

# U.S. and Iranian Strategic Competition

## *Turkey and the South Caucasus*

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By Anthony H. Cordesman, Bryan Gold,  
Robert Shelala, and Michael Gibbs

*Request for comments:*

This report is a draft that will be turned into an electronic book. Comments and suggested changes would be greatly appreciated. Please send any comments to Anthony H. Cordesman, Arleigh A. Burke Chair in Strategy, at [acordesman@gmail.com](mailto:acordesman@gmail.com).

**ANTHONY H. CORDESMAN**  
Arleigh A. Burke Chair in Strategy  
[acordesman@gmail.com](mailto:acordesman@gmail.com)

## Executive Summary

Turkey and the South Caucasus countries all play a role in US-Iranian competition. Turkey plays a particularly critical role relative to Syria, Iraq, Iran, and the Caspian region but the South Caucasus remains a relatively minor point of contention in broader US-Iranian strategic competition.

### Turkey

Turkey has been careful to avoid provoking Iran, or taking a decisive stand on its nuclear program, but does differ sharply from Iran over its support of Assad in Syria, does not want to see Iran increase its role in Iraq, and recognizes the potential threat a nuclear Iran would pose to the region.

#### *Turkey's Relations with the US and NATO*

Turkey has been an important security partner for the US since Turkey joined NATO in 1952, has continued to play an important role in US-Iranian strategic competition, and has continued to support NATO's missions and its defense relationship with the US.

In the more than two decades since the end of the Cold War and the start of the Global War on Terrorism, the military relationship between Washington and Ankara has been generally strong, although the role of security assistance has sharply declined since the 1960s. With the collapse of the Soviet Union, Turkey stopped receiving Foreign Military Financing aid to purchase US-produced equipment, and military and security assistance has been drastically reduced from its Cold War heights. Nevertheless, the US and Turkey continue to cooperate closely on military matters such as US and NATO basing, land and air transit rights, and ballistic missile defense.

Turkish military purchases of US military equipment have continued. Turkey plans to buy 30 F-16C/D Block 50, 6 CH-47F, 109 S-70i, and B-737 AEW&C aircraft, and refurbish older F-16s.<sup>1</sup> Ankara is also one of eight countries that is partnering with the US on the F-35 Joint Strike Fighter program and intends to purchase 100 F-35s, with the first deliveries taking place in 2015.<sup>2</sup>

The US and Turkey have also cooperated in Turkey's fight against the Kurdistan Workers Party (PKK), other counterterrorism operations, the US transition out of Iraq, the stabilization of the Kurdish Regional Government (KRG). These joint operations have evolved as Turkey has shifted its regional emphasis from defensive security and deterrence to regional stability and influence and Washington has provided Ankara with greater degrees of freedom to pursue its policy.

Despite such cooperation, there have been periods of serious tensions between the two states. Some analysts believe that the benefit Turkey received for its support in the 1991 Gulf War, although substantial in terms of economic and military aid, was not worth the consequences of

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<sup>1</sup> F. Stephen Larrabee, *Troubled Partnership: U.S.-Turkish Relations in an Era of Global Geopolitical Change*, RAND Corporation, 2010. Pg.77; International Institute for Strategic Studies, *The Military Balance*, March 7, 2012, Pg. 180-181

<sup>2</sup> AFP, *Turkey Plans To Buy 100 F-35s: Report*, Defense News, February 23, 2012. <http://www.defensenews.com/apps/pbcs.dll/article?AID=2012302230002>

regional destabilization. The 2003 invasion of Iraq also pushed the US and Turkey farther apart due to the increase in PKK attacks, increase in Iranian influence in Iraq, Iraqi Kurds' drive for independence, and US refusal to take action against PKK training camps until 2007.

### ***Turkey and European Energy Security***

Turkey has been one of the fastest growing European economies with an 8.5% increase in GDP in 2011 (after a 9% rise in 2010), and an income per capita that is reported to have increased between 50% and 200% over the past ten years.<sup>3</sup> However, Turkey's rapid growth is affected by the country's significant shortfall in energy resources, particularly oil and natural gas and as Turkey's economy has grown, so have its energy demands. Turkey currently imports 91% of its oil and 98% of its natural gas, and this is expected to rise as overall energy demand is estimated to increase 4% annually through 2020.<sup>4</sup>

Despite Turkey's lack of energy resources, its strategic position in between suppliers in the Caspian Basin and consumers in Europe makes it influential in energy transportation and attractive for European states that wish to diversify their energy sources away from Russia. The existing pipelines to Europe cannot meet future EU gas needs and there are a number of competing projects involving Turkey, Russia, Azerbaijan, and Eastern Europe.<sup>5</sup> Turkey's role in EU energy security will increase if and when these projects are completed and they will reduce Europe's dependence on Russia gas and control over the pipeline networks that supply the EU.

### ***Turkey's Relations with Iran***

Turkey's relationship with Iran is complex and marked by periods of collaboration and conflict. Turkey was one of the first countries to recognize the Islamist Republic's revolutionary government, and attempted to cultivate relations between the states through economic and energy ties as well as billions of dollars in FDI (\$3.6 billion as of 2010), primarily in oil and natural gas.<sup>6</sup>

The election of the moderately-Islamist AKP party in 2002 helped improve Turkey's relations with Iran. The main driving force for Turkish rapprochement with Iran was the Turkish business community's search for additional markets. For Turkey, Iran represents another market for its goods and another energy supplier for Turkey's rapidly expanding export based economy. While Turkish firms have learned to compete on quality and price for European consumers; in Iran's relatively autarkic and isolated market they have a competitive advantage. For Iran, Turkey represents a route to bypass sanctions while reducing its international isolation and discourages Turkey from supporting or joining in the sanctions regime itself.

Improved relations between the two states also helped Turkey and Iran to cooperate on combatting the PKK and led to concrete security gains on both sides of the border. While there were no high-level military meetings between the Turkish General Staff and the Iranian military,

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<sup>3</sup> "Istanbuls and Bears," *The Economist*, April 7, 2012. <http://www.economist.com/node/21552216>

<sup>4</sup> The Center for Strategic and International Studies, *The Turkey, Russia, Iran Nexus: Economic and Energy Dimensions*, May 24, 2012. <http://csis.org/publication/turkey-russia-iran-nexus-economic-energy-dimensions>

<sup>5</sup> Meltem Muftuler-Bac and Deniz Baskan, *The Future of Energy Security for Europe: Turkey's Role as an Energy Corridor*, Middle Eastern Studies, Vol. 47, No. 2, 361-378, March, 2011, Pg. 368

<sup>6</sup> Iran country profile, Turkish Ministry of Economy,

<http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&country=IR&region=4>.

lower level meetings between Turkish and Iranian commanders at first led to attempts to coordinate their activities before becoming platforms for intelligence sharing as well.

Turkish-Iran trade has also increased rapidly in the past decade from \$1.25 billion in 2002 to \$16.05 billion in 2011, accounting for 5.2% of all Turkish trade.<sup>7</sup> Iran was Turkey's 6<sup>th</sup> largest trading partner; but this trade relationship is skewed towards Iran, as high tariffs and large oil and natural gas imports heavily outweigh Turkish exports to Iran.<sup>8</sup> In 2011, Turkey imported over 50% of its oil and 21% of its natural gas from Iran. However, with increased US and EU sanctions on Iran's oil and gas industry, Iran's share of Turkey's energy imports have decreased to roughly 30% and 19% respectively in 2012.<sup>9</sup>

Iran is using its trade with Turkey in its attempt to circumvent sanctions making it difficult for Iran to repatriate hard currency from its oil sales. Recent news reports detail that Turkey, through the state-owned Halkbank, is paying for Iranian natural gas in Turkish Liras, which is of limited value for Iran in the international market due to its inconvertibility, but is being used by Iran to buy gold in Turkey.<sup>10</sup> This gold is then possibly transferred or sold in the U.A.E. and then shipped to Iran.<sup>11</sup> However, since the Arab Spring and the Civil War in Syria, and subsequent Iranian support for the Assad regime have led to growing tensions in Turkish-Iranian relations. As one Turkish expert notes, the civil war in Syria forced Turkey to take "a more realistic view of the region."<sup>12</sup> Turkey views the unrest as not only a matter of international affairs, but also as a domestic security issue as the lack of central state control may give the PKK a staging ground in Syria from which to attack interests in Turkey and achieve limited regional autonomy.

The prospect of the complete disintegration of the Syrian state and/or prolonged sectarian conflict along its 511 mile long border with Turkey has led Ankara to take the lead in supporting Syrian opposition groups. These Turkish actions against the Assad regime have come into direct conflict with Iran's interests in the country. For Iran, Syria is its critical access point to the Levant and the Israeli-Palestinian conflict and its "only constant ally - globally or regionally - since the 1979 revolution."<sup>13</sup>

Both Iran and Turkey have accused each other of supporting the bloodshed in Syrian, with Ankara blaming Iran's support of the Syrian regime and Iran blaming western powers for inflaming an initially peaceful situation. Iran views Ankara's support and denunciations of Assad

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<sup>7</sup> Turkish Statistical Institute, *Foreign Trade Statistics Yearbook 2011*, Pg. 67.

[http://www.turkstat.gov.tr/Kitap.do?metod=KitapDetay&KT\\_ID=4&KITAP\\_ID=89](http://www.turkstat.gov.tr/Kitap.do?metod=KitapDetay&KT_ID=4&KITAP_ID=89)

<sup>8</sup> Amada Paul, "Turkey and Iran: an unraveling relationship," *Al-Arabiya News*, August 12, 2012.

<http://english.alarabiya.net/views/2012/08/12/231743.html>

<sup>9</sup> CSIS, Proceedings of an International Workshop, "The Turkey, Russia, Iran Nexus: Economic and Energy Dimensions," March 29, 2012. <http://csis.org/publication/turkey-russia-iran-nexus-economic-energy-dimensions>

<sup>10</sup> Joe Parkinson and Emre Peker, "Turkey Swaps Gold for Iranian Gas," *The Wall Street Journal*, November 23, 2012. <http://online.wsj.com/article/SB10001424127887324352004578136973602198776.html>

<sup>11</sup> Humeyra Pamuk, "Exclusive: Turkish gold trade booms to Iran, via Dubai," *Reuters*, October 23, 2012.

<http://www.reuters.com/article/2012/10/23/us-emirates-iran-gold-idUSBRE89M0SW20121023>

<sup>12</sup> Madeleine Albright, Stephen Hadley, Steven Cook, et. al. *U.S.-Turkey Relations: A New Partnership*, The Council on Foreign Relations, May 2012. Pg. 40

<sup>13</sup> Robert Malley, Karim Sadjadpout, Omer Taspinar, "Symposium: Israel, Turkey and Iran in the Changing Arab World," *Middle East Policy*, January 5, 2012. Pg. 8

as Turkish betrayal since Turkey has increasingly aligned itself with the West, which Iran believes has long been hostile to the Syrian regime and Iran's privileged access in Damascus.<sup>14</sup>

### ***Differences in the US and Turkish Approach to the Iranian Nuclear Program***

Turkey and the US are both increasingly concerned over Iran's nuclear program and progress in enrichment and technology. Both countries feel that an Iranian nuclear weapon would have negative consequences for themselves and the region, but differ on their approaches for solving the issue, the timeline of an Iranian nuclear weapon, and the threat posed by a nuclear-armed Iran.

Some sources report that Ankara believe that if Iran should obtain a nuclear weapon, it would be almost impossible to prevent nuclear proliferation throughout the region.<sup>15</sup> Turkey is concerned that a military attack on Iran's nuclear program and Iran's subsequent retaliation will greatly destabilize the region. Ankara is also worried that the continued pressure on Iran will erode the Nuclear Nonproliferation Treaty (NPT) and will make it increasingly difficult for Turkey to pursue nuclear energy in the future to reduce its reliance on energy imports. Until Turkey diversifies its energy and electricity supplies with nuclear energy and pipelines to Caspian states, it seeks to keep its ties with Iran amicable and use their economic relationship to strengthen the economy of southeast Turkey.

Turkey has opposed coercive measures to pressure an end to the Iranian nuclear program, including sanctions and the threat of military force. It has argued that such threats only increase Iranian intransigence and internally reinforce its rationale for the need of a nuclear deterrent. Many in Turkey also feel that the reason why Iran is so intent on its nuclear program is out of fear of attack and national survival; thus Turkey is pursuing a policy that is non-confrontational and seeks to mitigate this fear through engagement and diplomacy.<sup>16</sup>

The Turkish government has thus far refused to implement the US or EU unilateral sanctions regime but has abided by the UN sanctions on Iran since, as the Turkish government says, they are backed by the legitimacy of the United Nations.<sup>17</sup> Turkey's intransigence on supporting current and future US and EU Iranian sanctions is also due to the belief that sanctions will strengthen Iranian hardliners and disproportionately affect the Turkish economy.<sup>18</sup>

### ***Implications for US Policy***

Turkey is currently going through a new period in its relations with the US, Iran, and Europe. The election of the AKP party, its performance in the 2007 and 2011 Turkish elections, the dwindling power of the western-oriented Turkish General Staff to guide the national security

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<sup>14</sup> Gareth Jenkins, "Occasional Allies, Enduring Rivals: Turkey's Relations with Iran," Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 42.  
[www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf](http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf)

<sup>15</sup> Aylin Gurzel and Eyup Ersoy, "Turkey and Iran's Nuclear Program," *Middle East Policy*, Spring 2012, Pg 38.

<sup>16</sup> The Center for Strategic and International Studies, *The Turkey, Russia, Iran, U.S. Nexus: Political and Security Dimensions*, September 28, 2012, Pg 7. <http://csis.org/publication/turkey-russia-iran-nexus-political-security-dimensions>

<sup>17</sup> Sinan Ulgen, "Turkey and the Bomb," *The Carnegie Endowment for International Peace*, February 2012, Pg 7. [carnegieendowment.org/files/turkey\\_bomb.pdf](http://carnegieendowment.org/files/turkey_bomb.pdf)

<sup>18</sup> Sinan Ulgen, "Turkey and the Bomb," *The Carnegie Endowment for International Peace*, February 2012, Pg 7. [carnegieendowment.org/files/turkey\\_bomb.pdf](http://carnegieendowment.org/files/turkey_bomb.pdf)

strategy of the state, the appointment of Foreign Minister Ahmet Davutoğlu in 2009, and the embracing of his “zero problems” approach to foreign policy has moved Turkey from its previous position as a solely western-oriented country to one that is taking an increasing interest and role in the Middle East.

But Turkey’s present and future involvement in the region does not portend a break from its relationship with the West or its association with NATO. Turkey’s foreign policy is changing to become less reliant on the US and more independent in what it regards as its central interests in the region and its goal of economic and political integration. Turkey will continue to demonstrate strategic and regional autonomy, sometimes separate of US goals and interests in the region.

## **The South Caucasus**

The southern Caucasus states - Armenia, Azerbaijan, and Georgia - represent one of the newest fronts in US-Iranian competition. Historically, the South Caucasus has served as a trade corridor and arena for competition between the Russian, Turkish, and Iranian empires; while trade today is often conducted by sea - partly due to dilapidated Caucasian infrastructure - South Caucasus states have not forgotten their role as a battleground for larger powers.<sup>19</sup>

While they were not independent until the early 1990s, they have spent the last two decades establishing themselves as states, and are more concerned with internal security and territorial and sovereignty disputes than with broader regional struggles. Their relationships with Iran and the US derive from very different factors - geographical proximity, ethnic overlap, economic ties to Iran, diaspora communities in Iran, free market concerns, energy supply lines, and competition with Russia for the US. The complex intra-regional disputes have served to limit US and Iranian involvement, restricting the collateral damage of US-Iranian competition.

The US has three primary geopolitical objectives in the Caucasus: security and stability, democratization, and economic access, to both the region’s underutilized natural resources and the nascent infrastructure corridor for transporting Central Asian products west while avoiding Iran and Russia.<sup>20</sup>

Iran’s entry in Caucasus affairs has so far had little impact on its global competition with the US. Despite the South Caucasus’ proximity to Iran, their small economies, limited receptiveness to Iranian propaganda, and entrenched local divisions and grievances have all served to limit Tehran’s reach.

In most cases, Tehran’s pragmatism and emphasis on stability seems likely to continue. Despite some tensions over a host of issues - secularism, division of the Caspian, support from Israel and the US - Iran has pursued a relatively non-confrontational policy in the region (particularly compared to its aggressive rhetoric and proxy support in Yemen, Bahrain, Iraq, Syria, Lebanon, and among Palestinian groups).

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<sup>19</sup> “The Big Caucasus: Between Fragmentation and Integration,” Jeffrey Mankoff, pg. 8, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

<sup>20</sup> “The U.S. South Caucasus Strategy and Azerbaijan,” Inessa Baban and Zaur Shiriyev, Turkish Policy Quarterly. <http://www.turkishpolicy.com/dosyalar/files/93-103.pdf>. “Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests,” Jim Nichol, pg. 3, September 27, 2012.

The key exception and one that may be more important to Iran than the Caspian Basin's oil wealth - is its ethnic tensions with Azerbaijan. Baku has charged Iran with supporting "fifth columnists" (generally Shia political parties) in Azerbaijan, but with the exception of arrests of alleged terrorists in February 2012, open-source reporting of Iranian proxy groups has been limited.

Iran has consistently sought to gain access to the revenues stream from Caspian resources or to limit their exports, but it has had mixed success. At one point, its relations with Baku - and an Azerbaijani policy of letting potential enemies own parts of its pipelines - were good enough to give Tehran access to the first round of Azerbaijani natural gas exports through the Naftiran Intertrade Company, a subsidiary of National Iranian Oil Company, and helped prevented competition over the Caspian from turning into an arms race. This avenue closed as relations between Iran and Azerbaijan steadily deteriorated, leaving delineation of the Caspian seabed unresolved and shutting Iran out of future trans-Caspian and Caucasus deals.

### *Armenia*

Armenia is the South Caucasus state with the deepest ties to Iran. Armenia is a weak state with an unsettled banking sector, unmet energy needs, and commerce based on gray- and black-market trade. Armenia has occasionally facilitated Iran's entry into global markets, despite Yerevan's protests and occasional efforts to the contrary. Iran recognizes Armenia as a critical country for its own needs, and a geographically isolated state that can benefit from growing ties to Iran.

US-Armenian relations have been driven by a combination of evolving US strategic interest in the region, US interest in stabilization, Armenia's desire to develop a strong extra-regional backer, and ethnic ties between the two states. The US is concerned by Armenia's weak state institutions and elite dominance, which have allowed Iran to build influence and attempt to avoid sanctions.<sup>21</sup> The inability of the central government to control factions within the elite and shut down gray and black markets - particularly in the banking sector - have not only had repercussions on US-Iranian competition, but have facilitated destabilization of Armenia and the region.

As for Iran, "modern" Armenian-Iranian relations date back several hundred years to the Safavid conquest of present-day Armenia. The invasion sought to eliminate Ottoman forces from the region, and entailed a bitter imperial contest in which Armenia featured as a chessboard of other's ambitions. This disparity in power - along with memories of Armenia's vulnerability to similar invasions - leads to wariness by Yerevan when dealing with Iran.

Armenia relies on Iran for some gas imports, but due to Russia's control over Armenia's gas network, these imports most often end up being burned for electricity and exported back to Iran. The pipeline currently moves around 24 million cubic feet per day, all of which is used in the thermal plants that provide roughly a quarter of Armenia's total power.<sup>22</sup> Electricity supplies have evolved into an equitable bilateral relationship, as Armenia's rebuilt energy grid allowed it

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<sup>21</sup> "Puzzles of State Transformation: The Case of Armenia and Georgia," Dr. Nicole Gallina, *Caucasian Review of International Affairs*, Winter 2010. [http://cria-online.org/10\\_3.html](http://cria-online.org/10_3.html)

<sup>22</sup> "Iran: Country Analysis," US Energy Information Administration. <http://www.eia.gov/countries/cab.cfm?fips=ir>

to supply Iran with more electricity in the summer (roughly 400 million kWh in 2009) than it imported in the winter (roughly 290 million kWh).<sup>23</sup>

Banking remains a problematic element of the Armenian-Iranian relationship. While Armenia lacks the hard currency to backstop the Rial or the oil demand to replace lost markets, Armenian banks are still full and generally trusted members of the global financial community. Although banking has been a concern, Armenia's tightened financial controls mean that Iran has most likely been unable to fully exploit the weakened financial system and pay overseas suppliers.

### *Azerbaijan*

Azerbaijan's relations with the US and Iran have been shaped by its status as a Shia state under an actively secular government. Echoing concerns dating back to the Soviet era, the Aliyev regime in Azerbaijan fears that political Shiism will undermine its legitimacy and underpin a viable opposition. Azerbaijan's secular leadership sees the Iranian doctrine of *velayat-e faqih* (guardianship of the jurist) as a danger to the regime's survival. Baku emphasizes Azeri nationalism over Islamic solidarity and has sought to remove religion from the public sphere; it regularly charges Tehran with backing preachers and religious extremists in Azerbaijan, claiming Tehran aims to overthrow the Aliyev regime.<sup>24</sup> Iran, in turn, sees this ethnic focus as an attempt to foment secession among Iran's ethnic minorities, and views Azerbaijan as aggressive in bringing in outside powers and claiming mineral rights in the Caspian.

US-Azerbaijan ties are based largely on common geopolitical need. While America has occasionally emphasized ideological objectives - most notably in the immediate post-Soviet period, when Washington emphasized growing free markets and democratizing the region - a common concern over regional stability and energy security have been the key aspects of the US-Azerbaijani relationship. Azerbaijan does not share the same concern as the US over free markets and human rights, but does see the America primarily as an extra-regional source of diplomatic support and weapons supplier, and as a source of investment in infrastructure and economic growth.

Trade between Iran and Azerbaijan is considerably smaller than US-Azerbaijan trade. Although MIT's Observatory of Economic Complexity shows that Azerbaijan's trade with the US is less balanced than with Iran - most is in is crude oil, which is highly fungible and could be easily exported to other states - US exports to Azerbaijan alone are still greater than Baku's bilateral trade with Iran. Public sources suggest that while Iranian commercial ties are useful in an economy as constrained as Azerbaijan's, they are less valuable than economic relations with the US.<sup>25</sup>

Iran has been steadily frozen out of Azerbaijan's growing pipeline network. While Tehran opposed the Trans-Anatolian Gas Pipeline (TANAP), and the eastern section of Nabucco -

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<sup>23</sup> "Armenia: Energy Sector Review," Inogate Energy Portal.

[http://www.inogate.org/index.php?option=com\\_inogate&view=countrysector&id=8&lang=en](http://www.inogate.org/index.php?option=com_inogate&view=countrysector&id=8&lang=en)

<sup>24</sup> Pg. 49 <http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf>

<sup>25</sup> Note that these figures ignore the question of transshipment. While Azerbaijan, unlike Armenia, does have effective lines of transportation in all directions, some of its non-Iranian international trade does pass through Iran. Since more than 90% of its total exports comprise petroleum-sector goods - almost all of which run through pipelines to the north - Iran has a relatively smaller logistics role in Azerbaijan's economy than it does in Armenia's.



proposing instead that Caspian Basin gas flow through Iran's network - Azerbaijan invited the Naftiran Intertrade Company to participate in the Shah Deniz gas field and pipeline. Since then, however, Iran has had limited access to Azerbaijani petroleum investment, being shut out from the Baku-Tbilisi-Ceyhan Pipeline, Trans-Anatolian Pipeline, and Nabucco Pipeline. Iran's diminishing involvement in Azerbaijan's energy sector has prevented it from benefitting financially and technologically from the Western expertise and material invested in these projects, but has also served to reduce Iran's interest in maintaining a stable flow of revenue from the fields (and hence limited one of its main points of cooperation with Azerbaijan).<sup>26</sup>

### *Georgia*

The Republic of Georgia plays a smaller role in US-Iranian competition. It faces its own territorial disputes over separatist regions, focusing national politics and attention on Abkhazia and South Ossetia, and reducing its role in international disputes unrelated to these territories. Its attempts to regain these territories with US backing have placed it at the forefront of US-Russian disputes, giving the state international significance disproportionate to its size.

Ties between Washington and Tbilisi are grounded in common concerns over Russian power projection, specifically regarding Abkhazia and South Ossetia. This geopolitical partnership - Georgia saw Westernization and closer ties to the EU and US as the only way to limit Russian influence - was underpinned by a strong personal relationship between Presidents Bush and Saakashvili. With the rise of the Georgian Dream party and the entrance of a new array of figures into Georgian and American policy making circles, it is unclear where the relationship will go.

Georgian foreign policy focuses on Russia. Georgian policymakers sought to exploit Iranian concerns about Russian influence in the region to provide some freedom of maneuver between the two states. In particular, Tbilisi recognizes that Iran at least partially supports territorial integrity and regional stability, if only because disorder tends to magnify Moscow's role and diminish Tehran's. While Iran tried to frame the partnership as Georgia finding a new partner (to replace the US, which had allegedly proved unreliable), Georgia saw the relationship as complementary to military and political ties with America.<sup>27</sup>

Progress was slow but noticeable.<sup>28</sup> In 2011, Georgia and Iran eliminated visa requirements, generating a surge in Iranian tourism to Georgia (as Iranians saw Georgia as the easiest "western" country to reach, Armenia allegedly claimed that Georgia was stealing its tourists).<sup>29</sup>

Georgia now sees itself caught between increasing US pressure on Iran - pressure that has already restricted Georgian banks' willingness to operate accounts with Iranians - and the commercial and strategic possibilities in an improved relationship with Iran.<sup>30</sup> So far, both states

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<sup>26</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 14, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

<sup>27</sup> Kakachia, Kornely. "Iran and Georgia: Genuine Partnership or Marriage of Convenience." PONARS Eurasia Policy Memo No. 186, September 2011, pg. 3. [http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm\\_186.pdf](http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm_186.pdf)

<sup>28</sup> "Iranian, Georgian Trade Officials Discuss Expansion of Mutual Cooperation," Fars News, February 27, 2012. <http://english.farsnews.com/newstext.php?nn=9010176286>

<sup>29</sup> "Georgia: Tbilisi Walks Diplomatic High Wire On Iranian Nuclear Issue," Giorgi Lomsadze, IPS/EurasiaNet, May 15, 2012. <http://www.globalissues.org/news/2012/05/15/13684>

<sup>30</sup> "Georgia: Tbilisi Walks Diplomatic High Wire On Iranian Nuclear Issue," Giorgi Lomsadze, IPS/EurasiaNet, May 15, 2012. <http://www.globalissues.org/news/2012/05/15/13684>; Kakachia, Kornely. "Iran and Georgia:

have been willing to let Georgia's stance remain ambiguous, strengthening ties with both at the expense of Russia. It is unclear what direction Prime Minister Ivanishvili will seek for Georgia - given Tbilisi's limited economic and political influence in broader US-Iranian competition, it is unlikely either side will put much attention into this aspect of the relationship.

### *Implications for US Policy*

The South Caucasus is dominated by local conflicts, and is not a key zone of US-Iranian competition. Iran has accepted something approaching a status quo although there have been Iranian concerns over reports of Israeli air and assassination bases in Azerbaijan.

Iran has been able to gain some advantages in the region, but mostly restricted to northwest Iran and other communities that trade directly with the South Caucasus. The weaknesses inherent in the region - low state capacity, small economies, restricted banking sectors, and divided national political concerns - limit Iranian efforts to circumvent US and EU sanctions or import dual-use or military equipment. Iran cannot effectively use the Caucasus to target US strategic concerns. With the possible exception of proxy attacks on US and Israeli targets - attacks which risk angering local governments and leading them to further side against Tehran.

The US, in turn, can do little to compete directly with Iran. Arming Azerbaijan, even with weapons that are primarily useful in naval warfare, would be seen as threatening the status quo in Nagorno Karabakh and as engaging in competition with Russia. The US can rhetorically back Azerbaijan's position on the division of the Caspian, but such external interference is unlikely to alter the outcome of negotiations, particularly as Ashgabat and Astana are almost as wary of outside intervention as Tehran.

Iran remains peripheral to other US objectives in the region, and the leverage the US has gained in pursuing these - personal ties, trade, aid, remittances, military, and other security relationships - provide it with the leverage to limit Iran's economic penetration, while allowing it to further the training and equipment transfers that limit Iran's ability to exercise its hard power advantage against the smaller South Caucasus states.

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## Turkey

Turkey's strategic position as an energy conduit, a major NATO ally, and power in the Middle East has made Turkey a key partner with the US in Washington's competition with Iran. Turkey continues to have, for the most part, shared interests on mutual issues with the US. While Turkey has had disagreements with the alliance there are no indications that Turkey seeks to distance itself from NATO and the US.

Turkey is attempting to become a major energy transit nation that links Caspian, Middle Eastern, and Central Asian oil and natural gas fields with consumers in Europe. Turkey is seeking to increase its influence in energy transportation by creating an energy "bridge", and by breaking Russia's near monopoly in supplying natural gas to Europe by bringing Caspian supplies through Turkey to southern Europe. By functioning as a bridge, Turkey can also diversify and improve its own energy sources, to help fuel economic growth that is predicted to increase Turkey's demand for energy by 4% a year.

Turkey has been a member of NATO since 1952 and has continued to support NATO's missions and its defense relationship with the US. Turkey also has the second largest military in NATO (the largest is the US), with over 500,000 personnel in active service.<sup>31</sup> Currently, Turkey hosts the Allied Air Command Headquarters in Izmir and the NATO Rapid Deployable Corps-Turkey, headquartered in Istanbul. In September 2011, Turkey agreed to host a forward deployed radar system as part of the European Phased Adaptive Approach ballistic missile defense program designed to counter Iranian ballistic missiles.<sup>32</sup> This has been called "probably the biggest strategic decision between the US and Turkey in the past 15 or 20 years."<sup>33</sup>

Turkey's foreign policy is changing, however, as Turkey has become less reliant on the US and more independent in what it regards as its core interests in the region and goal of expanding its economic and political integration into the Middle East. The election victory of the Justice and Development Party (AKP) in 2002, its performance in the 2007 and 2011 Turkish elections, the dwindling power of the western-oriented Turkish General Staff to guide the national security strategy of the state, the appointment of Foreign Minister Ahmet Davutoğlu in 2009, and the embracing of his "zero problems" approach to foreign policy, is shifting Turkey's focus towards the Middle East.

Turkey has had mixed relations with Iran. Since the end of the Cold War, Turkey and Iran have been both competitors and partners. Both countries vie for greater regional power and influence but cooperate on certain issues such as Kurdistan Workers Party (PKK) violence and instability in the border regions. Tehran and Ankara's economic relationship has vastly increased in the past decade, and total bilateral trade was \$16.05 billion in 2011 and may reach \$20 billion in 2012.<sup>34</sup>

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<sup>31</sup> International Institute for Strategic Studies, *The Military Balance*, March 7, 2012, Pg. 93

<sup>32</sup> Jim Zanotti, *Turkey: Background and U.S. Relations*, Congressional Research Service, April 27, 2012. Pg. 22

<sup>33</sup> Thom Shanker, "U.S. Hails Deal With Turkey on Missile Shield," *The New York Times*, September 15, 2011.

<http://www.nytimes.com/2011/09/16/world/europe/turkey-accepts-missile-radar-for-nato-defense-against-iran.html>

<sup>34</sup> Turkish Statistical Institute, *Foreign Trade Statistics Yearbook 2011*, Pg. 67.

[http://www.turkstat.gov.tr/Kitap.do?metod=KitapDetay&KT\\_ID=4&KITAP\\_ID=89](http://www.turkstat.gov.tr/Kitap.do?metod=KitapDetay&KT_ID=4&KITAP_ID=89)

Despite pressure from Europe and the US, Ankara remains adamant about Iran's right to a peaceful nuclear program. So far, it has only implemented UN sanctions, saying that unilateral EU and US sanctions are not binding on Turkey. However, both Ankara and the US have expressed concern about the prospects of a nuclear-armed Iran and believe that such a scenario would cause instability and possibly additional nuclear proliferation in the Middle East. Moreover, the events of the Arab Spring and the Syrian Civil War have cooled Turkish-Iranian relations.

## **Turkish Relations with the US**

The US is dealing with a partner, and the US must always take fully account of Turkish views and interests. At the same time, Turkey has been a key ally of the US since it joined NATO in 1952, and Turkey has continued to play a similar role in relation to the most current iteration of US-Iranian strategic competition. Defense cooperation and assistance has been an essential part of this relationship. Since 1948, the US has provided Turkey with roughly \$13.8 billion in military assistance.<sup>35</sup> Turkey has contributed forces to ISAF and has commanded the force four times; currently, Ankara commands two Provincial Reconstruction Teams and Regional Command-Capital, with 1,700 total soldiers assigned to these ISAF missions.<sup>36</sup>

There have been US and Turkish disagreements over US foreign policy objectives and actions; most notably over the 2003 invasion of Iraq, the current conflict over Iran's nuclear program, and what Ankara feels is a lack of leadership on the behalf of the US in Syria. While these events have led to tensions between the two sides, there is no indication that Turkey is less interested in the US or NATO. However, the election victory of the Justice and Development Party (AKP) in 2002, the appointment of Foreign Minister Ahmet Davutoğlu in 2009, and the embracing of his "zero problems" approach to foreign policy, and subsequent warming of relations with Iran and Syria, made it seem that Turkey was turning away from the West and prompted some concern in the US that Turkey's Islamic-influenced government shifting its foreign policy.

But given the recent tensions between Iran and Turkey over the Syrian Civil War, and growing distrust over Kurdish and sectarian issues; these fears seem unrealistic and premature. Turkey's foreign policy should be understood as a renewed interest in regional stability and integration as a way to gain markets for Turkish goods and to improve Turkey's stature in the region – rather than a complete departure from the West. Recent events have underscored Turkey's strategic interests in maintaining a strong US-Turkish link as Ankara has attempted to balance its regional interests with its concern over Iran's nuclear program. On the whole, Turkey and the US, "have, for the most part, common goals on issues of mutual importance."<sup>37</sup>

President Obama made Turkey the destination for his first presidential trip abroad. He called the US-Turkish relationship a "model partnership" and stated that "Turkey is a critical ally."<sup>38</sup> Turkey, in turn, has said that its relations with the US were better than ever, Turkey's ambassador to the US stated, "During this last period we have come closer than ever in Turkish-

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<sup>35</sup> Jim Zanotti, *Turkey: Background and U.S. Relations*, Congressional Research Service, April 27, 2012. Pg. 35

<sup>36</sup> "Background Note: Turkey," United States Department of State, March 20, 2012.

<http://www.state.gov/r/pa/ei/bgn/3432.htm>

<sup>37</sup> Madeleine Albright, Stephen Hadley, Steven Cook, et. al. *U.S.-Turkey Relations: A New Partnership*, The Council on Foreign Relations, May 2012. Pg. 8

<sup>38</sup> Jim Zanotti, *Turkey: Background and U.S. Relations*, Congressional Research Service, April 27, 2012. Pg. 32

American relations. Our ties have broadened, diversified and deepened. There is a very close personal relationship between our leaders.”<sup>39</sup>

Turkey’s position and role in the region, its efforts to resolve the Israeli-Palestinian conflict, the Syrian civil war, the Iranian nuclear program, and support for democratic revolutions all continue to make it a valuable partner for the US in the region. Turkey’s “zero problems with neighbors” approach to regional policy has increased its influence in the region but as to how much is uncertain. While Ankara has had some foreign policy achievements in the past such as its engagement with Syria and Iran, it has not shown much ability to shape events in the region as seen by the continuing Syrian Civil War.

## **US-Turkish Military Cooperation**

The US-Turkish military alliance started in 1947 with the implementation of the Marshall Plan and grew stronger in 1952 when Turkey became a full member of NATO. During the Cold War, the Turkish-US military and defense relationship was exceedingly strong, owing to Turkey’s strategic location in Southeast Europe as a buffer against Soviet influence in the Middle East, Southeastern Europe, and the Eastern Mediterranean.

During the Cold War, the US provided Turkey with roughly \$7.7 billion in grants and \$3.9 billion in loans.<sup>40</sup> The majority of these funds were dispersed between 1948-1975 and 1982-1992 due to the 1975-1978 Congressionally-established arms embargo on Turkey in response to Turkey’s invasion of Cyprus. US-Turkish military to military ties remained strong despite the arms embargo, avoiding a lasting impact on security cooperation despite some deterioration during and in the immediate aftermath of the embargo. Since the end of the Cold War and the removal of the Soviet Union as a unifying foe, US-Turkish military ties have passed through various stages as a monetary, training, and deployment partnership. The full aid numbers and program types can be seen in **Figures 1** through **6**.

After the collapse of the Soviet Union, Turkey stopped receiving Foreign Military Financing aid to purchase US-produced equipment, and military and security assistance has been drastically reduced from its Cold War heights; from 1993-2012 the US provided just \$472 million in grants and requested \$4.7 million in various foreign military training programs, compared to over \$3 billion in total grants between 1982 and 1992.<sup>41</sup>

The Turkish military continues to seek advanced military equipment from the US, and participate in joint defense industry ventures - most notably Turkey’s involvement in the development and production of the F-35 Joint Strike Fighter. However, Turkey’s desire to limit its reliance on outside sources for defense procurement has led Ankara to look towards alternate suppliers for

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<sup>39</sup> Semih Idiz, “Turkey-US Ties 'Closer Than Ever' Says Turkish Ambassador Tan,” *Al-Monitor*, January 8, 2012. <http://www.al-monitor.com/pulse/originals/2013/01/turkey-chuck-hagel.html>

<sup>40</sup> Jim Zanotti, *Turkey-US Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 4

<sup>41</sup> Jim Zanotti, *Turkey-US Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 4



its defense needs - such as Germany, Italy, South Korea, and others - and to develop its own defense-industrial base after decades of neglect.<sup>42</sup>

Nevertheless, Turkey continues to give priority to defense cooperation both with the US and NATO, and has participated in the ISAF mission in Afghanistan. The US and Turkey have cooperated in maintaining regional stability in Iraq, Syria, Lebanon, and Egypt; and in counterterrorism operations against the PKK throughout the region.<sup>43</sup>

**Figures 2, 3, and 5** provide more details on Turkish arms purchases and contracts. They show Turkey plans to buy 30 F-16C/D Block 50, 6 CH-47F, 109 S-70i, and B-737 AEW&C aircraft, and refurbish older F-16s.<sup>44</sup> Ankara is also one of eight countries that is partnering with the US on the F-35 Joint Strike Fighter program and intends to purchase 100 F-35s, with the first deliveries taking place in 2015.<sup>45</sup>

Other aspects of the military relationship between Washington and Ankara have remained strong since the end of the Cold War and the start of the Global War on Terrorism, although the role of security assistance has declined. The US and Turkey have cooperated in the US withdrawal of Iraq and in efforts to stabilize the Kurdish Regional Government (KRG). They have cooperated in combatting terrorist groups, and in Turkey's fight against the PKK. After two major PKK cross-border ambushes of Turkish troops in 2007, President Bush persuaded Prime Minister Erdoğan to refrain from launching a cross-border invasion by agreeing to provide "actionable intelligence" about PKK locations, to establish a tripartite military agreement with the US, Iraq, and Turkey to cooperate against the PKK, and to declare the PKK a terrorist organization and enemy of the US.<sup>46</sup>

The US and Turkey also cooperate closely on other military matters such as US and NATO basing, land and air transit rights, and ballistic missile defense. The US deploys over 1,700 military personnel in Turkey, with the vast majority stationed at Incirlik Air Base to support the US effort in Afghanistan. Washington is also reported to maintain 60-70 US B61 nuclear gravity bombs on the base.<sup>47</sup> In October 2010, the US sent 68% of air logistical support for Iraq and Afghanistan through Incirlik.<sup>48</sup> See **Figure 6** for a full list of NATO facilities in Turkey.

## NATO-Turkish Military Cooperation

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<sup>42</sup> Umit Enginsoy and Burak Ege Bekdil, "Can Turkey Afford Its Expensive Defense Plans?" *Defense News*, July 29, 2012. <http://www.defensenews.com/article/20120729/DEFREG01/307290002/Can-Turkey-Afford-Its-Extensive-Defense-Plans->

<sup>43</sup> Jim Zanotti, *Turkey-US Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 35

<sup>44</sup> F. Stephen Larrabee, *Troubled Partnership: U.S.-Turkish Relations in an Era of Global Geopolitical Change*, RAND Corporation, 2010. Pg.77; International Institute for Strategic Studies, *The Military Balance*, March 7, 2012, Pg. 180-181

<sup>45</sup> AFP, *Turkey Plans To Buy 100 F-35s: Report*, *Defense News*, February 23, 2012. <http://www.defensenews.com/apps/pbcs.dll/article?AID=2012302230002>

<sup>46</sup> Karen Kaya, *A Different War on Terrorism: The U.S., Turkey and the PKK*, *Small Wars Journal*, May 2, 2012. <http://smallwarsjournal.com/jrnl/art/a-different-war-on-terrorism-the-us-turkey-and-the-pkk>

<sup>47</sup> Jim Zanotti, *Turkey-US Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 22

<sup>48</sup> Jim Zanotti, *Turkey-US Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 22

The Turkish military relationship with NATO remains strong.<sup>49</sup> While other NATO armies are reducing personnel and training and delaying modernization, the Turkish military continues to be a major military force, has upgraded its equipment, and has acquired extensive experience in conducting asymmetric warfare. Turkey has also played a growing role in NATO's missile defenses.

Turkey agreed in September 2011 to host an X-band AN/TPY-2 radar array in the country as part of the European Phased Adaptive Approach to protect Europe from Iranian ballistic missiles. This radar was integral to Phase 1 of this system. Turkey deployed the radar on two conditions, both emblematic of current issues in Turkish foreign policy. One, as a sign of its now poor relations with Israel, Turkey demanded that sensor data from the system not be shared with Jerusalem. Two, Turkey demanded that no specific country would be named as a threat or target for the defense system. This reflected Turkey's caution in taking a public position on Iran and its nuclear program.

By hosting the radar site, while asking that it not officially be directed at a single country, Turkey wishes to avoid appearing unduly provocative toward Iran, with whom Ankara sought warm relations but has since broken with Turkey in the fallout of the Syrian Civil War.

Turkish concern over Iran and Syria has diminished in recent months as the US and NATO has increased their cooperation with Turkey in an effort to mitigate the impact and danger of the Syrian civil war. After several border incidents involving Syrian aircraft and artillery, Ankara asked for and received NATO-supplied and operated Patriot missile batteries in order to protect the country's border with Syria.<sup>50</sup> Turkey obtained six batteries, from the US, Germany, and the Netherlands; half the number it hoped for.

The US will place its batteries and 400 soldiers closest to the border in the Turkish town of Gaziantep, about 25 miles from Syria. Germany will place its batteries north of the US in Kahramanmaraş, about 70 miles from the border, and the Dutch will place their battery in Adana, about 75 to 80 miles from the border. It is expected that the batteries will be operational at the end of January.

### *Issues in US-Turkish and NATO-Turkish Military Relations*

There have been periods of tensions between the two states. The 1991 Gulf War and the 2003 Iraq War - and their consequences for Turkish foreign policy, regional security, and inflammation of the Kurdish issue - caused disputes between the two countries but did not involve a major break in governmental relations.

The first period of such tension came after the 1991 Gulf War when Turkey cooperated with the US in prosecuting the war in hopes that its cooperation would strengthen its strategic partnership with the US and improve its chances for membership in the European Community. Some Turkish analysts believe that the benefit Turkey received for its support in the 1991 Gulf War, although substantial in terms of economic and military aid, was not worth the consequences in

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<sup>49</sup> Jim Zanotti, *Turkey-US Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 14

<sup>50</sup> Jerome Rivet, "NATO Expected To Give Go-Ahead to Patriot Deployment in Turkey," AFP, December 2, 2012. <http://www.defensenews.com/article/20121202/DEFREG01/312020003/NATO-Expected-Give-Go-Ahead-Patriot-Deployment-Turkey?odyssey=tab|topnews|text|FRONTPAGE>

terms in reduced trade from Iraq, regional destabilization, and the improved ability of the PKK to operate from safe havens in northern Iraq.

The war also marked a major escalation of Turkey's Kurdish problems. A US and allied-protected Kurdish enclave in northern Iraq was used as a staging base for PKK attacks on Turkish territory. According to one RAND study, "many Turks viewed U.S. support for the Kurdish entity in northern Iraq as part of a conscious plan to support the emergence of an independent Kurdish state on Turkey's southern border."<sup>51</sup> As a result, the war that was supposed to draw the US and Turkey closer together produced the exact opposite response in the public eye.

The US invasion of Iraq in 2003 also caused problems for US-Turkish relations. The US requested use Turkish territory to open a second front for the invasion, but on March 1, 2003, the Turkish Grand National Assembly voted to bar the US from using its territory to invade Iraq. The invasion and subsequent increase in PKK attacks, increase in Iranian influence in Iraq, Iraqi Kurds' drive for independence, and US refusal to take action against PKK training camps in northern Iraq served to further create tensions between Ankara and Washington. The growing number of PKK incidents in Turkey was the most harmful of these, prompting an uptick in anti-US sentiment in Turkey. The Turkish people have historically held a negative view of the US; only 15% of the people polled by the Pew Research Global Attitudes Project held a favorable view of the US.<sup>52</sup>

The US and Turkey have, however, improved their cooperation in counterterrorism and Turkey has greatly improved its relations with Iraqi Kurds since 2003. The 2007 agreement between the US and Turkey to cooperate on combatting the PKK and President Obama's election in 2008 served to improve public sentiment of the US slightly, as shown in **Figure 7**. Moreover, while Turkey still have problems with the Iraqi Kurds - and now with Syrian Kurds as well - Ankara has built up important economic ties to the Iraqi Kurds since 2003, and is one of their major investors and trading partners.

Turkey is making growing efforts at military diversification. While Turkey continues a robust military procurement relationship with US defense firms, Ankara is increasingly looking outside of the US for its defense purchases. It seeks to reduce its dependence on one nation or group of nations, and has promoted joint defense acquisition programs that give it access to material very distinct from its NATO material. Turkey's goal of reach of reaching 50% indigenous production by the end of 2010 was finally achieved in the fourth quarter of 2011 with indigenous involvement reaching 52.1%.<sup>53</sup> Ankara's interest in joint ventures with foreign defense companies is at times at odds with US arms export laws that limit the transfer of sensitive technology. Thus, to promote indigenous production Turkey is increasingly looking towards other suppliers such as South Korea, Germany, China, Russia, Italy, and the UK.<sup>54</sup>

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<sup>51</sup> F. Stephen Larrabee, *Troubled Partnership: U.S.-Turkish Relations in an Era of Global Geopolitical Change*, RAND Corporation, 2010. Pg.8

<sup>52</sup> Pew Research Global Attitudes Project, "Opinion of the United States-Turkey," <http://www.pewglobal.org/database/?indicator=37&country=224>

<sup>53</sup> Guy Anderson, "Turkey exceeds local involvement targets as updated industrial strategy looms," *Jane's Defence Weekly*, August 5, 2011.

<sup>54</sup> Umit Enginsoy and Burak Ege Bekdil, "Can Turkey Afford Its Extensive Defense Plans?," *Defense News*, July 29, 2012. <http://www.defensenews.com/apps/pbcs.dll/article?AID=2012307290002>

**Figure 1: Historic and Current US Military and Security Assistance to Turkey**

(In millions)

Fiscal Year(s)	Foreign Mil. Fin.	Excess Defense Articles	Int'l Mil. Ed. and Training	NADR	INCLE	Other Grants	Total Grants	Loans
1948-1975	—	869.0	111.8	—	—	3,406.0	4,386.8	185.0
1976-1981	—	—	3.4	—	1.0	10.5	14.9	952.9
1982-1992	1,884.0	—	36.4	—	6.7	1,362.1	3,289.2	2,769.1
1993-2001	—	205.1	14.0	0.1	3.2	—	222.4	1,678.1
2002-2008	170.0	21.1	23.7	8.6	0.1	—	223.5	—
2009	1.0	—	3.2	1.9	0.5	—	6.6	—
2010	—	—	5.0	3.0	—	—	8.0	—
2011 Request	—	—	4.0	1.4	0.5	—	5.9	—
2012 Request	—	—	4.0	—	0.5	—	4.5	—
<b>TOTAL</b>	<b>2,055.0</b>	<b>1,095.2</b>	<b>205.5</b>	<b>14.0</b>	<b>12.5</b>	<b>4,778.6</b>	<b>8,160.8</b>	<b>5,585.1</b>

Source: Jim Zanotti, *Turkey-U.S. Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 4

INCLE: International Narcotics Control and Law Enforcement

NADR: Nonproliferation, Antiterrorism, Demining, and Related Programs

Account	FY2010	FY2011	FY2012	FY2013
International Military Education and Training (IMET)	5.0	4.0	4.0	3.6
International Narcotics Control and Law Enforcement (INCLE)	—	0.5	0.5	—
Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR)	3.0	1.4	1.1	0.9
<b>Total</b>	<b>8.0</b>	<b>5.9</b>	<b>5.6</b>	<b>4.7</b>

Source: Jim Zanotti, *Turkey: Background and U.S. Relations*, Congressional Research Service, April 27, 2012. Pg. 35

**Figure 2: Significant U.S.-Origin Arms Transfers or Expected Arms Transfers to Turkey**

Amount/Description	FMS or DCS	Year			Primary Contractor(s)	Estimated Cost
		Cong. Notice	Contract	Delivery		
100 F-35A Joint Strike Fighter aircraft (possibly 16 more discussed following congressional notice)	DCS	2006		2014-2023 (Expected if contract signed)	Lockheed Martin	\$11-\$15 billion
30 F-16C Block 50 Fighter aircraft and associated equipment	FMS	2006	2009	By 2013 (Expected)	Consortium (Lockheed Martin, Raytheon, and others)	\$1.8 billion
48 AGM-84H SLAM-ER Air-surface missiles	FMS	2006	2006	Complete	Boeing	\$162 million
105 AIM-9X SIDEWINDER Air-air missiles (SRAAM)	FMS	2007			Raytheon	\$71 million
51 Block II Tactical HARPOON Anti-ship missiles	FMS	2007	2008 (for at least 4)		McDonnell Douglas (Boeing)	\$159 million
100 MK-54 MAKO Torpedoes	FMS	2007	2009	By 2012 (Expected)	Raytheon	\$105 million
30 AAQ-33 SNIPER and AN/AAQ-13 LANTIRN Aircraft electro-optical systems (targeting and navigation pods)	FMS	2008	2009		Lockheed Martin	\$200 million
6 MK 41 Vertical Launch Systems for Ship-air missiles	FMS	2008	Signed	3 already 3 by 2012 (Expected)	Lockheed Martin	\$227 million
107 AIM-120C-7 Air-air missiles (AMRAAM)	FMS	2008	Signed	By 2012 (Expected)	Raytheon	\$157 million
400 RIM-162 Ship-air missiles (ESSM)	DCS	2009			Raytheon	\$300 million
72 PATRIOT Advanced Capability Missiles (PAC-3), 197 PATRIOT Guidance Enhanced Missiles, and associated equipment	FMS	2009			Raytheon and Lockheed Martin	\$4 billion
14 CH-47F CHINOOK Helicopters	FMS	2009			Boeing	\$1.2 billion

Source: Jim Zanotti, *Turkey-U.S. Defense Cooperation: Prospects and Challenges*, Congressional Research Service, April 8, 2011. Pg. 29

*Figure 3: Selected Arms Procurements and Deliveries*

Designation	Type	Quantity (Current)	Contract Value	Prime Nationality	Prime Contractor	Order Date	First Delivery Due	Notes
<i>Dost-class</i>	PSOH	4	€352.5m	TUR	RMK Marine	2007	2011	Based on <i>Sirio</i> -class PCO design. For coast guard. All 4 vessels to be launched by end-2012
<i>Tuzla-class</i>	PCC	16	€402m (US\$545m)	TUR	Dearsan Shipyard	2007	2010	New Type Patrol Boat (NTPB). Six vessels delivered by Aug 2012. Final delivery due 2015
F-16C/D Block 50 <i>Fighting Falcon</i>	FGA ac	30	US\$1.78bn	US	Lockheed Martin	2009	2011	14 F-16C and 16 F-16D variants. Final assembly in TUR. First delivery May 2011. Final delivery due 2014
ATR-72MP	MP ac	10	€260m	ITA	Finmeccanica (Alenia Aeronautica)	2005	n/k	Programme delayed; seven of 10 MP mission systems delivered by mid-2012
B-737 AEW	AEW&C ac	4	US\$1bn	US	Boeing	2002	2012	Peace Eagle programme. Option for a further 2. First aircraft now to be delivered 2012; remaining 3 in 2013.
A400M <i>Atlas</i>	Tpt ac	10	see notes	Int'l	EADS (Airbus)	2003	2012	TUK is now due to take the first of its 10 ac in 2013
T129 (AW129 <i>Mangusta</i> )	Atk Hel	51	US\$3bn	TUR/ITA	TAI/Aselsan/Finmeccanica (Agusta Westland)	2007	2013	Option on further 41. Serial production planned for 2013
T129 (AW129 <i>Mangusta</i> )	Atk Hel	9	€150m (US\$208m)	TUR/ITA	TAI/Aselsan/Finmeccanica (Agusta Westland)	2010	2012	Interim measure to fill capability gap until large-scale production of T129 begins. Four due for delivery 2012
CH-47F <i>Chinook</i>	Tpt Hel	6	see notes	US	Boeing	2011	2013	Original aim to acquire 14 for US\$1.2bn, but order cut to six, five for the army and one for SF Command
S-70i <i>Black Hawk</i> (T-70)	Tpt Hel	109	US\$3.5bn	TUR/US	TAI/UTC (Sikorsky)	2011	n/k	—
<i>Anka</i>	ISR UAV	10	n/k	TUR	TAI	2012	2014	—
<i>Gokturk</i>	Sat	1	€270m (US\$380m)	ITA/FRA	Telespazio/Thales (Alenia Space)	2009	2013	—
<i>Altay</i>	MBT	250	see notes	TUR	Otokar	2007	n/k	4 initial prototypes by 2014 for approx US\$500m. To be followed by an order for 250 units following testing
<i>Firtina</i> 155mm/52-cal	Arty (155mm SP)	350	n/k	ROK	Samsung Techwin	2001	2003	ROK Techwin K9 <i>Thunder</i> . Total requirement of 350. Deliveries ongoing
Type-214	SSK	6	€1.96bn (US\$2.9bn)	GER	MFI/TKMS (HDW)	2009	2015	To be built at Golcuk shipyard
<i>Ada-class</i>	FFGHM	8	n/k	TUR	Istanbul Naval Shipyard	1996	2011	Second vessel due for delivery in 2013. Part of Milgem project which incl. requirement for four F-100-class FFG

Source: International Institute for Strategic Studies, *The Military Balance 2013*, March 7, 2012. Pgs 180-181.

**Figure 4: Commercial Export of Defense Articles and Foreign Military Sales to Turkey**

(In thousands of dollars)

	FY2007	FY2008	FY2009	FY2010	FY2011
Total Sales Agreements	1,962,976	358,693	575,730	1,172,847	200,742
Total Sales Deliveries	182,008	306,033	306,135	253,053	994,305
Foreign Military Sales Agreements	1,962,976	358,693	575,730	1,172,847	200,742
Foreign Military Sales Deliveries	182,008	306,033	306,135	253,053	994,305
Foreign Mil Fin Waived	14,232	6,817	1,000	-	-
Commercial Export Deliveries	241,054	474,126	-	-	-
IMET Program and Emergency Drawdowns	3,497	2,877	3,199	4,992	3,990
Combatting Terrorism Fellowship Program (CTFP)	236	390	301	666	826
Number of Students Trained (IMET, MASF, Emergency Drawdowns)	228	205	233	362	240
Number of Students Trained (CTFP)	11	93	19	30	40

Source, Department of Defense, *Foreign Military Sales, Foreign Military Construction Sales And Other Security Cooperation Historical Facts*, September 30, 2011. Pgs 705-709. <http://www.dsca.osd.mil/programs/biz-ops/factsbook/Fiscal%20Year%20Series%20-%2030%20September%202011.pdf>

IMET: International Military Education & Training

MASF: Military Assistance Service Fund

Emergency Drawdown: The dollar value allocated in any fiscal year in which the President authorize to provide U.S. government articles, services and training to friendly countries and international organizations at no cost, to include free transportation.

**Figure 5: Major US-Origin Military Assets in Service with the Turkish Military**

<b>Ground Forces</b>	<b>Air Forces</b>	<b>Navy</b>
<b>Main Battle Tanks</b>	<b>Transport Helicopters</b>	<b>Frigates</b>
M48 (various types): 2,876	UH-60/UH-1H (various types): 243	Gaziantep (ex-Oliver Hazard Perry Class): 8
M60 (various types): 932	<b>Attack Helicopters</b>	Muavenet (ex- Knox Class): 1
<b>Armored Personnel Carriers</b>	AH-1P/AH-1W: 32	<b>Mine Warfare/Mine Countermeasures</b>
M113 (various types): 2,813	<b>Attack Aircraft</b>	Silifke (ex-Adjutant Class): 5
<b>Artillery and Missile Systems</b>	F-5: 54	Foca (ex-USCGC Cape Class): 4
M101A1/M114A1/M114A2/M115 (Towed): 754+	F-4E (various types): 284+	
M108T/M52T/M44T1/M107/M110A2 (Self Propelled): 868	F-16C/D: 213	
MLRS (Multiple Launch Rocket System): 12	<b>Intelligence/Surveillance/Reconnaissance</b>	
Mortars (various types): 5,813+	RF-4E: 35	
	<b>Tanker/Transport</b>	
	KC-135R: 7	
	C-130B/E: 35	

Source: International Institute for Strategic Studies, *The Military Balance*, March 7, 2012, Pg.162-165

Note: This chart does not include various small-arms, munitions, electronics, etc.

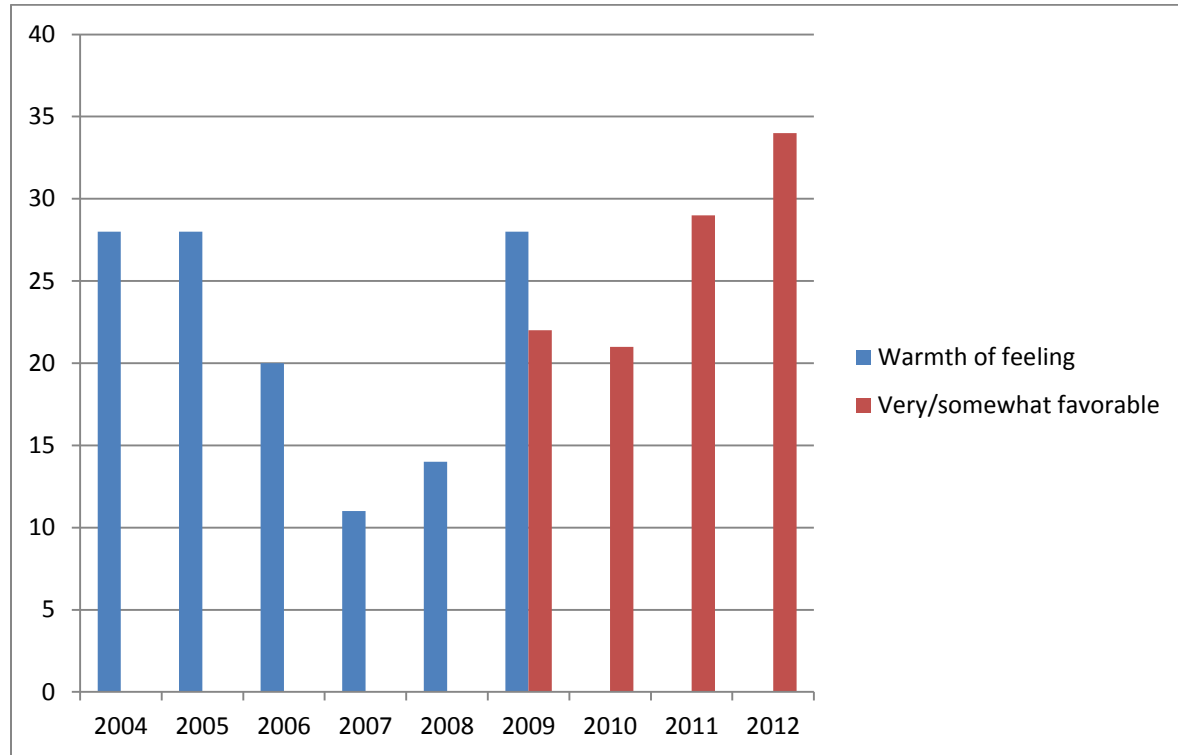


**Figure 6: US and NATO Military Bases, Joint Centers, and Transportation Routes in Turkey**



Source: Jim Zanotti, *Turkey: Background and U.S. Relations*, Congressional Research Service, April 27, 2012. Pg. 35.

**Figure 7: Turkish Attitudes Towards the US**



Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Warmth of feeling	28	28	20	11	14	28	N/A	N/A	N/A
Very/somewhat favorable	N/A	N/A	N/A	N/A	N/A	22	21	29	34

Data from the Transatlantic Trends Report, accessed via the German Marshal Fund website at [gmfus.org](http://gmfus.org). The survey questions changed in 2009, from “Rate your feelings toward some countries, institutions, and people, with 100 meaning a very warm, favourable feeling, 0 meaning a very cold, unfavourable feeling, and 50 meaning not particularly warm or cold. You can use any number from 0 to 100.” to “Please tell me if you have a very favorable, somewhat favorable, somewhat unfavorable or very unfavorable opinion of the United States?” For this chart, the first question is represented by the average warmth, while the second question is represented by the number who responded “very favourable” or “somewhat favourable.”

## Turkey's Role in Natural Gas and Oil Transportation and European Energy Security

Turkey is the fastest growing European economy with an 8.5% GDP increase in 2011 after a 9% rise in 2010, and income per capita is reported to have increased between 50% and 200% over the past ten years.<sup>55</sup> But the country's rapid rise has covered up significant shortfalls in Turkey's economy, mainly its dearth of energy resources, particularly oil and natural gas. As Turkey's economy has grown, so have its energy demands.

Turkey imported 91% of its oil and 98% of its natural gas in 2012, and imports are to rise as overall energy demand is estimated to increase 4% annually through 2020.<sup>56</sup> Despite Turkey's lack of energy resources, its strategic position between suppliers in the Caspian Basin and consumers in Europe makes it influential in energy transportation and attractive for European states who wish to diversify their energy sources away from Russia.

Turkey has become the main transit point for approximately 4%-6% of the world's oil supply and maintains a number of major natural gas and oil transportation networks.<sup>57</sup>

### Oil

- *Baku-Tbilisi-Ceyhan Pipeline*<sup>58</sup> (1.2 million bbl/d): Connects the Azeri-Chirag-Guneshli oilfield in the Caspian Sea to the Turkish port of Ceyhan on the South East Mediterranean coast.
- *Kirkuk-Ceyhan Pipeline*<sup>59</sup> (1.65 million bbl/d<sup>60</sup>): Connects Iraqi oilfields to the port of Ceyhan.
- *The Bosphorus Straits*<sup>61</sup> (Approximately 2.9 million bbl/d in 2009): Connects Russian and Caspian oil to world markets.

### Natural Gas<sup>62</sup>

- *The Baku-Tbilisi-Erzurum Pipeline* (1.05 Tcf): Connects the Shas Deniz gas field in the Azerbaijani sector of the Caspian Sea to Erzurum in Eastern Turkey.
- *The Blue Stream Pipeline* (1.1 Tcf): Connects the Russian gas distribution network to Ankara.

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<sup>55</sup> "Istanbuls and Bears," *The Economist*, April 7, 2012. <http://www.economist.com/node/21552216>

<sup>56</sup> The Center for Strategic and International Studies, *The Turkey, Russia, Iran Nexus: Economic and Energy Dimensions*, May 24, 2012. <http://csis.org/publication/turkey-russia-iran-nexus-economic-energy-dimensions>

<sup>57</sup> Note: Figures for transportation rates of gas or oil through stated pipelines reflects capacity, not current use.

<sup>58</sup> Energy Information Administration, *Country Analysis Brief: Turkey*, February, 2011.

<http://www.eia.gov/EMEU/cabs/Turkey/pdf.pdf>

<sup>59</sup> Sam Fletcher, "MARKET WATCH: Oil price slips lower but ends higher for week," *The Oil & Gas Journal*, October 15, 2012. <http://www.ogj.com/articles/2012/10/market-watch-oil-price-slips-lower-but-ends-higher-for-week.html>

<sup>60</sup> Note: This number reflects the pipeline's potential capacity, frequent PKK attacks and lack of maintenance has reduced its current capacity to 300,000-400,000 bbl/d

<sup>61</sup> Energy Information Administration, *Country Analysis Brief: Turkey*, February, 2011.

<http://www.eia.gov/EMEU/cabs/Turkey/pdf.pdf>

<sup>62</sup> Energy Information Administration, *Country Analysis Brief: Turkey*, February, 2011.

<http://www.eia.gov/EMEU/cabs/Turkey/pdf.pdf>

- *The Tabriz-Ankara Pipeline (49 Bcf)*: Connects the Iranian natural gas reserves to Turkey. Supplies to Turkey have been routinely disrupted by Iranian stoppages and PKK attacks in the border region between Iran and Turkey.
- *The Romania-Bulgaria-Turkey Pipeline (630 Bcf)*: Connects the Russian gas distribution network to Istanbul.
- *Turkey-Greece Pipeline (420 Bcf)*: Connects Turkish and Greek gas grids. Allowed Turkey to be a gas bridge to Europe, expected to be a vital part of the South Europe Gas Ring Project.

Maps and the details of these pipelines can be seen in **Figures 9** through **14**.

Turkey has taken other steps to diversify its supplies and reduce its energy problems. Congestion in the Bosphorus Straits has led Turkey to create overland transportation routes and to find alternate shipping routes. One such project is the Istanbul Canal, which will cut a route for as many as 160 ships per day between the Black Sea and the Marmara Sea in order to reduce traffic in the Straits and reduce the danger of maritime accidents.<sup>63</sup> The planned route will greatly reduce oil shipments that transit the Bosphorus and will eliminate one of the world's busiest choke points. Although it has encountered domestic opposition over the anticipated scope and efficiency benefits, the canal is slated to open in 2023 after eight years of construction costing more than \$10 billion. Feasibility studies are expected take two years to complete, at which point there will be a six month bidding process for a build-operate-transfer contract.<sup>64</sup>

As part of the Turkish Government's concerted efforts to diversify its energy imports, and to act as an "energy bridge" to the EU, Turkey is also involved with a number of projects to transport Caspian gas and oil to Europe. According to the Turkish Foreign Ministry, "Turkey aims at establishing an uninterrupted and reliable flow of the Greater Caspian and the Middle East hydrocarbon resources to Turkey and to Europe via the Turkish territory."<sup>65</sup> The search for resources in the Caspian and their transportation to Europe has been termed a new "Great Game" and makes Turkey an influential and critical partner for European countries attempting to reduce their reliance on Russian energy sources.

Increasing Europe's reliance on Turkey not only increases revenues and Turkey's importance on the regional stage, it further diversifies the country's energy sources and helps Ankara satisfy its energy needs. There are six competing proposals for shipping gas and oil to Europe from the Shah Deniz gas fields, potentially with additional resources from Central Asia and the Middle East. The competing projects involved are shown in **Figures 15** through **17**.

Proposed oil and gas pipelines include:

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<sup>63</sup> Benjamin Harvey and Alaric Nightingale, "Turkey Plans 'Istanbul Canal' for Russian Oil Shipments to Bypass Bosphorus," *Bloomberg*, April 27, 2011. <http://www.bloomberg.com/news/2011-04-27/erdogan-s-45-kilometer-istanbul-canal-will-keep-tankers-from-bosporus.html>

<sup>64</sup> "Crazy project' feasibility studies under way, says transportation minister," *Today's Zaman*, February 2, 2012. [http://www.todayszaman.com/newsDetail\\_getNewsById.action?load=detay&newsId=270343&link=270343](http://www.todayszaman.com/newsDetail_getNewsById.action?load=detay&newsId=270343&link=270343)

<sup>65</sup> Turkish Ministry of Foreign Affairs, *Turkey's Energy Strategy*, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>

- *The Nabucco Pipeline*<sup>66</sup> (1.1 Tcf): Originally proposed as the main pipeline for European gas diversification, transporting Iraqi and Caspian gas to the Central European Gas Hub in Baumgarten an der March, Austria. The pipeline was to be fed by the existing BTE pipeline in Georgia and a future Iraqi pipeline or use the existing Tabriz-Ankara Pipeline. However, the finalization and imminent construction of the Trans-Anatolian Pipeline most likely ends the Eastern end of the Nabucco.
- *Nabucco West Pipeline*<sup>67</sup> (350 Bcf): Originally part of the Nabucco Pipeline, the announcement of the Trans-Anatolian Pipeline resulted in the Nabucco consortium to submit a modified project that only includes the European section of original pipeline. It is envisioned that it will be fed by the Trans-Anatolian Pipeline.
- *Turkey-Greece-Italy Interconnector Pipeline*<sup>68</sup> (10 Bcf): Part of the completed Turkey-Greece Pipeline, this planned extension of the pipeline will connect Greece with European pipelines in southern Italy.
- *Trans-Anatolian Gas Pipeline*<sup>69</sup> (570 Bcf): Part of the original eastern portion of the Nabucco Pipeline, this pipe will connect Caspian gas to Europe from the Georgian-Turkish border to the Turkish-European border and is expected to connect to Nabucco West if built.
- *Samsun-Ceyhan Pipeline*<sup>70</sup> (1.5 million bbl/d): This proposed crude oil pipeline will travel North-South and connect Samsun in the north of Turkey to the Mediterranean port of Ceyhan. This pipeline is to reduce tanker traffic in the Bosphorus by providing an alternate overland route to the Mediterranean.

Because the existing pipelines to Europe are not deemed sufficient for future EU gas needs, there are a number of competing projects involving Turkey, Russia, Azerbaijan, and Eastern Europe.<sup>71</sup> There are two competing plans to supply Europe, a north-south route supplying Russian gas through the Blue Stream and planned South Stream pipelines, and the East-West route, supplying Caspian, Central Asian, and eventually Arab gas first through an upgraded Baku-Tbilisi-Ceyhan pipeline, then the planned Trans-Anatolian pipeline, then the improved Turkey-Greek Interconnector, and then the planned Nabucco West pipeline.<sup>72</sup> The two involving Russia, Nord Stream and South Stream, are essential but do not affect Europe's desire for energy source diversification.

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<sup>66</sup> Emil Souleimanov and Josef Kraus, *Turkey: An Important East-West Energy Hub*, Middle East Policy, Vol. 19, No. 2, Pg. 162-164

<sup>67</sup> Christopher Smith, "Shah Deniz selects Nabucco West as Central Europe pipeline," Oil & Gas Journal, June 28, 2012. <http://www.ogj.com/articles/2012/06/shah-deniz-selects-nabucco-west-as-central-europe-pipeline.html>

<sup>68</sup> Edison S.p.A, *ITGI: Turkey – Greece – Italy Gas Pipeline Overview*, August 17, 2012, <http://www.edison.it/en/company/gas-infrastructures/itgi.shtml>

<sup>69</sup> Ferruh Demirmen, "BP-SOCAR Duo Deliver 'Coup de Grace' to Nabucco," *Natural Gas Europe*, December 19, 2011. <http://www.naturalgaseurope.com/bp-socar-duo-coup-de-grace-to-nabucco>

<sup>70</sup> Stephen Jewkes, "Russia to supply oil to Samsun-Ceyhan pipeline," *Reuters*, October 19, 2009. <http://uk.reuters.com/article/2009/10/19/eni-pipeline-idUKLJ7124020091019?sp=true>

<sup>71</sup> Meltem Muftuler-Bac and Deniz Baskan, *The Future of Energy Security for Europe: Turkey's Role as an Energy Corridor*, Middle Eastern Studies, Vol. 47, No. 2, 361-378, March, 2011, Pg. 368

<sup>72</sup> Meltem Muftuler-Bac and Deniz Baskan, *The Future of Energy Security for Europe: Turkey's Role as an Energy Corridor*, Middle Eastern Studies, Vol. 47, No. 2, 361-378, March, 2011, Pg. 369

Turkey's role in EU energy security can be increased if and when these projects are completed by reducing the proportion Russia supplies of Europe's gas consumption and decreasing Moscow's control over the pipeline network.

Turkey would like to increase Iranian gas imports for its own use and to supply any future pipeline, but further diversifying Europe's natural gas imports by including Iranian gas was banned by EU sanctions that went into effect in October 2012. The proposed Nabucco pipeline was initially to be supplemented by Iranian gas as it was deemed too large for the current supply of Azeri gas from the Shah Deniz fields to fully supply it.<sup>73</sup> If TANAP/Nabucco is to be commercially viable to Turkey and the EU, it needs to include sources other than Azerbaijan's Shah Deniz field, which cannot fill the 30 bcm (1 tcf) pipeline. While the easiest source from a technological and logistical standpoint is Iran, EU sanctions on Iran - as well as the Baku-Tehran animosity described below - make this impossible, leaving Turkmenistan as the most likely secondary supplier for TANAP/Nabucco.

Turkey's interest in additional Caspian pipelines stems not only from its desire to become a new energy bridge to Europe, and diversify its energy imports, but from its desire to secure more reliable energy imports since both the Iraqi-Turkish pipeline and Iranian-Turkish pipeline are undependable. Imports of gas from Iran have repeatedly fallen below their contractually-obligated 10 bcm/year (billion cubic meters per year) due to mechanical failures, PKK attacks, and unannounced Iranian shutoffs.<sup>74</sup>

Imports of natural gas from Iran are also more expensive. In March 2012, the cost of Iranian gas spiked to over \$500/1,000m<sup>3</sup>, up from \$423/1,000m<sup>3</sup> in 2011 and higher than Turkey paid Russia (\$418/1,000m<sup>3</sup>) and Azerbaijan (\$282/1,000m<sup>3</sup>).<sup>75</sup> Comparatively, in 2012 Turkey paid Russia \$400/1,000m<sup>3</sup> and paid \$330/1,000m<sup>3</sup> for Azeri gas.<sup>76</sup> This pricing dispute has led Turkey to sue Iran and has contributed to cooling relations between the two states.

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<sup>73</sup> Meltem Muftuler-Bac and Deniz Baskan, *The Future of Energy Security for Europe: Turkey's Role as an Energy Corridor*, Middle Eastern Studies, Vol. 47, No. 2, 361-378, March, 2011, Pg. 373

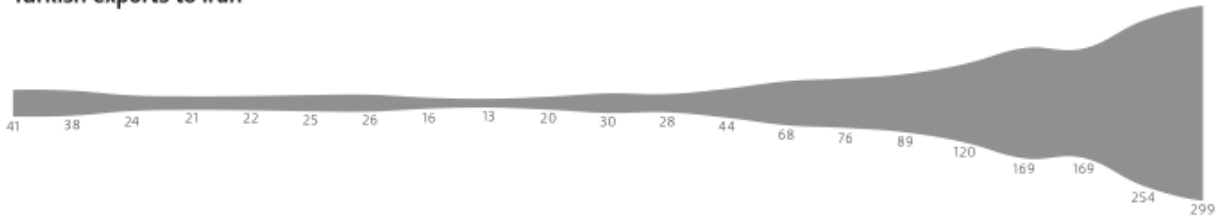
<sup>74</sup> Alex Jackson, "Ungangling Turkey's Gas Pricing Knot," *Natural Gas Europe*, April 11, 2012.  
<http://www.naturalgaseurope.com/high-turkish-energy-imports-iran-russia>

<sup>75</sup> Today's Zaman and Wires, "Turkey to sue Iran over natural gas price," March 14, 2012.  
<http://www.todayszaman.com/news-274244-turkey-to-sue-iran-over-natural-gas-price.html>

<sup>76</sup> Today's Zaman, "Iranian natural gas flow to Turkey halted after explosion," June 28, 2012.  
[http://www.todayszaman.com/newsDetail\\_getNewsById.action?newsId=284958](http://www.todayszaman.com/newsDetail_getNewsById.action?newsId=284958)

**Figure 8: Turkish-Iranian Bilateral Trade**

**Turkish exports to Iran**



**Iranian exports to Turkey**

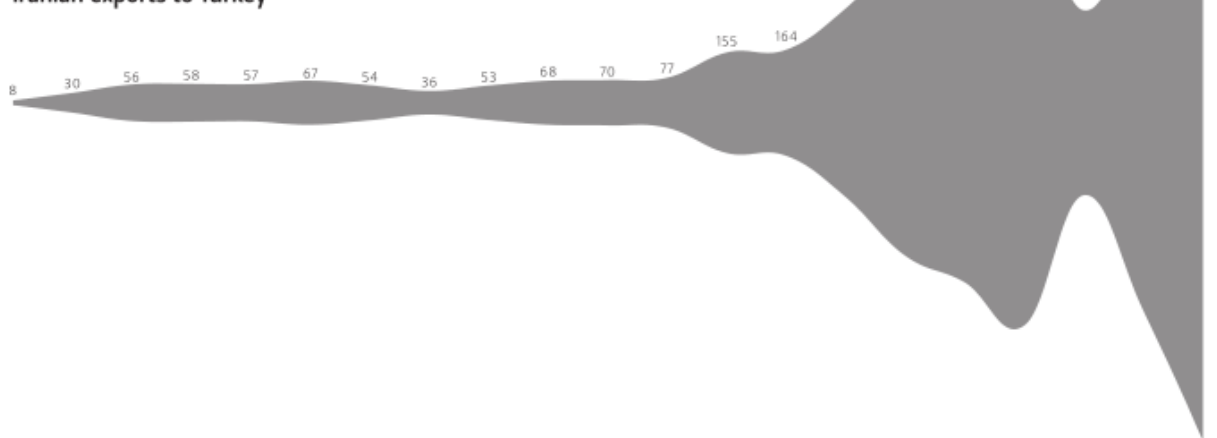


Figure 9: Turkish Oil Pipelines



Source: Turkish Ministry of Energy and Natural Resources



*Figure 10: The Tabriz-Ankara Natural Gas Pipeline*



Source: Turkish Ministry of Energy and Natural Resources

**Figure 11: The Blue Stream Natural Gas Pipeline**



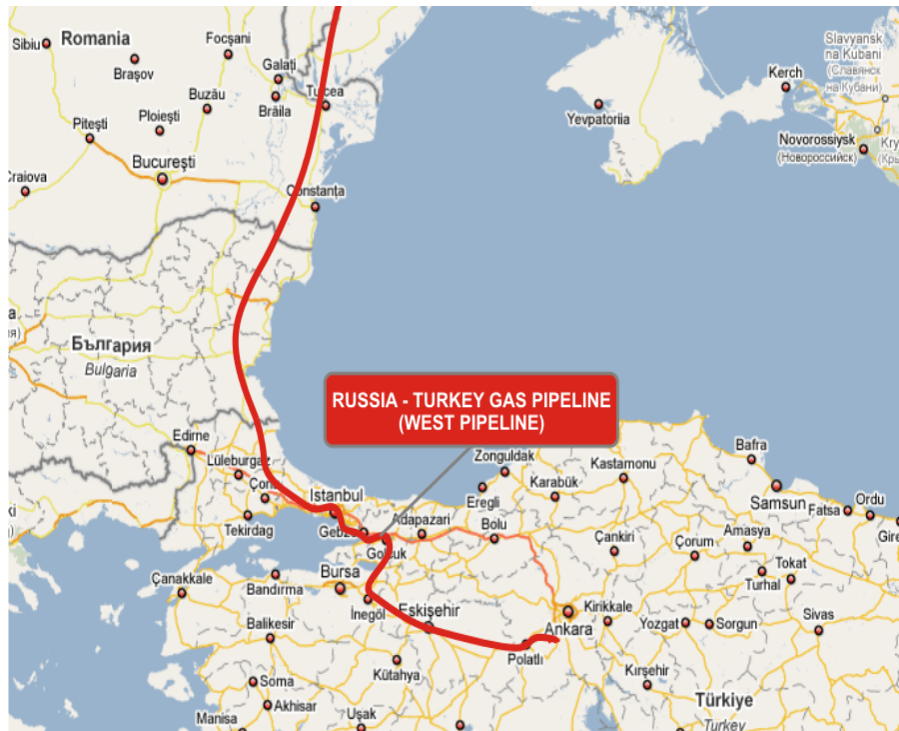
Source: Turkish Ministry of Energy and Natural Resources

*Figure 12: The Baku-Tbilisi-Erzurum Natural Gas Pipeline*



Source: Turkish Ministry of Energy and Natural Resources

**Figure 13: The Romania-Bulgaria-Turkey Natural Gas Pipeline**



Source: Turkish Ministry of Energy and Natural Resources

*Figure 14: Turkey-Greece-Italy Interconnector Natural Gas Pipeline*



Source: Turkish Ministry of Energy and Natural Resources

*Figure 15: The Nabucco Natural Gas Pipeline*



Source: "Nabucco proposes to go West," Pipelines International, May 24, 2012.  
[http://pipelinesinternational.com/news/nabucco\\_proposes\\_to\\_go\\_west/069424/](http://pipelinesinternational.com/news/nabucco_proposes_to_go_west/069424/)

**Figure 16: Nabucco West Natural Gas Pipeline**



Source: Nabucco Gas Pipeline Consortium, <http://www.nabucco-pipeline.com/portal/page/portal/en/pipeline/route>

*Figure 17: Proposed Natural Gas Pipelines*



Source: Stratfor

TAP: Trans-Adriatic Pipeline

ITGI: Interconnector Turkey-Greece-Italy

SEEP: South-East Europe Pipeline



## Turkey's Relations With Iran

Turkey's relations with Iran are complex and have been marked by periods of both collaboration and conflict. Turkey was one of the first countries to recognize the Islamist Republic's revolutionary government, and attempted to cultivate relations between the states through economic and energy ties as well as billions of dollars in FDI (\$3.6 billion as of 2010), primarily in oil and natural gas.<sup>77</sup> Turkey continued to invest in Iran's energy sector throughout the 1980s and 1990s even though Turkey frequently accused Iran of supporting the PKK and Iranian leaders disapproved of Turkey's warming relations with Israel.<sup>78</sup>

### *Turkish-Iranian Political Relations and Military Cooperation*

In 2002, the visit of then Turkish President Ahmet Necdet Sezer to Iran, the election of the AKP party later in the year, and Turkey's greater involvement in regional politics contributed to warmer relations between Ankara and Tehran. In 2003 alone, there were four high-level visits from Turkey to Iran, two of which included then Turkish Foreign Minister Abdullah Gul and six visits from Iran to Turkey. However, the AKP was quick to assure the US and Turkey's other Western allies that this did not portend close political relations with Iran, and that Turkey was only taking the opportunity to engage Iran in dialogue.

The main driving force for Turkish rapprochement with Iran was the Turkish business community's search for additional markets. For Turkey, Iran represented both an important market for its goods and another energy source for Turkey's rapidly expanding export based economy. Turkish firms have learned to compete in quality and price for European consumers, and they have a competitive advantage in Iran's relatively autarkic and isolated market. Iran, in turn, sees trade with Turkey as a way to bypass sanctions while reducing its international isolation and a way to discourage Turkey from supporting or joining in the sanctions regime itself.

Turkish Prime Minister Erdoğan increasingly sought to establish Turkey as a regional power through a policy of "zero problems" with its neighbors and felt conciliatory policies promoted greater economic access in Iran for Turkish firms, improved trade ties, and acted to promote the economic development of the Kurdish southeast - reducing the PKK's influence and power.<sup>79</sup> He also felt increased trade and cooperation would serve to further Turkey's goal of becoming a more influential power in the region by bridging the Middle East, Caucasus, and Europe, and would engender more robust diplomatic ties that could be then used to solve the crisis over Iran's nuclear program.

However, there were limits to these improvements. While the AKP was more sympathetic towards Iran's Islamist government than previous governments of the Kemalist, secular, and Western elite, the AKP is a Sunni party. Improved relations were driven more by economics than ideology and by the fact the "Anatolian Tigers" - the growing cohort of Turkish middle class businessmen from Central Turkey who back the AKP - benefited from the rapprochement.

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<sup>77</sup> Iran country profile, Turkish Ministry of Economy,

<http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&country=IR&region=4>.

<sup>78</sup> Amada Paul, "Turkey and Iran: an unraveling relationship," *Al-Arabiya News*, August 12, 2012.

<http://english.alarabiya.net/views/2012/08/12/231743.html>

<sup>79</sup> Aaron Stein and Philipp Bleek, "Turkish-Iranian Relations: From 'Friends with Benefits' to 'It's Complicated,'" *Insight Turkey*, Vol. 14, No. 4, July 2012, Pg. 139.

In any case, Turkey and Iran forged closer economic ties from 2002 to 2011, and a sharp increase took place in high-level diplomatic visits between the two states shown in **Figure 18**. From 1979 to June 2002, there were only three heads of state visits between the two countries, while the combined leadership had 11 cross-border visits from July 2002 and August 2012.

Ankara and Tehran also worked together to combat the PKK and signed joint in energy agreements. The most visible aspect of this relationship was in the area of combatting PKK and Party of Free Life of Kurdistan (PJAK) insurgents. This was a significant change from the 1980s and 1990s, when Turkey frequently accused Iran of supporting the PKK or allowing militants to operate on the Iranian side of the border. Although both countries signed an agreement in 1984 to “prohibit any activity within their borders that was detrimental to the security of the other,” little changed and from the late 1980s through the 1990s the PKK continued to use Iran as a staging ground to attack Turkey.<sup>80</sup>

On July 24, 2004, Prime Minister Erdoğan signed a Memorandum of Understanding with Iran on security cooperation in the fight against the PKK and PJAK.<sup>81</sup> While there were no high-level military meetings between the Turkish General Staff and the Iranian military, lower level meetings between Turkish and Iranian commanders at first led to attempts to coordinate their activities before becoming platforms for intelligence sharing as well.

The shifts in relations helped lead Turkey to attempt to defuse the tensions between Iran and the West over Iran’s nuclear program. However, Turkey’s diplomatic efforts - as is discussed later in more detail - were ultimately rejected. While Turkey has sought to continue its role as an honest broker between Iran and the West, cooling relations between the two countries in the aftermath of the Arab Spring has made that goal increasingly difficult to achieve.

### *Turkish-Iranian Economic Relations*

Turkish-Iran trade has rapidly increased in the past decade from \$1.25 billion in 2002 to \$16.05 billion in 2011, an accounted for 5.2% of all Turkish trade.<sup>82</sup> This can be seen in **Figure 8**. Iran was Turkey’s 6<sup>th</sup> largest trading partner; but this trade relationship is skewed towards Iran, as high tariffs and large oil and natural gas imports heavily outweigh Turkish exports to Iran.<sup>83</sup>

As noted earlier, Iran plays an important role in Turkish energy needs and requirements for energy diversification, even if its energy purchases have decreased due to newly instituted EU and US sanctions. According to the Turkish Ministry of Foreign Affairs, oil and natural gas purchases account for 90% of Iranian exports to Turkey. In 2011, Turkey imported over 50% of its oil and 21% of its natural gas from Iran; however, with increased US and EU sanctions on Iran’s oil and gas industry, Iran’s share of Turkey’s energy imports have decreased to roughly

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<sup>80</sup> Gareth Jenkins, “Occasional Allies, Enduring Rivals: Turkey’s Relations with Iran,” Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 21.  
[www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf21](http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf21).

<sup>81</sup> Gareth Jenkins, “Occasional Allies, Enduring Rivals: Turkey’s Relations with Iran,” Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 33.  
[www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf33](http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf33).

<sup>82</sup> Turkish Statistical Institute, *Foreign Trade Statistics Yearbook 2011*, Pg. 67.  
[http://www.turkstat.gov.tr/Kitap.do?metod=KitapDetay&KT\\_ID=4&KITAP\\_ID=89](http://www.turkstat.gov.tr/Kitap.do?metod=KitapDetay&KT_ID=4&KITAP_ID=89)

<sup>83</sup> Amada Paul, “Turkey and Iran: an unraveling relationship,” *Al-Arabiya News*, August 12, 2012.  
<http://english.alarabiya.net/views/2012/08/12/231743.html>

30% and 19% in 2012, respectively.<sup>84</sup> But Iran was still Turkey's largest oil provider as Iraq, the next largest supplier, only accounted for 11.28%, and Russia was third with 8.45%.<sup>85</sup> Turkey has been able to avoid US sanctions on Iranian oil by reducing its importation and has previously stated in March 2012, that it will cut imports by 10%.<sup>86</sup>

Iran supplies Turkey with natural gas through the Tabriz-Ankara Pipeline which connects Iranian natural gas reserves to Turkey's internal distribution network. However, supplies of gas to Turkey have been routinely disrupted by unexplained Iranian stoppages, Iranian mechanical failures, and PKK attacks in the border region between Iran and Turkey. Iran has repeatedly failed to supply Turkey with its contractually obligated 10 bcm of gas a year and has recently increased the price of gas more than \$100/1,000m<sup>3</sup> leading Turkey to sue Iran. The pipeline was supposed to reach its full capacity of 10 bcm by 2007, but only 6.05 bcm had been pumped through in that year. Iran didn't supply enough gas to reach capacity in later years either, pumping 4.11 bcm in 2008, 5.24 bcm in 2009, and 7.77 bcm in 2010. The pricing changes coupled with the lack of gas were cited as a reason why Turkey sued Iran in 2012.

Turkey has also become a destination for Iranian tourists, recording an estimated 2.7 million visits in 2011, up from 1 million in 2008.<sup>87</sup> Iranian firms operating in Turkey have also increased from 319 in 2002 to 1,470 by the end of 2010.<sup>88</sup> While most of these supply needed commercial goods to the isolated Iranian market, there are concerns that many of these companies may be fronts used by the Iranian government to circumvent Western sanctions. This may also constitute a smuggling route for machinery and other low-end commerce that Iran cannot import or engage in due to sanctions. Iran's economy has also become more dependent on Turkish trade and sanctions have isolated it from the international banking system.

Recent news reports detail that Turkey, through the state-owned Halkbank, is paying for Iranian natural gas in Turkish Liras, which is of limited value for Iran in the international market due to its inconvertibility, but is being used to buy gold in Turkey.<sup>89</sup> This gold is then possibly transferred or sold in the U.A.E. and then shipped to Iran.<sup>90</sup>

Iran seems to have been using this method to repatriate hard currency since the additional oil sanctions were instituted in the summer of 2012. However, the FY 2013 National Defense Authorization Act included new sanctions that prohibit the transfer or sale of gold or other

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<sup>84</sup> CSIS, Proceedings of an International Workshop, "The Turkey, Russia, Iran Nexus: Economic and Energy Dimensions," March 29, 2012. <http://csis.org/publication/turkey-russia-iran-nexus-economic-energy-dimensions>

<sup>85</sup> Gareth Jenkins, "Occasional Allies, Enduring Rivals: Turkey's Relations with Iran," Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 56.

<sup>86</sup> Seda Sezer, "Turkey to cut Iran oil imports, bows to U.S. pressure," *Reuters*, March 30, 2012. <http://www.reuters.com/article/2012/03/30/us-turkey-iran-oil-idUSBRE82TOKX20120330>

<sup>87</sup> Nader, Habibi, "Turkey and Iran: Growing Economic Relations Despite Western Sanctions," Brandeis University, Crown Center for Middle East Studies, *Middle East Brief*, May 2012, Pg. 4. [www.brandeis.edu/crown/publications/meb/MEB62.pdf](http://www.brandeis.edu/crown/publications/meb/MEB62.pdf)

<sup>88</sup> Nader, Habibi, "Turkey and Iran: Growing Economic Relations Despite Western Sanctions," Brandeis University, Crown Center for Middle East Studies, *Middle East Brief*, May 2012, Pg. 5. [www.brandeis.edu/crown/publications/meb/MEB62.pdf](http://www.brandeis.edu/crown/publications/meb/MEB62.pdf)

<sup>89</sup> Joe Parkinson and Emre Peker, "Turkey Swaps Gold for Iranian Gas," *The Wall Street Journal*, November 23, 2012. <http://online.wsj.com/article/SB10001424127887324352004578136973602198776.html>

<sup>90</sup> Humeyra Pamuk, "Exclusive: Turkish gold trade booms to Iran, via Dubai," *Reuters*, October 23, 2012. <http://www.reuters.com/article/2012/10/23/us-emirates-iran-gold-idUSBRE89MOSW20121023>

precious metals to Iran.<sup>91</sup> This will impact the hard currency reserves that Iran is able to repatriate. Turkish Economy Minister Zafer Çağlayan, has however defended the practice saying, “The U.S. sanctions stand for the U.S... We have multilateral international agreements. These deals, which we are a party to, are binding for us. The statements by the EU are not binding since we are not a member...”<sup>92</sup>

However, Turkish exports still face a number of obstacles when it comes to cross-border trade with Iran. Problems include high customs duties, underdeveloped infrastructure in eastern Anatolia, lengthy Iranian bureaucratic procedures, and high fuel taxes on foreign-owned trucks that combined, force Turkish traders to sell goods to Iran at up to three times the domestic price.<sup>93</sup> Turkish investment in Iran is similarly stymied by Iranian bureaucracy, an opaque legal system, and the inability of Turkish firms to secure financing services due to the threat of sanctions. Despite the difficulties there are reportedly 200 small Turkish companies invested in Iran.

Turkish firms are also reportedly wary of investing in Iran due to the fate of two larger Turkish investments made in 2003 and 2004. In 2003 a Turkish firm was awarded a contract to operate and build a new terminal at Imam Khomeini International Airport in Tehran; however the IRGC seized the terminal a day before it was to begin operations. In 2004, Turkish GSM operator Turkcell was to take a 51% share in Irancell, but legislation reduced it to 49%, and Turkcell refused to accept the reduced fair or spend the hundreds of millions needed for the licensing fee.

Nevertheless, Turkish and Iran economic relations need to be kept in perspective. There has been more political posturing than actually implementation of policies that strengthen economic cooperation.<sup>94</sup> As Dr. Gareth Jenkins notes, “Over the last ten years, Turkish and Iranian officials have enthusiastically announced plans for a string of grandiose joint projects. None have been realized.”<sup>95</sup> One of the only lasting examples of economic cooperation between the two states has been the Tabriz-Ankara Pipeline, and as stated above, it has been plagued by disputes and stoppages. In 2006, 2007, and 2008 Iran temporarily halted deliveries because of technical issues, which some Turkish officials believed was to divert gas to meet Iranian domestic needs.<sup>96</sup> Turkish investment in Iran has been limited by high taxes, a sluggish and xenophobic bureaucracy, an opaque and unfair judiciary, and the threat of nationalization or arbitrary contract cancelation.

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<sup>91</sup> Roberta Rampton, “RPT-US Senate works on new package of Iran sanctions,” *Reuters*, November 28, 2012. <http://www.reuters.com/article/2012/11/28/usa-iran-sanctions-idUSL1E8MS1SI20121128>

<sup>92</sup> Hurriyet Daily News, “Turkey snubs US move on gas-for-gold Iran trade,” November 29, 2012. <http://www.hurriyetdailynews.com/turkey-snubs-us-move-on-gas-for-gold-iran-trade.aspx?pageID=238&nID=35712&NewsCatID=344>

<sup>93</sup> Gareth Jenkins, “Occasional Allies, Enduring Rivals: Turkey’s Relations with Iran,” Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 57-58.

<sup>94</sup> Gareth Jenkins, “Occasional Allies, Enduring Rivals: Turkey’s Relations with Iran,” Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 50.

<sup>95</sup> Gareth Jenkins, “Occasional Allies, Enduring Rivals: Turkey’s Relations with Iran,” Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 50.

<sup>96</sup> Gareth Jenkins, “Occasional Allies, Enduring Rivals: Turkey’s Relations with Iran,” Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 55.

### ***Recent Issues in Turkish-Iranian Relations and the Civil War in Syria***

Both countries are also historic strategic rivals and both have looked to become the major power the Middle East. Turkey's new foreign policy, or at least the foreign policy it followed before the Arab Spring, emphasized regional economic and political integration in order to promote stability in the region. Within this context, PM Erdoğan and FM Davutoğlu believe that better connections with Iran will reduce Tehran's belligerent nature and improve Turkey's stature in the region. However, Turkey has kept its security ties to the US and NATO, and been consistently cautious in its political relations with Iran.

This has been especially true since upheavals began in the Arab world in 2010. The Arab Spring, the Civil War in Syria and Iranian support for the Assad regime has acted to reverse the warming trend in relations. Before the outbreak of hostilities between the rebels and the Assad regime, Turkey had attempted to unfreeze its relations with its southern neighbor by negotiating free trade and no-visa travel agreements, and mediating Syria's indirect peace talks with Israel. Foreign Minister Davutoğlu visited Syria over sixty times between 2003 and 2011. In 2009, both governments established a "High Strategic Cooperation Council", began hosting joint cabinet meetings, and held joint military exercises.<sup>97</sup>

Turkey saw Syria as a key part of its "zero problems" foreign policy, and the act of bringing Syria "in from the cold" was regarded as a foreign policy success. As Stein and Bleek note, "Since Syria's 1998 decision to quit harboring [Abdullah] Ocalan, it has become an important transit route for Turkish trucks en route to the oil-rich Gulf States, a trading partner, and an important partner in Turkey's fight against the PKK."<sup>98</sup>

Ankara viewed Syria one of Turkey's gateways to the east and south and essential to its goal of politically and economically integrating the Middle East. As Foreign Minister Davutoğlu stated at the Turkey-Syria High Level Strategic Cooperation Council meeting in December 2010, "The cooperation launched between Turkey and Syria has served as a model for the region, and its success is closely monitored by the whole region. If it proves successful, not only it will enhance the relations between the two countries, but also it will change the ill fate of the region."<sup>99</sup>

However, Turkish and Iranian relations have cooled significantly since the outbreak of violence that has engulfed Syria since 2011. The conflict in Syria, says one Turkish interlocutor, brought the implicit divide between Iran and Turkey to the forefront and forced Turkey to take "a more realistic view of the region."<sup>100</sup> In August 2012, Iran announced temporary visa restrictions, making citizens of both countries acquire a visa before travel, and resumed arresting Turkish

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<sup>97</sup> Michael Reynolds, "Echoes of Empire: Turkey's Crisis of Kemalism and the Search for an Alternative Foreign Policy," Brookings, June 2012, Pg. 20. [www.brookings.edu/research/papers/2012/06/25-turkey-reynolds](http://www.brookings.edu/research/papers/2012/06/25-turkey-reynolds)

<sup>98</sup> Aaron Stein and Philipp Bleek, "Turkish-Iranian Relations: From 'Friends with Benefits' to 'It's Complicated,'" *Insight Turkey*, Vol. 14, No. 4, July 2012, Pg. 145

<sup>99</sup> "Davutoğlu says Turkey-Syria cooperation could change fate of Middle East," *Today's Zaman*, December 12, 2012.

[http://www.todayszaman.com/newsDetail\\_getNewsById.action;jsessionid=4C834E0928C782DDF049AB26BC7D5627?pageNo=1279&category=100&dt=0&newsId=230262&columnistId=0](http://www.todayszaman.com/newsDetail_getNewsById.action;jsessionid=4C834E0928C782DDF049AB26BC7D5627?pageNo=1279&category=100&dt=0&newsId=230262&columnistId=0)

<sup>100</sup> Madeleine Albright, Stephen Hadley, Steven Cook, et. al. *U.S.-Turkey Relations: A New Partnership*, The Council on Foreign Relations, May 2012. Pg. 40

citizens in Iran.<sup>101</sup> And in December 2012, President Ahmedinejad canceled a planned trip to Turkey, possibly due to Turkey's position on receiving Patriot missiles batteries from NATO.

Turkey not only sees this as a matter of international affairs, but as a domestic security issue. The lack of effective central state control in Syria seems to be giving the PKK a staging ground in Syria to use in attacking Turkish interests and achieve limited regional autonomy. A messy transition or extended civil war may allow the PKK to gain a renewed foothold in northeast Syria and reinforce their effort of building a Kurdish state. The bloodshed in Syria also pushed about 400,000 refugees into Turkey by late April 2013, straining the resources of the Turkish government and potentially setting up Turkey for a long-term refugee population.<sup>102</sup> Border clashes have also occurred, with Syrian shelling being answered with Turkish artillery, and in June 2012 the Syrian military shot down a Turkish F-4 Phantom II. Other cross-border incidents have occurred, but most seem to consist of mis-aimed artillery fire from the Syrian side landing in Turkey. However, the May 2013 car bomb in the southern town of Reyhanli, may serve to increase Turkey's involvement in the war. Increased Turkish involvement would most likely further cool relations between the two states.

The prospect of the complete disintegration of the Syrian state and/or prolonged sectarian conflict along its 511 mile long border with Turkey has led Ankara to take the lead in supporting Syrian opposition groups and the country serves as a base for the Free Syrian Army and the Syrian National Council (the group that was later incorporated into the Syrian National Coalition).

Turkey has taken steps to mitigate the impacts of the conflict in Syria, Ankara reportedly considered invoking Article V of the NATO treaty in May and June 2012, held an Article IV meeting with NATO in October 2012, has been involved in occasional discussions about establishing "humanitarian corridors", and a no-fly zone in Syria. However, Turkey remains concerned about a full-fledged international effort to arms the rebels as additional weapons would intensify the fighting and may negatively affect the security in southeast Turkey.<sup>103</sup>

Turkey's actions against the Assad regime have also come into direct conflict with Iran's interests in Syria. For Iran, Syria is its critical access point to the Levant and the Israeli-Palestinian conflict and its "only constant ally - globally or regionally - since the 1979 revolution."<sup>104</sup> Syria allowed Iran to easily support Hezbollah in Lebanon, and Iran's support for Hezbollah would be far more difficult to sustain if the supply line in Syria was cut. Iran values Hezbollah for its ability to threaten Israel's security and provide a retaliatory force if Israel attacks Iran, providing Tehran greater leverage in the Levant. Therefore, losing Syria would be a major blow to the power, security, and regional ambitions of Iran.

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<sup>101</sup> Pinar Tremblay, "Did Turkey 'Lose' Iran?," Al-Monitor, April 5, 2013. <http://www.al-monitor.com/pulse/originals/2013/04/turkey-iran-relations-deteriorate-syria-patriots.html>

<sup>102</sup> UPI, "Turkey to establish new camp for Syrian refugees," April 26, 2013. [http://www.upi.com/Top\\_News/World-News/2013/04/26/Turkey-to-establish-new-camp-for-Syrian-refugees/UPI-66081366996023/#ixzz2TqfojTwQ](http://www.upi.com/Top_News/World-News/2013/04/26/Turkey-to-establish-new-camp-for-Syrian-refugees/UPI-66081366996023/#ixzz2TqfojTwQ) ,

<sup>103</sup> Madeleine Albright, Stephen Hadley, Steven Cook, et. al. *U.S.-Turkey Relations: A New Partnership*, The Council on Foreign Relations, May 2012. Pg. 41

<sup>104</sup> Robert Malley, Karim Sadjadpout, Omer Taspinar, "Symposium: Israel, Turkey and Iran in the Changing Arab World," *Middle East Policy*, January 5, 2012. Pg. 8

Turkey initially believed that its warm relationship with Syria could convince Bashir al-Assad to make top-down reforms. However, Assad rebuffed Turkey's efforts to engage the Syrian government and this led Turkey joined Western and Gulf states calling for Assad to step down, pushing them into direct conflict with the interests of Iran. Iran, however, has alternated between calling for peaceful negotiations between the two sides to arguing that the violence in Syria is due to interference by foreign powers and "terrorists".

Both Iran and Turkey have since accused each other of supporting the bloodshed in Syrian, with Ankara blaming Iran's support of the Syrian regime and Iran blaming western powers for inflaming an initially peaceful situation. Iran views Ankara's support and denunciations of Assad as Turkish betrayal since Turkey as increasingly aligned itself with the West, which Iran believes has long been hostile to the Syrian regime and Iran's privileged access in Damascus.<sup>105</sup>

As the Syrian Civil War continues, relations between the two states continue to deteriorate from their pre-2011 high, and have likely settled somewhere near their historical levels of competition and cooperation.

Both countries have engaged in a heated war of words over the conflict in Syria that show how far relations have deteriorated since the beginning of the Syrian Civil War.

Typical Iranian statements have been:

- "It is expected that the Turkish government reconsider its policies on Syria and cooperate with countries such as the Islamic Republic of Iran in order to establish stability and peace." - Chairman of the parliament's National Security and Foreign Policy Commission Alaeddin Boroujerdi, April 14, 2013. <http://english.farsnews.com/newstext.php?nn=9107169890>
- "The sensitive conditions of the region need the regional states' wisdom and any mistake which ignites military conflict in Syria will have heavily dire consequences for the region due to the complicated nature of the issue... The regional states would be better off if they make their utmost efforts to end conflicts instead of military moves and providing the ground for the trans-regional states' military intervention." - Foreign Ministry Spokesman Ramin Mehman-Parast, April 7, 2013. <http://english.farsnews.com/newstext.php?nn=9107168072>
- According to our experience with the westerners, they will not give up this issue (continued deployment of patriot missiles) easily... Iran, however, believes that Western countries and the NATO have deployed the system in Turkey with the aim of supporting the Zionist regime so that in case of an Israeli military adventurism against Iran and Iran's response to the measure, Western countries can safeguard Israel with the help of the missile system." - Speaker Ali Larijani, February 12, 2013. <http://english.farsnews.com/newstext.php?nn=9107143902>
- "The wise and the elite in Europe, the United States, and Turkey should dismantle Patriots and take them away from the region before a fire breaks out." - Chief of Staff of the Iranian Armed Forces, General Hassan Firouzabadi, December 22, 2012. <http://blogs.cfr.org/danin/2012/12/22/voices-from-the-region-israel-syria-egypt-palestine-turkey/>
- "Patriot missiles are a defense line for the Zionists and a result of (the West's) concern over Iran's missiles and Russia's presence to defend Syria... Unfortunately one by one, the Western countries are approving deployment of Patriot missiles to Turkey's border with Syria while they are planning a world war which is very dangerous for the future of humanity and Europe itself." - Chief of Staff of the Iranian Armed Forces

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<sup>105</sup> Gareth Jenkins, "Occasional Allies, Enduring Rivals: Turkey's Relations with Iran," Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 42. [www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf21](http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf21).

Major General Hassan Firouzabadi, December 16, 2012.  
<http://english.farsnews.com/newstext.php?nn=9107127381>

- “Right after the outbreak of crisis in Syria, Turkey was deceived by the Western (countries) and Zionists and fanned the flames of the crisis in Syria by helping saboteur groups... Turkey overtly embarks on smuggling weapons (into Syria) and providing operation rooms assisted by spy satellites (for armed rebels and terrorist groups in Syria)... Without Turkey's cooperation it is impossible to exercise full control over the borders to prevent arrival of terrorists, gunmen and weapons.” Former Politburo Chief of the IRGC General Yadollah Javani, November 28, 2012.  
<http://english.farsnews.com/newstext.php?nn=9107122508>
- “Al Saud, Qatar, and Turkey are responsible for the blood being shed on Syrian soil... This is not an appropriate precedent that neighboring countries of Syria contribute to the belligerent purposes of the Great Satan the United States. If these countries have accepted such a precedent, they must be aware that after Syria, it will be the turn of Turkey and other countries.... Turkey, Saudi Arabia, and Qatar have become victims of promoting the terrorism of al-Qaeda and we warn our friends about this.” Iranian Chief of Staff Maj. Gen. Seyed Hassan Firouzabadi, August 7, 2012.  
[http://www.todayszaman.com/newsDetail\\_getNewsById.action?newsId=288818](http://www.todayszaman.com/newsDetail_getNewsById.action?newsId=288818)
- “In the name of Islam, some of these governments have launched killings, and Iranian pilgrims in Syria have even been treated with violence. These crimes are not something the Iranian nation will disregard... The American regime and some countries in the region are responsible for these crimes. And they will receive their response in turn.” Speaker of the Parliament Ali Larijani, August 7, 2012.  
<http://www.todayszaman.com/news-288897-ankara-strongly-condemns-iran-threats-against-turkey.html>
- “We hold the Turkish government responsible for giving shelter to these armed groups and also if a criminal act is carried out by these groups, such as kidnapping Iranian citizens...” Deputy Foreign Minister for Arab and African Affairs Hossein Amir Abdollahian, August 6, 2012.  
<http://www.presstv.ir/detail/254853.html>
- “Our armed forces have pre-studied plans and tactics against the NATO system... This system actually aims to protect the Zionist regime, under the name of NATO. This is a problem for Turkey who authorized the deployment of the system. Turkey shouldn't do this,” vice-chairman of the Iranian parliament's national security and foreign policy commission Hossein Ibrahim, December 12, 2011.  
<http://www.hurriyetdailynews.com/iran-renews-threat-to-attack-turkey.aspx?pageID=238&nID=8923&NewsCatID=352>
- “Should we be threatened, we will target NATO's missile defense shield in Turkey and then hit the next targets... Based on orders from the exalted commander in chief, we will respond to threats with threats.” General Amir Ali Hajizadeh, November 26, 2011.  
<http://news.yahoo.com/iran-threatens-hit-turkey-us-israel-attack-153655802.html>

Turkish statements have had a very different content:

- “We have serious differences of opinion with Iran over the Syrian issue. We hope that Iran would come to understand the new dynamics in the region.” - Foreign Minister Ahmet Davutoglu, March 7, 2013.  
<http://www.aa.com.tr/en/s/140935--davutoglu-cites-quot-serious-differences-quot-with-iran-over-syria-crisis>
- “I am addressing the Islamic Republic of Iran: I do not know if you are worthy of being called Islamic... Have you said a single thing about what is happening in Syria?” Deputy Prime Minister Bulent Arinc, February 5, 2012.  
[http://www.theatlantic.com/international/archive/2012/02/turkey-vs-iran-the-rivalry-for-dominance-of-the-middle-east/253567/?google\\_editors\\_picks=true](http://www.theatlantic.com/international/archive/2012/02/turkey-vs-iran-the-rivalry-for-dominance-of-the-middle-east/253567/?google_editors_picks=true)
- “When we consult Iran diplomatically on such remarks, their response is familiar. They claim that [the statement was not official but the personal opinion of the commentator]. I can guess their response before they make it.” Prime Minister Recep Tayyip Erdoğan in response to a senior military advisor to Iranian Supreme Leader Ali Khamenei, November 29, 2012.  
[http://www.todayszaman.com/mobile\\_detailn.action?newsId=299681](http://www.todayszaman.com/mobile_detailn.action?newsId=299681)



- “Nobody can threaten Turkey. We have been neighbors for so long. Don’t test us.”

“We are inviting Iranian officials to cease their baseless remarks about our country and act in the spirit of good neighborliness.” Foreign Minister Ahmet Davutoğlu, January 19, 2012.

<http://www.al-monitor.com/pulse/politics/2012/08/turkey-to-iran-you-cannot-threaten-us.html#ixzz2DkE70gRi>

- “We strongly denounce baseless accusations and extremely imprudent threats issued against our country by Iranian officials — above all, by Chief of Staff Hassan Firozabad.”

“Turkey has always acted in a principled manner, as it did in recent nuclear negotiations. The continuation of anti-Turkish remarks amounts, nevertheless, to recklessness.”

“Everyone inside and outside of Syria knows who is responsible for the human drama caused by the Syrian regime and the deaths of hundreds of innocent people every day. They will certainly be called to account for their acts when judged by history and conscience.”

“Irresponsible statements must stop.”

Messages delivered to Iranian Foreign Minister Ali Akbar Salahi in Ankara by Turkish Foreign Minister Ahmet Davutoğlu, January 19, 2012.

<http://www.al-monitor.com/pulse/politics/2012/08/turkey-to-iran-you-cannot-threaten-us.html#ixzz2DkE70gRi>

The war of words is likely to endure and intensify as Turkey replaces NATO Patriot missile batteries on its border with Syria. Iran has denounced Turkey’s cooperation with NATO and stated that NATO’s involvement “will amount to warmongering.”<sup>106</sup> Despite harsh Iranian rhetoric, Ankara and the AKP have refused to move off its current position. Ankara is concerned about the intermittent shelling of Turkish territory by Syria forces that have killed a number of people since fighting intensified late last year. Turkey is also concerned about recent news reports that Syria is reportedly mixing or has mixed the chemical precursors needed to produce Sarin nerve gas. Chemical weapons may have been involved in a military attack on rebels in the Syrian city of Saraqeb in April 2012 but verifying if it was a chemical attack and who launched it are difficult to determine.

Recently Ankara has accused Iran of once again aiding the PKK, contributing to deteriorating security in the border areas, leading to more attacks. Turkish Minister of Interior Idris Naim Sahin said, “The terror organization is using Iran for accommodation, transit, training, medical care, recruiting, financing and propaganda. Moreover, some weapon transfers are conducted from there. Iran is not paying much attention to security measures in border regions.”<sup>107</sup>

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<sup>106</sup> PressTV, “Missiles on Turkish border prelude to NATO interference: Larijani,” December 3, 2012. <http://presstv.com/detail/2012/12/03/275989/turkey-missiles-trigger-nato-meddling/>

<sup>107</sup> Cengiz Çandar, “Turkey Claims Iran Providing Logistical Support for PKK,” *Al-Monitor*, December 30, 2012. <http://www.al-monitor.com/pulse/originals/2012/al-monitor/iran-turkey-shiite-sunni-pkk.html#ixzz2Gr2XkYva>

**Figure 18: High-Ranking Diplomatic Visits Between Iran and Turkey Since 1979**

Date	Iranian Leaders	Turkish Leaders
July, 1994		Prime Minister Suleyman Demirel visits Iran
August, 1996		Prime Minister Necmettin Erbakan visits Iran and signs a \$23 billion natural gas deal
December, 1996	President Ali Akbar Hashemi Rafsanjani visits Turkey	
July, 2002		President Ahmet Necdet Sezer visits Iran. He becomes the first Turkish President to visit the Azerbaijan province.
July, 2004		Prime Minister Recep Tayyip Erdoğan visits Iran
August, 2008	President Ahmadinejad visits Turkey	
January, 2009	Speaker of Parliament Ali Larijani visits Turkey and meets with President Abdullah Gul	
November, 2009	President Ahmadinejad visits Turkey for a one-day summit of the Organization of the Islamic Conference. He meets with Prime Minister Erdoğan	
May, 2010		The presidents of Turkey and Brazil, who attended the Group 15 summit in Tehran, announce an agreement with the leaders of Iran regarding its nuclear program
May, 2010		Foreign Minister Ahmet Davutoğlu visits Iran
December, 2010	President Ahmadinejad attends the ECO summit in Turkey and meets with Turkish leaders	
February, 2011		President Abdullah Gul visits Iran on a four day visit to discuss Iran's nuclear program; is the first state visit by a Turkish President in almost 10 years
May, 2011	President Ahmadinejad meets with President Gul in Istanbul during a UN conference on Least Developed Countries	
January, 2012	Speaker of Parliament Larijani visits Turkey to discuss the Syrian uprising and Iran's nuclear program	

January, 2012		Foreign Minister Davutoğlu visits Iran to discuss Syria and Iran's nuclear program
March, 2012		Prime Minister Erdoğan visits Iran to meet with President Ahmadinejad, Speaker of the Parliament Ali Larijani, and Supreme Leader Khamenei to discuss the situation in Syria and Iran's nuclear program
August, 2012	Iranian Foreign Minister Ali Akbar Salehi meets Turkish Foreign Minister Ahmet Davutoğlu to discuss the situation in Syria	

Source: Nader, Habibi, "Turkey and Iran: Growing Economic Relations Despite Western Sanctions," Brandeis University, Crown Center for Middle East Studies, *Middle East Brief*, May 2012, Pg. 4.  
[www.brandeis.edu/crown/publications/meb/MEB62.pdf](http://www.brandeis.edu/crown/publications/meb/MEB62.pdf); various news sources

## Differences in the US and Turkish Approach to the Iranian Nuclear Program

Turkey and the US both feel that an Iranian nuclear weapons program would have negative consequences for themselves and the region, but differ on their approaches to solving the issue, the timeline for an Iranian nuclear weapon, and the levels of the threat posed by a nuclear-armed Iran. Turkey's position on the issue can be understood through three separate interests; Turkey's desire to improve the stability of the Middle East, Turkey's interests in nuclear power; and finally, Turkey's interest in regional trade and energy supplies.

- First, Ankara believes that if Iran should obtain a nuclear weapon it would be difficult to prevent nuclear proliferation throughout the region.<sup>108</sup> Other states such as Saudi Arabia may be inclined to pursue nuclear weapons programs of their own, and this proliferation would destabilize the region. Ankara is also worried that an Iranian nuclear weapon will embolden Iran to pursue a more provocative foreign policy, possibly at the cost of decreasing Turkey's influence, standing, and security in the region.<sup>109</sup>

Turkey is also concerned that a military attack on Iran's nuclear program and Iran's subsequent retaliation in the region will also greatly destabilize the region. Therefore, Ankara may believe that its interests are best served by active Turkish involvement in Iran's nuclear program and the search for a settlement.<sup>110</sup>

- Second, Ankara is worried that the continued pressure on Iran will erode the Nuclear Nonproliferation Treaty (NPT) and make it increasingly difficult for Turkey to pursue nuclear energy in the future to reduce its reliance on outside sources for its domestic energy needs. Turkey's foreign energy dependence is 70-72% of its total energy consumption, according to the Energy and Natural Resources Minister Taner Yildiz, with many of those suppliers' unstable or unsavory states.<sup>111</sup> To reduce Turkey's reliance on imported sources of energy the government has instituted a strategic plan to generate 10% of its energy needs through nuclear power by 2023.

In May 2010, Turkey signed a deal with the Russian state-controlled firm Atomstroyexport to build a four reactor, 1.2 gigawatt nuclear power plant at Akkuyu on the Mediterranean.<sup>112</sup> It will be operated under a Build-Own-Operate contract where the plant will be built, owned, and operated by Russia and will also eliminate the need for a Turkish indigenous enrichment process for nuclear fuel. The plant is to start construction in 2013 and is scheduled to be commissioned in 2021.

While Turkey has no plans to pursue enrichment in the near future, Ankara is worried that its proximity to Iran, and the use of similar arguments about proliferation, could be a pretext for denying Turkey nuclear technology that it believes has a right to under the NPT.<sup>113</sup> Turkey views the global effort to limit the transfer of nuclear technology as an infringement upon its NPT Article IV rights to peaceful nuclear energy and an attack on its independence.<sup>114</sup> Thus, while Turkey is concerned about the possibility of Iranian nuclear weapons, the country continues to support Iran's right to enrichment and to have a civilian nuclear power program as long as it conforms to its obligations under the NPT and Additional Protocols.

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<sup>108</sup> Aylin Gurzel and Eyup Ersoy, "Turkey and Iran's Nuclear Program," *Middle East Policy*, Spring 2012, Pg 38.

<sup>109</sup> Aaron Stein, "Understanding Turkey's Position on the Iranian Nuclear Program," *WMD Junction*, January 2012. [http://wmdjunction.com/120112\\_turkey\\_iran\\_nuclear.htm](http://wmdjunction.com/120112_turkey_iran_nuclear.htm)

<sup>110</sup> Aylin Gurzel and Eyup Ersoy, "Turkey and Iran's Nuclear Program," *Middle East Policy*, Spring 2012, Pg 38.

<sup>111</sup> Today's Zaman, "Turkey determined to have 3 nuclear power plants by 2023," February 19, 2011.

[http://www.todayszaman.com/newsDetail\\_getNewsById.action?newsId=236029](http://www.todayszaman.com/newsDetail_getNewsById.action?newsId=236029)

<sup>112</sup> The Center for Strategic and International Studies, *The Turkey, Russia, Iran, U.S. Nexus: Political and Security Dimensions*, September 28, 2012, Pg 7. <http://csis.org/publication/turkey-russia-iran-nexus-political-security-dimensions>

<sup>113</sup> Aaron Stein, "Understanding Turkey's Position on the Iranian Nuclear Program," *WMD Junction*, January 2012. [http://wmdjunction.com/120112\\_turkey\\_iran\\_nuclear.htm](http://wmdjunction.com/120112_turkey_iran_nuclear.htm)

<sup>114</sup> Sinan Ulgen, et. al., "The Turkish Model for the Transition to Nuclear Energy," *The Centre for Economics and Foreign Policy Studies*, December, 2011, Pg 156. <http://www.edam.org.tr/EDAMNukleer/edamreport.pdf>

- Third, Turkey seeks to keep its ties with Iran amicable and use their economic relationship to bolster the economy of southeast Turkey and reducing the power of the PKK and PJAK, until it can diversify its energy and electricity with nuclear and pipelines to Caspian states.

### *Turkish vs. US Views of Iran's Nuclear Threat*

Both the US and Turkey view an Iranian nuclear weapon as a greatly destabilizing event that may lead other countries in the region to pursue their own nuclear programs or nuclear weapons capability.<sup>115</sup> Both states also have a vested interest in the global nonproliferation regime and wish to contain the regional ambitions of Iran.

However, the US and Turkey differ in the immediacy of the threat of a nuclear Iran and the methods for solving the issue. Turkey has opposed coercive measures to pressure an end to the Iranian nuclear program, including sanctions and the use of military force. Ankara has argued that such threats only increase Iranian intransigence and reinforce Tehran's rationale for a nuclear deterrent. Many in Turkey also feel that the reason why Iran is so intent on its nuclear program is fear of attack and national survival; thus Turkey is pursuing a policy that is non-confrontational and seeks to mitigate this fear through engagement and diplomacy.<sup>116</sup> Ankara also argues that isolation and pressure will further radicalize Iran's policies, inviting a "rally around the flag" mentality and making diplomatic progress more difficult.

Turkey also opposes the use of military force against Iran, believing that attacking Iran will only delay its nuclear program and will have detrimental effects in terms of security and stability in the region. In Turkey's view, such regional instability caused by military strikes that Ankara does not want will nonetheless force Turkey to cope with the consequences.<sup>117</sup> This situation, Ankara believes, will be similar to the end of the Gulf War, where insecurity and instability in Iraq provided a safe haven for the PKK. Turkey also believes that military strikes may also convince the Iranian leadership that a nuclear deterrent is necessary to prevent future attacks and will make developing a nuclear weapon a priority, giving the nuclear program even greater support.

Turkey's intransigence on supporting current and future US and EU Iranian sanctions is also due to the belief that sanctions may strengthen Iranian hardliners and disproportionately affect the Turkish economy.<sup>118</sup> As stated above, Turkey views economic cooperation with Iran both as a new market for its increasingly export-oriented economy and as a tactic to develop southeast Turkey, hopefully improving the security situation there. While Turkish trade with Iran is heavily balanced in favor of Iran due to energy purchases, sanctions would greatly impede the growth of Turkish exports to Iran and may be detrimental to the Turkish economy. They may also lead the Iranian economy to reorient itself, if in the post-crisis phase Iran preferentially boosts trade with states that maintained their trade relationships through the isolation. As Ankara

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<sup>115</sup> The Center for Strategic and International Studies, *The Turkey, Russia, Iran, U.S. Nexus: Political and Security Dimensions*, September 28, 2012, Pg 8. <http://csis.org/publication/turkey-russia-iran-nexus-political-security-dimensions>

<sup>116</sup> The Center for Strategic and International Studies, *The Turkey, Russia, Iran, U.S. Nexus: Political and Security Dimensions*, September 28, 2012, Pg 7. <http://csis.org/publication/turkey-russia-iran-nexus-political-security-dimensions>

<sup>117</sup> Philipp Bleek and Aaron Stein, "Turkey and America Face Iran," *Survival*, Vol 54, No 2, April-May 2012, Pg 30.

<sup>118</sup> Sinan Ulgen, "Turkey and the Bomb," *The Carnegie Endowment for International Peace*, February 2012, Pg 7. [carnegieendowment.org/files/turkey\\_bomb.pdf](http://carnegieendowment.org/files/turkey_bomb.pdf)

demonstrated during the Libyan Civil War, it takes into account future economic relations when formulating foreign policy.

### ***Turkey's Focus on Regional Economic Integration vs. the US Focus on Sanctions***

Turkey's foreign policy of regional economic integration has come into relative conflict with the US's policy of Iranian isolation and economic strangulation. Ankara has continued to argue that a cooperative diplomatic environment rather than sanctions would be the most effective method to solve this current crisis and has rebuffed US and EU efforts to impose tighter sanctions on Iran. The Turkish government has thus far refused to implement the US or EU unilateral sanctions regime but has abided by the UN sanctions on Iran because they are backed by the legitimacy of the United Nations.<sup>119</sup> Energy and Natural Resources Minister Taner Yildiz said recently, "UN sanctions are binding for us...Other decisions are not...At the moment our imports continue and as of today there is no change in our road map."<sup>120</sup> Ankara has left enforcement of US and EU sanctions up to private businesses.

Turkish companies have continued to do business with Iran in ways that are until recently were not strictly illegal under US and EU sanctions, as Iran is attempting to sidestep tightening sanctions and boost their flailing economy. Recent news reports detail that Turkey, through the state-owned Halkbank, is paying for Iranian natural gas in Turkish Liras, which is of limited value for Iran in the international market due to its inconvertibility, but is being used to buy gold in Turkey.<sup>121</sup> This gold is then possibly transferred or sold in the U.A.E. and then shipped to Iran.<sup>122</sup>

Since the additional oil sanctions were instituted in the summer of 2012, Iran has used this method to repatriate hard currency; however, the FY 2013 NDAA has included new sanctions prohibiting the transfer or sale of gold or other precious metals to Iran.<sup>123</sup> This will impact the amount of hard currency that Iran is able to repatriate.

Turkish gold exports to Iran rose to \$6.5 billion in 2012, 10 times the level in 2011, and exports to the UAE rose from \$280 million to \$4.6 billion.<sup>124</sup> The US in new sanctions codified in the FY2013 NDAA and implemented February 6, 2013 tightened controls on precious metal sales to Iran and prevented Halkbank from processing other countries' oil payments, cutting off a valuable route for hard currency and preventing India from paying Iran through Turkey in Euros. As a result, Turkish gold sales to Iran ceased in January 2013 but restarted at lower levels in February 2013 with Turkey selling \$117 million to Iran.<sup>125</sup> How much this trade will increase, if

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<sup>119</sup> Sinan Ulgen, "Turkey and the Bomb," *The Carnegie Endowment for International Peace*, February 2012, Pg 7. [carnegieendowment.org/files/turkey\\_bomb.pdf](http://carnegieendowment.org/files/turkey_bomb.pdf)

<sup>120</sup> Daniel Dombey, "Turkey defiant on Iran sanctions," *Financial Times*, January 12, 2012. <http://www.ft.com/intl/cms/s/0/f4f74cba-3d46-11e1-8129-00144feabdc0.html#axzz2ECT6KWg0>

<sup>121</sup> Joe Parkinson and Emre Peker, "Turkey Swaps Gold for Iranian Gas," *The Wall Street Journal*, November 23, 2012. <http://online.wsj.com/article/SB10001424127887324352004578136973602198776.html>

<sup>122</sup> Humeyra Pamuk, "Exclusive: Turkish gold trade booms to Iran, via Dubai," *Reuters*, October 23, 2012. <http://www.reuters.com/article/2012/10/23/us-emirates-iran-gold-idUSBRE89M0SW20121023>

<sup>123</sup> Roberta Rampton, "RPT-US Senate works on new package of Iran sanctions," *Reuters*, November 28, 2012. <http://www.reuters.com/article/2012/11/28/usa-iran-sanctions-idUSL1E8MS1SI20121128>

<sup>124</sup> Asli Kandemir, "Exclusive: Turkey-Iran gold trade wiped out by new U.S. sanctions," *Reuters*, February 16, 2013. <http://www.reuters.com/article/2013/02/16/us-iran-turkey-sanctions-idUSBRE91F01F20130216>

<sup>125</sup> Behiye Taner, "Turkey gold exports to Iran resume despite tough US sanctions," *Reuters*, March 29, 2013. <http://www.reuters.com/article/2013/03/29/turkey-iran-sanctions-idUSL5N0CL0UK20130329>

it will increase, or additional actions or future US sanctions to further block gold sales is unknown. If, however, the additional sanctions do manage to stem the flow of gold to Iran, it will represent a major blow to Iran's ability to acquire hard currency with which to prop up the Rial, support the government, and fund imports.

The US has increased efforts to persuade Turkey to support its sanctions regime against Iran but is reluctant to fully implement sanctions against Turkish entities. Various officials from Deputy Secretary of State William Burns to Vice President Biden have attempted to press Ankara joining the sanctions regime against Iran. However, Turkey has not changed its policies, and has continued to resist pressure from the US to halt the operations of Iranian Bank Mellat which was identified in UN Security Council Resolution 1929.<sup>126</sup> While these meetings have produced some limited agreements, Turkey is unlikely to subsume its energy, security, and economic needs to US demands.

### *Turkish Efforts to Mediate a Solution to Iran's Nuclear Program*

Turkey's relationship with the Iranian nuclear program has changed over the past decade. Before 2005, the nuclear program was rarely addressed by the Turkish government; at that time, when it was mentioned, Ankara was generally supportive of Iran's pursuit of peaceful nuclear technology and energy. Since then, Turkey has moved from being an observer to a facilitator to finally a mediator for Iran's nuclear program.

Ankara moved from an observer role to a facilitator role in 2005, when Turkey's National Security Policy Document, which at that time was still heavily influenced by the Turkish General Staff, characterized an Iran, due to their nuclear program and Shahab-3 missiles, as the greatest threat to Turkish national security.<sup>127</sup> Turkish officials were concerned that in light of the instability resulting from the US invasion of Iraq, a future military confrontation with Iran would harm regional stability and security.

Starting in 2008, Turkey attempted to mediate the conflict between the West and Iran by bringing the two sides together and was able to reach a fuel swap agreement between Turkey, Brazil, and Iran in 2010 that envisioned Iran depositing 1,200 kg of LEU in Turkey in return for 120 kg of nuclear fuel.<sup>128</sup> However, this deal was rejected by the US because it did not address the 20% enriched uranium stockpiled, would not have prevented Iran from producing HEU, and would not have hampered Iran's ability to quickly produce a nuclear weapon.<sup>129</sup>

Turkish statements on the Iranian nuclear program highlighted difference with the US

- "The government and nation of Turkey has always clearly supported the nuclear positions of the Islamic republic of Iran, and will continue to firmly follow the same policy in the future...Military threats against a country that seeks to master peaceful nuclear technology are not acceptable." Turkish Prime Minister

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<sup>126</sup> Serkan Demirtas, "US asks Turkey to halt Bank Mellat's operations, freeze Gaddafi's assets," April 27, 2011. <http://www.hurriyetdailynews.com/default.aspx?pageid=438&n=us-asks-turkey-to-halt-bank-mellat8217s-operations-freeze-gaddafi8217s-assets-2011-04-27>

<sup>127</sup> Bruce Maddy-Weitzman, "The Red Book: The Bible of Turkish Foreign Policy," *Tel Aviv Notes*, October 21, 2010. [http://www.aftau.org/site/DocServer/TANotes\\_October\\_21\\_2010.pdf?docID=12182](http://www.aftau.org/site/DocServer/TANotes_October_21_2010.pdf?docID=12182)

<sup>128</sup> Gareth Jenkins, "Occasional Allies, Enduring Rivals: Turkey's Relations with Iran," Central Asia-Caucasus Institute, Silk Road Studies Program, Johns Hopkins University, May 2012, Pg. 38. [www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf21](http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf21).

<sup>129</sup> Sinan Ulgen, "Turkey and the Bomb," *The Carnegie Endowment for International Peace*, February 2012, Pg 8. [carnegieendowment.org/files/turkey\\_bomb.pdf](http://carnegieendowment.org/files/turkey_bomb.pdf)

Recep Tayyip Erdoğan, March 29, 2012.  
<http://www.google.com/hostednews/afp/article/ALeqM5jn2SasjxH4BFhQmtmdcHUw-ijDFA?docId=CN.G.5bba548bbefdc22a21bbb7b6c36d505a.a01>

- “No one has the right to impose anything on anyone with regards to nuclear energy, provided that it is for peaceful purposes...” Turkish Prime Minister Recep Tayyip Erdoğan, March 28, 2012.  
<http://www.haaretz.com/news/middle-east/Erdoğan-no-force-should-threaten-iran-s-peaceful-nuclear-program-1.421328>
- “...disparity between the characteristics of Iran’s nuclear program and its supposed peaceful purposes as well as the suitability of its facilities for making nuclear weapons.” Osman Faruk Loğoğlu, Former Ambassador to the United States and Member of the Foreign Relations Committee of the Turkish Grand National Assembly, January 26, 2011.  
<http://csis.org/files/publication/twq12SummerGurzel.pdf>
- “The offer circulating around, whether Damascus and Baghdad, is all about dragging the feet. It’s another way of saying ‘Let’s not do it’... Because of the lack of honesty, they keep losing credibility in the world. This is not the language of diplomacy, but another language. And that does not suit me.” Turkish Prime Minister Recep Tayyip Erdoğan, on Iran’s announced that it no longer wanted to conduct P5+1 talks in Turkey, April 5, 2012.  
<http://www.nytimes.com/2012/04/06/world/middleeast/doubts-intensify-on-resumption-of-iran-nuclear-talks.html>
- “Turkey supports the settlement of the issue through diplomatic ways and we continue to work to facilitate dialogue and cooperation.” Permanent Representative of Turkey to the IAEA Tomur Bayer, September 19, 2012.  
<http://www.aa.com.tr/en/s/82997--turkey-says-wants-to-see-closer-cooperation-between-iran-amp-iaea>
- “If such a will exists from our Iranian friends and if they think it prudent that we play a role, we will do so...Turkey, as a third country, is ready to play an intermediary role in the uranium swap and Iran’s other nuclear issues.” Turkish Foreign Minister Ahmet Davutoğlu, April 20, 2010.  
<http://news.bbc.co.uk/2/hi/europe/8632833.stm>
- “...let me say that you should not underestimate how seriously we take the issue of a nuclearized Iran. After all, we are neighbors and nuclear weapons would threaten us most of all. We are the first to object.

Having said that, all our efforts are going to solving the issue diplomatically. The last thing we need is another war in this region. The war in Iraq caused us immense problems, both economically and politically. It created huge security and immigration problems.

We believe we can uniquely contribute to the diplomatic solution because we are the only ones in the NATO alliance that can talk directly to the Iranian leadership and have a frank and free exchange of opinions.” Turkish President Abdullah Gul, September 30, 2010.  
<http://www.csmonitor.com/Commentary/Global-Viewpoint/2010/0930/Turkey-s-President-Abdullah-Gul-Iran-must-be-more-transparent-on-nuclear-program>

- “Iran has consistently spoken of the fact that it is seeking to use nuclear energy for civilian purposes and that they are using uranium enrichment programmes for civilian purposes only...That is what Mr Ahmadinejad has told me many times before...I told him I don't want to see nuclear weapons in the region, and Mr Ahmadinejad told me that they do not have an intention to produce nuclear weapons.” Turkish Prime Minister Recep Tayyip Erdoğan, March 16, 2010.  
[http://news.bbc.co.uk/2/hi/middle\\_east/8570842.stm](http://news.bbc.co.uk/2/hi/middle_east/8570842.stm)
- “Despite the West’s persuasion to change our position on Iran, Turkey continues to support Tehran’s nuclear program.” Turkish Prime Minister Recep Tayyip Erdoğan, October 9, 2012.  
<http://www.turkishweekly.net/news/143286/turkey-39-s-foreign-policy-principles-underlined-by-pm-erdogan-.html>

## Implications for US Policy



Turkey is redefining its relations with the US, Iran, and Europe. The election of the AKP party, its performance in the 2007 and 2011 Turkish elections, the dwindling power of the western-oriented Turkish General Staff to guide the national security strategy of the state, the appointment of Foreign Minister Ahmet Davutoğlu in 2009, and the embracing of his “zero problems” approach to foreign policy has moved Turkey from its previous position as a solely western-oriented country to one that is taking an increasing interest and role in the Middle East.

But Turkey’s present and future involvement in the region does not portend a break from its relationship with the US or its association with NATO. Turkey’s foreign policy is changing to become less reliant on the US and more independent in what it regards as its central interests in the region and its goal of economic and political integration. Turkey will continue to demonstrate strategic and regional autonomy, sometimes separate of US goals and interests in the region.

Turkey’s “zero problems” with neighbors policy has run into a few bumps since the Arab spring started nearly two years ago, and Ankara has been forced to choose between this policy and its core national security interests in both Syria and Israel. How this strategy continues is uncertain, but Ankara will attempt to continue this policy, or something similar, while attempting to promote stability in the region.

Turkey’s strategy of engagement and conflict avoidance with Iran will also come under increasing strain as the situation in Syria continues to unravel and Iran continues to come to its ally’s aid, resulting in instability on Turkey’s southern border, increasing refugee flows, and empowering of Syria’s Kurds. The conflict in Syria cannot be swept under the rug and will affect Turkey’s relationship with Iran.

At the same time, Turkey’s trade and energy relationship with Iran will continue to temper how Turkey responds to both Syria and the nuclear program. As long as Iran is Turkey’s 6<sup>th</sup> largest trading partner and sends Turkey 30% of its oil and 19% of its natural gas needs, Turkey will be largely unable to openly confront Iran on bilateral issues, Syria, the PKK, or the Kurds.

Although the resulting impact of Syria’s civil war and Turkey’s energy relationship with Iran on Turkey’s views regarding the Iranian nuclear program is uncertain, it’s most likely - unless there is a major downturn in Turkish-Iranian relations or Iran actually acquires or tests a nuclear weapon - that Turkey will continue to defend the peaceful aspects of the program while attempting to solve the crisis diplomatically. Turkey will also continue to engage Iran on other issues of mutual importance - including combatting the PKK, bilateral trade, and energy - as it feels that the possible escalation of the US-Iranian confrontation as detrimental to regional peace and security, and by extension, its peace and security.

The US relationship with Turkey has also had to evolve and take account of the fact turkey is a sovereign partner and has its own - and sometimes - different national interests. Turkey now has a much broader array of regional interests that are sometimes at odds with US foreign policy interests. Yet Turkey represents a reliable - albeit complex - ally, and one that has proved to be influential in the region. Turkey’s ability to be an impartial mediator in the region can be an extremely valuable tool in solving regional disputes, as was seen with Turkey’s engagement with Syria before the uprising.

The US needs to deal with these differences through dialogue and by accepting the fact Turkey has different national interest. It must respect Turkey as a full partner and as a highly nationalistic power that demands this respect. In spite of all the issues that the US and Turkey

agree on - preventing an Iranian nuclear weapon, improving the stability and economy of the Middle East, a peace agreement between Syria and Israel - there will be times Turkey and the US disagree. The US must understand in these cases that Turkey cannot simply be an extension of US policy in the region. The US should instead build on the shared interests of both countries to promote a deeper US-Turkish relationship.

As for Iran, Turkey will continue to play a balancing act between Iran and the US. The AKP will continue to resist calls for enforcing US or EU sanctions or to increase sanctions on Iran as much as possible. This represents a loophole in the US's strategy to isolate Iran diplomatically, economically, and regionally. Turkey's oil and gas purchases represent one of the ways Iran can obtain valuable hard currency that it needs for the international market, preventing economic collapse.

The Iranian nuclear program will continue to be a major disagreement between the US and Turkey, but the US should continue to support Turkey as an intermediary and moderator. Turkey has a vested interest in preventing a violent conclusion to this conflict that will have adverse effects for both the US and Turkey.

## South Caucasus

The southern Caucasus states - Armenia, Azerbaijan, and Georgia - represent one of the newest fronts in US-Iranian competition. Their basic statistics are shown in **Figure 20**. All three South Caucasus states emerged from the post-Soviet era with heightened concerns over territorial integrity and state survival. Armenia and Azerbaijan faced direct military threats from each other, while Georgia's security concerns stemmed from both Abkhazia and South Ossetia - which seemed beatable - and Russia - which was too strong to be countered militarily.<sup>130</sup>

Since they achieved independence in the early 1990s, they have spent two decades establishing themselves as states, more concerned with territorial and sovereignty disputes than broader regional struggles. Their relationships with Iran and the US derive from geographical proximity, ethnic overlap, economic ties for Iran, diaspora communities, shared human rights and free market concerns, energy supply lines, and competition with Russia. At the same time, complex intra-regional disputes have limited US and Iranian involvement, restricting the impact of US-Iranian competition.

### Inter-State Dynamics

All three states entered the post-Soviet era entangled in conflict. Armenia and Azerbaijan warred over Nagorno Karabakh, an autonomous oblast that had been located in Azerbaijan in Soviet times but was ethnically predominantly Armenian. Between 1988 and 1994, the two states fought to a destructive stalemate, leaving Nagorno Karabakh and surrounding regions under Armenian control. The war left both economies exhausted and created significant numbers of displaced persons, to the point that both took over a decade to recover their pre-war GDP per capita. Armenia emerged with blockades on its eastern and western borders, as both Turkey and Azerbaijan sought to pressure it in ongoing negotiations.<sup>131</sup>

Since the war, sporadic negotiations have continued over the disputed territory. The OSCE has formal legal jurisdiction over mediation efforts; in turn, it has devolved this role to the Minsk Group, a committee chaired by the US, France, and Russia. Despite high hopes surrounding the Key West (2001) and Kazan (2011) conferences, negotiations remain deadlocked under the Madrid Principles.<sup>132</sup>

Both states have centered their foreign and defense policies around Nagorno Karabakh and the surrounding provinces and issues (most notably the Armenian genocide question), hoping to sway neighboring states and extra-regional actors to support their claims to the territory. The result has been opposing foreign policies, in which Iran is seen as another ally or enemy asset, on par with Turkey.

Both states also believe that their opponent is backed by a greater power - Armenia accuses Azerbaijan of being Turkey's client, while Azerbaijan considers Armenia Russia's proxy in the

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<sup>130</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 2, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

<sup>131</sup> "Madrid Principles: Basis for Conflict Settlement or War?," Caucasus Edition, Journal of Conflict Resolution, August 1, 2010. <http://caucasusedition.net/analysis/madrid-principles-basis-for-conflict-settlement-or-war/>

<sup>132</sup> "Azerbaijan and Armenia Fail to End Enclave Dispute," New York Times, June 24, 2011. <http://www.nytimes.com/2011/06/25/world/asia/25karabakh.html>

South Caucasus. This understanding - that these relatively small states are facing a fight for survival against great powers - heightens the sense of vulnerability that has hindered negotiations for the past two decades.

While geographically adjacent to Armenia and Azerbaijan, Georgia's territorial disputes have entailed greater military risk. Following the Soviet collapse, Georgia faced separatist movements in the northern provinces of Abkhazia and South Ossetia. The first round of wars ended by 1993, leaving the two regions semi-autonomous and the Georgian economy at approximately a quarter of its Soviet-era GDP per capita. Both autonomous regions survived with heavy Russian backing - including Russian peacekeepers, Russian citizenship for their citizens, and direct financial support - that engendered Tbilisi-Moscow hostility.

Following the Rose Revolution in 2003, President Saakashvili re-focused Georgia's foreign policy on the West, emphasizing NATO as a balancer for Russian conventional military superiority. The fragile status quo was broken in 2008, when provocations on both sides led to a brief Russian/Abkhazian/South Ossetian-Georgian War.<sup>133</sup>

Georgia's military defeat allowed both autonomous regions to consolidate domestic control, gaining limited international recognition. While the conflict demonstrated the inability of Europe and the US to militarily defend Georgia, it also reinforced Moscow's dangers to the Georgian (and other South Caucasus) populace, confirming the importance of a foreign policy that revolved around avoiding provocation of Russia and deterrence through external support.<sup>134</sup>

Despite the religious fault lines across the region, religious and sectarian differences have not yet been a source of serious fueled conflict. In part, this stems from the fact Armenia and Azerbaijan had already carried out population removal on ethno-religious lines during their Karabakh War. Georgia - despite linguistic differences among some Georgian languages - is largely populated by the Eastern Orthodox faith. While the Azerbaijani government does occasionally accuse Iran of funding Islamic radicalism, the current conflicts in the region are more ethnic and nationalist, than religious.<sup>135</sup>

## Status Quo

Historically, the South Caucasus has served as a trade corridor and arena for competition between the Russian, Turkish, and Iranian empires. While trade today is often conducted by sea - partly due to dilapidated Caucasian infrastructure - South Caucasus states have had little reason to forget their role as a battleground for larger powers.<sup>136</sup>

Armenia, Azerbaijan, and Georgia have developed international relations that seek to balance the three neighboring great states with extra-regional actors, primarily the EU and US. For Georgia, which holds Russia directly responsible for the loss of Abkhazia and South Ossetia, this push

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<sup>133</sup> "Regions and Territories: Abkhazia," The BBC, last updated March 12, 2012.

<http://news.bbc.co.uk/2/hi/europe/3261059.stm>. "Regions and Territories: South Ossetia," The BBC, last updated April 25, 2012. [http://news.bbc.co.uk/2/hi/europe/country\\_profiles/3797729.stm](http://news.bbc.co.uk/2/hi/europe/country_profiles/3797729.stm)

<sup>134</sup> Kakachia, Kornely. "Iran and Georgia: Genuine Partnership or Marriage of Convenience." PONARS Eurasia Policy Memo No. 186, September 2011, pg. 1. [http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm\\_186.pdf](http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm_186.pdf)

<sup>135</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 5, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

<sup>136</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 8, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

into great power politics has led to a direct deterrence policy that emphasizes military support. For Azerbaijan, which is wary of both Russia and Iran but not openly confrontational with either, this entails building a symmetrically-oriented military and making Azerbaijan sufficiently valuable to the US and Europe so as to warrant an implied defense guarantee. Armenia, fearing a repeat of the massacres of 1915, has sought recourse against the Turkic threat in Russian - and, to a limited degree, Iranian - security guarantees and economic relations.

The US has three primary geopolitical objectives in the Caucasus: security/stability, democratization, and economic access to the region's underutilized natural resources and the nascent infrastructure corridor for transporting Central Asian products west while avoiding Iran and Russia.<sup>137</sup>

Iran has restricted its role in the South Caucasus, seeking amicable but non-restrictive ties with all three states. Its policy in the region is determined by four occasionally contradicting elements: a desire to expand its influence without directly challenging Turkey or Russia, a desire to maintain its role regarding natural resource exports, concern over US and Israeli penetration of the region, and a fear of minority unrest in Iran.

These forces, whose impact is in constant flux, have so far left Iran unable to articulate a clear policy toward the South Caucasus. Unwilling to directly oppose Russia or Turkey over relatively limited gains, and prioritizing Russian support for its broader rivalry with the US over regional objectives, it has taken a restrained approach that gives it some small measure of leverage but lacks the risks or rewards of other aspects of US-Iranian competition.

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<sup>137</sup> "The U.S. South Caucasus Strategy and Azerbaijan," Inessa Baban and Zaur Shiriyev, Turkish Policy Quarterly. <http://www.turkishpolicy.com/dosyalar/files/93-103.pdf>. "Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests," Jim Nichol, pg. 3, September 27, 2012.

*Figure 19: Map of the Greater South Caucasus*



Source: Stratfor

**Figure 20: Armenia, Azerbaijan, and Georgia - Basic Statistics**

Category	Armenia	Azerbaijan	Georgia
<b>Population</b> (Millions)	2.97	9.49	4.57
<b>GDP</b> (\$US Billions)	17.93	63.8	24.54
<b>GDP Per Capita</b>			
\$US	5,400	10,200	5,500
World Ranking	148	109	147
<b>Area in Square Kilometers</b>	29,743	86,600	69,700

**Ethnic Structure**

Armenia: 97.9%, Yezidi (Kurd) 1.3%, Russian 0.5%, other 0.3% (2001 census)

Azerbaijan: Azeri 90.6%, Dagestani 2.2%, Russian 1.8%, Armenian 1.5%, other 3.9% (1999 census) *note*: almost all Armenians live in the separatist Nagorno-Karabakh region

Georgia: Georgian 83.8%, Azeri 6.5%, Armenian 5.7%, Russian 1.5%, other 2.5% (2002 census)

**Sectarian Structure**

Armenia: Armenian Apostolic 94.7%, other Christian 4%, Yezidi (monotheist with elements of nature worship) 1.3%

Azerbaijan: Muslim 93.4%, Russian Orthodox 2.5%, Armenian Orthodox 2.3%, other 1.8% (1995 est.) *note*: religious affiliation is still nominal in Azerbaijan; percentages for actual practicing adherents are much lower

Georgia: Orthodox Christian (official) 83.9%, Muslim 9.9%, Armenian-Gregorian 3.9%, Catholic 0.8%, other 0.8%, none 0.7% (2002 census)

**Linguistic Structure**

Armenia: Armenian (official) 97.7%, Yezidi 1%, Russian 0.9%, other 0.4% (2001 census)

Azerbaijan: Azerbaijani (Azeri) (official) 90.3%, Lezgi 2.2%, Russian 1.8%, Armenian 1.5%, other 3.3%, unspecified 1% (1999 census)

Georgia: Georgian (official) 71%, Russian 9%, Armenian 7%, Azeri 6%, other 7%, *note*: Abkhaz is the official language in Abkhazia

Source: Relevant country sections in *CIA World Factbook*, Updated January 3, 2013, <https://www.cia.gov/library/publications/the-world-factbook/geos/gg.html>

## US Interests in the South Caucasus

US policy in the South Caucasus has also been in flux since the fall of the Soviet Union, veering between state-transformation and democratization to the pursuit of economic and broader strategic goals. US efforts in obtaining these divergent objectives have played a substantial role in shaping other states' willingness to cooperate with the US's objective of constraining Iran in the region.

US interests in the region are defined in the Congressional Research Services report below:<sup>138</sup>

Some observers argue that developments in the South Caucasus are largely marginal to U.S. strategic interests. They urge great caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts, and some argue that, since the European Union has recognized the region as part of its "neighborhood," it rightfully should play a major role. Some observers argue that the U.S. interest in democratization and human rights should not be subordinated to interests in energy and anti-terrorism.

Other observers believe that U.S. policy requires more active engagement in the region. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, and Islamic extremism and to bolster the independence of the states. Some argue that such enhanced U.S. relations also would serve to 'contain' Russian and Iranian influence and that close U.S. ties with Azerbaijan could benefit U.S. relations with other Islamic countries. They also point to the prompt support offered to the United States by the regional states in the aftermath of the September 11, 2001, attacks by Al Qaeda on the United States. Some argue that energy resources in the Caspian region are a central U.S. strategic interest, because Azerbaijani and Central Asian oil and natural gas deliveries could somewhat lessen Western energy dependency on Russia and the Middle East.

The US has spent years gradually developing a network for informal influence throughout the South Caucasus. Washington has continued to attempt to build strong personal ties with leaders in all three states, particularly at the military level, giving it avenues of communication to pressure local leaders. Caucasian armies have played an important role in public policy, and training conducted through the NATO Partnership for Peace has given the US insight into how military officers think.<sup>139</sup> These ties have been critical in American competition with Iran, creating far greater US influence than its distance from the South Caucasus and lack of strong allies in the region would otherwise indicate.

The US benefits from a generally positive image in the region. Although there are no credible polling data on public attitudes toward America, anecdotal evidence suggests that support for the US among the populous is strong in Georgia and Armenia, and at least neutral in Azerbaijan. Further, elites in all three states have at various times sought greater US action in the region as a counterweight to Russia. Fear of Russian (and sometimes Turkish and Iranian) expansionism runs strong among policy makers in all three states, and their relationships with Washington have generally been inversely proportional to ties with Moscow.

The Caucasus' strategic location has given the South Caucasus states a role in resupplying NATO efforts in Afghanistan. The southernmost route of the Northern Distribution Network (NDN), which carries approximately 30% of total NDN supplies, entails overland shipping

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<sup>138</sup> "Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests," Jim Nichol, pg. 3, September 27, 2012.

<sup>139</sup> "The Partnership for Peace Programme," NATO, [http://www.nato.int/cps/en/natolive/topics\\_50349.htm](http://www.nato.int/cps/en/natolive/topics_50349.htm). "NATO Partnership for Peace," State Department Fact Sheet, Warren Christopher, [http://www.fas.org/man/nato/offdocs/us\\_95/dos950519.htm](http://www.fas.org/man/nato/offdocs/us_95/dos950519.htm).



through Georgia and Azerbaijan followed by sea or air transit via Turkmenistan (for non-lethal cargo) or Kazakhstan, Uzbekistan, and Tajikistan (for lethal cargo).<sup>140</sup>

The NDN also functions as a link between the Caucasus and the US, allowing Georgia and Azerbaijan to demonstrate their strategic congruence with America. The foreign material facilities constructed by the US and NATO personnel on the ground are seen in the region as not just an economic boon but as a physical guarantor of stability. As mentioned below, both states have pervasive fears of Russian aggression, and view the American presence as a tripwire deterrent and American investment as a precursor to greater international integration.<sup>141</sup>

## Iran's Activities in the Caucasus

Iran's entry in Caucasian affairs has so far had little bearing on its global competition with the US. Despite the South Caucasus' proximity to Iran, small economies, limited receptiveness to Iranian propaganda, and entrenched local divisions and grievances have all served to limit Tehran's reach. As one of the few geographic regions where strategic overreach threatens the stability of the Iranian state, Tehran's pragmatism and emphasis on stability is likely to continue.

The core Iranian issue in the region - one even more important even than the Caspian Basin's oil wealth - is ethnic tension with Azerbaijan. Baku has charged Iran with supporting "fifth columnists" (generally Shia political parties) in Azerbaijan, but with the exception of alleged terrorist attempts in Georgia and Azerbaijan in February 2012, Iranian proxy groups have been noticeably absent.<sup>142</sup> Despite bilateral tension over a host of other issues - secularism, division of the Caspian, support from Israel and the US - Iran has pursued a relatively non-confrontational policy (particularly compared to its aggressive rhetoric and proxy support in Yemen, Bahrain, Iraq, Syria, Lebanon, and among Palestinian groups).

Although Azerbaijan is the only Muslim country in the South Caucasus, Iran distances itself because any support for Azerbaijan - ethnic, religious, political, or otherwise - risks inflaming tensions with Armenia, a state which Iran has long sought to retain a productive relationship.

Moreover, any Iranian effort to try to mobilize Azerbaijan's population along Islamic lines risks a renewed Aliyev regime emphasis on Azeri nationalism as a counter to Iranian-influenced Islamism. A campaign to increase Azeri nationalism could not only increase pressure against Armenia, the most likely target for Azeri nationalism, but also lead to increased tensions with Iran's Azeri population.

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<sup>140</sup> "The Northern Distribution Network and Afghanistan," Andrew Kuchins and Thomas Sanderson, pg. 12, January 2010, <http://dspace.cigilibrary.org/jspui/bitstream/123456789/27230/1/Northern%20Distribution%20Network%20and%20Afghanistan.pdf?1>.

<sup>141</sup> "The Northern Distribution Network and Afghanistan," Andrew Kuchins and Thomas Sanderson, pg. 12, January 2010, <http://dspace.cigilibrary.org/jspui/bitstream/123456789/27230/1/Northern%20Distribution%20Network%20and%20Afghanistan.pdf?1>.

<sup>142</sup> Ethan Bronner, "Israel Says Iran is Behind Bombs," *New York Times*, February 13, 2012. <http://www.nytimes.com/2012/02/14/world/middleeast/israeli-embassy-officials-attacked-in-india-and-georgia.html?pagewanted=all&r=0>; Yaakov Lappin, "New Iran-Linked Terror Plot Uncovered in Azerbaijan," *Jerusalem Post*, February 22, 2012. <http://www.jpost.com/International/Article.aspx?id=258824>

Iran's population is acutely divided along ethnic and linguistic lines. While no reliable databases exist on such differences, the CIA estimates that Iran's ethnic population is divided by roughly the following percentages: Persian 61%, Azeri 16%, Kurd 10%, Lur 6%, Baloch 2%, Arab 2%, Turkmen and Turkic tribes 2%, other 1%. Its linguistic differences are: Persian (official) 53%, Azeri Turkic and Turkic dialects 18%, Kurdish 10%, Gilaki and Mazandarani 7%, Luri 6%, Balochi 2%, Arabic 2%, other 2%. It is far more unified in religious terms with 89% Shi'ite, 9% Sunni, and 3% other.<sup>143</sup>

Azeri nationalist sentiment in Iran now remains low, and Azeris generally have higher status and wealth in Iranian society than other minority groups. Yet the experience of Baluch and Kurdish groups - which together comprise a smaller population than Iranian Azeris - have emphasized the risks of ethnic unrest. In light of occasional Azerbaijani attempts to take a more nationalist stance and unite "greater Azerbaijan," cross-border stability is a major concern for Iran.

This fear of nationalism has limited Iran's ability to aggressively involve itself in the region. Increased Azerbaijani-Armenian antagonism has historically elevated nationalist attitudes on both sides, inflaming the sentiment that Iran seeks to avoid. As Iran's leverage over the peace process is virtually nil, its operations in the region have emphasized trade, energy, and other uncontroversial topics.

Tehran's secondary objective has been to either gain access to the revenue stream from Caspian resources or limit their export to increase the importance of its own energy resources. Close relations with Baku - and an Azerbaijani policy of letting potential enemies own parts of its pipelines - gave Tehran access to the first round of Azerbaijani natural gas exports through the Naftiran Intertrade Company, a subsidiary of the National Iranian Oil Company, and prevented competition over the Caspian from turning into an arms race. This avenue, however, has closed as relations between Iran and Azerbaijan have steadily deteriorated, leaving delineation of the Caspian seabed unresolved and, coupled with increased EU and US sanctions, possibly shutting Iran out of future trans-Caspian and trans-Caucasus deals.

Iran continues to seek ways to build ties with the South Caucasus countries that do not risk regional turmoil or threaten to aggravate latent ethnic divides. Its efforts so far have been generally unsuccessful, owing to both Iran's precipitous economic standing and previous inroads by Russia, Turkey, and the EU. Tehran has provided the impetus for most recent integration efforts, driving efforts from visa-free travel to costly, complex electric facilities that supply Iran with electricity. While Tehran has so far been unable to reverse its relative weakness in the region, its geographic proximity and the vagaries of Caucasus politics mean it will never be completely irrelevant within the region.

## Armenia

The Republic of Armenia is both one of the World's oldest and newest countries - newest, in that it achieved independence in 1991, but oldest for claiming continuity with an Armenia polity dating back thousands of years. A small state in a volatile region - its population is estimated at anywhere between 2.8 and 3.2 million, and its GDP roughly \$10 billion - it lacks open borders

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<sup>143</sup> CIAS, "Iran," World Factbook, Updated January 3, 2013, <https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html>

with two of its neighbors, Azerbaijan and Turkey, and has suffered from outdated infrastructure, poor natural resources, brain drain, and the pressures of a war economy.<sup>144</sup>

Despite this, Armenia remains relatively politically open and democratic, at least by the standards of post-Soviet Asian states. Following the turmoil of the Karabakh War, it has seen a stable political leadership that has been reelected every five years in votes that were free and fair, albeit rarely competitive.

It has the deepest ties to Iran of any the South Caucasus states, and Armenia has reportedly occasionally facilitated Iran's entry into global markets, despite Yerevan's protests and occasional efforts to the contrary. However, it is also weak state with an unsettled banking sector, unmet energy needs, and commerce based on gray- and black-market trade. Iran recognizes Armenia as a critical country for its own needs, a similarly-isolated state that can benefit from growing ties between the two. This logic drives Armenian-Iranian relations, even as fears over other states' reactions - of Baku in Tehran and of Washington in Yerevan - limit the relationship.

## **US-Armenian Relations**

US-Armenian relations have been driven by a combination of evolving US strategic interest in the region, Armenia's desire to develop a strong extra-regional backer, and ethnic ties between the two states.

The US is concerned that Armenia's weak state institutions and elite dominance may have allowed Iran to build influence and avoid sanctions.<sup>145</sup> The inability of the central government to control factions within the elite and shut down gray and black markets - particularly in the banking sector - may have not only had repercussions on US-Iranian competition, but may have facilitated destabilization of Armenia and the region.

The US Department of State has summarized US-Armenian relations as follows:<sup>146</sup>

### **U.S.-Armenian Relations**

The dissolution of the Soviet Union in December 1991 brought an end to the Cold War and created the opportunity for bilateral relations with the New Independent States (NIS) as they began a political and economic transformation. The U.S. recognized the independence of Armenia on December 25, 1991, and opened an Embassy in Yerevan in February 1992.

### **U.S.-Armenian Economic Relations**

In 1992 Armenia signed three agreements with the U.S. affecting trade between the two countries. They include an "Agreement on Trade Relations," (which entered into force in April 1992) an "Investment Incentive Agreement," (which also entered into force in April 1992) and a treaty on the "Reciprocal Encouragement and Protection of Investment" (generally referred to as the Bilateral Investment Treaty, or BIT, which entered into force in March 1996). The 1973 "Convention on matters of Taxation" concluded with the former USSR remains in force with Armenia. The 1994 Law on Foreign Investment governs all direct investments in Armenia, including those from the U.S.

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<sup>144</sup> "Armenia" CIA Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/am.html>

<sup>145</sup> "Puzzles of State Transformation: The Case of Armenia and Georgia," Dr. Nicole Gallina, *Caucasian Review of International Affairs*, Winter 2010. [http://cria-online.org/10\\_3.html](http://cria-online.org/10_3.html)

<sup>146</sup> "Background Note: Armenia." Bureau of European and Eurasian Affairs, Department of State, last updated March 22, 2012. <http://www.state.gov/r/pa/ei/bgn/5275.htm>

In June 2011, the Department of State and the Ministry of Energy and Natural Resources of Armenia signed a Memorandum of Understanding on unconventional and conventional energy resources. The MOU aims to enhance cooperation between U.S. and Armenian experts to assess Armenia's potential energy resources, including shale gas.

Approximately 70 U.S.-owned firms currently do business in Armenia, including Dell, Microsoft, and IBM. Recent major U.S. investment projects include: the Hotel Armenia/Marriott; the Hotel Ani Plaza; Tufenkian Holdings (carpet and furniture production, hotels, and construction); several subsidiaries of U.S.-based information technology firms, including Viasphere Technopark, an IT incubator; Synopsys; a Greek-owned Coca-Cola bottling plant; jewelry and textile production facilities; several mining companies; and the Hovnanian International Construction Company.

#### U.S. Assistance to Armenia

The U.S. has made a concerted effort to help Armenia during its difficult transition from totalitarianism and a command economy to democracy and open markets. The cornerstone of this continuing partnership has been assistance provided through the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act, enacted in October 1992. In 2009, FREEDOM Support Act funds were merged with another account and was renamed Assistance to Europe, Eurasia and Central Asia (AEECA). Under this and other programs, the U.S. to date has provided Armenia with nearly \$2 billion in development and humanitarian assistance. In addition, the U.S.-Armenia Joint Economic Task Force (USATF), established in 1999, is a bilateral commission that meets annually to deepen economic ties between Armenia and the U.S., advance market reforms in Armenia, and discuss opportunities for U.S. assistance to contribute to Armenia's long-term economic development. The most recent meeting was held in Washington, DC, in September 2011. The next meeting in 2012 will be held in Yerevan.

U.S. assistance supports Armenia's transition into a stable partner at peace with its neighbors, fully integrated into the regional economy, where principles of democracy are respected, the benefits of economic growth are shared by all segments of society, and Armenia's human capital potential is fully realized. The U.S. provides multifaceted assistance to Armenia through a variety of programs designed to promote economic growth, encourage democratic governance, improve health and social protection systems, and enhance Armenia's peace and security. The U.S. also provides humanitarian assistance to the poor, elderly, and other vulnerable groups. Assistance is provided through a "whole of government" approach that involves a number of U.S. government agencies, including the Departments of Agriculture, Commerce, Defense, Energy, Justice, and State, the Nuclear Regulatory Commission, the United States Agency for International Development (USAID), and the Peace Corps.

In 2006, Armenia signed a five-year, \$236 million Millennium Challenge Corporation compact with the U.S. The MCA-Armenia program focused on reducing rural poverty through a sustainable increase in the economic performance of the agricultural sector. This included strategic investments in rural roads, irrigation infrastructure, and technical and financial assistance to water supply entities, farmers, and commercial agribusinesses. In 2009, MCC placed a hold on funding for a significant portion of the rural road rehabilitation project because of serious concerns about the 2008 presidential election. At the June 2009 MCC Board meeting, the decision was made not to resume funding for any further road construction and rehabilitation due to concerns about the status of democratic governance in Armenia. Funding for irrigation infrastructure and technical assistance, representing nearly \$177 million of the compact's value, remained in effect and was implemented. The compact concluded in September 2011. Beneficiaries included 420,000 rural residents in about 350 communities across Armenia.

#### Promoting Economic Growth

U.S. assistance addresses Armenia's economic vulnerabilities, which have been exacerbated by the global economic crisis, while continuing to support economic competitiveness. The U.S. continues to work closely with international financial institutions like the International Monetary Fund and the World Bank to help Armenia continue its transition to a robust free-market economy. USAID and the U.S. Department of Agriculture (USDA) implement the largest portion of U.S. economic assistance activities. In addition to its broader assistance programs, USAID implements a range of economic assistance programs designed to enhance Armenia's macroeconomic foundation for growth, promote trade and investment, and focus on private sector competitiveness and workforce development in selected industries, including information

technology and tourism, and development of the financial sector and fiscal authorities to achieve a business enabling environment.

The USDA Caucasus Agricultural Development Initiative provides targeted and sustained technical and marketing assistance to small and medium-sized agribusinesses, farmer-marketing associations, and the Government of Armenia. USDA's goal is to sustain the productivity of the agricultural sector by expanding access to markets and credit, increasing efficiency, and modernizing agriculture systems. USDA's priority assistance areas are: Farm Credit, Food Safety and Animal Health, support to the Armenian private sector through the NGO CARD, Agricultural Statistics and Agricultural Education. Also, as a training component of USDA projects in Armenia, the U.S. Department of Agriculture's Cochran Fellowship Program provides training in the U.S. to Armenian agriculturists.

#### Enhancing Democratic Governance

U.S. assistance programs enhance the Government of Armenia's capacity to govern justly and democratically. The programs strengthen democracy and the rule of law by improving legal education, promoting the capacity of both prosecutors and the defense bar, raising judicial ethics standards and human rights protections, fighting corruption and improving the transparency, accountability, and accessibility of government entities (particularly at the local level), increasing civic participation and government accountability by bolstering civil society, strengthening independent media and increasing access to information, and promoting free and fair elections and greater citizen participation in the political process. U.S. assistance also encourages adoption of best practices within the criminal justice system by reforming procedures to promote greater police accountability, judicial independence, and fairness for those accused of crimes. Additionally, U.S. programs support international and domestic monitoring of Armenia's elections, thereby promoting transparency and democratic values.

Educational exchange programs also play an important role in supporting meaningful democratic and free-market reforms by instilling important core values in Armenia's youth.

Professional exchange programs serve as a vehicle to share U.S. experience with Armenian government officials, NGO activists, women leaders, bloggers, journalists, lawyers, political party members, business people, and other influential figures. These exchanges have focused on a range of topics, including U.S. elections, law enforcement, the American judiciary, women in business, conflict resolution, the media, human rights, and youth leadership.

### *Basis of Relations*

US and Iranian relations with Armenia are shaped by very different considerations.

#### *US Interests*

US-Armenian relations are driven to some extent by mutual interests, such as ethnic and ideological ties, geopolitics and, for Yerevan, economics. However, relations have waxed and waned on both sides as other issues, relationships, and leaders have come to the fore, as US involvement in the region peaked after the collapse of the Soviet Union, during the abortive Turkish-Armenia rapprochement, and during the Iranian nuclear crisis. Despite a slight overall decline since 1994, however, the strategic rationale that underpins the relationship has been borne out by the ongoing US interest in the Caspian Basin and Iran.<sup>147</sup>

The Armenian population of the US is estimated at anywhere between 400,000 and 1.5 million citizens; compared to an Armenian population in Armenia of between 2.8 and 3.2 million, the US represents a significant portion of Armenian cultural capital.<sup>148</sup> While US goodwill towards

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<sup>147</sup> "Armenian President Sargsyan Expected in Washington," Hovhannes Nikoghosyan, April 12, 2010.

<http://csis.org/publication/shifting-priorities>

<sup>148</sup> "Armenia Survives!: *The Caucasus: An Introduction*," Tim Judah, The New York Review of Books.

[http://www.nybooks.com/articles/archives/2012/may/10/armenia-survives-caucasus/?pagination=false](http://www.nybooks.com/articles/archives/2012/may/10/armenia-survives-caucasus/?pagination=false;); "Total

Armenians long predated Armenia's independence, Armenia strengthened these ties by portraying itself as a Westernizing country immediately following independence - using a compelling ethnographic narrative - a persecuted people trapped under an evil empire, still recovering from massacres and seeking to modernize - and America's interest in building democratic states out of the old USSR.

These ties manifested themselves in the early years of independence as US economic aid to Armenia. But, as **Figure 21** shows, American aid has declined over time as trade - depicted in **Figures 22** and **23** - increased. The US was relatively uninvolved in foreign direct investment in Armenia, with its \$6 million accounting for only 1.3% of Armenia's total FDI. While the US is Armenia's seventh-largest trading partner and second-largest remittances provider, Armenia provides an insignificant portion of total US trade, giving Washington little economic incentive to support Yerevan in its regional troubles.<sup>149</sup>

The US and Armenia share a desire to promote stability the Caucasus. Given Armenia's focus on Nagorno Karabakh and its on-the-ground success there, Yerevan is inherently a status quo power. The territorial advantages conferred by victory in 1994 are seen as the high water mark of Armenian military prowess and despite occasional war talk, Armenian policy makers are deeply skeptical Yerevan could improve its position through hostilities. Armenia has sought to improve its military's training and solidify ties with the US through deployments to Iraq and Afghanistan. It deployed 46 peacekeepers with the Polish brigade in Iraq from 2005 to 2008, and has had 126 soldiers at Kunduz, Afghanistan since 2009.

The US seeks stability for unrelated reasons. First, Russia is seen in the region as the security stabilizer par excellence. Should the region deteriorate militarily, the US is concerned that Azerbaijan and Armenia would both seek support from Russia as they did during the Karabakh War, diminishing Washington's role. The US is unwilling to deploy forces in the South Caucasus for an extended peacekeeping mission, and would likely be compelled to rely on regional partners - primarily Turkey - to take an interventionist role.

Instability also threatens commercial and trade projects, as investors worry that hostilities would damage or shut down vulnerable energy and transportation infrastructure.<sup>150</sup> According to Armenian experts, in a protracted struggle with Azerbaijan the Armenian military would target gas and oil pipelines transiting the region to reduce Baku's income and force EU intervention; this fear has slowed pipeline construction and underlays uncertainty about future European supplies.

This US interest differs from that of Iran. Iran's place in the region derives largely from Armenia's own isolation. Iran has too few inherent advantages and commercial ties and too many long-standing antagonisms to play a successful role in promoting a stable South Caucasus. A secure and integrated region is more likely to become an east-west trade corridor than a north-

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Ancestry Reported," 2010 Census, US Census Bureau.

[http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_10\\_1YR\\_B04003&prodTy pe=table](http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_10_1YR_B04003&prodTy pe=table); Press Release, Armenia National Committee of America, January 20, 2008.

[http://www.anca.org/press\\_releases/press\\_releases.php?prid=1365](http://www.anca.org/press_releases/press_releases.php?prid=1365)

<sup>149</sup> "Armenia," EU Bilateral Trade Data, March 21, 2012.

[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113345.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf)

<sup>150</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 10, March 2012,

[http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

south route, minimizing the possibility of Iran using this region as a method to avoid the current sanctions regime. While Iran's actions to this point have stayed between neutral and slightly inimical to US interests, its access to Armenia - a position dependent primarily on Armenia's own state failures - in the long run presents a risk to Caucasian stability.

As reducing Iran's role becomes more important to the US, there should be a corresponding US effort to resolve the Turkish-Armenian and Armenian-Azerbaijani disputes. America's minor footprint in the Caucasus suggests that Washington believes Armenia's role in US-Iranian competition is so minimal that either success would have no impact on the broader contest or the investment is unlikely to bring about substantive change in the region.

### *Points of Dispute*

Both sides have significant concerns about the trustworthiness of the other. Armenia has a deep fear of being left alone to face the Turks (seen as monolithic bloc including Turkey and Azerbaijan), toward which animosity runs high among the general population and policy makers.

Despite its reliance on Russia for protection, Yerevan is unsure to what extent Moscow will back it.<sup>151</sup> The legacy of Soviet occupation has prompted concerns over Moscow's intentions among the populace and elite, and absent the Turkish threat Yerevan would probably not link itself as closely with Russia.<sup>152</sup> Although the US operates as a secondary security guarantor, Armenia fears that the US - or Russia - would be willing to sacrifice it for better relations with any of the surrounding, more economically or geographically important states.<sup>153</sup>

The trust deficit runs both ways; Washington is concerned that Armenia is too close to Russia and Iran. The US fears that Armenia is willing to ignore both Washington's and the broader international community's demands regarding trade and banking with Iran.<sup>154</sup> The US is also wary of the fractured nature of Armenian politics, with independent political figures receiving considerable leeway over their own import/export empires. The US is concerned that Armenia, either deliberately or through lack of state capacity to prevent such action, is allowing Iran to access international banking markets or obtain hard currency.<sup>155</sup>

### *US Concern over Armenian-Iran Relations*

Despite these underlying currents, the US-Armenian relationship has endured the stress of US pressure on Iran. Not all disagreements between the US and Armenia relate to Iran; the ongoing dispute over Nagorno Karabakh has undercut Washington's objectives regarding natural resources, trade, and democracy in the region, while Yerevan's close ties to Moscow are still

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<sup>151</sup> "Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interest," Jim Nichol, Congressional Research Services, September 27, 2012.

<sup>152</sup> "Armenian-Russian Relations Face Uncertain Times," Samvel Martirosyan, February 23, 2005, Eurasianet, <http://www.eurasianet.org/departments/insight/articles/eav022405.shtml>.

<sup>153</sup> "Commentary: Armenia-Russian Relations More Complex than they Appear," Edmond Azadian, *The Armenian Mirror-Spectator*, August 30, 3010. <http://www.mirrorspectator.com/2010/08/30/commentary-armenia-russia-relations-%E2%80%94-more-complex-than-they-appear/>. "Armenia: US Support for Kocharian Holds Firm," Haroutiun Khachatryan, February 21, 2005, Eurasianet, <http://www.eurasianet.org/departments/insight/articles/eav022205.shtml>.

<sup>154</sup> "Exclusive: Iran Looks to Armenia to Skirt Sanctions," Louis Charbonneau, Reuters, August 21, 2012. <http://www.reuters.com/article/2012/08/21/us-iran-sanctions-armenia-idUSBRE87K05420120821>

<sup>155</sup> "Armenia 2011: Without Illusions," Civilitas Foundation, pg. 25-30, 2011. [http://www.civilitasfoundation.org/cf/images/stories/report\\_ENG\\_2011\\_2.pdf](http://www.civilitasfoundation.org/cf/images/stories/report_ENG_2011_2.pdf)

viewed suspiciously in Washington. The result has been an atmosphere of mutual suspicion and poor communication that, along with Armenia's vulnerable position, has hindered close Armenian-US cooperation on Iran.

The US first objected to Armenian-Iran ties in 2008, when American investigators discovered that Armenia had transshipped heavy weapons from Bulgaria to Iran, which Iran then used to supply Shiite insurgents in Iraq.<sup>156</sup> After these weapons were used in attacks on US soldiers in Iraq, the US allegedly threatened to cut off all aid to Armenia if it facilitated any further such deals. Although Yerevan promised to not enable any more weapons exports, that Armenia was willing to pursue such a risky course of action undermined good relations with the US.

In terms of energy, Iran and Armenia are mutually beneficial partners, yet neither is heavily dependent on the other for their petroleum and electricity needs. Armenian energy production derives from three sources: the Metsamor nuclear plant,<sup>157</sup> several linked hydroelectric cascades, and thermal (gas) facilities.<sup>158</sup>

As is discussed below, Iran and Armenia have reportedly started construction on a joint hydroelectric power plant. While symbolic, the new facility likely represents around 4% of Armenia's and .3% of Iran's total generative capacity. Even assuming the most optimistic outcome (estimates of the plant's output vary), the total energy production from the facility will remain below 1% of Iran's consumption, and as Iran is already an electricity-exporting state, cooperation on energy is of minor significance.

Armenia's willingness to import Iranian oil also concerns the US, but the small scale of Armenia's economy and energy needs limits Iran's ability to use this route to escape sanctions. While there are no open sources that provide an accounting of Armenian oil imports from Iran, one source states:<sup>159</sup>

Armenia has begun importing oil products from Iran. According to Iranian oil executive Jalil Salari, it is cheaper for Armenia to get oil from Iran than from Georgia.

As the Iranian news agency Mehr reports, oil products are being imported via lorries until the Iran-Armenia oil pipeline is constructed.

Armenia and Iran entered an agreement signed by their respective energy ministers in February, by which Iran will export to Armenia gasoline, diesel and jet fuel.

The reference to lorries suggests that total traffic between Iran and Armenia is currently very low. While the number will probably rise once the pipeline is complete, Armenia's current overall consumption of 55,000 bpd, mostly supplied by Russia, is unlikely to increase beyond current supply capacity in the near future. Armenia lacks the hard currency and market size to seriously ameliorate sanctions impacting Iran.

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<sup>156</sup> "On the Trail of Weapons Smugglers," Spiegel Online, December 7, 2010.

<http://www.spiegel.de/international/world/the-us-takes-on-the-underworld-on-the-trail-of-weapons-smugglers-a-733308.html>

<sup>157</sup> Metsamor is a Soviet-designed facility operated by Russia that is nearing the end of its safe operational life; if Armenia opts to replace it with another nuclear plant, the next-generation facility will also likely be Russian-designed and -operated.

<sup>158</sup> "Armenia 2011: Without Illusions," Civilitas Foundation, pg. 22, 2011.

[http://www.civilitasfoundation.org/cf/images/stories/report\\_ENG\\_2011\\_2.pdf](http://www.civilitasfoundation.org/cf/images/stories/report_ENG_2011_2.pdf)

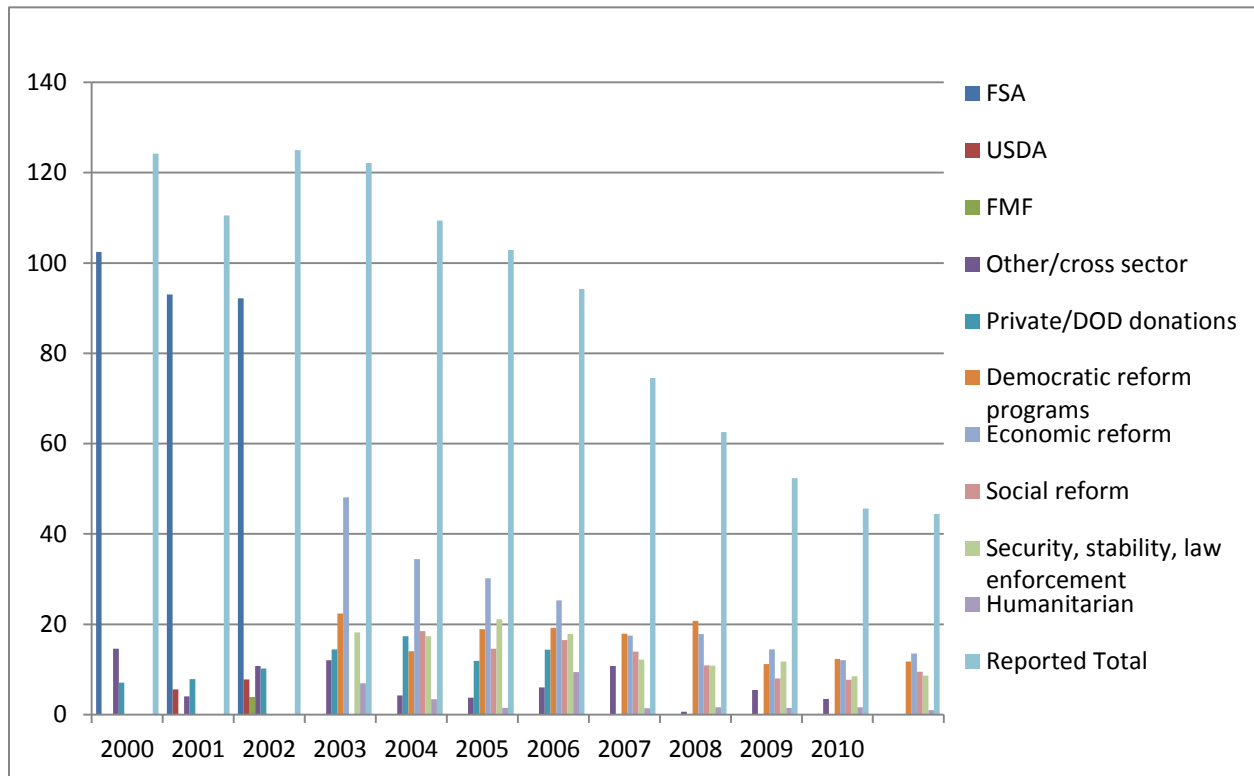
<sup>159</sup> "Iran Energy: Oil Imports Begin to Armenia," ArmeniaNow, April 10, 2012.

[http://www.armenianow.com/economy/37175/iran\\_oil\\_pipeline](http://www.armenianow.com/economy/37175/iran_oil_pipeline)



The most significant current irritant in US-Armenian relations is banking. US efforts to restrict Iran's access to global finance through Armenia allegedly date back to 2007, when an Iranian bank ties to the nuclear program maintained correspondent accounts in Armenia. Since then, Armenia has denied that it enables sanctioned Iranian banks to operate in its territory, despite US concerns over the Armenian branch of Bank Mellat. As this entity has not yet been sanctioned by the US, EU, or UN, Washington has had little legal recourse in ending the relationship. Although the banking sector is the largest irritant in the US-Armenia-Iran triangle, the lack of public action on Washington's part over the past three years, as sanctions have tightened for other trading partners of Iran, suggests that even this issue is not highly significant in the broader context of US-Iranian competition.

**Figure 21: US Aid to Armenia**

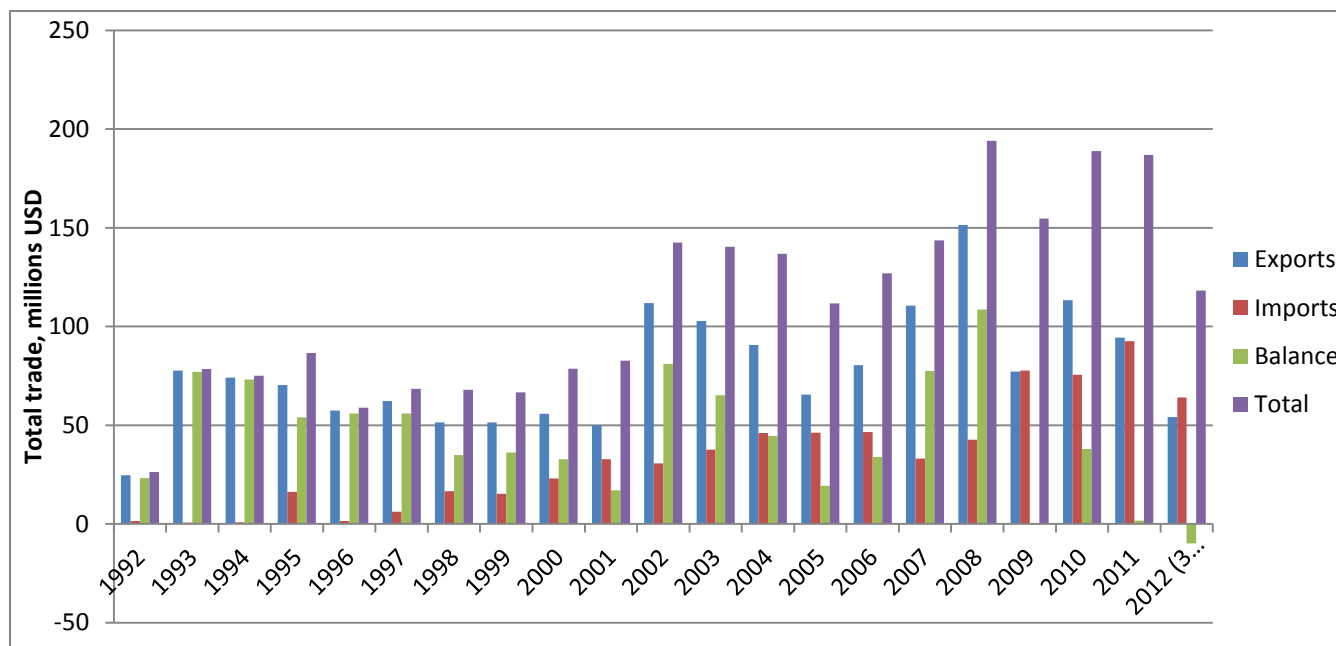


Source: Primarily Department of State Foreign Operations Assistance, <http://www.state.gov/p/eur/rls/fs/167286.htm>

	FSA	USDA	FMF	Other/cross sector	Private/DOD donations	Democratic reform programs	Economic reform	Social reform	Security, stability, law enforcement	Humanitarian	Reported Total
2000	102.46				7.09						124.18
2001	93.05	5.59			7.87						110.56
2002	92.2	7.8	4		10.19						124.97
2003				12.05	14.42	22.4	48.13	0	18.18	6.96	122.14
2004				4.26	17.39	14.06	34.45	18.46	17.38	3.38	109.38
2005				3.74	11.91	18.89	30.2	14.57	21.14	1.47	102.91
2006				6.01	14.37	19.2	25.27	16.49	17.86	9.4	94.22
2007				10.76		17.92	17.49	13.98	12.21	1.4	74.55
2008				0.65		20.77	17.85	10.9	10.83	1.6	62.6
2009				5.49		11.2	14.45	7.99	11.76	1.47	52.36
2010				3.47		12.33	12.02	7.71	8.48	1.6	45.6

Note: The dataset changes between 2002 and 2003 and again between 2006 and 2007, so these data may not be comparable.

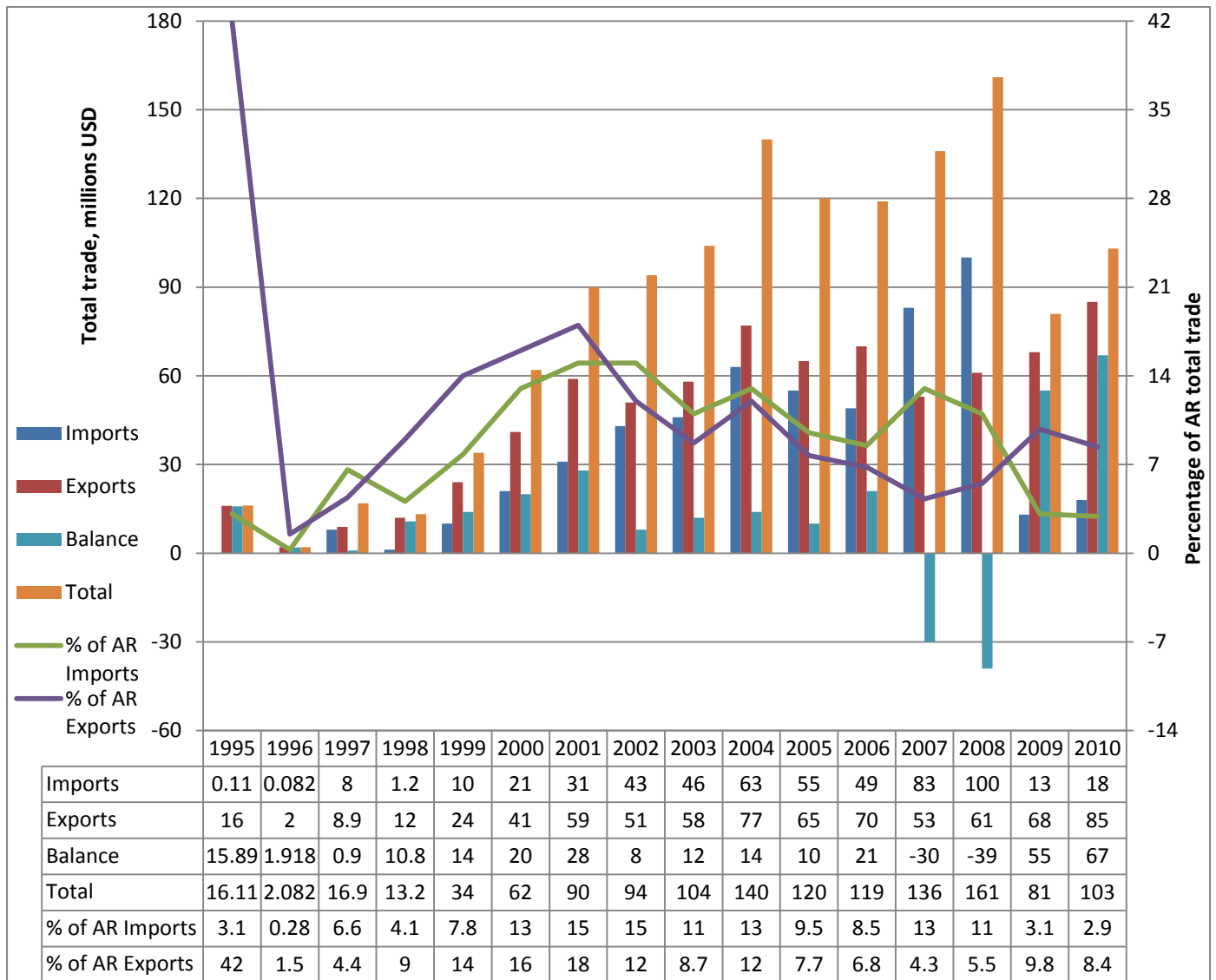
**Figure 22: Armenia-US Trade**  
(US Census Bureau)



	Exports	Imports	Balance	Total
1992	24.7	1.5	23.2	26.2
1993	77.7	0.7	77	78.4
1994	74.1	0.9	73.2	75
1995	70.3	16.3	54	86.6
1996	57.4	1.4	56	58.8
1997	62.2	6.2	56	68.4
1998	51.4	16.6	34.8	68
1999	51.4	15.2	36.2	66.6
2000	55.7	23	32.7	78.7
2001	49.9	32.8	17.1	82.7
2002	111.8	30.7	81.1	142.5
2003	102.8	37.6	65.2	140.4
2004	90.7	46.1	44.6	136.8
2005	65.5	46.2	19.3	111.7
2006	80.4	46.5	33.9	126.9
2007	110.6	33.1	77.5	143.7
2008	151.4	42.7	108.7	194.1
2009	77.1	77.6	-0.5	154.7
2010	113.4	75.5	37.9	188.9
2011	94.3	92.6	1.7	186.9
2012 (3 qtrs)	54.1	64.1	-9.9	118.2

Source: "Foreign Trade," US Census Bureau, <http://www.census.gov/foreign-trade/balance/c4631.html>

**Figure 23: Armenia-US Trade**  
(MIT Observatory of Economic Complexity)



Source: The Observatory of Economic Complexity, MIT,  
[http://atlas.media.mit.edu/explore/tree\\_map/export/arm/show/all/1995/](http://atlas.media.mit.edu/explore/tree_map/export/arm/show/all/1995/)

## Iranian-Armenian Relations

The sources of the current structure of Armenian-Iranian relations date back several hundred years to the Safavid conquest of present-day Armenia. The invasion sought to eliminate Ottoman forces from the region, and entailed a bitter imperial contest in which Armenia featured as a chessboard of other's ambitions. This disparity in power - along with memories of Armenia's vulnerability to similar invasions - has led to wariness by Yerevan when dealing with Iran.

During the Nagorno Karabakh War, Iran proved to be a valuable partner for Armenia. As unrest in Georgia limited trade from Russia, and Turkey and Azerbaijan closed their borders, Iran became Armenia's sole source for petroleum and consumer goods. While Iran sought to rebuild links with both Armenia and Azerbaijan, Iran's attempt to mediate contributed to Azerbaijani distrust when Armenians used an Iranian-backed ceasefire to seize Shusha, an Azeri-majority town in Nagorno Karabakh. This Iranian failure poisoned Tehran-Baku relations, paving the way for closer Armenia-Iran ties. Ongoing Iran-Azerbaijan tensions over ethnic, religious, and territorial disputes have strengthened Yerevan-Tehran relations, as both states have sought to constrain Azerbaijani ambitions.

Armenian-Iranian economic ties have figured prominently in their growing relationship. As shown in **Figure 24**, cross-border trade has held steady since roughly 2004 with bilateral trade roughly 4% of Armenia's total external commercial balance. The numbers likely understate the true economic relationship, as between 20 and 50% of Armenia's GDP is in the shadow economy.<sup>160</sup>

Iran continued to play a major role as a transshipment center for Armenia following the war. Although the two states would remain limited trading partners, Iran helped provide badly-needed energy and electricity to Armenia during the years following independence. While the economic value of traded goods was relatively small, their larger role - warming and lighting houses, running vehicles, and providing factories with raw inputs - was essential.<sup>161</sup>

In the beginning, the relationship was mostly one sided. Iran saw good ties with Armenia as essential for improving its position in the newly-independent states, and so was willing to tolerate an economically-unbalanced relationship in order to leverage influence in the South Caucasus. As the Newly Independent States (NIS) settled into its current equilibrium of closely-guarded autonomy during the 90s, Tehran gradually withdrew from the region. While Iran remained an important transshipment point - and would continue building pipelines and electricity transmission wires - its role was partially eclipsed by Georgia and Armenia's own growing economy. Nevertheless, it remained an essential conduit for Armenia's economy; particularly as the 2008 Georgia War established the risks inherent in Armenia's reliance on another state with territorial problems.<sup>162</sup>

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<sup>160</sup> "Data on Informal Employment and Self-Employment," OECD, from *Is Informal Normal?*, March, 2009, <http://www.oecd.org/dev/povertyreductionandsocialdevelopment/42863997.pdf>. "Shadow Economics and Corruption All Over the World," Friedrich Schneider, July 2007, [http://www.lawrence.edu/fast/finklerm/shadeconomyandcorruption\\_july2007.pdf](http://www.lawrence.edu/fast/finklerm/shadeconomyandcorruption_july2007.pdf).

<sup>161</sup> "Armenia Deepens Ties with Embattled Iran," Emil Danielyan, Eurasianet, July 27, 2006. <http://www.eurasianet.org/departments/insight/articles/eav072806.shtml>

<sup>162</sup> "Armenia 2011: Without Illusions," Civilitas Foundation, pg. 11, 2011. [http://www.civilitasfoundation.org/cf/images/stories/report\\_ENG\\_2011\\_2.pdf](http://www.civilitasfoundation.org/cf/images/stories/report_ENG_2011_2.pdf)

### *Energy*

Armenia's energy policy entails a balancing act between Iran and Russia. It relies on Russia for the majority of its oil and gas as well as technical expertise to run its power plants. At same time, Armenia needs Iran to keep price pressure on Russia and as a direct source of energy when hydroelectric supplies fall short. With Russian control over Armenia's gas distribution network and power production infrastructure, it is only potential energy deals with Iran - including an oft-proposed oil pipeline - that keep Russia's price monopoly in check.<sup>163</sup> As such, Armenia relies heavily on Iran for its energy production, and any US effort to reduce cross-border trade in electricity and hydrocarbons will face substantial opposition in Yerevan.

This helps explain why Armenian-Iranian relations revived in the mid-2000s, as external pressure on Iran mounted. As Armenia's economy developed out of its Soviet mold - growth that depended in part on the global commodities boom - it sought to improve its trading relationship with Iran. While by 2007 Iran may have reached the saturation point for Armenian bilateral commerce, it remained the easiest route for Armenian goods to reach international markets.<sup>164</sup> Electricity supplies also evolved into an equitable bilateral relationship, as Armenia's rebuilt energy grid allowed it to supply Iran with more electricity in the summer (roughly 400 million kWh in 2009) than it imported in the winter (roughly 290 million kWh).<sup>165</sup>

Armenia does rely on Iran for some gas imports, yet due to Russia's control over Armenia's gas network, these imports most often end up being burned for electricity and exported back to Iran. The pipeline currently moves around 24 million cubic feet per day, all of which is used in the thermal plants that provide roughly a quarter of Armenia's total power. Armenia also receives oil shipments from Iran via lorry convoy, and is in talks with Iran to construct a Tabriz-Yerashk pipeline to decrease oil transportation costs.<sup>166</sup> The total cost and carrying capacity of this pipeline is not yet known.<sup>167</sup>

The most public display of closer Armenian-Iranian relations came in 2012, with an announcement that the two states will jointly produce and manage a hydroelectric station on their Arax river border. The site will provide electricity for Iran for 15 years before being turned over to Armenia.<sup>168</sup> The proposal was announced along with a third high-voltage line to carry

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<sup>163</sup> "Armenia: New Projects A Stab at Independence from Moscow?," Marianna Grigoryan, October 16, 2008, Eurasianet. <http://www.eurasianet.org/departments/insight/articles/eav101708.shtml>; "No Firm Date Set for Work on Another Armenian-Iranian Pipeline," Hovannes Shoghikian, February 16, 2011, <http://www.azatutyun.am/content/article/2310373.html>. "Armenia's Energy Sector, Other Industrial Assets Passing Under Russia's Control," Vladimir Socor, Institute for Advanced Strategic & Political Studies, November 13, 2002, <http://www.iasps.org/strategic/socor12.htm>.

<sup>164</sup> "Regional and International Trade of Armenia: Perspectives and Potentials." Grigor Hayrapetyan and Viktoriya Hayrapetyan, Working paper No11/14E, 2011.

<sup>165</sup> "Armenia: Energy Sector Review," Inogate Energy Portal. [http://www.inogate.org/index.php?option=com\\_inogate&view=countrysector&id=8&lang=en](http://www.inogate.org/index.php?option=com_inogate&view=countrysector&id=8&lang=en)

<sup>166</sup> "Iran: Country Analysis," US Energy Information Administration. <http://www.eia.gov/countries/cab.cfm?fips=ir>

<sup>167</sup> "Armenia, Iran in Talks to Build Oil Products Pipeline," Ria Novosti Business, November 8, 2012. <http://en.rian.ru/business/20121108/177303100.html>

<sup>168</sup> "Iran, Armenia Team up for Energy," UPI, November 9, 2012, [http://www.upi.com/Business\\_News/Energy-Resources/2012/11/09/Iran-Armenia-team-up-for-energy/UPI-71571352464632/](http://www.upi.com/Business_News/Energy-Resources/2012/11/09/Iran-Armenia-team-up-for-energy/UPI-71571352464632/). "Armenia, Iran Build Joint Power Plant," Voice of America, November 8, 2012, <http://blogs.voanews.com/breaking-news/2012/11/08/armenia-iran-build-joint-power-plant-2/>. "Iran Plays Key Role In Meeting Armenia's Energy Needs: Minister," Tehran Times, November 9, 2012, <http://www.tehrantimes.com/component/content/article/103131>.

electricity between Armenia and Iran. The planned line can carry up to 400 KV, allowing Iran and Armenia to increase their energy trade at peak demand from 350 MW to 1400 MW.

The power output of the new hydroelectric facility is still unknown. While the Tehran Times and HydroWorld report that it will have a maximum output of 130 MW, UPI suggests it will be able to produce 1700 MW.<sup>169</sup> As the other hydroelectric power plants in Armenia produce between 40 and 200 MW, and even full cascades only generate roughly 1000 MW, it seems unlikely that the larger number is accurate.

For both states, the actual absolute amount of electricity transferred is relatively minor - the system will generate power during the seasons Armenia already has a surplus, while its small scale limits its utility for Iran. Iran already is a net exporter of electricity - 7.8 billion gigawatt/hours according to PressTV.<sup>170</sup> While its energy infrastructure is likely to further decay until sanctions are removed, the small scale of this project and its seasonal nature will do little to address Iran's long-term energy security.<sup>171</sup>

### *Banking*

The banking sector in Armenia faces constraints similar to those of other post-Soviet states. Liquidity is generally low, political leaders have little trust in or understanding of banking, and banks are generally tied to individual businesses or elites. The US is reportedly concerned that Iranian contacts of Bank Sepah, the Armenian branch of Bank Mellat, and possibility other banks are providing Iran access to international finance in spite of the government.

Following the collapse of the Soviet Union, Armenia struggled to create a viable banking sector. This weakness proved to be a Soviet legacy throughout much of the CIS, as the communist system inhibited the formation of capital-intensive institutions and reduced public trust in banking. The post-independence regimes have sought to gradually rehabilitate the sector, leading to slow but effective improvements.<sup>172</sup>

Armenian banks still suffer from low capital, poor investment opportunities, and limited connections with global banks. To the east and west Turkish and Azerbaijani banks are legally restricted, to the north the Georgian banking sector had limited capacity and high corruption until the late 2000s, and farther afield Armenia's historic business partner, Russia, faced comparable

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<sup>169</sup> "Iran, Armenia Team up for Energy," UPI, November 9, 2012. [http://www.upi.com/Business\\_News/Energy-Resources/2012/11/09/Iran-Armenia-team-up-for-energy/UPI-71571352464632/](http://www.upi.com/Business_News/Energy-Resources/2012/11/09/Iran-Armenia-team-up-for-energy/UPI-71571352464632/); "Iran Plays Key Role in Helping Armenia Meet Energy Needs: Minister," Tehran Times, November 9, 2012.

<http://www.tehrantimes.com/component/content/article/103131>; "Islamic Republic of Iran: Armenia and Iran Launched a Construction on a Joint Hydro-Electric Power Plant," Hydro World, November 2012. <http://www.hydroworld.com/news/2012/11/13/iran-islamic-republic-of-armenia-and-iran-launched-a-construction-on-a-joint-hydro-electric-power-pl.html>

<sup>170</sup> "Iran Can Export 10,000 MW of Electricity: Deputy Energy Minister," Press TV, November 1, 2012. <http://www.presstv.ir/detail/2012/11/01/269939/iran-can-export-10k-mw-of-electricity/>

<sup>171</sup> "Armenia 2011: Without Illusions," Civilitas Foundation, pg. 12, 2011. [http://www.civilitasfoundation.org/cf/images/stories/report\\_ENG\\_2011\\_2.pdf](http://www.civilitasfoundation.org/cf/images/stories/report_ENG_2011_2.pdf)

<sup>172</sup> "The Armenian Banking System," Global Rating Group, January 2008. <http://www.globalrating.org/files/Armenian%20banking%20system.pdf>

banking difficulties.<sup>173</sup> Consequently, Iran has been one of Armenia's strongest financial partners.

The danger in this relationship is that Iranian financial institutions can obtain unrestricted access to global markets and currency sources through Armenian banks. While EU and US sanctions have effectively blacklisted Iranian banks, correspondent accounts with Armenian banks allow them to skirt restrictions. Alleged attempts to do so have sparked US-Armenian frustration, as American officials pressure Yerevan to tighten banking controls.

According to an August 2012 Reuters report, Bank Sepah and the Armenian branch of Bank Mellat are the two banks of concern to the sanctions regime.<sup>174</sup> According to the report, Bank Mellat has facilitated financial transactions that supported Iran's nuclear and missile programs. Precisely what role these banks played is unclear; it is probable that they enabled businesses to sell dual-use material to a "reputable" buyer, which then transshipped the equipment to Iran.

While Armenia refused to take action against it, SWIFT's cut-off of Bank Mellat limited its ability to enable sanctions-avoiding deals. The bank still has Armenian branches, but they are mostly used for facilitating money transfers between Armenia and Iran. Bank Sepah allegedly had maintained accounts with Bank Mellat in 2007; as Bank Mellat has since been isolated from international banking, this relationship is no longer a major concern either.<sup>175</sup>

As a result, banking remains the most problematic element of the Armenian-Iranian relationship, primarily because it is the only issue in which Armenia's limited economy and weak state capacity play no part. While Armenia lacks the hard currency to backstop the Rial or the oil demand to replace lost markets, Armenian banks are still full and generally trusted members of the global financial community. Although banking has been a concern, Armenia's tightened financial controls mean that Iran has been unable to fully exploit the weakened financial system and pay overseas suppliers.

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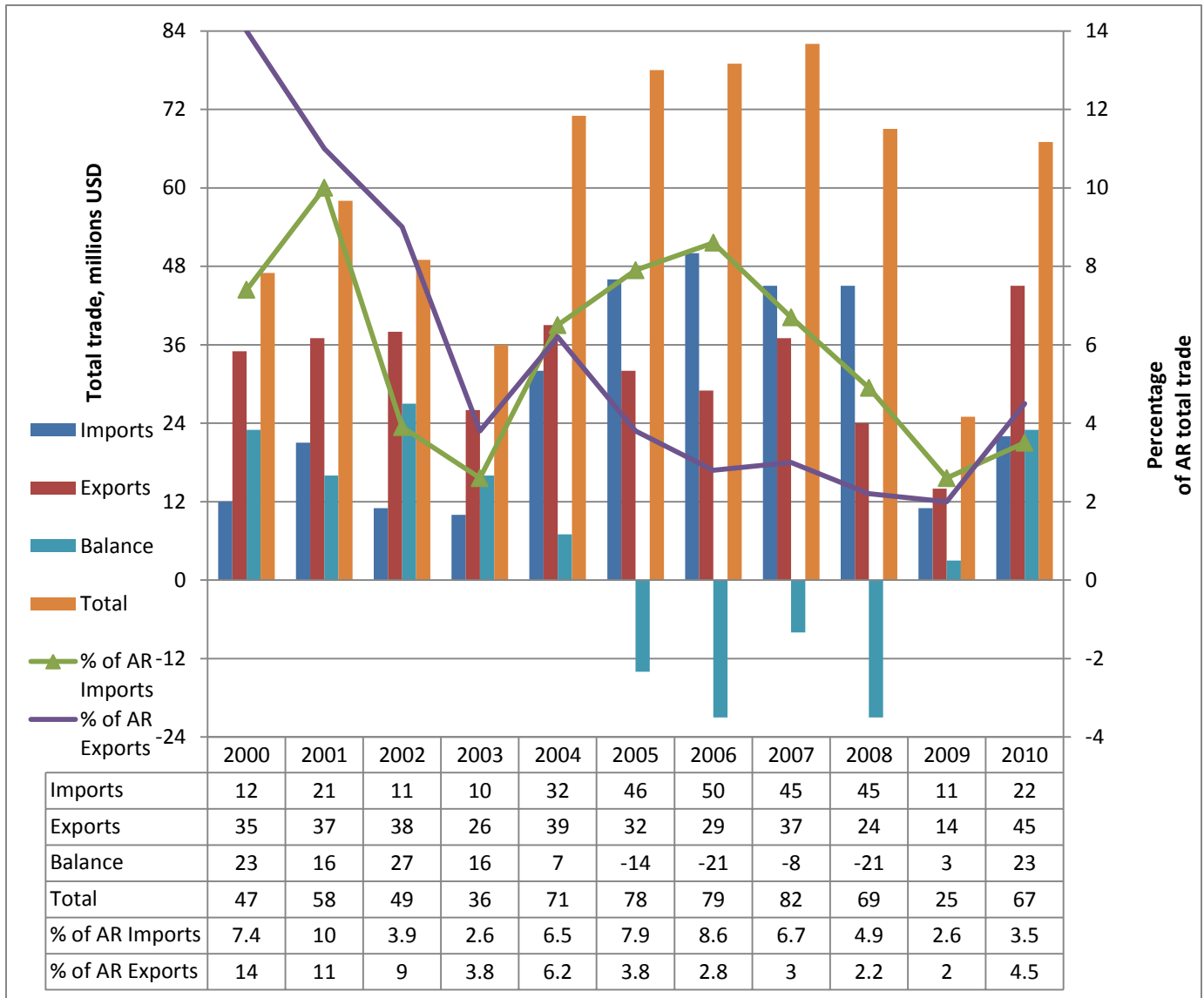
<sup>173</sup> "Armenia," from *Banking in the Eastern Neighbors and Central Asia*, European Investment Bank, May 2012, [http://www.eib.org/attachments/efs/economic\\_report\\_banking\\_enca\\_en.pdf](http://www.eib.org/attachments/efs/economic_report_banking_enca_en.pdf).

<sup>174</sup> "Exclusive: Iran Looks to Armenia to Skirt Sanctions," Louis Charbonneau, Reuters, August 21, 2012. <http://www.reuters.com/article/2012/08/21/us-iran-sanctions-armenia-idUSBRE87K05420120821>

<sup>175</sup> "CBA: No Reason for Iranian Bank's Armenian Subsidiary Closure," PanArmenian, August 22, 2012. <http://www.panarmenian.net/eng/news/120172/>



**Figure 24: Armenia-Iran Trade**  
(MIT Observatory of Economic Complexity)



Source: The Observatory of Economic Complexity, MIT,  
[http://atlas.media.mit.edu/explore/tree\\_map/import/irn/show/all/2010/](http://atlas.media.mit.edu/explore/tree_map/import/irn/show/all/2010/)

## Policy Implications

With the exception of direct financial costs, Armenia faces only limited current risks from escalation of US-Iranian competition. Yerevan has established a tenuous neutrality through which both the US and Iran have accepted its willingness to cooperate with the other side.<sup>176</sup> Unlike Azerbaijan and Georgia (discussed below), it is an unlikely target for Iranian proxy warfare.

Without a significant US military presence or prominent ties to Israel, there are no viable targets for asymmetric warfare, and Iran has no longstanding antagonism that would prompt Tehran to act against the country. The region of Iran across the border is relatively uninhabited and poor, rendering it an unlikely locale for escalation or mass migration.

Increasing pressure on Iran up to a certain point can be valuable to Armenia. As Iran becomes ever more isolated, Armenia remains singularly well-positioned to benefit from trade and discounted energy. While research indicates that under ideal conditions Armenia and Iran have reached their maximum levels of bilateral trade, such isolation would be a boon for Armenian exporters and trans-shippers, as they gain an outsized role in facilitating Iranian commerce with the outside world.<sup>177</sup>

This assumption holds true as long as Iran has a functioning economy. If US-Iranian competition reduces the size of the Iranian economy or prohibits transshipment of goods to and from Armenia, Yerevan will face economic dislocation. It is unclear what degree of competition or conflict would be necessary to inflict such harm, but it would likely require outright warfare.

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<sup>176</sup> “In Facing Its Adversaries, America’s got a Hidden Lever: Armenia,” Daniel Gaynor, *Truman National Security Project*, September 20, 2012. <http://trumanproject.org/doctrine-blog/in-facing-its-adversaries-americas-got-a-hidden-lever-armenia/>

<sup>177</sup> “Regional and International Trade of Armenia: Perspectives and Potentials.” Grigor Hayrapetyan and Viktoriya Hayrapetyan, Working paper No11/14E, 2011, pg 27.

## Azerbaijan

The current position of the Republic of Azerbaijan has been defined by war and conflict, including a tangled history at the periphery of three imperial powers, a nascent post-World War I state conquered by the Soviet Union, the war that precipitated its modern independence, and ongoing tension with Armenia, Russia, and Iran. These experiences have shaped its foreign policy and relations with its neighbors, making stability a primary foreign policy concern.

Baku's geostrategic position, increasingly-accessible resources, and distrust of its neighbors have provided an opportunity for Europe and the US. In addition to its large population and GDP by South Caucasus standards - \$9 million and \$90 billion, respectively - Azerbaijan provides both the only Western-friendly direct route from Central Asia to Europe and natural resources in its own right.<sup>178</sup>

Azerbaijan's relations with the US and Iran have also been shaped by its status as a Shia state under an actively secular government. Echoing concerns dating back to the Soviet era, the Aliyev regime fears that political Shiism will undermine its legitimacy and promote a viable opposition. Baku sees the Islamic Republic's enshrining of religion in public life as a direct threat to Azerbaijani stability. Furthermore, the ethnic ties that link Azerbaijan and the Azeris of north Iran have not only enhanced trade between the two states, but have led Tehran to perceive an independent Azerbaijan as a risk to Iran's integrity.<sup>179</sup>

This concern mirrors Azerbaijani threat perceptions regarding Russia. Baku views Russia as the primary mover in the Nagorno Karabakh dispute, and saw the 2008 Georgia War as Moscow's overt attempt to regain influence in the Caucasus. Azerbaijani-Russian/Armenian competition has led Baku to invite Israeli and American involvement in the Caucasus, prompting additional tension with Tehran. Despite protestations to the contrary by both sides, the Azerbaijan-Iran dynamic remains tense and Baku remains an active albeit indirect supporter of the US in its competition with Iran.

### US-Azerbaijani Relations

US-Azerbaijan ties are grounded by a strong component of mutual geopolitical need. While America has occasionally emphasized ideological objectives - most notably in the immediate post-Soviet period, when Washington emphasized growing free markets and democratizing the region - stability and energy have been the true underpinnings of the relationship. Azerbaijan has rhetorically reciprocated the focus on free markets and human rights, but has turned to America primarily as an extra-regional guarantor and weapons supplier, along with an investment supplier to develop infrastructure and maintain high levels of growth.

The US Department of State has summarized US-Azerbaijani relations as follows:<sup>180</sup>

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<sup>178</sup> "The U.S. South Caucasus Strategy and Azerbaijan," Inessa Baban and Zaur Shiriyev, *Turkish Policy Quarterly*, pg. 95, Summer 2010, <http://www.turkishpolicy.com/dosyalar/files/93-103.pdf>

<sup>179</sup> "Occasional Allies, Enduring Rivals: Turkey's Relations with Iran," Gareth Jenkins, pg. 47, May 2012, <http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf>.

<sup>180</sup> "U.S. Relations with Azerbaijan," Fact Sheet, Bureau of European and Eurasian Affairs, US Department of States, September 20, 2012. <http://www.state.gov/r/pa/ei/bgn/2909.htm>

### **U.S.-Azerbaijan Relations**

The United States established diplomatic relations with Azerbaijan in 1992, following its independence from the Soviet Union. The United States is committed to strengthening democracy and the formation of an open market economy in Azerbaijan. It stands to gain benefits from an Azerbaijan that is peaceful, democratic, prosperous, and strategically linked to the United States and U.S. allies in Europe. The United States seeks new ways to partner with Azerbaijan to promote regional security and stability, enhance energy security, and strengthen economic and political reforms. The United States supports efforts to peacefully resolve the Nagorno-Karabakh conflict and reopen the closed border with Armenia.

#### **U.S. Assistance to Azerbaijan**

U.S. Government assistance to Azerbaijan aims to encourage reforms that promote the development of democratic institutions and processes, sustainable economic growth, and regional security.

#### **Bilateral Economic Relations**

The United States and Azerbaijan have a bilateral trade agreement and a bilateral investment treaty. U.S. companies are involved in offshore oil development projects with Azerbaijan and have been exploring emerging investment opportunities in Azerbaijan in telecommunications and other fields. Azerbaijan has been designated as a beneficiary country under the Generalized System of Preferences (GSP) program, under which a range of products that Azerbaijan might seek to export are eligible for duty-free entry to the United States. The GSP program provides an incentive for investors to produce in Azerbaijan and export selected products duty-free to the U.S. market.

#### **Azerbaijan's Membership in International Organizations**

Azerbaijan and the United States belong to a number of the same international organizations, including the United Nations, Euro-Atlantic Partnership Council, Organization for Security and Cooperation in Europe, International Monetary Fund, and World Bank. Azerbaijan also is an observer to the Organization of American States and the World Trade Organization and a participant in the North Atlantic Treaty Organization's (NATO) Partnership for Peace program.

### ***Azerbaijan's Territorial Objectives and Energy***

Since gaining independence, Azerbaijan's foreign policy has been predicated around two primary objectives: regaining control of Nagorno Karabakh and the adjacent territories from Armenia, and defending the state against Russia and Iran. Azerbaijan has formed partnerships with Turkey and the US, building off ethnic and economic ties with the former and strategic concerns with the latter in its campaign for territorial integrity.<sup>181</sup> As the US has sought to expand its influence in the South Caucasus and support stability in the region, Washington's and Baku's interests have steadily converged over a set of shared concerns.

Following the Soviet collapse, US foreign policy highlighted the potential for democratization and the market economy development in the South Caucasus. Although US experts sought to help rebuild the economy and create a vibrant political life, Presidents Heydar and Ilham Aliyev focused economic expectations on Azerbaijan's petroleum wealth while ignoring calls for political reform.

With the "Deal of the Century" for the first time giving Western firms a stake in Azerbaijan's oil and natural gas wealth, President Aliyev accomplished his first goal of linking the US and Europe to his state's political security.<sup>182</sup> Ownership was divided among international firms with

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<sup>181</sup> "US-Azeri Relations – Aliyev's Dangerous Game," Murad Gassanly, c 2009.

[http://azerireport.com/index.php?option=com\\_content&task=view&id=2206](http://azerireport.com/index.php?option=com_content&task=view&id=2206)

<sup>182</sup> "Azerbaijan: Recent Developments and U.S. Interests," Jim Nichol, June 29, 2012, pg. 11.

the technical expertise to extract Azerbaijan's oil and natural gas, with British Petroleum owning the largest share and Chevron, Exxon, and Norway's Statoil also holding significant portions. Russia's Lukoil was also given partial ownership, allegedly to provide Moscow with a stake and guaranteed payoff.

### *Pipeline Politics*

While this deal provided limited immediate benefit to Azerbaijan, pipeline politics became both a public symbol of - and avenue for - Azerbaijani-US relations.<sup>183</sup> As exploration in the Caspian basin took on international significance, US foreign policy began to view Azerbaijan as more than Armenia's antagonist in a territorial dispute. Based on CIA and US Energy Information Administration data, Azerbaijan has 7 billion barrels (bbl) of oil and 30 trillion cubic feet (tcf) of natural gas - .5% and .4% of world totals, respectively - but allows access to an additional 31 bbl (2% of global supplies) and 416 tcf (6% of global supplies) through the proposed Trans-Caspian Pipeline.

Azerbaijan also became prominent as the only east-west pipeline route that avoids Iran and Russia, providing a seemingly-reliable corridor to Central Asia. While these trade corridors provided little direct benefit for the US - as **Figures 25, 26, and 27** illustrate, US-Azerbaijani trade is a relatively small part of Azerbaijan's or America's total trade - the under-construction Trans-Anatolian Pipeline is expected to provide half of Europe's new gas demands for 2030.<sup>184</sup> The US is responsible for 18% of Azerbaijan's non-oil FDI (as of 2010) and 28% of aggregate FDI (as of 2000).<sup>185</sup>

While Azerbaijan still faces substantial internal difficulties, the US views it as a relatively strong and stable state. Azerbaijan has cemented its military ties to Washington and gained military experience by committing forces to Iraq and Afghanistan. Baku contributed 150 troops to Operation Iraqi Freedom from 2003 to 2008, and deployed 23 (later 94) for Operation Enduring Freedom starting in 2003.

Both states share antagonism toward Iran, which has underpinned some of their cooperation and has helped cement Washington's position in the South Caucasus. Despite this shared concern, however, Iran remains a limited factor in their relations, Nagorno Karabakh and Armenia remain the focus of Azerbaijan's foreign policy (as exemplified by the 2009 rapprochement). The US is more concerned about pipeline routes and ensuring regional stability. As Azerbaijan is unwilling to risk direct opposition to its larger neighbor, much of its support for the US position has been covert or indirect.

### *Points of Dispute*

Much like US-Armenia relations, the US and Azerbaijan still face mutual distrust. Predating the most recent crisis in US-Iranian relations, Baku has expressed concern over what it sees as rising

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<sup>183</sup> "Azerbaijan: Recent Developments and U.S. Interests," Jim Nichol, June 29, 2012, pg. 10. "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 21, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

<sup>184</sup> Estimates on European gas consumption from "Natural Gas Demand and Supply," Eurogas, <http://www.eurogas.org/uploaded/Eurogas%20long%20term%20outlook%20to%202030%20-%20final.pdf>.

<sup>185</sup> "Azerbaijan - Foreign Investment," citing EC-TACIS, <http://www.nationsencyclopedia.com/Asia-and-Oceania/Azerbaijan-FOREIGN-INVESTMENT.html#b>; "Statistics: FDI-Related Data for Azerbaijan," *Caucasus Analytical Digest*, pg. 12, June 21, 2011, <http://georgien.boell-net.de/downloads/CaucasusAnalyticalDigest28.PDF>.

Islamic extremism created by Iran, and fears that Tehran seeks to conquer Azerbaijan or politically and culturally remake it in Iran's image. This existential anxiety provides the basis for Baku's concerns that it will be left behind in any US-Iranian deal, although such fears appear to overstate the degree of Iranian hostility and the US's willingness to support Azerbaijan.

The longest-term problem has been Section 907 of the FREEDOM Support Act, which made Azerbaijan the only NIS not to receive US aid.<sup>186</sup> FSA, which sought to pressure Baku into compromising over Nagorno Karabakh, has been limited since 2004 by annual waivers that have been issued by both the Bush and Obama Administrations.<sup>187</sup> However, Azerbaijan remains the sole republic so singled out, forcing it to rely on the goodwill of the Administration.<sup>188</sup>

Azerbaijani leaders and officials, regard Russia as a primary geostrategic threat in both public and private comments. Russia is regarded as seeking a return to its former imperial role, with Azerbaijan a wealthy and convenient target. While popular animosity toward Armenia runs deep - Nagorno Karabakh remains the most contentious issue in Azerbaijan, and the one most capable of inciting popular mobilization - Azerbaijani elite hold Russia responsible for Armenia's military success and intransigence at the bargaining table.

The perceived failure of the US to respond adequately to the 2008 Russian-Georgian War led to increased suspicion over US motives and capabilities. Baku saw Tbilisi as more successful in its Western integration efforts than Azerbaijan itself; if Washington was reticent to defend Georgia, then Azerbaijan believed itself to be unprotected against Russian pressure. This fear - that despite building economic, political, and cultural ties with the West, the South Caucasus would still stand alone - continues to overshadow Azerbaijani strategic thought.<sup>189</sup>

This concern was reinforced in 2009 after the "reset" in US-Russia relations. Warming US-Russian relations - and the implied free hand they would give Russia in the Caucasus - has reportedly sparked concern in Azerbaijan. The 2009 reset brought these concerns to the fore, particularly as it came so soon after the Russo-Georgian Conflict. The US sought to disentangle social and civil society relations from official engagement, creating a two-track process - and one that implicitly reduced pressure on Russia.<sup>190</sup> The absence of Azerbaijan from the official summary of the reset prompted further abandonment concerns.<sup>191</sup> To Azerbaijan, Washington's willingness to bury the hatchet with Baku's primary antagonist implied that the US could similarly resolve its competition with Iran - completely ignoring the difference between US-Russia and US-Iran relations. These tensions have declined, however, as US and Russian tensions have risen.

A more recent problem in the US-Azerbaijani relationship has revolved around Armenian and Azerbaijani concerns regarding territorial integrity. The 2008 "football diplomacy" between

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<sup>186</sup> "FREEDOM Support Act," Bill Text, Library of Congress, August 6, 1992. <http://thomas.loc.gov/cgi-bin/query/D?c102:2:./temp/~c1020tpju1:>

<sup>187</sup> "Foreign Operations, Foreign Financing, and Related Programs Appropriation Act," Government Printing Office, 2002. <http://www.gpo.gov/fdsys/pkg/PLAW-107publ115/html/PLAW-107publ115.htm>

<sup>188</sup> "Azerbaijan: Recent Developments and U.S. Interests," Jim Nichol, June 29, 2012, pg. 22.

<sup>189</sup> "Azerbaijan: Recent Developments and U.S. Interests," Jim Nichol, June 29, 2012, pg. 16.

<sup>190</sup> "Biden's Visit Reaffirms US-Russia 'Reset,'" Christian Science Monitor, Mar 10, 2011.

[http://www.csmonitor.com/World/Europe/2011/0310/Biden-s-Moscow-visit-reaffirms-US-Russia-reset/\(page\)/3](http://www.csmonitor.com/World/Europe/2011/0310/Biden-s-Moscow-visit-reaffirms-US-Russia-reset/(page)/3)

<sup>191</sup> "U.S.-Russia Relations: 'Reset' Fact Sheet," White House, Office of the Press Secretary, June 24, 2010.

<http://www.whitehouse.gov/the-press-office/us-russia-relations-reset-fact-sheet>

Turkey and Armenia produced a provisional rapprochement that was widely viewed in Azerbaijan as American-inspired. The deal would have reopened the Turkish-Armenian borders without requiring progress on Nagorno Karabakh and would have delinked ideational issues (primarily the genocide question) from political and economic progress.<sup>192</sup>

Baku viewed the rapprochement as economic relief for Armenia, undercutting Azerbaijan's policy of pressuring Yerevan to resolve Nagorno Karabakh through economic blockade. Although the rapprochement failed - due in part to Azerbaijani opposition, and in part domestic politics in Armenia and Turkey - it left Azerbaijan concerned that both Turkey and America minimally valued Baku's interests.<sup>193</sup>

The 2009-2010 the Turkey-Armenia rapprochement and the US-Russian "reset" led Baku to attempt to both demonstrate its strategic significance and ability to find new partners with a renewed focus on pipeline deals with Russia and Iran. Baku publicly debated closing down the Nabucco pipeline project (the proposed pipeline to the West) and rerouting new oil and gas supplies to Russia.<sup>194</sup>

Baku also increased pipeline capacity flowing through Iran (the isolated province of Nakhchivan is supplied by energy swaps with Iran, but Azerbaijan sells additional gas to Iran's northern, gas-poor provinces outright).<sup>195</sup> Baku demonstrated its ability to extract benefits from and balance between the US, Turkey, Russia, and Iran. Doing so strengthened its position in the Caucasus, but angered some US policy makers.

From the US's perspective, Azerbaijan's regular saber-rattling over using force to "resolve" Nagorno Karabakh undermines US interests in the region. These threats push Armenia closer to Russia and Iran, possibly reducing the US's influence in Yerevan. While Baku sees them as necessary to maintain its domestic stability and strengthen its position at the bargaining table, comments such as "We have the full right to liberate our land by military means" further destabilize the region and widen the gap between the participants and mediators.<sup>196</sup>

At the same time, the Aliyev government benefits domestically from the charged atmosphere over Nagorno Karabakh, using it to unify the political landscape and reshape the economy. For the US and Europe, however, this raises further concerns over the viability and survivability of energy infrastructure, further slowing down the construction process and raising the cost of construction. While the US may prefer slightly more public antagonism toward Iran, the aggressive aspects of its posture may harm Washington's interests in the South Caucasus.

### *US Concern over Azerbaijan-Iran Relations*

The US has no major concerns over Azerbaijani's relations with Iran. While the US could object to the small oil and natural gas traffic between the two states, such deals are seen as essential for

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<sup>192</sup> "Azerbaijan: Recent Developments and U.S. Interests," Jim Nichol, June 29, 2012, pg. 21.

<sup>193</sup> Pg. 48, <http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf>

<sup>194</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 20, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

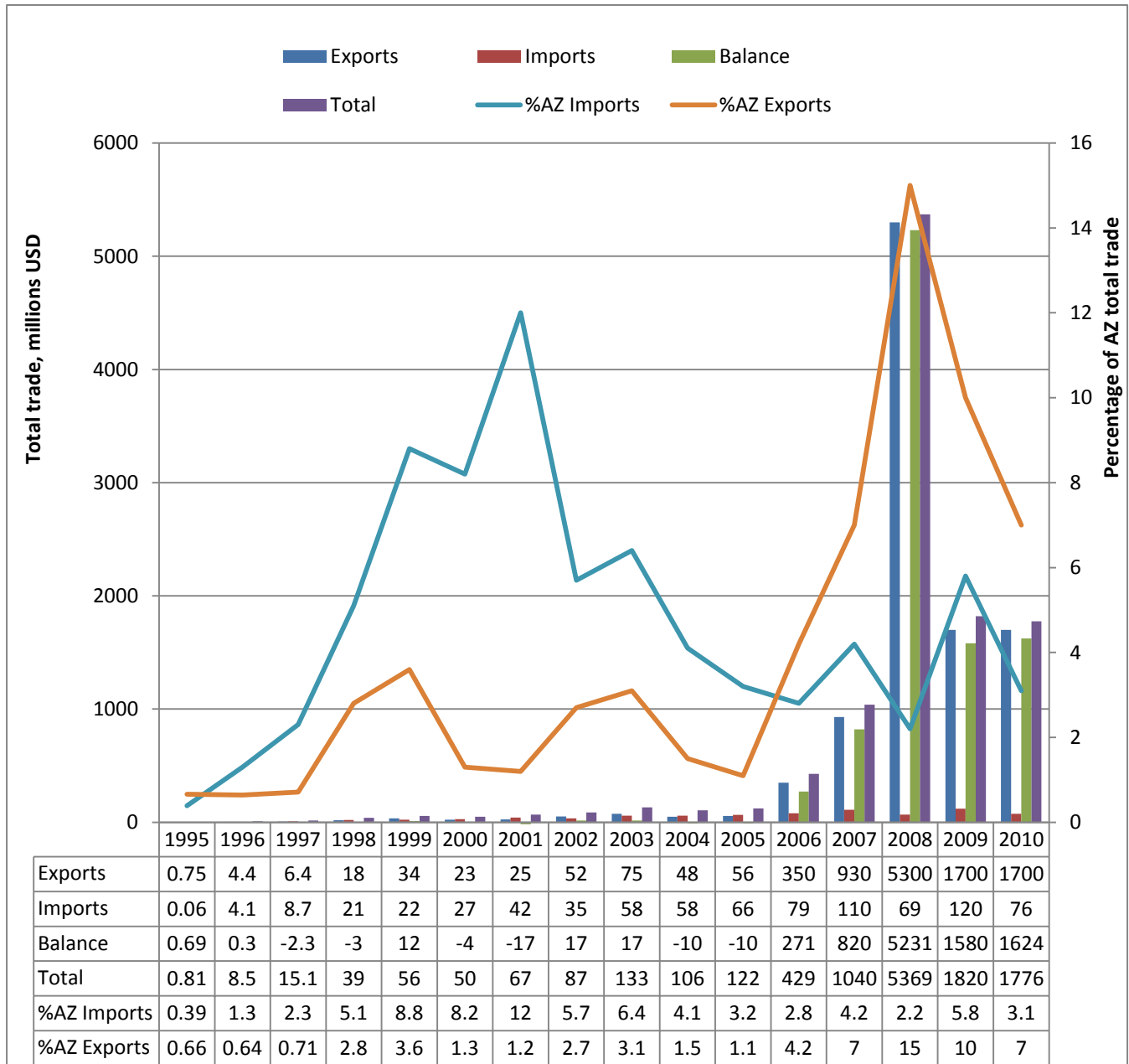
<sup>195</sup> "Iran's Latest Import-Export Options," *Gas Matters*, April, 2010 pg. 4. <http://www.eprg.group.cam.ac.uk/wp-content/uploads/iran's%20latest%20import-export%20options.pdf>. "Azerbaijan: Country Analysis," Energy Information Agency, January 9, 2012. <http://www.eia.gov/countries/cab.cfm?fips=AJ>.

<sup>196</sup> "Nagorno-Karabakh Tensions Fester," al Jazeera, February 5, 2010, <http://www.aljazeera.com/focus/2010/02/20102412115655290.html>.

Azerbaijan and provide Iran with too little flexibility or currency to make an even moderate impact on the Iranian economy. As is discussed below, Azerbaijan competes with Iran in more ways than it cooperates.

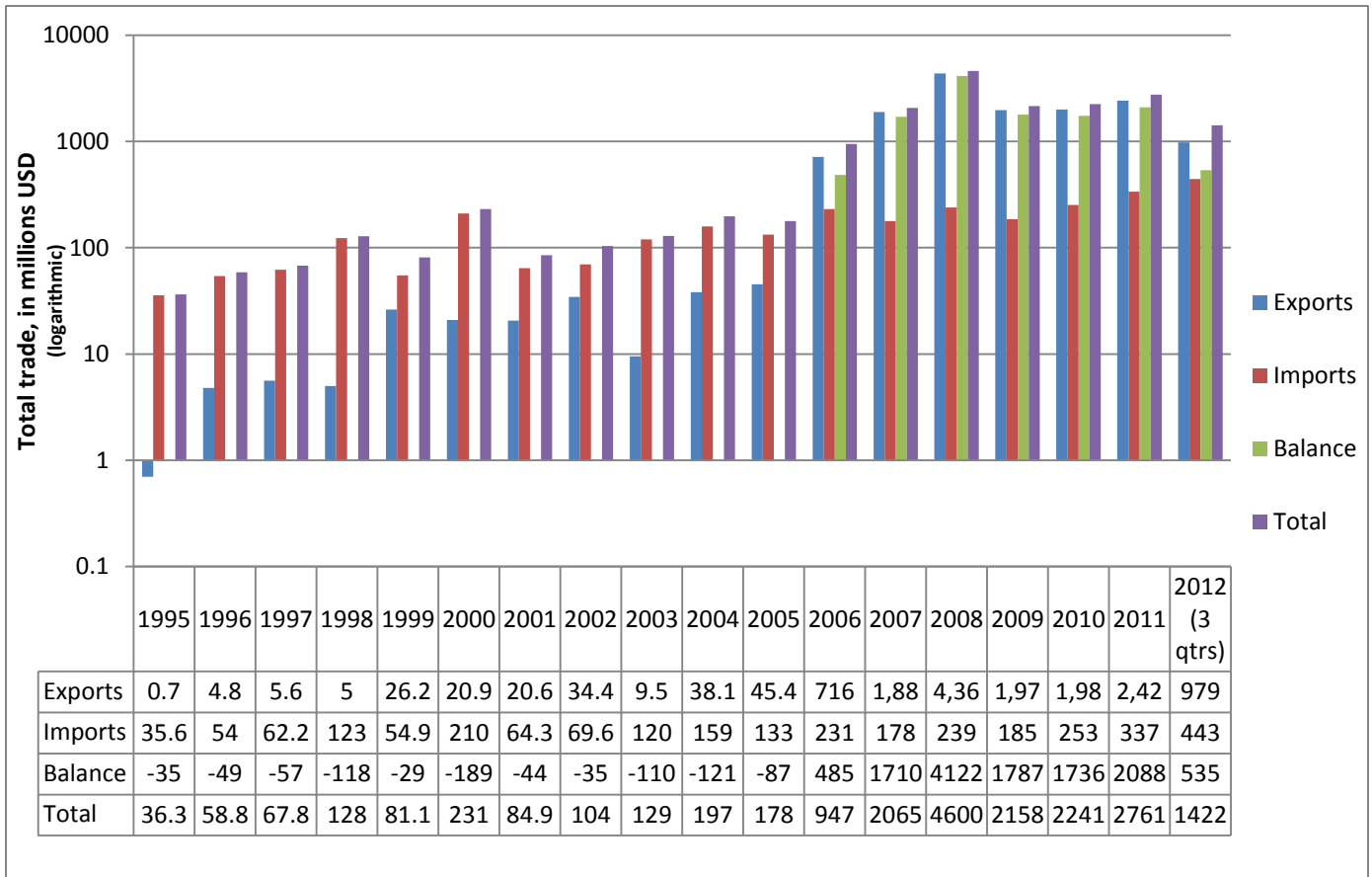


**Figure 25: Azerbaijan-US Trade**  
(MIT Observatory of Economic Complexity)



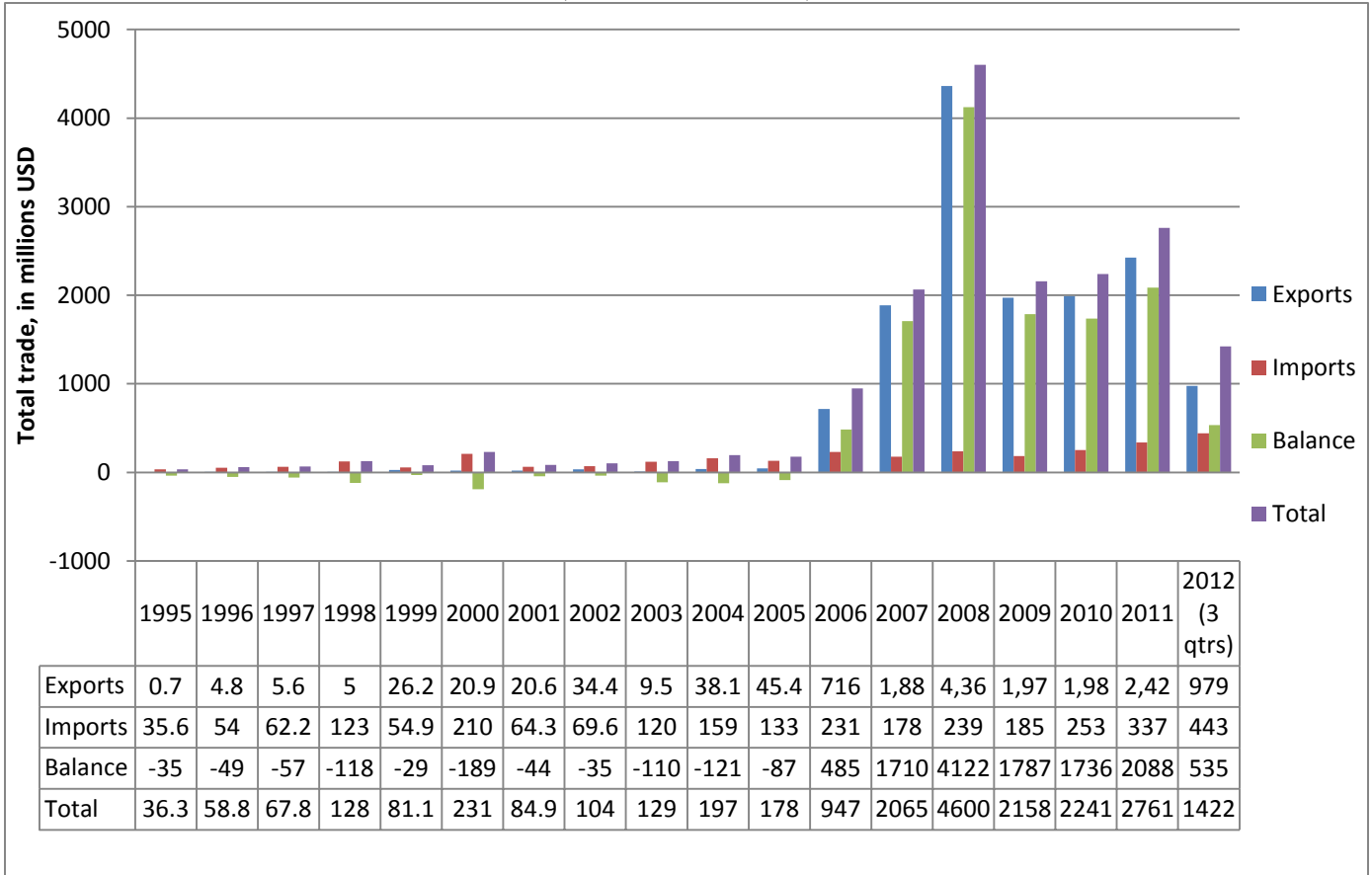
Source: The Observatory of Economic Complexity, MIT,  
[http://atlas.media.mit.edu/explore/tree\\_map/import/irn/show/all/2010/](http://atlas.media.mit.edu/explore/tree_map/import/irn/show/all/2010/)

**Figure 26: Azerbaijan-US Trade- Logarithmic**  
(US Census Bureau)



Source: "Foreign Trade," US Census Bureau, <http://www.census.gov/foreign-trade/balance/c4632.html>

**Figure 27: Azerbaijan-US Trade- Linear**  
(US Census Bureau)



Source: "Foreign Trade," US Census Bureau, <http://www.census.gov/foreign-trade/balance/c4632.html>

## Azerbaijani-Iranian Relations

Religion and ethnicity have does more to hinder than help ties between Azerbaijan and Iran. While Azerbaijan is majority Shia - aside from Iraq, the only state neighboring Iran to not be predominantly Sunni - its secular leadership views the Iranian doctrine of velayat-e faqih (guardianship of the jurist) as a danger to the regime's survival. Baku emphasizes Azeri nationalism over Islamic solidarity and has sought to remove religion from the public sphere; it regularly charges Tehran with backing preachers and religious extremists in Azerbaijan, claiming Tehran aims to overthrow the Aliyev regime.<sup>197</sup>

Iran, in turn, sees this ethnic focus as an attempt to foment secession among Iran's ethnic minorities in the border region between the two states, and views Azerbaijan as aggressive in bringing in outside powers and claiming mineral rights in the Caspian.

### *Ethnic Tensions*

While data vary, between 10 and 20 million (12.7-25.4%) - the CIA estimates 13 million (16%) - of the Iranian population is Azeri. This population has established strong commercial links between northern Iran and Azerbaijan, playing a critical role in linking the two economies (often through the gray or black market).<sup>198</sup>

Iran perceives its Azeri minority as a potential separatist threat, not a mercantile opportunity. The Azeri language is legal in Iran and officially there is no ethnic discrimination, but Iranian Azeris claim regular oppression at Tehran's hands (although there is no wide-spread opposition movement among Azeris).<sup>199</sup> Although Supreme Leader Ayatollah Khamenei is part-Azeri, the Iranian government is sensitive to Azeri-Iranian demands for cultural liberalism and greater local autonomy, viewing them as preludes to full independence.<sup>200</sup>

For Azerbaijan's part, it has fed increased Iranian suspicion through regular statements by Azerbaijani officials calling for the "reunification" of north and south Azerbaijan. While some Azeri nationalists bruted about this idea shortly after independence - behavior that was partly responsible for Iran's close ties with Armenia in the early 1990s - consanguinity took a back seat to power politics until recently.<sup>201</sup>

The debate over "Southern Azerbaijan" has reheated recently, in response to tension in other aspects of Iranian-Azerbaijani relations. Azerbaijani MPs proposed a bill changing the name of the "Republic of Azerbaijan" to "Northern Azerbaijan," staking an implicit claim to "occupied southern Azerbaijan."<sup>202</sup> While the proposal did not prompt an immediate public reaction from

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<sup>197</sup> Pg. 49 <http://www.silkroadstudies.org/new/docs/silkroadpapers/1205Jenkins.pdf>

<sup>198</sup> "Azeris Feel Iranian Pressure," The BBC, February 16, 2010. <http://news.bbc.co.uk/2/hi/8516682.stm>.

<sup>199</sup> "Azeris Feel Iranian Pressure," The BBC, February 16, 2010. <http://news.bbc.co.uk/2/hi/8516682.stm>. "Iran's Azeri Question: What Does Iran's Largest Ethnic Minority Want?," Eurasianet, April 14, 2003, <http://www.eurasianet.org/departments/culture/articles/eav041503.shtml>

<sup>200</sup> "Iran's Firm Stance on Minority Rights," International Relations and Security Network, Alex Vatanka, <http://www.isn.ethz.ch/isn/Security-Watch/Articles/Detail/?ots591=4888caa0-b3db-1461-98b9-e20e7b9c13d4&lng=en&id=52634>.

<sup>201</sup> "Iran Muscles in on Azerbaijan," Robert Cutler, Asia Times, March 7, 2012. [http://www.atimes.com/atimes/Central\\_Asia/NC07Ag01.html](http://www.atimes.com/atimes/Central_Asia/NC07Ag01.html)

<sup>202</sup> "Azerbaijani MPs Propose to Change Country's Name," AZ Trend, February 1, 2012.

<http://en.trend.az/news/politics/1986820.html>. "Azerbaijan to Change Name to 'Northern Azerbaijan' to Annoy

Tehran, it contributed to the downward spiral in Azerbaijan-Iran relations that led Iran to withdraw its ambassador in May 2012.<sup>203</sup> These ethnic tensions continue to simmer, and are unlikely to be resolved until the Azerbaijani government reduces its emphasis on ethnic nationalism and economic development reaches poor Azeri Iranian communities.

### *Trade Ties*

As **Figure 28** shows, trade between Iran and Azerbaijan is considerably smaller than US-Azerbaijan trade. Although MIT's Observatory of Economic Complexity shows that Azerbaijan's trade with the US is less balanced than with Iran - the vast predominance is crude oil, which is highly fungible and could be easily exported to other states - US exports to Azerbaijan alone are greater than Baku's bilateral trade with Iran. Public sources suggest that while Iranian commercial ties are useful in an economy as constrained as Azerbaijan's, they are less valuable than economic relations with the US.<sup>204</sup>

What these data ignore - and what both accounts for discrepancies between the US Census and MIT Observatory and understates the size of Azerbaijan's economic relations with its neighbors - is the impact of smuggling. Azerbaijan's borders with Georgia and Iran are porous, and much of Azerbaijan's trade goes unreported.

While there are no published numbers detailing the total amount - estimates from 2005 place the informal sector at between 30% and 60% of Azerbaijan's total GDP, with the amount likely to have declined between 2005 and today and anecdotal evidence suggesting much of this gray and black market activity is concentrated near the borders - the official data do not accurately estimate the role Iran plays in Azerbaijan's economy.<sup>205</sup>

Iran has been steadily frozen out of Azerbaijan's growing pipeline network. While Tehran opposed TANAP and the eastern section of Nabucco - proposing instead that Caspian Basin gas flow through Iran's network - Azerbaijan invited the Naftiran Intertrade Company to participate in the Shah Deniz gas field and pipeline.

Since then, however, Iran has had limited access to Azerbaijani petroleum investment, being shut out from the Baku-Tbilisi-Ceyhan Pipeline, TANAP, and the Nabucco pipeline. Iran's diminishing involvement in Azerbaijan's energy sector has prevented it from benefitting financially and technologically from the Western expertise and material invested in these

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Iran?," Joshua Keating, February 2, 2012.

[http://blog.foreignpolicy.com/posts/2012/02/02/azerbaijan\\_to\\_change\\_name\\_to\\_northern\\_azerbaijan\\_to\\_annoy\\_iran](http://blog.foreignpolicy.com/posts/2012/02/02/azerbaijan_to_change_name_to_northern_azerbaijan_to_annoy_iran)

<sup>203</sup> "Tehran Recalls Ambassador from Baku to Protest at Azerbaijan's Policies," Fars News Agency, May 22, 2012,

<http://english.farsnews.com/newstext.php?nn=9102113013>.

<sup>204</sup> Note that these figures ignore the question of transshipment. While Azerbaijan, unlike Armenia, does have effective lines of transportation in all directions, some of its non-Iranian international trade does pass through Iran. Since more than 90% of its total exports comprise petroleum-sector goods - almost all of which run through pipelines to the north - Iran has a relatively smaller logistics role in Azerbaijan's economy than it does in Armenia's.

<sup>205</sup> "Azerbaijan Country Report," Bertelsmann Stiftung, *Bertelsmann Stiftung Transformation Index*, 2012.

<http://www.bti-project.de/fileadmin/Inhalte/reports/2012/pdf/BTI%202012%20Azerbaijan.pdf>; "Data on Informal Employment and Self-Employment," OECD, from *Is Informal Normal?*, March, 2009,

<http://www.oecd.org/dev/povertyreductionandsocialdevelopment/42863997.pdf>; "Shadow Economics and Corruption All Over the World," Friedrich Schneider, July 2007, pg. 26,

[http://www.lawrence.edu/fast/finklerm/shadeconomycorruption\\_july2007.pdf](http://www.lawrence.edu/fast/finklerm/shadeconomycorruption_july2007.pdf).

projects, but has also served to reduce Iran's interest in maintaining a stable flow of revenue from the fields (and hence limited one of its main points of cooperation with Azerbaijan).<sup>206</sup>

Another important element of the trade relationship hardly shows up in the data, as it comprises energy swaps that allow Azerbaijan to power the enclave of Nakhchivan. As was shown earlier in **Figure 19**, Nakhchivan is cut off from the rest of Azerbaijan by Armenia, and its economic lifeline runs through Turkey and Iran.<sup>207</sup>

In 2006 Tehran and Baku arranged a gas swap that allowed Azerbaijan to ship energy to Nakhchivan, paying a 15% transport fee. The swaps enabled Nakhchivan to resume some limited economic growth after its isolation, but the economy remains depressed due to its limited links to the outside world.<sup>208</sup> In 2011 Turkey promised to facilitate a pipeline from eastern Turkey to the region - Azerbaijan provided the construction costs, while Turkey would not charge any rent - that would reduce reliance on Iranian gas and reduce supply constraints.<sup>209</sup> This move would remove one of the few trust-building mechanisms in Iran-Azerbaijani relations.

During periods of good relations, Azerbaijan and Iran have sought to eliminate trade barriers and increase the legal market opportunities for commerce. Both recognize that trade could serve to quiet the restive minorities on both sides of the border - the Talysh in Azerbaijan, and Azeris and Talysh in Iran.

Neither state fears becoming dependent on the other; Iran's economy is too large, while Azerbaijan's oil and gas exports limit its dependence on any one trading partner. Instead, ideas such as the establishment of a joint economic zone in Qoli Beiglou are seen as a way to reduce the centrifugal forces that have led to protests and secessionist movements.<sup>210</sup> Despite the risk to Tehran that Iranian Azeris will grow more independent as they meet their northern co-ethnics, Iran used the last half year of relative stability to press for greater trade.

### **Azerbaijan-Israel Relations and Religious Disputes**

The most recent irritant in the Iranian-Azerbaijani relationship has been Azerbaijan's close ties with Israel, leading to a well-publicized *Foreign Policy* article that Azerbaijani military bases might be used to support an Israeli strike on Iran.<sup>211</sup> Open sources have speculated that Israel would use the bases to land aircraft after an attack, operate in-flight refueling missions, or launch reconnaissance missions for pre- and post-strike analysis.<sup>212</sup>

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<sup>206</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 14, March 2012, [http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

<sup>207</sup> "Azerbaijan: Recent Developments and U.S. Interests," Jim Nichol, June 29, 2012, pg. 15.

<sup>208</sup> "Nakhchivan: The Next Post-Soviet Conflict?," *Window on Heartland*, February 26, 2011. <http://www.windowonheartland.net/2011/02/nakhchivan-next-post-soviet-conflict.html>

<sup>209</sup> "Gas Pipeline to Link Nakhchivan with Turkish Province," AzerNews, August 12, 2009. [http://www.azernews.az/oil\\_and\\_gas/13886.html](http://www.azernews.az/oil_and_gas/13886.html)

<sup>210</sup> "Iran, Azerbaijan Plan to Set Up Joint Economic Zone," Fars News Agency, December 23, 2012, <http://english.farsnews.com/newstext.php?nn=9107129721>.

<sup>211</sup> "Israel's Secret Staging Ground," Mark Perry, March 28, 2012.

[http://www.foreignpolicy.com/articles/2012/03/28/israel\\_s\\_secret\\_staging\\_ground?page=full](http://www.foreignpolicy.com/articles/2012/03/28/israel_s_secret_staging_ground?page=full)

<sup>212</sup> "Azerbaijan Eyes Aiding Israel Against Iran," Thomas Grove, September 30, 2012.

<http://www.reuters.com/article/2012/09/30/us-iran-israel-azerbaijan-idUSBRE88T05L20120930>

Any such reporting is speculative, and Azerbaijan has publicly denied that it intends to support an Israeli attack in any way.<sup>213</sup> These denials have been in the press and in private, suggesting that Azerbaijan wishes to disassociate itself as far as possible with military operations in the region. Overt Azerbaijan support of Israeli action would risk Iranian proxy attacks and more direct spillover, and it seems unlikely to provide any public assistance should Israel and Iran engage in direct hostilities.

Israel's links to Azerbaijan did deepen in other areas in 2012, however, with reports that Israel would sell \$1.6 billion worth of weapons to Azerbaijan. The deal included the planned transfer of unmanned aerial vehicles (UAVs) in addition to anti-aircraft and anti-ship missiles.<sup>214</sup>

Moreover, Azerbaijan arrested several individuals over the first half of 2012 whom it accused of being Iranian spies and saboteurs in Azerbaijan to target Israeli and/or Jewish sites.<sup>215</sup> Most of those arrests took place prior to the Israeli-Azerbaijani basing agreement allegation, fueling Iranian-Azerbaijani hostility even before the basing allegation was aired. Azerbaijan, however, had concerns of its own.

While such moves may have represented Baku's growing unease with Islamic movements within the country - and a desire to shift blame for domestic extremism to an outside source - the number of arrests, coinciding with other attempted bombings blamed on Iran throughout the world, suggest that Azerbaijan may be reacting to Iran's action in Azerbaijan. The military relationship between the two states is highly unequal and Iran has more experience running proxy movements and mobilizing Shia Islamic sentiment.

Azerbaijan had other concerns. Iran criticized Azerbaijan for such breaches of public morality as the 2010 hijab ban in schools and an alleged - albeit non-existent - gay pride parade during the 2012 Eurovision contest.<sup>216</sup> Azerbaijan also expressed fear over Iranian political and military fifth columns. Baku alleged that Tehran has backed Islamic fundamentalist groups and militants within Azerbaijan, sparking domestic unrest, and had facilitated public protests in Turkey and Iran aimed at Azerbaijan.<sup>217</sup> Baku expressed displeasure over Tehran's arrest of two Azerbaijanis

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<sup>213</sup> "Azerbaijan is Not Israel's Secret Staging Ground," Nargiz Gurbanova, April 2, 2012.

[http://www.foreignpolicy.com/articles/2012/04/02/azerbaijan\\_is\\_not\\_israels\\_secret\\_staging\\_ground?page=full](http://www.foreignpolicy.com/articles/2012/04/02/azerbaijan_is_not_israels_secret_staging_ground?page=full);  
"Mamedyarov: Azerbaijan No Platform for Third-Party Attack on Iran," Fars News Agency, December 30, 2012,  
<http://english.farsnews.com/newstext.php?nn=9107131685>.

<sup>214</sup> Associated Press, "Israel Signs \$1.6 Billion Arms Deal with Azerbaijan," *Haaretz*, February 26, 2012.

<http://www.haaretz.com/news/diplomacy-defense/israel-signs-1-6-billion-arms-deal-with-azerbaijan-1.414916>;

"Azerbaijan's Israeli Weapons: A Lot for Armenia, But a Little For Iran, Too?," *The Bug Pit*, Eurasianet.org, April 12, 2012. <http://www.eurasianet.org/node/65258>

<sup>215</sup> "Azerbaijan Arrests Alleged Iran-Hired Terrorists," Associated Press, March 14, 2012.

<http://www.foxnews.com/world/2012/03/14/22-arrested-in-azerbaijan-in-plot-on-us-israeli-embassies/>. "Azerbaijan: Iran, Hezbollah Operatives Arrested for Plotting Attacks Against Foreign Targets," Barak Ravid, February 21, 2012. <http://www.haaretz.com/news/diplomacy-defense/azerbaijan-iranian-hezbollah-operatives-arrested-for-plotting-attack-against-foreign-targets-1.414008>

<sup>216</sup> "Tehran Protests Eurovision 'Gay Parade' in Baku," *De Spiegel*, May 23, 2012.

<http://www.spiegel.de/international/europe/tehran-protests-eurovision-gay-parade-in-baku-a-834709.html>; "Iran-Azerbaijan: How a Close Relationship Disintegrated," Alakbar Raufoglu, May 25, 2012.

<http://www.foreignpolicyjournal.com/2012/05/25/iran-azerbaijan-how-a-close-relationship-disintegrated/0/>

<sup>217</sup> "Azerbaijan-Iran Relations: Quo Vadis, Baku?," Anar Valiyev, *PONARS Eurasia*, pg. 4, September 2012,

[http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm\\_244\\_Valiyev\\_Sept2012.pdf](http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm_244_Valiyev_Sept2012.pdf). "Iran-Azerbaijan: How a

in July 2012, alleging that they were just two Azeris traveling around Iran who were detained purely for retaliatory purposes.<sup>218</sup> The incident remains unresolved, another point of contention between the two states.

Tehran, in turn accused Azerbaijan of harboring Israeli assassins.<sup>219</sup> In light of the deaths of several Iranian nuclear scientists, Iran announced that Azerbaijan had sheltered and supported a Mossad network engaging in targeted killing. The February 2012 car bomb that killed an Iranian scientist preceded the alleged attempted Iranian bombings of Israeli targets, served to highlight the sense that Azerbaijan was part of a larger covert struggle involving Iran and Israel.<sup>220</sup>

In short, while petroleum and territorial disputes do present major problems in Azerbaijani-Iranian relations - due to the territorial integrity and immense wealth at stake - the ethnic, religious, and extra-regional aspects of Iranian-Azerbaijani relations are the most persistently destabilizing. On the Azerbaijani side, perceptions of mistreatment and abuse of Azeris in Iran has prompted popular anger, while the view that Azerbaijan seeks to ally itself with Israel has similarly damaged Baku's standing in Iran. Although a large-flare up in the Caspian would represent a greater economic danger, so far all the casualties in this confrontation have stemmed from these ideational disputes.

### **Energy Divisions in the Caspian**

The scale of the debate over the division of Caspian Sea and mineral rights to what are believed to be substantial undiscovered energy reserves is shown in **Figure 29**. The debate entails negotiations between the five Caspian powers - Iran, Azerbaijan, Russia, Kazakhstan, and Turkmenistan - and is expected to determine the allocation of several billion dollars of untapped oil and gas.

The first modern international treaty governing the Caspian was the 1921 Iran-Soviet Treaty of Friendship, which delineated an exclusive littoral zone for fishing rights while leaving most of the Caspian open to all uses by vessels from Iran and the USSR, ignoring the issue of mineral rights. Following the breakup of the Soviet Union and the discovery of vast potential resources on its seabed, the Caspian successor states - Azerbaijan, Kazakhstan, and Turkmenistan - pushed for a littoral regime that would grant them proportional control over seafloor resources.

Iran, which had the smallest and energy-poorest shoreline, has sought to legally enshrine either common ownership or an equal 20% share for each owner. Tehran has declared that any bilateral treaty regarding the Caspian is illegitimate, a direct stab at Baku's deals with Kazakhstan and Russia and the proposed Trans-Caspian Pipeline with Turkmenistan. This doctrine has sometimes been upheld by Russia and Turkmenistan, which have previously stated that any division must be a mutual one, but have since entered into bilateral or multilateral deals with

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Close Relationship Disintegrated," Alakbar Raufoglu, May 25, 2012.

<http://www.foreignpolicyjournal.com/2012/05/25/iran-azerbaijan-how-a-close-relationship-disintegrated/0/>

<sup>218</sup> "Iran Arrests 2 Azerbaijan Nationals as Spies," AP, July 3, 2012, <http://news.yahoo.com/iran-arrests-2-azerbaijan-nationals-spies-163450925.html>.

<sup>219</sup> "Azerbaijan: Recent Developments and U.S. Interests," Jim Nichol, June 29, 2012, pg. 15.

<sup>220</sup> "Iran Summons Azeri Envoy over Scientist Killing," *Reuters*, February 12, 2012,

<http://www.reuters.com/article/2012/02/12/us-iran-azerbaijan-idUSTRE81B0OS20120212>.



other littoral states. Azerbaijan has been particularly active in pushing for a proportional division, since it has already begun mining and exploiting its claimed zone.<sup>221</sup>

As Dr. Karbuz says in a discussion of the geopolitical implications of the region:<sup>222</sup>

For Iran and Russia the issue involves greater geopolitical considerations rather than the exploitation of commercial interests. The sea's hydrocarbon resources are relatively less important for them since they have large reserves outside the sea itself. They both view the Caspian primarily in geostrategic terms. Especially for Iran, it is more of a national security issue, and at best an opportunity to exploit its geographical position for making itself a bridge from the Caspian to the Gulf. Therefore, delaying any agreement on the Caspian's legal framework allows it to exercise influence across the region.

In the early 1990s, Kazakhstan and Azerbaijan were in favor of complete division (seabed or subsoil, water layer and air space) by applying the UNCLOS to Caspian. In accordance with the lake concept, Russia and Iran wanted the entire Caspian to remain a shared sea (except for 10-mile coastal zones), in which all littoral states would be equally entitled to own and utilize both its waters and its seabed. In that way they could potentially block Western involvement in the region and at the same time defend the sea's ecosystem.

After the mid 1990s, discoveries of hydrocarbons deposits and the interests of Western companies in its territorial waters started to change Russia's ecological perspective. Consequently, Russia has modified its opinion and has started to defend the idea of dividing the seabed (and the oil and gas resources underneath) into national sectors through a modified median line, while leaving most of the water layer for common joint ownership and use. This new proposal was also supported by Azerbaijan and Kazakhstan. When Russia moved from the concept of joint ownership and use to the concept of divide the seabed but share the waters, Iran felt isolated and suggested dividing the sea into five equal parts (20% each) among littoral states regardless of the length of the coast lines. Turkmenistan, meanwhile, held a swinging and variable stance between the sectoral division and the Russian stance.

How the Caspian seabed is divided among the littoral states will determine which hydrocarbon fields will fall into whose sector. As indicated, all Caspian littoral states have been involved in ownership disputes over oil and gas fields. The most serious ones are between Azerbaijan and Turkmenistan and between Azerbaijan and Iran. The Russia-Kazakhstan dispute has been managed diplomatically since 2002 when they signed a protocol to jointly develop the three fields located on the median line between the two countries.

In 1994, Azerbaijan and a consortium of foreign companies signed the so-called "Contract of the Century" to develop offshore Azeri, Chirag and Guneshli fields. Turkmenistan, meanwhile, claims that the Azeri and (partly) Chirag fields are indeed in Turkmen territorial waters. Another disputed field between the two countries is Kapaz (known as Serdar in Turkmenistan). When Azerbaijan signed an agreement in 1997 with Russian companies for joint exploration and development of this field, Turkmenistan strongly reacted and declared that the field belonged to it. In 2007, new Turkmen President Berdymukhamedov invited Chevron executives to discuss developing this same field. Despite offers from Azerbaijan to jointly develop the field with Turkmenistan, these offers have not been accepted. Instead, in 2009 the Turkmen President announced that his government would be taking Azerbaijan to the International Court of Arbitration for dispute resolution.

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<sup>221</sup> "The Caspian's Unsettled Legal Framework: Energy Security Implications," Sohbet Karbuz, Journal of Energy Security, May 18, 2010. [http://www.ensec.org/index.php?option=com\\_content&view=article&id=244:the-caspian-unsettled-legal-framework-energy-security-implications&catid=106:energysecuritycontent0510&Itemid=361](http://www.ensec.org/index.php?option=com_content&view=article&id=244:the-caspian-unsettled-legal-framework-energy-security-implications&catid=106:energysecuritycontent0510&Itemid=361). "The Legal Status of the Caspian Sea: History of the Treaties Between the Riparian States," Federico Formentini and Tommaso Milani, Working Paper, European Center for Energy Security Analysis, October 2012.

<sup>222</sup> "The Caspian's Unsettled Legal Framework: Energy Security Implications," Sohbet Karbuz, Journal of Energy Security, May 18, 2010. [http://www.ensec.org/index.php?option=com\\_content&view=article&id=244:the-caspian-unsettled-legal-framework-energy-security-implications&catid=106:energysecuritycontent0510&Itemid=361](http://www.ensec.org/index.php?option=com_content&view=article&id=244:the-caspian-unsettled-legal-framework-energy-security-implications&catid=106:energysecuritycontent0510&Itemid=361)

These problems continue to grow. In June 2012, it was reported that Iran had found an oil field in the Caspian that could contain an amount of oil comparable to 7% of Iranian reserves. It is believed that the field may be in Azerbaijan's waters - making the extraction of its oil a potential flash-point in Iranian-Azeri relations. Aside from this challenge, Iran may also struggle with extracting the oil - which is 1.5 miles below the surface - as its capabilities to extract at such depths are questionable.<sup>223</sup>

### **The Military Problem in the Caspian**

The debate between Iran and Azerbaijan has developed a military component, as all five Caspian states have sought to rebuild their navies. While the sea was relatively free of naval competition during Soviet times - in large part because the Soviet Caspian flotilla was so dominant - fast missile boats, frigates, mines, special forces, and even submarines have been tools for Caspian states to demonstrate their interest in subsurface resources. Iran staged a mine laying exercise in the Caspian in September 2012, demonstrating both military intent in the region and practicing a skill valuable for its ongoing competition with the US in the Gulf.<sup>224</sup>

Iran reportedly has close to 100 missile boats, allegedly including two with C-802 anti-ship missile capabilities. Iran has also stated its intent to base a "destroyer" (likely a modified corvette) in the Caspian, and has also begun basing midget submarines in the sea.<sup>225</sup> It is reported that Iran is constructing a frigate that will be the largest fighting ship on the Caspian, with the exception of Russian frigates.<sup>226</sup>

Azerbaijan has been slow to build a naval force, but has emplaced Israeli anti-ship missiles near sensitive infrastructure, and has received US support for its navy's communication and radar equipment.<sup>227</sup> According to ISIS, the Azerbaijani Navy has eight military vessels (one frigate, one offshore patrol vessel, three patrol craft with anti-ship missiles, and three patrol boats), of which all are Soviet-era except for one patrol boat.<sup>228</sup> Baku has developed a seaside radar network with US assistance, and has procured Gabriel-5 anti-ship missiles from Israel. While the exact range of the Gabriel-5 variant is unknown, the Gabriel-4 had an intended range of roughly

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<sup>223</sup> Daniel J. Graeber, "Iran Looking for Dragons in Caspian Sea," Oilprice.com. <http://oilprice.com/Energy/Crude-Oil/Iran-Looking-for-Dragons-in-Caspian-Sea.html>

<sup>224</sup> "Iran Practices Laying Mines in Caspian," Joshua Kucera, September 20, 2012. <http://www.eurasianet.org/node/65937>

<sup>225</sup> "Analysis: Iran Threatens to Deploy Subs to the Caspian," Jane's Defence Weekly, August 8, 2012. <https://janes-com.proxyau.wrlc.org/CustomPages/Janes/DisplayPage.aspx?DocType=News&ItemId=+++1516386&Pubabbrev=JDW>

<sup>226</sup> Jeremy Binnie, "Analysis: Iran Threatens to Deploy Subs to the Caspian," *Jane's Defence Weekly*, August 8, 2012.

<sup>227</sup> "All at Sea – Iran Threatens Military Moves into the Caspian," Jeremy Binnie, *Jane's Defence Weekly*, September 24, 2012. <https://janes-ihs-com.proxyau.wrlc.org/CustomPages/Janes/DisplayPage.aspx?DocType=News&ItemId=+++1522706&Pubabbrev=JIR>

<sup>228</sup> "Armenia 2011: Without Illusions," Civilitas Foundation, pg. 23, 2011. [http://www.civilitasfoundation.org/cf/images/stories/report\\_ENG\\_2011\\_2.pdf](http://www.civilitasfoundation.org/cf/images/stories/report_ENG_2011_2.pdf)

<sup>228</sup> ISIS Military Balance, Europe.

200 km, which would provide Baku ample range to strike the Iranian base at Bandar Anzali and elsewhere in the vicinity of Iran.<sup>229</sup>

Tensions over the Caspian are nothing new in the Iranian-Azerbaijani relationship; they date back to at least 1998 and Azerbaijan's emergence on the global energy scene. Nor is the current militarization of the dispute - with Iran building its new frigate in the north instead of near the Strait of Hormuz and proposing to transport submarines to the Caspian, and Azerbaijan purchasing Israeli anti-ship missiles - solely due to Baku-Tehran competition, but must rather be seen in light of broader disputes over the Caspian that have festered since tsarist Russia began its southern conquests. However, as the recent Russian-Kazakh exercise involving a hypothetical Iranian attack made clear, the militarization of part of the Caspian affects all the littoral states, and the escalation potential involving multiple states only increases the resulting instability.<sup>230</sup>

These disagreements have been sharpened by the rise in energy prices, the improvements in drilling technology, the reliance the three smaller littoral - especially Azerbaijan - place on these offshore deposits, and growing financial pressures on all states involved.<sup>231</sup> Yet Tehran's perception that Azerbaijan has broadly supported anti-Iran activities, particularly US spying and Israeli sabotage, has led both parties to further militarization and sharper rhetoric. The Caspian remains the riskiest flash point between Iran and Azerbaijan, although neither state has given indication that it intends to turn competition into outright conflict.<sup>232</sup> This issue remains the strongest barrier to good Azerbaijani-Iranian relations because it remains a zero-sum contest; until a way is devised that leaves both parties satisfied with less than full control over the disputed seabed, the Caspian basin will remain a flashpoint.

As a result, the ongoing militarization of the Caspian poses a serious risk to Azerbaijan's economy. The Azerbaijani oil and natural gas industry is by and large located in the littoral zone, with only a few in-use fields onshore. Explored Iranian deposits, in contrast, by and large are located in the south and west, although most experts believe that Iran's sector of Caspian contains some (as-yet unexplored) reserves. Thus, while Iran has a variety of valuable targets to strike and little to defend in Caspian, the Azerbaijani military is faced with the more difficult task of protecting infrastructure against a wide range of symmetric and asymmetric threats. The gradual militarization has overall benefited Iran, although in doing so it only magnifies the edge Tehran already enjoys in terms of population, economy, and strategic depth.

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<sup>229</sup> Jeremy Binnie, "Analysis: Iran Threatens to Deploy Subs to the Caspian," *Jane's Defence Weekly*, August 8, 2012.

<sup>230</sup> "Russian Maneuver in Caspian Sea: Who is the Hypothetical Enemy?," Bahman Diba, December 18, 2011, <http://www.payvand.com/news/11/dec/1182.html>.

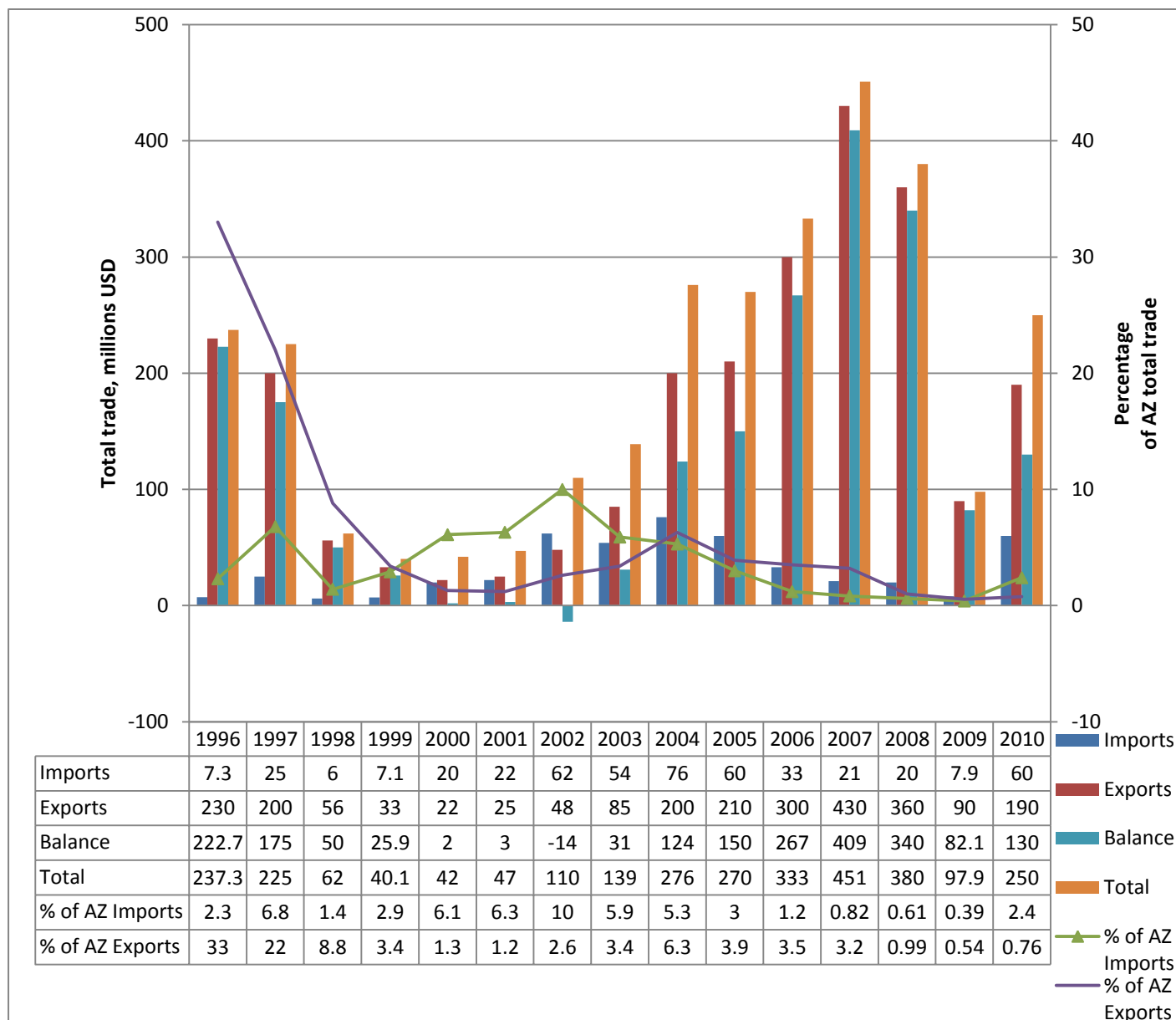
<sup>231</sup> "The Great Caspian Arms Race," Joshua Kucera, *Foreign Policy*, June 22, 2012.

[http://www.foreignpolicy.com/articles/2012/06/22/the\\_great\\_caspian\\_arms\\_race?page=full](http://www.foreignpolicy.com/articles/2012/06/22/the_great_caspian_arms_race?page=full)

<sup>232</sup> "All at Sea - Iran Threatens Military Moves into the Caspian," Jeremy Binnie, *Jane's Defence Weekly*,

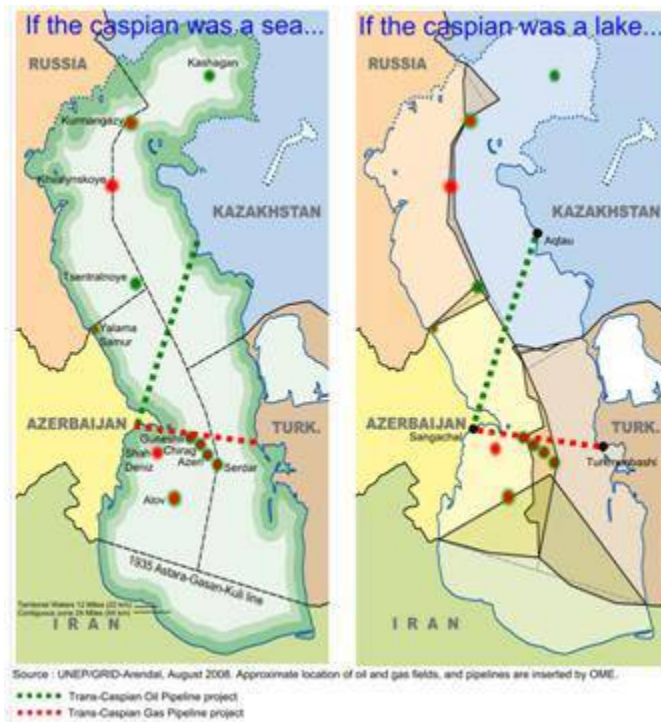
September 24, 2012. <https://janes-ihs-com.proxyau.wrlc.org/CustomPages/Janes/DisplayPage.aspx?DocType=News&ItemId=+++1522706&Pubabbrev=JIR>

**Figure 28: Azerbaijan-Iran Trade**  
(MIT Observatory of Economic Complexity)



Source: The Observatory of Economic Complexity, MIT,  
[http://atlas.media.mit.edu/explore/tree\\_map/export/aze/show/all/2010/](http://atlas.media.mit.edu/explore/tree_map/export/aze/show/all/2010/)

**Figure 29: Caspian Seafloor Delineation**

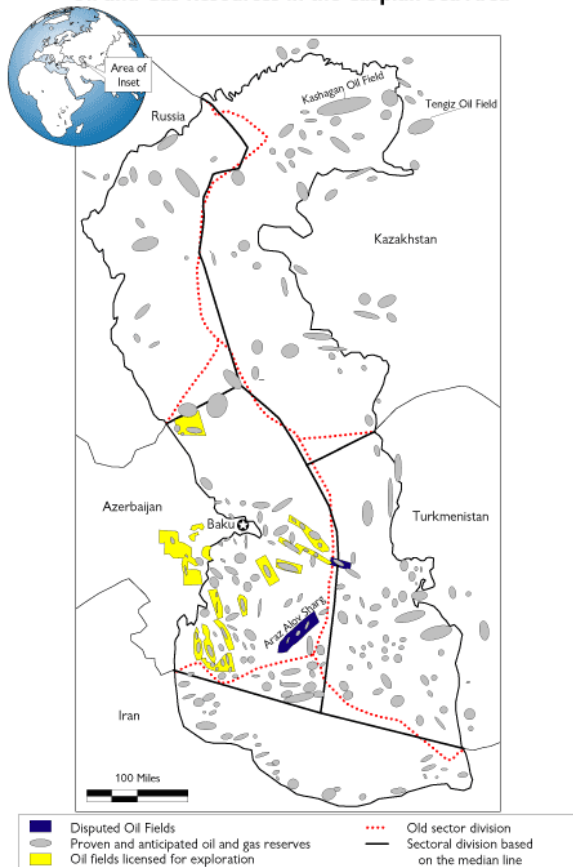


Source: "The Caspian's Unsettled Legal Framework: Energy Security Implications," *Journal of Energy Security*, Dr. Sohbet Karbuz, May 18, 2010.

[http://www.ensec.org/index.php?option=com\\_content&view=article&id=244:the-caspian-unsettled-legal-framework-energy-security-implications&catid=106:energysecuritycontent0510&Itemid=361](http://www.ensec.org/index.php?option=com_content&view=article&id=244:the-caspian-unsettled-legal-framework-energy-security-implications&catid=106:energysecuritycontent0510&Itemid=361)

Source: "Iran's Claim Over Caspian Sea Resources Threaten Energy Security," Ariel Cohen, September 5, 2002.

<http://www.heritage.org/research/reports/2002/09/irans-claim-over-caspian-sea-resources-threaten-energy-security>



Source: "Storm in a Precious Teacup," *The Economist*, August 2, 2001 at <http://www.globopol.org/security/frames/bil/centrakaso/2001/0802cazp.htm>  
<http://www.1uptravel.com/worldmaps/azerbaijan.html>

## **Policy Implications**

The US must pay careful attention to the risk Iran's pressure on Azerbaijan could grow and it could become a more serious focus of US and Iranian competition. Out of all the Caucasus, Azerbaijan has most to lose from increasing US tension with Iran. Although Georgia, as discussed below, was the target of one alleged Iran bombing, Azerbaijan is an easier target for future Iranian attacks due to its proximity, close ethnic and religious ties, and strategic infrastructure.

Such close connections put Azerbaijan at risk even if Iran does not directly target it. Due to the structural problems in Azerbaijani society, Baku is concerned that sufficient pressure from Iran could threaten the regime. Whether deliberate Iranian policy or not, Azerbaijan is likely to pay the costs of increased US-Iranian competition, either through turmoil in Iran or Iranian efforts to strike back against Western targets.

Trade could suffer; Azerbaijan could only lose a relatively small proportion of its market - according to MIT's Economic Observatory, Azerbaijan's non-oil trade with Iran is roughly analogous to its trade with Georgia - but its ability to import could be curtailed by disruptions in Iran's ports.

The low-level trade that increases quality of life in southern Azerbaijan - which often goes unreported in government data - could also suffer from increased trade barriers or political dislocation in Iran. As many Azeri families have members on both sides of the border, Azerbaijan may also face refugee flows if Iran faces political or economic problems.

The greatest risk of all stems from direct conflict on the Caspian, which could disrupt infrastructure essential to the continued stability of Azerbaijan. Such an act would require deliberate escalation on Tehran's part, but could form part of a broader asymmetric strategy targeting Western interests in the region. Furthermore, regional tensions invariably reduce investment, and just the specter of conflict would lessen Azerbaijani FDI.

While such risks may be peripheral to the US focus on Turkey and the Gulf, the US does need to help find ways to deter Iran's ambitions and contain any military action - working with other Caspian powers - including Russia to the extent possible.

## Georgia

The Republic of Georgia has politics, culture, international relations, and history as varied as either Azerbaijan or Armenia, but plays a minor role in US-Iranian competition. It also faces serious territorial disputes over separatist regions, focusing national politics and attention on Abkhazia and South Ossetia, reducing its role in international disputes unrelated to these territories. Its attempts to regain these territories with US backing have placed it at the forefront of US-Russian disputes, giving the state international significance disproportionate to its size.

Georgian domestic politics has seen considerable turmoil over the past decade. Its Rose Revolution - the first of the “color revolutions” - brought to power a new government which would prove more amenable to American interests than its predecessor. It also represented the beginning of a new wave of democratization following the post-Cold War consolidation, setting a precedent for Ukraine’s Orange Revolution, Iran’s Green Revolution, and the Arab Revolutions - or so Russian and Iranian politicians feared.

Although Georgia plays - or seeks to play - a role in US-Russian relations, its impact on US-Iranian ties is also minimal. Georgia was the scene of a failed bombing attempt on an Israeli embassy car in February 2012, but has not since witnessed any violence directed at Israeli or other Western targets. It forms a necessary component of Azerbaijan’s energy export corridor, but so far has not played a major role in petropolitics, backing every Azerbaijani pipeline that crosses its territory (largely out of animosity toward Russia).

### US-Georgia Relations

Ties between Washington and Tbilisi are grounded in common concerns over Russian power projection, specifically regarding Abkhazia and South Ossetia. This strong geopolitical partnership - Georgia saw Westernization and closer ties to the EU and US as the only way to limit Russian influence - was underpinned by a strong personal relationship between Presidents Bush and Saakashvili. The rise of the Georgian Dream party and the entrance of new figures into Georgian and American policy making circles has, however, made the future the relationship less clear.

The US Department of State has summarized US-Georgian relations below:<sup>233</sup>

#### U.S.-Georgia Relations

The strength of U.S.-Georgia relations is codified in the 2009 U.S.-Georgia Charter on Strategic Partnership. The U.S.-Georgia Strategic Partnership Commission comprises four bilateral working groups on priority areas identified in the Charter: democracy; defense and security; economic, trade, and energy issues; and people-to-people and cultural exchanges. In addition to holding a high-level plenary session of the Commission each year, senior-level U.S. and Georgian policymakers lead yearly meetings of each working group to review commitments, update activities, and establish future objectives. Since the signing of the Charter, the United States and Georgia have strengthened their mutual cooperation based on U.S. support for Georgia’s sovereignty and territorial integrity, and its commitment to further democratic and economic reforms.

#### U.S. Assistance to Georgia

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<sup>233</sup> “U.S. Relations with Georgia,” Fact Sheet, Bureau of European and Eurasian Affairs, US Department of States, December 14, 2012. <http://www.state.gov/r/pa/ei/bgn/5253.htm>

U.S. Government assistance to Georgia supports the consolidation of Georgia's democracy; its eventual integration into Euro-Atlantic institutions; progress toward a peacefully unified nation, secure in its borders; and further development of its free-market economy.

### *Basis of Relations*

US-Georgia relations revolve around shared interests in restricting Russia's sphere of influence in the Caucasus. This work has encompassed military cooperation, political backing in negotiations, and efforts by Georgia to reform the economy and political system along Western lines.<sup>234</sup>

The US has provided military training, non-lethal gear, light armored vehicles, and some small arms.<sup>235</sup> As a member of NATO's Partnership for Peace, Georgian forces regularly train with those of NATO states. Through the NATO-Georgia Commission, established after the 2008 War, Georgia has been able to integrate more closely with the Western defensive alliance. It has contributed the most to US-led operations in the past decade, deploying first 70, then 300, then around 800 troops to Iraq, reaching a peak of 2000 in 2007 before redeploying them at home for the 2008 Russia War. Georgia also has over 1500 troops deployed to Helmand Province, building off an original Afghanistan deployment of 50 troops in 2004.<sup>236</sup>

Following the Rose Revolution President Saakashvili embarked on economic and political reforms to Westernize Georgia. While his political legacy is disputed - his United National Movement party was accused by the opposition of bending the law to suit its own ends - the UNM's willingness to peacefully leave power in 2012 was a first for a South Caucasus state. Economic growth continued as well, as the ruling party instituted Washington-inspired reforms that led to growing trade with the US, trends summarized in **Figures 30 and 31**.<sup>237</sup>

While Georgia sees the US as a strategic necessity, Washington views Tbilisi as both a valuable partner and a role model for the region. Georgia ranks in the top ten for ease of doing business, while Azerbaijan and Armenia ranked 55 and 66 in 2012.<sup>238</sup> And Georgia's Freedom House democracy score is .57 better than Armenia and 1.75 better than Azerbaijan. In a region where democracy is unconsolidated, the ideological aspect of American foreign policy finds Georgia a useful partner.<sup>239</sup>

While both have an interest in preventing Russian domination of the South Caucasus, Georgia has not espoused any substantive role regarding Iran. As depicted below, Georgia is too remote and focused on Russia to take an activist approach toward Iran, and the US-Georgia-Iran triangle does not feature prominently in public pronouncement by Tbilisi or Washington.

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<sup>234</sup> "Georgia: Measuring Tbilisi's Security Ties to Washington," Joshua Kucera, February 6, 2012.

<http://www.eurasianet.org/node/64963>

<sup>235</sup> "Georgia: Recent Developments and U.S. Interests," Jim Nichol, July 13, 2012, pg 16.

<http://www.fas.org/sgp/crs/row/97-727.pdf>

<sup>236</sup> "U.S. Tries to Calm Georgia's Fears about Reset of Relations with Russia," Mary Beth Sheridan, *Washington Post*, July 6, 2010. <http://www.washingtonpost.com/wp-dyn/content/article/2010/07/05/AR2010070501211.html>

<sup>237</sup> "The Future of U.S.-Georgian Relations," Center for the National Interest, October 24, 2012.

<http://www.cftni.org/10.24%20US-Georgia%20Panel%20Summary.pdf>

<sup>238</sup> International Finance Corporation, "Ease of Doing Business Index," June 2012.

<http://www.doingbusiness.org/rankings>

<sup>239</sup> Freedom House, "Nations in Transit, 2012," June 2012.

<http://www.freedomhouse.org/sites/default/files/2012%20%20NIT%20Tables.pdf>



### *Points of Dispute*

While the direction of US-Georgian relations is less clear in the aftermath of the 2012 Georgian parliamentary election, there are no substantive points of dispute between Washington and Tbilisi. Georgian politicians have occasionally requested more military aid from the US, but there has not been a concerted campaign to obtain more US military equipment.<sup>240</sup> The US occasionally views Georgia as reckless - particularly in light of its behavior prior to the 2008 War - but this concern has not had wider policy effects. Again, it is expected that Georgian policies will change in the aftermath of the October 2012 election, and some divergences with the Ivanishvili government may become apparent over time.

### *US Concern over Georgia-Iran Relations*

The US recognizes that Georgia's relationship with Iran is, as Jeffrey Mankoff notes, "valuable [to Tbilisi] primarily as a bargaining chip in relations with the West and Russia."<sup>241</sup> Given the dearth of economic or political ties between Tbilisi and Tehran, the US has expressed no public fears regarding the relationship.

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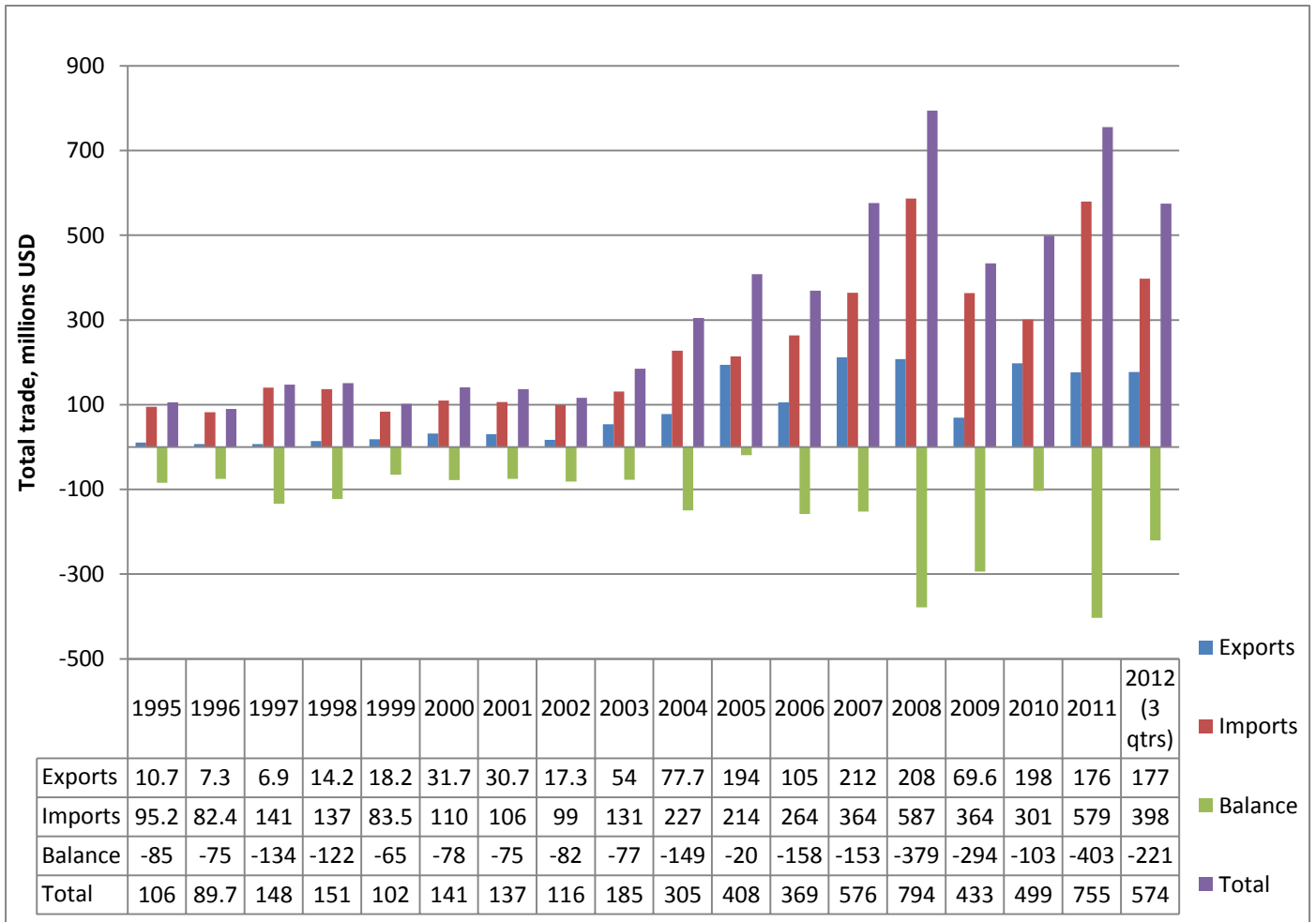
<sup>240</sup> "Georgia: Recent Developments and U.S. Interests," Jim Nichol, July 13, 2012, pg 21.

<http://www.fas.org/sgp/crs/row/97-727.pdf>

<sup>241</sup> "The Big Caucasus: Between Fragmentation and Integration," Jeffrey Mankoff, pg. 13, March 2012,

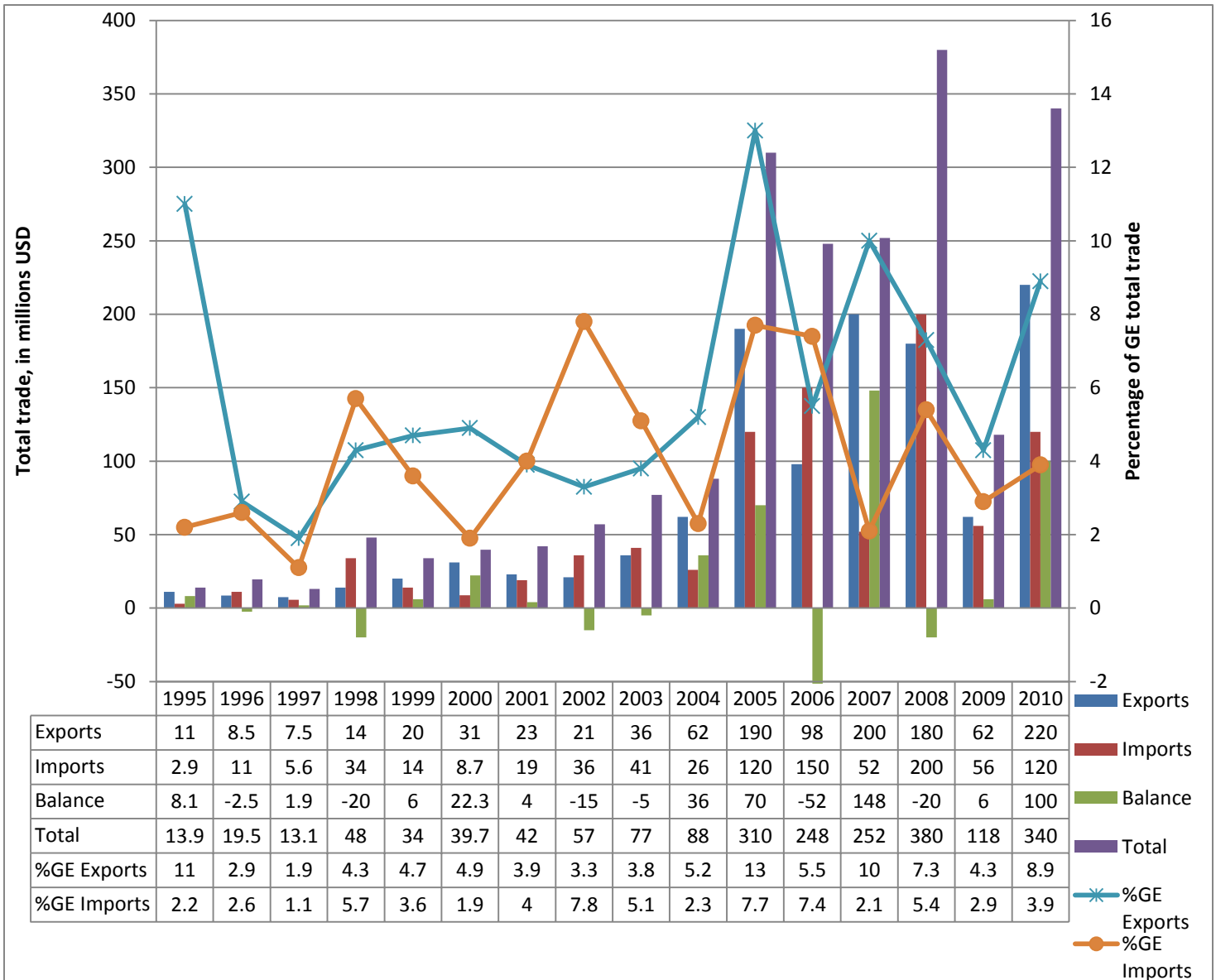
[http://csis.org/files/publication/120326\\_Mankoff\\_BigCaucasus\\_Web.pdf](http://csis.org/files/publication/120326_Mankoff_BigCaucasus_Web.pdf).

**Figure 30: Georgia-US Trade**  
(US Census Bureau)



Source: "Foreign Trade," US Census Bureau, <http://www.census.gov/foreign-trade/balance/c4633.html>

**Figure 31: Georgia-US Trade**  
(MIT Observatory of Economic Complexity)



Source: The Observatory of Economic Complexity, MIT,  
[http://atlas.media.mit.edu/explore/tree\\_map/export/geo/show/all/2010/](http://atlas.media.mit.edu/explore/tree_map/export/geo/show/all/2010/)

## Georgian-Iranian Relations

Georgian-Iranian relations have gradually developed in the past few years on the basis of shared concerns regarding Russia's influence in the region. According to one Georgian analyst:<sup>242</sup>

After the August 2008 war with Russia, as Moscow was trying to weaken and isolate Georgia, Tbilisi was eager to broaden the quantity and quality of its foreign relationships. Rapidly shifting equations in the regional balances of power, as well as from the potential consequences of Russia's unilateral recognition of Abkhazia and South Ossetia, forced Georgia to reevaluate and reshape its regional foreign policies.<sup>2</sup>The United States had downgraded its security ties with Georgia after initiating its "reset" policy with Russia, making this key U.S. foreign policy accomplishment a mixed blessing for Georgia at best. By then, Georgia had thrown in its "strategic lot" with the United States and the European Union. Close relations with the West were seen as indispensable for Georgia's development, but some in the U.S. foreign policy establishment questioned whether the United States had any interests in the region that were more than marginal to U.S. national interests. Tbilisi had to adjust its geostrategic calculations accordingly.

The perceived decline of the role of Georgia and the Caucasus region in U.S. foreign policy led to a situation where it became clear that Georgia could not rely exclusively on Western backing for security, making it essential to advance relations with regional states. Close strategic links with Washington provided some legitimate security and defense needs, but they could not continuously ensure its vital security interests and, in some cases, could even limit Tbilisi's scope for developing relations with rising regional powers. Consequently, the goal of Georgian diplomacy has been to create and promote a suitable balance of power in the region and diversify its foreign policy portfolio, which includes enhancing its relations with Iran. So far, Georgia's knocking on Iran's door has been successful.

Even more than Azerbaijan, Georgian foreign policy focuses on Russia. Georgian policy makers sought to exploit Iranian concerns about Russian influence in the region to provide some freedom of maneuver between the two states. In particular, Tbilisi recognizes that Iran at least partially supports territorial integrity and regional stability, if only because disorder tends to magnify Moscow's role and diminish Tehran's. While Iran tried to frame the partnership as Georgia finding a new partner (to replace the US, which had allegedly proved unreliable), Georgia saw the relationship as complementary to military and political ties with America.<sup>243</sup>

While these strategic objectives were debated between Tehran and Tbilisi, on-the-ground progress was slow but noticeable.<sup>244</sup> In 2011, Georgia and Iran eliminated visa requirements, generating a surge in Iranian tourism to Georgia (as Iranians saw Georgia as the easiest "western" country to reach, Armenia allegedly claimed that Georgia was stealing its tourists).<sup>245</sup>

There have been agreements to reduce double-taxation, improve transit and reduce freight costs, and jointly provide funding and expertise for hydroelectric facilities. Yet, Georgia and Iran are still marginal trading partners - as shown in **Figure 32** - and while the gains from trade for

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<sup>242</sup> Kakachia, Kornely. "Iran and Georgia: Genuine Partnership or Marriage of Convenience." PONARS Eurasia Policy Memo No. 186, September 2011, pg. 1-2. [http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm\\_186.pdf](http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm_186.pdf)

<sup>243</sup> Kakachia, Kornely. "Iran and Georgia: Genuine Partnership or Marriage of Convenience." PONARS Eurasia Policy Memo No. 186, September 2011, pg. 3. [http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm\\_186.pdf](http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm_186.pdf)

<sup>244</sup> "Iranian, Georgian Trade Officials Discuss Expansion of Mutual Cooperation," Fars News, February 27, 2012. <http://english.farsnews.com/newstext.php?nn=9010176286>

<sup>245</sup> "Georgia: Tbilisi Walks Diplomatic High Wire On Iranian Nuclear Issue," Giorgi Lomsadze, IPS/EurasiaNet, May 15, 2012. <http://www.globalissues.org/news/2012/05/15/13684>; "Georgia: Tbilisi Walks Diplomatic High Wire On Iranian Nuclear Issue," Giorgi Lomsadze, InterPress Service, May 15, 2012. <http://www.ipsnews.net/2012/05/georgia-tbilisi-walks-diplomatic-high-wire-on-iranian-nuclear-issue/>

Georgia could be moderate to substantial (based on their current low base), they are unlikely to significantly improve the Islamic Republic's economy.

According to Thomas de Waal, "They (Georgian leaders) want to avoid conflict if possible, but they don't feel in control of the situation."<sup>246</sup> Georgia sees itself caught between increasing US pressure on Iran - pressure that has already restricted Georgian banks' willingness to operate accounts with Iranians - and the commercial and strategic possibilities in an improved relationship with Iran.<sup>247</sup>

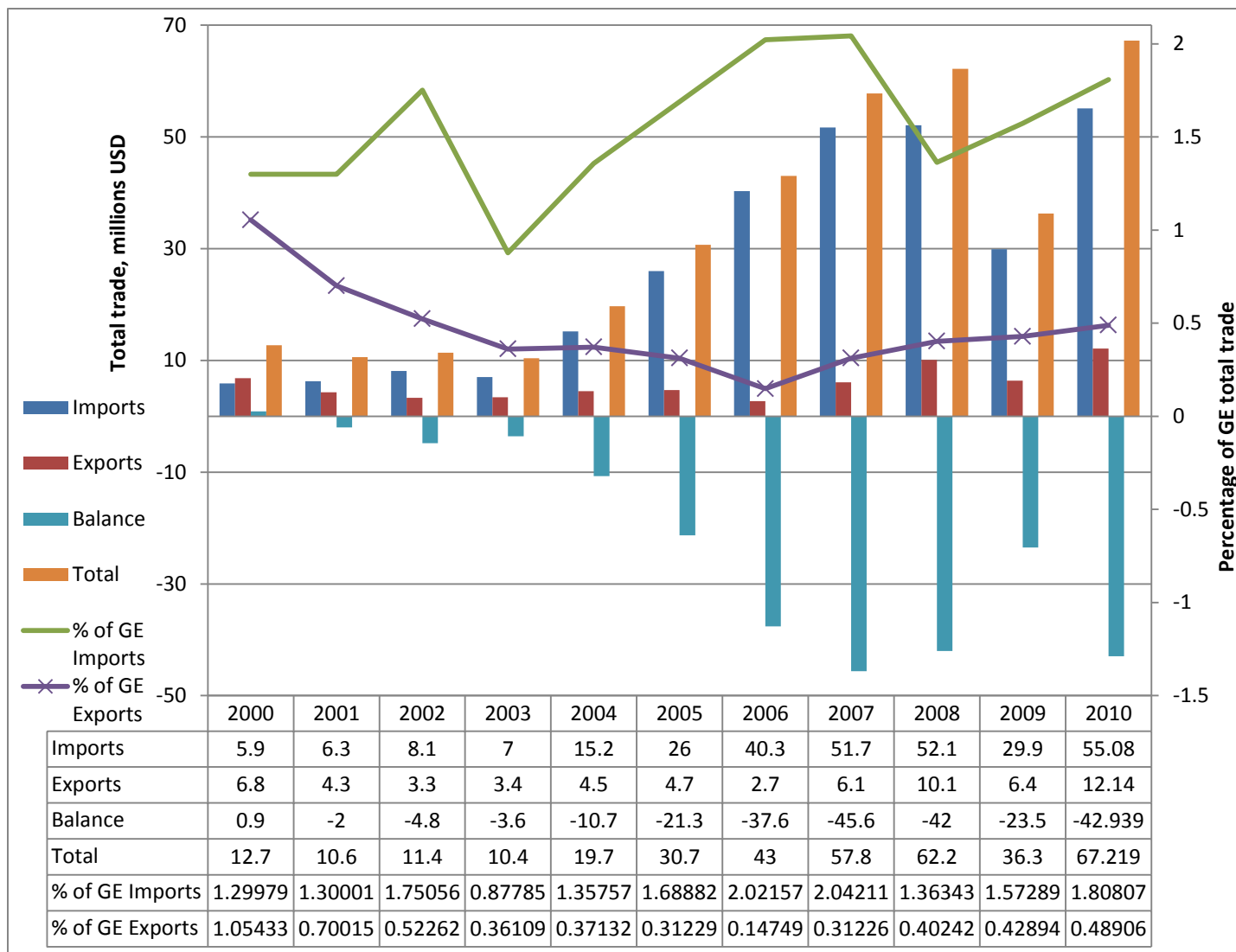
So far, both states have been willing to let Georgia's stance remain ambiguous, strengthening ties with both at the expense of Russia. It is unclear what direction Prime Minister Ivanishvili will seek to push Georgia in; given Tbilisi's limited economic and political influence in broader US-Iranian competition, it is unlikely either side will put much attention into this aspect of the relationship.

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<sup>246</sup> "Georgia: Tbilisi Walks Diplomatic High Wire On Iranian Nuclear Issue," Giorgi Lomsadze, InterPress Service, May 15, 2012. <http://www.ipsnews.net/2012/05/georgia-tbilisi-walks-diplomatic-high-wire-on-iranian-nuclear-issue/>

<sup>247</sup> Kakachia, Kornely. "Iran and Georgia: Genuine Partnership or Marriage of Convenience." PONARS Eurasia Policy Memo No. 186, September 2011, pg. 3. [http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm\\_186.pdf](http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pepm_186.pdf); "Georgia: Tbilisi Walks Diplomatic High Wire On Iranian Nuclear Issue," Giorgi Lomsadze, IPS/EurasiaNet, May 15, 2012. <http://www.globalissues.org/news/2012/05/15/13684>

Figure 32: Georgia-Iran Trade



Source: Georgian Ministry of Foreign Affairs, [http://www.mfa.gov.ge/index.php?sec\\_id=306&lang\\_id=ENG](http://www.mfa.gov.ge/index.php?sec_id=306&lang_id=ENG)

### *Policy*

While Georgia is unlikely to face serious heavy costs should US and Iranian tensions escalate, the attempted bombing of an Israeli embassy car in Tbilisi - an attack which open sources suggest was carried out by an Iranian proxy - demonstrates that Georgia is not completely decoupled from US-Iranian competition.<sup>248</sup> A Western economic climate and culture may be attractive to Iranian businessmen and tourists, but this relaxed atmosphere - and the moderate American and Israeli economic presence - make Georgia a viable target for ideologically-motivated Iranian proxies.

Aside from this potential proxy spillover, the direct economic cost of increased pressure will be low. Georgia's economy is too delinked from Iran, and barring substantial regional disruption that reduces Georgia's access to Azerbaijani energy, Tbilisi will likely weather any storm.

Accordingly, the key for the US may be to aid Georgia in counterterrorism and internal security relations, and do as much as possible to ensure that Georgian and Russian relations remain stable during any period of major US and Iranian confrontation.

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<sup>248</sup> "Bombs Target Israeli Missions in India, Georgia; Iran Denies Involvement," al Arabiya, February 13, 2012. <http://english.alarabiya.net/articles/2012/02/13/194385.html>

## Implications for US Policy

The South Caucasus is dominated by frozen conflicts, and the restricted political maneuvering room and preexisting security dilemmas prevent it from being a fluid zone of competition. Iran has so far condoned this status quo, accepting its relative weakness in return for facing a limited threat from the north (a no-go agreement violated by claims of Israeli air and assassination bases in Azerbaijan).

Iran has been able to derive some advantages from the region, but the benefits are mostly restricted to northwest Iran and other communities that trade directly with the South Caucasus. The weaknesses inherent in the region - low state capacity, small economies, restricted banking sectors, and monodirectional political concerns - inhibit any effort to circumvent Western sanctions or import dual-use or military equipment. With the exception of proxy attacks on US and Israeli targets - which risk angering local governments and leading them to further side against Tehran - Iran cannot effectively use the Caucasus to target US strategic concerns.

The US, in turn, can do little to compete directly with Iran. Arming Azerbaijan, even with weapons that are primarily useful in naval warfare, would be seen throughout the region primarily through the lens of Nagorno Karabakh and competition with Russia, and Washington would have to placate Moscow and Yerevan to avoid inflaming tensions. The US can rhetorically back Azerbaijan's position on the division of the Caspian, but such external interference is unlikely to alter the outcome of negotiations, particularly as Ashgabat and Astana are almost as wary of outside intervention as Tehran.

Unlike in the Middle East and Central Asia, Iran's normal rhetoric and ideology do not appeal to South Caucasus states and publics. Resistance against Israel, *velayat-e faqih*, and anti-Westernism are the antithesis of what local leaders and politicians have sought over the past two decades and Tehran has been compelled to concentrate on commercial exchanges and taking sides in regional spats to maintain a role.

Iran's best hope for the region in the long run, much like the US's, is to back negotiations that lead to a gradual reopening of trade routes and the rebuilding of the banking sector. Iran cannot hope to compete with Russia and the US as security providers, and can only expand its role in Azerbaijan if Baku no longer views Tehran as Armenia's ally. For the US, an unfrozen Caucasus offers an opportunity to improve governance, reduce Russia's role, and open up the Caspian Basin to trade. For Iran, an open environment in the South Caucasus might impose a short-term economic cost as trade patterns shift, but the long-term banking and hydrocarbon opportunities would outweigh these.

Given the region's propensity for renewed cycles of crisis and conflict and the failure of prior negotiations, there is little chance that Iran's posture will substantively shift. The creation of TANAP-Nabucco represents a lost possibility for Iran to enter a multinational framework for pipeline deals; given the high investment costs and limited additional known subsurface resources yet to be given pipelines, this exclusion will hinder Iran's natural gas policy for the next decade.

Iran lacks the personal ties, military relations, and societal attractiveness that would increase its appeal to the South Caucasus states. Its relative lack of leverage and limited public standing are clear in the big-ticket investments it has announced with Georgia and Armenia; such programs



are the exception, not the rule, and are heavily trumpeted by Iranian media. Even Iranian proxy forces appear to be poorly represented; if the February 2012 plot is anything to go by, Iran's assets in the region are unreliable and/or inept.

Washington has little scope for maneuvering in competing with Iran; there are too few objectives and too many local minefields to allow the same degree of complexity as the US faces in the Middle East and Gulf. Iran remains peripheral to other US objectives in the region, and the leverage the US has gained in pursuing these - personal ties; trade, aid, and remittances; military and other security relationships - provide it with the leverage to limit Iran's economic penetration, while allowing it to further the training and equipment transfers that limit Iran's ability to exercise its hard power advantage against the smaller South Caucasus states. For these reasons, the Caucasus are unlikely to become a significant arena for US-Iranian strategic competition.