

America's Caspian Policy Under the Bush Administration

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At the time of this writing there is no indication of any major change in America's Caspian policy under the Bush administration. On the contrary, a conservative policy agenda will likely be pursued, and major overtures avoided (with the possible exception of lifting sanctions against Iran). Thus, it appears likely that the Caspian region will remain a distinctly secondary concern for American policymakers, one whose significance is determined largely by the role of the two strategically important regional actors (Russia and Iran), as well as by prevailing perceptions of national energy security. While it is possible to detect shifts in nuance, a close reading of statements made by figures within or near to the new administration suggests that the key goals of US policy will remain essentially intact: 1) energy diversification; 2) increasing economic opportunities for US firms; 3) containing Russian and Iranian influence; and 4) promoting the independence, democracy, and development of the Newly Independent States (NIS). The following comments will focus briefly on each of these goals.

Energy Diversification

In the prevailing market climate, energy diversification is considered vital. This inherently important goal is further accentuated by the Bush administration's approach to satisfying demand by increasing supply, rather than exploring alternative energy sources or conservation measures. Even if total Caspian oil deposits are no greater than 4-5% of world reserves, the added increment may make a significant difference in aggregate market supplies and prices.

Assuming market conditions remain essentially stable, the United States will continue to strongly favor the long-standing "multiple pipelines" concept, which is seen as advancing all four key policy goals simultaneously. In particular, the US will remain attached to the Baku-Tbilisi-Ceyhan (BTC) route. While rather dubious from a strictly economic standpoint, this pipeline would solidify relations with Turkey, sideline Iran while also preventing a near Russian monopoly on transportation, and promote the independence of Azerbaijan, Georgia, and perhaps Kazakhstan as well. Consequently the Bush administration has continued to pressure US-based oil companies (and Kazakhstan President Nazarbaev) to participate by contributing finances and/or projected oil volumes, and has also continued to exert pressure against proposed alternative routes, such as those circumventing the Turkish straits.

The viability of the BTC line thus depends on receiving a favorable cost projection from the second-phase engineering study. There continues to be a general consensus within US policymaking circles that a final price tag well in excess of \$2.4 billion will render the project infeasible. While recent Overseas Private Investment Corporation (OPIC) and Ex-Im Bank involvement may boost the attractiveness of the pipeline for US firms, there are a number of non-US-based companies involved in the consortium at this point. Moreover, the US government is extremely unlikely to make any major direct financial commitment to BTC, and many onlookers question the ability of the Turkish government to meet its stated obligation to cover relevant cost overruns. Therefore in the event of an unfavorable engineering study projection--or if an adequate volume of oil is not committed, presumably from Kazakhstan--the project will eventually be allowed to lapse. With the recent willingness of additional oil firms to join the consortium, however, the prospects for implementing BTC appear increasingly favorable.

The Bush administration has also taken some steps to revive the Trans-Caspian Pipeline (TCP) project, at least by making overtures to Turkmenistan's president Niyazov. The TCP had languished during the late Clinton administration due to problems with financial backers and misunderstandings with Niyazov on the part of Azerbaijan and US government officials. Like the BTC, this pipeline project is not based on economic fundamentals but rather on political calculations. Unlike the BTC, however, the TCP is likely to prove utterly infeasible due to the lack of an apparent end-market for gas anticipated to flow through the line. Certainly the Turkish market would appear saturated given the Blue Stream project (a Russian-Italian pipeline to transport gas from Russia under the Black Sea to Turkey), which is nearing completion, and the prospect of additional gas from Azerbaijan's Shah Deniz field starting in 2004. Even if follow-on markets in Europe are identified and pipeline construction begun, Turkmen gas appears more likely to transit westward through Russia or the Iranian system, which is currently undergoing extensive renovation. Thus the prospects for the TCP seem far dimmer than for the BTC, and in view of the lesser strategic importance of gas it is unlikely that the US will make the commitment necessary to realize this project.

One caveat regarding the goal of energy diversification is that a key variable affecting its ultimate importance is the economic outlook in the US and Japan. In the event of a sustained and combined recession, the result would be a substantial global contraction, with an attendant drop in energy demand. Not only would the strategic importance of diversification diminish in this scenario, but the associated decline in oil prices might cause Caspian oil to become unprofitable given the high costs of extracting and transporting the landlocked deposits.

Increasing Economic Opportunities for US Firms

This goal will not be addressed extensively inasmuch as it largely falls within the context already discussed--extracting and transporting Caspian energy reserves. However, it is worthwhile to note that a US effort is underway to penetrate potentially significant

secondary markets, particularly in Azerbaijan and Kazakhstan. Some inroads have already been made in oil and gas refining, telecommunications, mining, general construction and infrastructure building, food industry, and consumer goods. Furthermore, in keeping with the major efforts currently underway in all of the regional states to expand shipping and overland transportation capacity, this will become a growth area for US investment and joint ventures for the foreseeable future.

Containing Russian and Iranian Influence

Increasingly since the later Clinton years, as the US-Russian "partnership" has drifted in a more adversarial direction, American policy in the Caspian region has come to be regarded as an extension of that problematic relationship. The chill in bilateral relations has become still more pronounced since the new administration took office, and given the composition of the Bush foreign policy team this is not likely to change soon. As such, a primary objective of America's Caspian policy will continue to be containment of Russian influence in the southern tier, including opposition to perceived Russian efforts to exert coercive military or economic pressure on the developing states of the region. Indeed, perceptions of such Russian hegemonic conduct have mounted in the US policymaking community with the emergence of President Putin's more assertive approach to safeguarding Russian interests in the "near abroad." This widely held view competes with another, less prominent analytical perspective, according to which Russia is becoming a more pragmatic, businesslike, and flexible actor that places greater emphasis on economic factors than on geopolitical influence.

Nevertheless, while the adversarial approach has become prominent, the US has also demonstrated a willingness to engage Russia in the Caspian region by encouraging the participation of Russian firms in various development projects, and through the commitment of substantial oil exports via Russian territory. Most important in this respect is the nearly operational Caspian Pipeline Consortium project from Tengiz to Novorossisk, which features several major American firms (including the Tengiz and Karachaganak fields, each of which are expected to contribute to CPC volumes). The same receptivity to Russian business interests--again, partly self-serving for the US--has been echoed by the Bush administration, with its recent invitation to LUKoil and other Russian enterprises to participate in BTC. Still, while not solely cosmetic, such overtures appear secondary to the main objective of checking Russian influence in the region.

A major decision facing President Bush's foreign policy team is whether to retain or relinquish sanctions against Iran, either as part of the Iran-Libya Sanctions Act of 1996, or in keeping with Executive Orders 12957 and 12959 of 1995 and 13059 of 1997. Much has been made in the press of personal ties between the Bush administration and the oil industry, but there is no evidence that such connections have any clear or predictable bearing on specific policy decisions regarding the Caspian. (For example, despite outspoken criticism from some industry officials concerning BTC, the Bush administration has reaffirmed America's commitment to this project.) It remains to be seen whether oil lobby pressures to revoke Iranian sanctions will be successful. Secretary

of State Powell's stated reluctance to impose ill-considered sanctions is not necessarily applicable in this instance, and aside from a few election campaign statements there is no indication that President Bush has been persuaded to alter the current approach to Iran. Should the current policy be reversed, however, it is likely that at least some Caspian oil would eventually transit Iranian territory to the Gulf and/or Indian Ocean, with potentially significant implications for BTC and possibly for the CPC line as well. Indeed, the potentially negative impact on BTC may in itself constitute sufficient reason for the Bush administration to retain at least partial sanctions.

A final observation is that the trend toward closer relations between Russia and Iran, especially in the form of nuclear energy cooperation and conventional arms sales, increases American anxieties about Russia's foreign policy goals and strengthens its determination to contain both Russian and Iranian influence in this region.

Promoting Independence, Democracy, and Development of the NIS

It is in this last (and least important) area that the most significant prospective changes in America's Caspian policy can be detected. During the Clinton administration a principled commitment to the independence, democracy, and development of the NIS was frequently expressed, on a diplomatic level as well as through bilateral aid programs. While such values were not allowed to override other more pragmatic concerns, they nevertheless reflected a sincere ideological attachment. This orientation will certainly be de-emphasized under the Bush administration, and will be replaced by a more realist approach to considering concrete and direct American interests. As a consequence, American policy will be less concerned--rhetorically as well as substantively--with perceived transgressions of democratic and human rights norms in the Caspian region. This shift is also certain to be accompanied by decreased willingness to project American military force abroad, particularly into areas (such as the Caspian basin) of secondary strategic importance. One corresponding conclusion is that there is virtually no possibility of a formal American military commitment to the NIS states of the Caspian region, either bilaterally or through NATO expansion.

Nevertheless, the US would react sharply to perceived Russian expansionism in the Caspian. In this connection it should be stressed that American concerns about Russian foreign policy tendencies under President Putin have been heightened by specific Russian regional actions. These include, in addition to the war in Chechnya, the temporary cutoff of gas supplies to Azerbaijan in November 2000 (ostensibly caused by bureaucratic red tape within the State Customs Committee), the naval maneuvers conducted during President Putin's meeting with Heidar Aliiev in Baku in January 2001, and especially the pattern of Russian pressure tactics against Georgia. The United States has developed a significant political commitment to Georgia, which represents a reputational stake demonstrating the steadfastness of American friendship. In this context the establishment of a highly discriminatory visa regime in December 2000 has been viewed by many US analysts as a worrisome barometer of Russian policy attitudes. It was likely not

coincidental that the Bush administration's vigorous push for the BTC came immediately after this series of events.

Conclusion

While not an area of vital strategic importance to the United States, the Caspian region will continue to play a significant role in the development of foreign policy during the Bush presidency. Rather than seeking to directly project American influence into this region, the US will more likely attempt to gain indirect benefits through access to energy resources and investment projects, while at the same time countering "excessive" Russian and Iranian influence. As such, the pattern of Russian conduct in the Caspian basin will substantially affect the dynamic of US-Russian bilateral relations overall. Although the Bush administration will look with relative equanimity at Russian success in garnering a sizable share of energy reserves and transportation routes, any efforts to impede outside competition or prevent the NIS from pursuing independent energy policies would be perceived in the most negative light in Washington. In the interests of Russian development and international integration as well as the maintenance of cooperative US-Russian relations, it will be important for the Russian side to both maintain a strictly pragmatic orientation focused on economic goals, and to avoid sending the wrong signals to American policymakers.

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