

# The Russian-Georgian Crisis and Baku-Tbilisi-Ceyhan

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In the early fall of 2002, two developments concerning Georgia garnered a great deal of attention. The first was the groundbreaking ceremony for the long-awaited Baku-Tbilisi-Ceyhan (BTC) pipeline, which has been heralded as an important source of non-OPEC oil. The second was a confrontation with Russia, which had been building over the preceding months amid allegations by Moscow that the Shevardnadze regime was aiding and abetting Chechen rebels, who were allegedly taking refuge across the border in Georgia's Pankisi Gorge. Although each of these developments has occasioned extensive commentary in its own right, they have also been linked together as ostensible indications of Russia's "true" foreign policy interests. No one has made this linkage more forcefully than Georgian president Eduard Shevardnadze, who asserted that Russian threats to invade Pankisi were actually calculated to undermine investor confidence in the pipeline. Many others have raised similar speculations, including the idea that Moscow's intention, if not to undermine BTC altogether, might then be to gain maximum control over the project.

Coming at a time of unprecedented closeness in U.S.-Russian relations, the specter of Russian hegemony in the Caucasus casts an unsettling pall over the prospect of renewed friendship. This is particularly true inasmuch as it comes at the expense of a regime with which Washington has nurtured close ties. Moreover, the administrations of Bill Clinton and George W. Bush have expended a great deal of political capital to bring BTC to fruition. BTC has not only been touted as a contribution to global energy security but is also expected to help the region's other post-Soviet states attain a measure of economic growth and development. If President Putin and his advisers are actually intent on sabotaging this effort, the rapprochement in bilateral ties must be considered illusory at best, and at worst, a dangerous form of deception.

Instead, this memo argues that there is no solid basis for interpreting the Russian-Georgian crisis as an attempt by Moscow to jeopardize BTC. Without overlooking the seriousness of Russian threats, which were potentially quite destabilizing to regional security, it is important not to construct an exaggerated image of insidious Russian conniving aimed squarely at salient U.S. interests. Furthermore, although prominent Russian figures have made numerous caustic references to BTC, these references must be understood in their proper context in order to provide insight into current and possible future sources of tension in U.S.-Russian relations.

## **Russian Military Threats and Foreign Policy Interests**

The most obvious point to be made is the absence of a direct Russian military threat to BTC, even as the result of any hypothetical actions in the Pankisi Gorge. Given the pipeline's geographical remove from the border, any physical threat would require a full-scale Russian invasion and sustained occupation, which in current circumstances is hard to imagine. More credible is a scenario in which consistent Russian military pressure might precipitate an overthrow of the Shevardnadze regime. Even in this case, however, there are no foreseeable adverse implications for BTC in the long term. Given the robust support the project enjoys among the Georgian elite, there is every reason to suppose that any successor government would reaffirm existing commitments.

It is also worth addressing the Russian naval exercises in the Caspian Sea in August 2002. Much like the subsequent crisis with Georgia, some observers interpreted the Russian maneuvers as an effort to intimidate investors or perhaps, to pressure Azerbaijan to pull out of the project. Such fears ultimately subsided, especially as the groundbreaking ceremony went ahead as planned with no evident qualms on the part of the consortium's members. Yet, the recurrent tendency exemplified here to regard Russian actions in the most inimical light deserves attention, because it reveals the underlying assumption—in part traceable to the Soviet era, in part to the historical Russian empire—that Moscow's irreducible aim is always expansion.

Again, rather than attempt to address the larger issue in a holistic fashion, the more helpful approach is to uncover actual Russian interests by examining particular actions in context. Since 1998, Moscow has consistently promoted division of sub-soil hydrocarbon deposits so as to facilitate rapid extraction and transportation, if possible, across Russian soil. Yet, the latter condition has not been required; under Yeltsin and Putin, the emphasis has been on multilateral, or failing that, bilateral agreements to divide up the spoils. For this reason, Moscow's ire has been raised in recent years not by Azerbaijan and Kazakhstan, which have cooperated with Russia's plans while moving aggressively to exploit their own oil and gas fields, but instead by Iran and to a lesser extent Turkmenistan. Tehran has steadily insisted on either a condominium-type approach or more recently, an even 20 percent share for each littoral state, despite its own presumable allotment of about 13-14 percent. In 2001 Iranian belligerence caused overt military conflict with Azerbaijan. If left uncountered, this might well have impeded a pragmatic solution to the Caspian development logjam. Thus, it was no coincidence that Russia's naval exercises were immediately followed by the signing of delimitation agreements with both Azerbaijan and Kazakhstan. In short, the Russian maneuvers should be understood as largely intended to chastise Tehran, and as a spur to Moscow's Caspian partners. The intention was neither to impede Azerbaijani development nor to obstruct BTC.

## **Russian Attitudes toward BTC**

None of the above is meant to imply that Russian attitudes toward BTC are generally positive. Rather, BTC is regarded in various ways within the Russian elite. On the one hand, it is no longer seen as only directed against Russian interests. Russian officials as prominent as Prime Minister Viktor Khristenko and Minister of Energy Igor Iusufov have

publicly rejected this interpretation. In fact, representatives of the Russian energy sector tend to be favorably disposed to participating in BTC, either directly by investing in its construction or indirectly by building a line connecting it with Novorossisk.

On the other hand, a number of well-placed figures continue to view the pipeline as reflecting a U.S. effort to project influence into the region. Particularly troubling was Foreign Minister Igor Ivanov's statement in September 2002 that the United States was attempting "to crowd Russia out of regions in which we have historic interests." It is precisely such statements that provide the grounds for interpreting Russian threats regarding Georgia as, in fact, directed against BTC.

The crux of the attitude expressed by Foreign Minister Ivanov is that BTC cannot be justified in strictly economic terms and hence must be "political" in nature. Given that BTC also works to Russia's disadvantage by deflecting potentially massive volumes away from the Russian transit system, it follows that such political calculations are, if not avowedly anti-Russian, then at least brazenly competitive and insensitive to Russian concerns. This rankles Russia, especially in light of Russian acquiescence to U.S. military operations in Afghanistan, which after all was met with assurances of reciprocity. Although it is true that the United States supported construction of the Caspian Pipeline Consortium (CPC) pipeline from the Tengiz field in Kazakhstan to Russia's Black Sea port of Novorossisk, this is not considered compensation for Washington's commitment to BTC, especially given Russian anxiety over the possibility of Kazakhstan's oil being rerouted to Baku in the future. The result is that U.S. actions are all too often viewed as giving with one hand and taking away with the other.

Although it might be easy to dismiss Russia's concerns as self-indulgent and biased, this would be a mistake. First, BTC has been criticized since its very inception, not least from U.S.-based private investors. Repeatedly, until well after 2000, leading oil executives expressed deep reservations and lobbied instead for a line south through Iran to the Gulf. Their objections to BTC were numerous: the length of the route, difficult and seismically active terrain, regional political instability, high tariffs, and skepticism about finding sufficient volumes. Kazakhstani officials have continued to voice the same objections in explaining their reluctance to take part in the project. And precisely these doubts underline Foreign Minister Ivanov's accusations.

Second, it is necessary to understand the underlying interests behind Foreign Minister Ivanov's position. Above all else, this includes the development of the Caspian region on terms maximally beneficial to Russia. For counterintuitive reasons this, in turn, means that any added pipeline should be directed southward, as many Western oil investors have argued. The rationale is that a southern pipeline, which obviously accords with Iranian preferences, could serve as a key element in an elaborate *quid pro quo*. According to this scenario, Russia and Iran would compromise on a number of outstanding issues regarding finalization of a legal regime governing Caspian delimitation, energy extraction, freight transportation, and environmental protection. (For similar reasons, Russia regards an additional southeast pipeline through Afghanistan as the next best option, which might induce Turkmenistan to strike a more cooperative position.) Yet, the southern route is precluded by U.S. policy, which bars investment in Iran.

## Conclusions

In sum, instability in Georgia raises acute Russian anxieties, related first and foremost to Chechnya. Neither Russian threats nor imaginable military actions are intended to subvert BTC and are highly unlikely to do so. Although it is possible to identify Russian political figures who wish to reassert Moscow's traditional dominance in the Caspian basin, the prevailing attitude is geared toward advancing pragmatic development interests as part of a broader strategy of becoming fully integrated into the international economy. This position is informed by geopolitical sensitivities and is highly competitive, yet it is not intrinsically opposed to U.S regional interests. If Russian concerns are systematically disregarded, however, the current level of tension and anxiety may well undermine constructive U.S.-Russian relations. The single most effective U.S. approach for addressing Russian concerns, while simultaneously promoting regional stability and development, would be to lift restrictions against foreign investment in a pipeline south from the Caspian Sea through Iran.

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