steel of Europe in the case of the ECSC,<sup>302</sup> ignoring the fact that in Europe, the parties wanted to contain Germany, the potential cause of World War III; and the one to be contained wanted international recognition in return. In the Caspian, there is no one to be contained as an aggressor or catalyst of war; moreover, each and every state in the region enjoys international recognition. Since four of the five littorals are 15-16 year-old-states, they are not ready or willing to give up part of their sovereignty in return for a joint action scheme under a supranational entity. Also, "European regionalism" pays attention to principles and values like liberal and pluralist democracy, rule of law, and market economy,<sup>303</sup> all of which are alien to the littorals at varying degrees. And in the EU example,

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<sup>302</sup> Süleyman Demirel, quoted in İskit, "Turkey: A New Actor in the Field of Energy Politics," p. 66.

<sup>303</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, p. 32, 45, 69-70.

though there was a "pool" of resources, there was also an agreement on who had what. It is not the case in the Caspian either.

As the EU is not a model for Caspian regionalism, we proposed that Turkey can be, through bringing a creative proposal to solve the Caspian dispute by its Three Stage Plan designed to share waters of the Euphrates and Tigris rivers. At first sight, it sounds odd to implement a water-sharing plan into an oil-related case. Indeed, the two resources share many similar characteristics: Both are essential to sustain routine life, both are finite, and scarcity of both increases as population increases. An additional problem is that usually both of them carry transboundary characteristics, bearing disputes on ownership. Thus, it is possible to implement the Three Stage Plan into the Caspian.

The Turkish proposal, which we analyzed as a method to solve the Caspian dispute and act as a catalyst for regionalism, is composed of three stages as its name reveals. The first is dedicated to data gathering. Hydrology, meteorology, volume and quality related data is to be exchanged and verified. At the second stage, land is to be examined. By doing so, fertile and irrigable lands as well as suitable crop patterns are to be identified. The last stage is reserved for determining water requirements.<sup>304</sup> As such, the Three Stage Plan is a needs-based approach trying to accomplish a win-win solution.<sup>305</sup>

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<sup>304</sup> Özal and Altınbilek, "Water and Land Resources Development in South Eastern Turkey," pp. 218-9.

<sup>305</sup> Kibaroglu, "Water for Sustainable Development in Euphrates-Tigris River Basin."

The alternative, i.e. zero-sum, is quite an old-fashioned model to be a game since a game requires at least two to play; and according to the rationality assumption, no rational one wants to enter into a relation out of which he is going to lose. Hence, win-win is the most preferred solution in international relations. The question here is the players: *Who* will win? People, ideally, should come first. The resources should first feed the native population both because their welfare will turn into welfare of the country, and because their exclusion will result in rebellion and unrest, as is the case in Nigeria. As such, the Three Stage Plan proposed to take daily needs into consideration, and the Plan to be implemented in the Caspian will follow the suit by determining daily needs ranging from fueling an individual car to running the worldwide industry.<sup>306</sup>

As we built on the Grimm Brothers' fairy tale *Snow White*, and as the original story starts with describing who Snow White was, we first "described" the real littorals themselves by looking at their energy policies. One common theme among the corrupt Azerbaijan, wavering Kazakhstan, nuclearizing Iran, "Putin"izing Russia, and ambiguous Turkmenistan is their need of cash to fuel their economies. A state naturally seeks to improve its economic status, but when it comes to doing so by extracting natural resources, it carries the risk to cause more problems than it actually solves. This is called the Dutch

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<sup>306</sup> Nonetheless, it is not easy to reach at the grassroots without reaching at the top-tier first. See Mert Bilgin, "States in Transition in post-Soviet Era," unpublished PhD thesis submitted to METU, 2005.

Disease.<sup>307</sup> In three littorals, namely Azerbaijan, Kazakhstan and Turkmenistan, we see all of the symptoms while for Iran and Russia, the same can hardly be argued. Though Iranian budget relies heavily on resource revenues, the country cannot realize its full-production capacity since it has been under embargo and is regarded to be unstable for big companies to invest due to the nuclear debate. Russian budget relies on resource revenues too; but for Putin, resources are political, rather than economic, tools - he regards them more as a muscle on arm than cash in the pocket.

Azerbaijan, one of the three Dutch Disease littorals, could not reach its current economic status without benefiting from oil.<sup>308</sup> The increasing reliance on petro-money ends up in kleptocracy, corruption and ignorance of public opinion. The situation in Kazakhstan also signals mismanagement: despite increasing oil revenues, one third of the population tilts towards poverty line.<sup>309</sup> The picture is not different in Turkmenistan - just substitute “oil” with “natural gas.” Turkmenistan is a country evolving into the status of “the wealthiest less developed state.” As it is the case with Azerbaijan and Kazakhstan, government exports natural resource for revenue; taxation is not proper and state is autocratic.<sup>310</sup> Nonetheless, the model proposed here is not a cure for the Dutch Disease. The idea here is not to create a utopia but follow Hypocrite’s path and not to cause any more damage. In line with Scott Pegg’s thesis, we

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<sup>307</sup> Thorvaldur Gylfason, “Lessons from the Dutch Disease: Causes, Treatment, and Cures,” *Working Paper Series*, www.ioes.hi.is, August 2001, pp. 2-8.

<sup>308</sup> Bilgin, *Hazar'da Son Darbe*, pp. 136-8.

<sup>309</sup> *Ibid*, pp. 238-42.

<sup>310</sup> *Ibid*, pp. 287-9.

assumed that these states are highly likely to face stationary bandits that challenge state authority. In order not to evolve into Nigeria<sup>311</sup> or Angola,<sup>312</sup> the littorals might propose a joint security organization,<sup>313</sup> which may function not only against internal (civil unrest) but also external (international terror) threats, and may serve as a common platform between international organizations like NATO, who declared its dedication to energy security in the Riga Summit and Black Sea Economic Cooperation (BSEC), whose recent summit in İstanbul focused on Russian proposal of building the Southern Stream gas pipeline as oppose to the Nabucco.<sup>314</sup>

Among the littorals, Iran is the most popular one. On tv, newspapers, journals and even newly published books, we come across with something related with Iran. The reason of this is the country's nuclearization project. Iran, being the second richest country in terms of oil after Saudi Arabia and gas after Russia,

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<sup>311</sup> Sala-i-Martin and Subramanian, "Addressing the Natural Resource Curse: An Illustration from Nigeria;" Yergin, *The Prize: The Epic Quest for Oil, Money and Power*; and *World Energy Outlook* (Paris: IEA, 2004). Also see British Petroleum, *Strategic Review of World Energy 2006*; Nigerian National Petroleum Corporation, [www.nigerianoil-gas.com](http://www.nigerianoil-gas.com); and *Shell Nigeria Annual Report 2005*, available at Shell's official website [www.shell.com](http://www.shell.com).

<sup>312</sup> Geoff D. Porter, "Islamist Terrorism and Energy Sector Security in Algeria," *Terrorism Monitor*, Vol. 5, No. 12 (21 June 2007).

<sup>313</sup> Indeed, such schemes are voiced from time to time, the last corresponding with the US desire to be active in the Caspian as well as the Middle East. While the US-led initiative is titled as the Caspian Defence, the Russian-led one is the Casfor. Even this competing initiatives which are currently on paper proves that it is not easy to exclude great powers. Such a common scheme, i.e. joint action against a common enemy, be domestic rebels or international terrorists, may help myth-abandoning and region-building. As such, cooperation both "de-territorializes" the threats from the national level and "re-territorializes" them to the regional framework. See Fabrizio Tassinori, "Security and Integration in the EU Neighborhood: The Case for Regionalism," *CEPS Working Document*, No. 226 (July 2005), esp. pp. 10-1.

<sup>314</sup> The Russian argument is that in case Turkey had not dragged its feet to extend eh Blue Stream, Russia would not have considered another sub-Black Sea pipeline. See Seçkin Ürey, "Rusları Mavi Akım'da Reddettik Ortaya Güney Akım'ı Çıkardılar," *Sabah*, 28 June 2007; Neriman Özcan, "Türkiye Soğuk Davrandı," *Cumhuriyet*, 28 June 2007; Mine Esen and Merve Arkan, "KEİ'ye Enerji Gölgesi," *Cumhuriyet*, 26 June 2007; and BSEC İstanbul Summit Declaration, [www.bsec-organization.org](http://www.bsec-organization.org), 25 June 2007.

wants to add “nuclears” on this list of “second-after”s. That is to say, Iran in the future might be a close follow-up of North Korea, withdraw from the NPT and test its own nuclear weapons. But currently, the Iranian rhetoric is based on ensuring energy security since oil reserves will dry off sooner or later, and even if reserves have longer life than they estimate, it is logical to sell them instead of consuming domestically for generating electricity. As such, a needs-based approach will make Iran either give up its nuclear project and import electricity (as it will from Turkey basing on the agreement dating 31 May 2007),<sup>315</sup> or go on building nuclear power plants and export electricity to the Caspian so that the region’s reserves can all be translated into cash without being “wasted” domestically. In any case, a resource-sharing model will help Iran in its *bona fide* search for nuclear energy.

The last littoral is Russia, that uses energy revenues in a relatively rational way. Capitalizing on the sky-high energy prices, Putin’s Russia stepped up to realize the *Energy Strategy 2020*. The document reflects Putin’s previous thesis in his academic studies; and is based on putting the state at the center of the energy sector so that Russia can rise as an important and powerful actor in the international arena. In realizing this Strategy, step by step, Putin got rid of energy barons, ensured state control over the resources, squashed political opposition, and set Russia effectively back into the international political game. But his eight-year tenure which *ceteris paribus* will end in March 2008

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<sup>315</sup> Special thanks to my colleague Elif Haliloğlu for providing me the details of the agreement.

also had problems in realizing some aspects of the Strategy. First comes transparency and competition, followed by efficiency and conservation, ending up in attracting foreign investment. Russian benefit from joining the Caspian model here will increase transparency and stability (since exploitation and sharing has to be totally transparent), both of which bolsters investment not only on resources but also on new technologies to exploit and also conserve better. Moreover, since our model is based on cooperation and joint action, Russia, along with the other littorals, will also gain a say over all the Caspian, not limited with its own section; and as such will gain an opportunity to appease ideas that “Russia has a strategic imperative to control [Caspian] resources” for the purpose of “strengthening Russia’s political and military influence”<sup>316</sup> which had experienced a decline owing to political weakness derived from internal power struggles, and late 1990s economic crisis.<sup>317</sup>

As the *Snow White* tale has seven dwarfs, “the Caspian” we analyze here has seven non-littoral members. Since our region is heavily affected by global developments in supply, demand, and price; big consumers like China, the US and the EU as well as big suppliers like the OPEC and the MNCs have an influence over and interest in the Caspian. Within this framework, the pipeline routes are important too. We studied Georgia and Turkey, both being the transit countries for the Caspian reserves, and both having internal instabilities that might carry the risk to distort throughput.

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<sup>316</sup> “The Politics of Oil in the Caucasus and Central Asia: Prospects for Oil Exploitation and Export in the Caspian Basin,” pp. 55-6.

<sup>317</sup> Aydın, “Political (In)stability in the Caucasus,” p. 154.



Serving as a transit country is not an easy task. While Georgia is concerned mainly with separatism, Turkey is concerned with maintaining its status as a pipeline transit. For Turkey wants to bolster its role as an energy corridor from the East to the West, and in the meantime diversify its resources; this project can breed two risks: One is increasing pressure on the Straits in case bypass routes cannot meet the extra volumes of oil and gas; while the other is increasing the likelihood of sabotages. Another problem for Turkey is oversupply, which forces the country pay for the gas it does not and cannot consume; while it is not allowed to resale the excess amount. As the Turkish concern is oversupply, China suffers from overdemand. Chinese oil demand is expected to increase by 150% by 2030.<sup>318</sup> To ensure its supply security, China engages in a bilateral diplomacy with upstream countries. One such example is Kazakhstan, and Kazakhstani oil has been flowing into China since mid-2006 through Atrou-Daqing pipeline; which passes all the way through Xingjian, an instable area in western China. The argument presented here was based on securitization of the pipeline route in order to suppress separatist Uygurs.

In any case, increasing Chinese demand is to create an extra pressure on the international energy markets, which is a fact seen well by the US. The US today imports two thirds of its oil consumption; and the trend is to rise; making

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<sup>318</sup> International Energy Agency, *World Energy Outlook 2004*, p. 264.

the US, like others, securitize energy supply.<sup>319</sup> Hence, the US government is quite active in behind-the-curtain diplomacies that influence the determination of the routes of the pipelines, as well as on-the-scene show that protects the line by training national security forces of Georgia<sup>320</sup> and ensuring that Ceyhan terminal in Turkey is just 130 kilometers away from İncirlik airbase.<sup>321</sup>

The case with Europe is not different from the US. With the current trend, the EU's energy needs is expected to increase, too.<sup>322</sup> Despite the *Green Paper* underlies the need for joint action,<sup>323</sup> the EU is still far away from pursuing a monolithic energy policy. The Europeans on the one hand sign new agreements to ensure their "own" national supply; while on the other hand want to reach "together" at Central Asia.<sup>324</sup>

Besides individual approaches to the energy issues, the EU also adopts a Union-wide policy to point to governmental mismanagement and lack of democracy as the root of all problems in Central Asia and Caucasus. It is a fact that the reliance on oil revenues and the lack of proper taxation make the Caspian littorals roll towards autocracy, with the welfare state notion being

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<sup>319</sup> Baghdad, "The Caspian Sea Geo-Political Game," p. 116; and Clawson (ed), *Energy and National Security in the 21st Century*..

<sup>320</sup> Klare, *Resource Wars: The New Landscape of Global Conflict*, p. 157.

<sup>321</sup> Muttitt and Marriott, *Some Common Concerns: Imagining BP's Azerbaijan-Georgia-Turkey Pipelines System*, p. 38.

<sup>322</sup> European Commission Green Paper, *A European Strategy for Sustainable, Competitive and Secure Energy*, 8 March 2006, available from <http://ec.europa.eu>.

<sup>323</sup> There are also calls for a "European Energy Minister," voiced originally by then-French prime minister Dominique deVillepin and recently by Shell's CEO Jeroen Van derVeer. Carl Mortished and Steve Hawkes, "Shell Calls for Powerful EU Energy Supreme," *International Herald Tribune*, 2 July 2007.

<sup>324</sup> Roberts, "The Turkish Gate: Energy Transit and Security Issues."

highly ignored; yet, these problems are not peculiar to the Caspian. The OPEC members also suffer from problems emanating from having a resource rich territory. Nonetheless, the OPEC enjoys being on the driver's seat to affect the world oil prices. The Organization proved to be able to drive the prices up in the 1970s, but the problem of cheating was there to squash the group spirit. However, even if the OPEC had a serious ability to observe production quotas and keep non-OPEC producers in line with the OPEC policy,<sup>325</sup> the increasing prices would encourage investment in other parts of the world to find new reserves, and improvements in technology made costs of exploring and drilling relatively reduced and individual consumers more energy efficient.<sup>326</sup>

It is not only the OPEC's production capacity and quotas that affect the Caspian; the OPEC is affecting the future projections of the littorals too: One scheme that is currently on the agenda is the establishment of a gas-OPEC,<sup>327</sup> as well as a Central Asian gas OPEC. As mentioned above, if a Caspian OPEC is desired not to ensure Russian control within the cartel but to consider everybody's interests; the cartel output might be pumped through BTC/BTE, which would help BTE realize its potential and also bring transit-country revenues to Azerbaijan as well as Georgia and Turkey, ensure supply security by diffusing upstream monopoly from Shah Deniz to other littorals, provide an

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<sup>325</sup> Chalabi, "Gulf Oil vs. The Oil of the Caspian Sea," p. 158. Also see Kohl, "The Perfect Storm: OPEC and the World Oil Market," pp. 68-72.

<sup>326</sup> Chalabi, "Gulf Oil vs. The Oil of the Caspian Sea," pp. 156-7.

<sup>327</sup> See Halouche, "The GECF: Is It Really a gas-OPEC in the Making?," *International Herald Tribune*, "Natural Gas Producers Take Step toward OPEC-like Carter," 9 April 2007; *Petroleum World*, "Russia Dismisses 'gas-OPEC' plans," 9 April 2007; and Socor, "Gas Suppliers' Cartel: Not an 'OPEC,' but Cartel All the Same."

alternative (read non-Russian) outlet for Turkmenistan and Kazakhstan, and engage Iran into the Western theatre of energy.<sup>328</sup>

The moves for establishing a cartel affect energy firms too. Overall, energy industry enjoyed a 10% increase in its revenue in comparison with last year owing largely to the price level expected to swing around \$60 throughout 2007.<sup>329</sup> As we mentioned above, high prices turned once-theoretical pipelines from the Caspian into practice. Despite the arguments that say the companies have been in the Caspian not because the Caspian has a huge potential,<sup>330</sup> but because there is merely nowhere else to go;<sup>331</sup> the littorals of the Caspian present a relatively more investor-friendly environment than do their Middle Eastern interlocutors.<sup>332</sup> Yet, more investment may mean more hydrocarbon revenues, which means increasing likelihood to be drawn into the resource curse quagmire by misallocating the revenue among the people, or more spending flowing out from the treasury to arms.<sup>333</sup> We claimed that in time we may see the increasing trend of stationary bandits, which, along with threat of international terror and with of Nigeria-like civil unrests, give a legitimate

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<sup>328</sup> One should remember that Iran in 2004 signed deal with Austria to join Nabucco, but the deal has not been materialized yet.

<sup>329</sup> This number is calculated by taking 2005 as index year and \$51 per barrel as index price. See *World Energy Outlook 2006*, p. 61.

<sup>330</sup> Rasizade, "Azerbaijan after Heydar Aliiev;" Salameh, "Caspian Oil is no Middle East."

<sup>331</sup> Nanay, "The Industry's Race for Caspian Oil Reserves," pp. 115-7; and James Schlesinger, "Thinking Seriously about Energy and Oil Future," *The National Interest*, Issue 82 (Winter 2005-06), p. 21. For an opposite view, see Gökay, "History of Oil Development in the Caspian Basin," pp. 3-19.

<sup>332</sup> Nanay, "The Industry's Race for Caspian Oil Reserves," pp. 115-7.

<sup>333</sup> Michael T. Klare, "The Arms Trade in the 1990s: Changing Patterns, Rising Dangers," *Third World Quarterly*, Vol. 17, No. 5 (1996), esp. p. 871; and John Mitchell, *The New Economics of Oil: Impacts on Business, Geopolitics and Society* (London: Earthscan, 2000), esp. pp. 185-89.

pretext for armament, as well as for a region-wide military security cooperation.<sup>334</sup>

To conclude, the "Caspian" as the way we propose here is a "mega-region." The literature tends to focus on the Caucasus (Azerbaijan and Georgia), Central Asia (Kazakhstan and Turkmenistan), the Middle East (Iran) and Europe (Russia), but not a bird's eye view of the "Caspian region."

By trying to apply "regionalism" in this geography, this study hopes to provide an alternative avenue to the futile discussion of whether the Caspian is a sea or lake and provide an opportunity to think of peace, cooperation, and development instead of an eternally conflict ridden picture the proposed formula, a joint action model like the Three Stage Plan does not only make a sea-or-lake dispute outmoded, but also will fight with corruption at least at inter-state level. Once needs are defined, transparency will be indispensable for ensuring that everyone is satisfied. Since sharing the Caspian reserves will require scientific methods to be employed not only for a fair share but also for the maximum benefit from the reserve. This will remove the pretext for the Caspian littorals seek nuclears to generate electricity, or if the reserve is not as big as it is predicted or desired, to increase the life of the reserve. Such a joint action scheme will require medium- and long-run plans to cover the life span

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<sup>334</sup> Indeed, some extraregional military security organizations started to assume the role of providing military security for energy. See NATO's Riga Summit, available from [www.nato.int](http://www.nato.int), 29 November 2006.

of the reserve; hence it will exclude possibility of personifying the policies and of ambiguity in case of a leader change.

The assumptions above imply a kind of joint decisionmaking in terms of reserve development and exploitation, which will require transparency; but it does not presume a supranational entity to be created in lieu of the nation-state. States are still assumed to be the main actors, and their leaders are still respected as their authentic representatives. Instead, what we proposed was that, since short-run is no longer the period for policymaking, medium- and long-term policy making closes the doors for wavering, which bolsters stability, and an investment friendly environment, while closing the doors for wavering but not for fine-tuning.

Hence, pooling the resources together will enable the littorals step beyond eschewing the futile discussion on the status of the Caspian; and start exploiting the subject of the discussion: hydrocarbons. For sure, littorals are the first ones to benefit from a needs-based approach demonstrated. Agreeing that satisfaction of the littorals is the most sophisticated dimension, our model suggests that the picture would be far from complete without the transits, consumers, producers and MNCs, owing to their political and economic interests related with the resources, pipeline routes, stability, quality and quantity of supply, and its effect on the international market as well as the smooth functioning international economic system.

The next step, which is a topic for further research, is defining who needs what. The littorals obviously need to sell their resources and get money in return. Yet, to do so, they are in need of the transit countries (for an outlet) and energy firms (for technology). The transit countries and the firms are, too, in need of money, titled as "transport revenue" and "profit," respectively. The money at focus here is a derivation of international markets, which is a derivation of an endless interaction of supply and demand (excluding speculations), hence an interaction of consumers and producers, both of which agree on the necessity to reach at a fair price. It is not only the state treasuries or company budgets, but also individuals who need the money. The grassroots need their share to meet their basic requirements and have a life of economic and social welfare while the bureaucrats need it in order to earn more and more. Since the level of analysis envelopes states, firms and people, "the Caspian region" turns out to embrace big international players like China and the US that are in competition over getting-scarce resources, and international organizations like NATO over the security of the whole region as well as the cob-web-like, complex energy system.<sup>335</sup>

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<sup>335</sup> A scenario of Osama bin Laden conquering Arabian oil and cutting supply to punish infidel Westerners is not a science fiction. According to Olivier Morgan, such a scenario will include surprise attacks to take place in the Black Sea (which, for me, is not out of blue because the already overpressurized Turkish Straits as being an important chokepoint in flow of oil is a perfect target) and the Greens to protest proposed or existing Caspian pipelines for environmental concerns (which, for me again, is not adequate to change rather the routes nor the governments' commitments, but may affect oil companies because they are the MNCs which pay attention to public relations and good image). See David Cook, *Understanding Jihad* (California: University of California Press, 2003); Gergez, *The Far Enemy: Why Jihad Went Global?*; Olivier Morgan, "What if...," *the Guardian*, available from [www.guardian.co.uk](http://www.guardian.co.uk), 6 June 2004; Kostas Ifantis and Theodoros Tsakiris, "US-Russian Relations: International and Regional Security Trajectories," *Perceptions*, Vol. 10, No. 3 (Autumn 2005); and Mustafa Aydın, "Regional Cooperation in the Black Sea and the Role of Institutions," *Perceptions*, Vol. 10, No. 3 (Autumn 2005).

All in all, Turkish Three Stage Plan can open a new era in the Caspian deadlock. Once determined to proceed in line with the plan, the first step will be data gathering and clarifying how much of what does the Caspian contain—which, indeed, has been done since the end of the Cold War. The second stage will be defining the actors—which had been done above, though in an elementary fashion. The last stage is setting who needs how much of what—which is indeed the very crucial but cluttered part. The Plan, being based on needs, would make the sea-or-lake dispute obscure, because so long as everyone gets what they need, no one would make a case out of the status of the watermass. We think that the time is ripe for such a new approach, and Turkey can play an important role by introducing the Three Stage Plan into the region.



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