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The Great Game, Round 2
Washington's Misguided Support for the Baku-Ceyhan Oil Pipeline

by Stanley Kober

Executive Summary

One of the top foreign policy priorities of the Clinton administration during the last few years has been strong support for building a pipeline to transport oil from Baku, Azerbaijan, to the Turkish port of Ceyhan. The administration has argued that this pipeline, bypassing other routes going through Russia and Iran, would be the best way for the economically struggling countries of Central Asia to get their energy exports to market, thereby underpinning their newly won independence. Washington also stresses the supposed benefit of having the pipeline run through the territory of a NATO ally, Turkey.

The project is fraught with problems, however. The first is the price of oil. Although the price has increased recently, the overall trend since the oil crises of two decades ago has been down, as a result of the relentless pressure of technological advancements. The lower the price of oil, the more questionable the commercial viability of the expensive Baku-Ceyhan pipeline. The governments of the United States and Turkey are already being pressured to subsidize construction.

The second problem is political. The effort to bypass Russia makes the United States appear hypocritical. Administration officials are arguing that Russia should move to a market economy while Washington asserts the superiority of U.S. strategic interests in selecting pipeline routes. U.S-Russian tensions, which are already disturbingly high, are being exacerbated by the pipeline issue, because Moscow suspects that Washington is trying to establish a U.S. sphere of influence on Russia's southern flank. Similarly, the effort to bypass Iran is creating an obstacle to efforts to reach out to the elements in that country who want better relations with the United States. Thus, the pipeline, far from promoting U.S. interests in the region, undermines them. The U.S. government should heed its own rhetoric and let the market determine the pipeline route.

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Introduction

Washington's support for the Baku-Ceyhan oil pipeline route is one in a series of actions that has produced a chill in U.S.-Russian relations. That is a most unfortunate and unnecessary development. When the Cold War ended, the hope was that a new era of cooperation would be built on a shared sense of the universality of human rights. As a Soviet commentator wrote in *Izvestia* in honor of President Ronald Reagan's retirement in January 1989, "We have been gaining an understanding of the sovereignty of the human individual and have thereby found a common language with the West on a question that we used to regard as an infringement on our internal affairs—human rights."[1] One of the instruments of this transformation was the Helsinki Final Act, with its emphasis on human rights. Indeed, in the first blush of the end of the Cold War, President Vaclav Havel of Czechoslovakia suggested that "the Helsinki process could form a broad security background for an integrated Europe."[2] Speaking before the Polish Sejm and Senate in 1990, he argued that if the Helsinki process "were to be accelerated and intensified . . . both military alliances could be dissolved, and the process of pan-European integration could be finally set in motion."[3]

That was not done, however. Although the Organization for Security and Cooperation in Europe grew out of the Helsinki Final Act, the primary role in security in Europe has been reserved for NATO. That was not what Russia expected when the Cold War ended, and Russians watched with increasing resentment as NATO expanded eastward (in defiance of assurances Moscow thought it had received when it agreed to German reunification) and then initiated a war in Yugoslavia in the absence of authorization from the UN Security Council (where Russia exercises a veto). When the OSCE met in Istanbul in November 1999, gone were the days when Russia acknowledged that issues of fundamental human rights were of legitimate international concern. In response to Western criticism of Russia's military campaign in Chechnya, then–Russian President Boris Yeltsin replied with the discredited Soviet argument that this was unacceptable interference in Russia's internal affairs. He seemed unmoved—indeed, even irritated—when President Bill Clinton reminded him that he himself had been the beneficiary of such interference during the failed coup by Communist hardliners in 1991.

The confrontation in Istanbul was notable in demonstrating just how badly relations have deteriorated in the last 10 years. Even worse, the conference was the occasion of an event that may lead to further deterioration in relations with Russia and to even greater instability in the Caucasus region. During the conference, agreements were signed for an oil pipeline to be constructed from Baku, Azerbaijan, to Ceyhan, Turkey. Although President Clinton did not sign the agreement, he attended the ceremony to pointedly signal American support. Indeed, construction of the pipeline has been a priority of his administration (and, in fairness, it should be noted that it has also been a priority of Republican members of Congress who frequently oppose the administration on other issues).

The administration insists that the pipeline is not motivated by any anti-Russian bias, but at the same time it admits that its desire for the pipeline is prompted in large part by the desire to safeguard the independence of the energy-rich states of the Caucasus by ending their exclusive dependence on energy routes through Russia. Unfortunately, the competition over pipeline routes has now become politicized, which may increase tensions in an already volatile region as countries feel pressure to choose between U.S.- and Russian-supported routes.[4]

Pipeline Project Built on Economic Fallacies

The impetus for U.S. support for the Baku-Ceyhan pipeline flows from the experiences of the 1970s, when American vulnerability to restricted oil supply was demonstrated by two oil shocks, during the 1973 Yom Kippur War and the 1979 Iranian revolution. The memory of those episodes clearly influenced the Clinton administration, which does not want the United States to be overly dependent on Mideastern oil, especially on oil that must exit through the Strait of Hormuz. Development of the energy resources of the Caspian, with an exit route bypassing the Persian Gulf, is seen as a way of reducing this vulnerability while simultaneously providing a boost to the struggling economies of the Caspian region.

Although superficially appealing, this approach fails to recognize the great changes that have occurred since the 1970s. The overall trend in oil prices has been down since they peaked in the early 1980s following the Iranian revolution. (Indeed, in 1999 inflation-adjusted gasoline prices reached their lowest levels since collection of data on prices began.) That downward trend reflects the influence of market forces on oil prices. As Cheryl Strauss Einhorn, who covers commodities for *Barron's*, has noted, "Commodity prices in a free market tend to revert back toward the cost of production."[5] And the cost of production has been dropping because of the inexorable march of technology, allowing the price of oil to decline as the grip of OPEC has weakened. "Right now, the magic number for justifying projects seems to be $20 a barrel," the *Wall Street Journal* reported in 1991. "At that price, an additional 3.3 billion barrels of crude reserves become available in the U.S."[6] By 1998 that threshold price had dropped significantly. "The industry is fundamentally different today," observed Archie Dunham, president and chief executive of Conoco. "Technology allows us to grow and continue to be profitable even with $14 oil."[7] According to a January 1999 analysis by the World Bank:

> Commodities may be experiencing a structural break in price levels. . . . Advances in technology have

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> reduced the cost of producing many commodity [*sic*], and policy reforms have increased the incentives to adopt better technology. . . .
>
> If we are experiencing a structural break in commodity prices, we would not expect to fully recover from current low levels. Improvements in technology and more efficient operations do not erode quickly. . . . This suggests that commodity prices may have taken another step down in the long history of declining prices relative to those of manufactured goods.[8]

If that assessment is correct, it has tremendous implications for the Baku-Ceyhan pipeline. Nick Zana, managing director of Chevron's Eurasia business unit, has pointed out: "The big disadvantage in the Caspian is shipping expense, the great distance to markets—somewhere between $3 and $4 a barrel just to get it to a sea port for export—and this would be the case no matter how we move the oil or which pipeline we build to move it. Low oil prices make that disadvantage even more acute."[9]

In other words, because of the cost disadvantage imposed by the shipping expense, there are only three scenarios in which export of oil from the Caspian region is commercially viable. The first is if the other costs of producing in the Caspian can be reduced to offset the additional shipping expense. That is highly unlikely. The inaccessibility of those areas to the sea makes it more difficult to get equipment there. Although this is not as great an expense as the cost of getting the oil out, it casts doubt on the possibility that production efficiencies could offset the shipping expense.

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The second possibility is that world oil prices are able to sustain a price for Caspian crude well in excess of production costs. In this case, although Caspian oil would not be as profitable as less expensive oil, it might still be commercially viable. Although OPEC, with the cooperation of Mexico and Norway, has been successful in raising oil prices over the last year, it has historically been unable to sustain such price increases for a prolonged period of time.[10] The pressure of cheating from within—and additional production from outside—the cartel has invariably pushed prices lower again. "Western oil companies seem somewhat skeptical about the sustainability of the recent crude oil price rise," the *Financial Times* reported in September 1999. "Even some of the OPEC officials say recent price rises have become detached from the reality of supply and demand fundamentals."[11]

Indeed, investors in energy have to consider the opposite possibility, that prices will resume their downward trend.[12] If that were to happen, the Caspian could become very unattractive. One analyst estimated in 1998 that "given the tough terms demanded by the Azeris, you would need prices of at least $18 a barrel" for oil companies to justify investment there.[13] As we are now witnessing, however, just as Saudi Arabia does not want the price of oil to go too low, it is also opposed to a high price. "Saudi Arabia is clearly determined that oil prices should not rise for any sustained period near or above the sensitive $30 a barrel level," the *Financial Times* has reported. "The Saudi aim is to see oil prices stabilize in the $20–25 a barrel range for Brent Blend, the UK North Sea bellwether."[14] The Saudis are worried that higher prices would entice more producers to enter the market, which would then drive the price of oil lower. Such a strategy clearly has a significant impact on high-cost producers like those in the Caspian. Even at world oil prices of $20–$25 a barrel, their profit margins would be rather thin.

And that assumes oil continues to be a major source of energy. Recent technological advances motivated primarily by environmental concerns now raise the possibility of replacing oil altogether. "The 'hydrogen economy' is beginning to take shape," reports the *Financial Times*, noting that "the most spectacular losers from the switch to hydrogen would be oil companies and countries with large oil reserves."[15] According to Larry Burns, GM's vice president of research and development, "Hydrogen will be the fuel of the future."[16] William Ford, chairman of Ford Motor Co., has echoed that view, proclaiming that fuel cells will "end the 100-year reign of the internal combustion engine."[17]

And that future may not be far away. "Fuel cells [will] replace internal combustion engines as the power source for cars in ten to fifteen years," William Diem, auto stocks columnist at worldlyinvestor.com, predicted last December. In June 2000 General Motors revealed that it "hopes to begin high-volume production of hundreds of thousands of fuel-cell vehicles annually before the end of the decade."[18] Similarly, Ballard Power Systems has indicated that it plans to begin selling buses powered by fuel cells in 2002.[19] In the blunt words of Atlantic Richfield's chief executive Mike Bowlin, "We've embarked on the beginning of the last days of the Age of Oil."[20] If that proves to be the case, it becomes even more difficult to make a commercial argument for an expensive pipeline that will not be in use for several years.

That leaves the third option: subsidies. Oil executives have been blunt in saying that this is the only option that makes sense for the very long and expensive Baku-Ceyhan pipeline. "The Baku-Ceyhan route is not currently competitive because, in short, it is twice as long as the Georgian route [to the port of Supsa] and, therefore, costs twice as much," Charles Pitman, the president and chief executive of Amoco, forthrightly told a subcommittee of the Senate Foreign Relations Committee in 1997. "I encourage [Congress] and the administration to promote the strategic interests of the U.S. by helping make the Baku-Ceyhan route economically feasible."[21] In other words: if you want this pipeline for your strategic interests, you'll have to provide the money. We can't justify this investment to our shareholders on the economics.

Is Turkey Promising a Subsidy It Can't Afford?

Since that testimony, a subsidy, in effect, has been offered—not by the United States but by Turkey, which has guaranteed to pay construction costs if they exceed $1.4 billion for the part of the pipeline that would run through Turkish territory.[22] Putting aside the question of whether such an open-ended guarantee is a wise use of funds ultimately provided by Turkish taxpayers, the question arises of where the Turkish government would obtain the funds if it actually had to make good on the guarantee. Quite simply, the Turkish economy is in trouble, crushed under a public debt that consumes nearly 90 percent of tax revenue. According to former Turkish president Suleyman Demirel, as of April 12, 2000, Turkey's tax proceeds for 2000 were estimated at 24 quadrillion Turkish lira ($37.78 billion), of which 21 quadrillion lira will be used to pay interest on the public debt. "There is very little, if any[thing], to do to raise tax income," he has admitted. "What needs to be done is to curb interest payments as much as possible."[23]

His approach to curbing interest payments is very odd, however. "Turkey must increase its debt maturity," he told the Ankara Chamber of Commerce in November 1999.[24] But debt with longer maturity normally carries a *higher* interest rate to signify the greater risk inherent in holding an asset for a longer, and therefore more uncertain, period of time. When short-term rates exceed long-term ones, an inverted yield curve occurs as the central bank raises short-term rates to stifle inflation. In such a situation, long-term rates begin to drop when investors regain confidence that their principal will not be eaten away over time by inflation.

Demirel also told the chamber that Turkey "should convert its domestic debts into foreign borrowing."[25] But why should foreign creditors offer more attractive terms than domestic ones? If anything, they should be expected to demand higher interest rates because of the additional foreign exchange risk they assume, especially in light of Turkey's record.[26] In addition, recent international financial crises have demonstrated the risks inherent in relying excessively on foreign portfolio investment.

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problem confronting Turkey, because the interest burden is unsustainable. But something very curious has been occurring in Turkey. To the extent that firms in Turkey are profitable, it is overwhelmingly due to the interest they have received from their holdings of public debt, not because of profits from operations. "The 500 largest industrial firms officially declared that 87.7 percent of their profits in 1999 arose from interest earnings on money they lent to the government, while only 4.6 percent of their overall profits came from their 'production activities,'" notes columnist Cuneyt Ulsever. But if Turkish businesses are so unprofitable, where does the government get the money to pay all that interest? It borrows. "In order to close the budget deficits arising from the necessary finance of deficit-stricken state-owned economic enterprises Turkey has to continually borrow from its citizens—largely from the rich," Ulsever explains.[27]

This looks suspiciously like a pyramid scheme whose time has run out. Recognizing the danger, the government reached agreement with the IMF on a stabilization program last December. The drop in rates following the announcement of the stabilization program was very fast, from an annual compounded yield of 109.24 percent in November to 37.03 percent in January.[28] The steep decline in interest rates has been commonly attributed to confidence in the disinflation program, but some observers are not so sure. "This was too fast and very exaggerated," observed Kocbank's director Engin Ackakoca. "Such a sharp fall is not normal."[29]

The focus on interest rates as a cure to government spending is also increasing the risk of a major financial imbalance in Turkey. Bank depositors, seeing their returns dwindle, began shifting their funds into the Turkish stock market. As economist Bulent Uygun warned:

> The contradiction in interest rates in financial markets happened very quickly. The ratios aimed at interest rates for the end of the year were achieved in one day. This situation was perceived, especially by the government, as reflecting the trust which the financial markets had in the economic program. But this is a narrow perspective.
>
> If the profitability of all the investment instruments were to fall, if there were no attractive investment vehicle outside the stock exchange, a dangerous situation would emerge. This resembles trying to quickly transfer all the water in a big dam through a narrow pipe so that you can't get the water from that pipe. What results are very unpleasant situations.[30]

Indeed, by September the Turkish stock market had plunged 26 percent (40 percent in dollar terms) from its level at the beginning of the year. That sharp decline begs the question of why investors are selling stocks so massively if they have so much confidence in the disinflation program.

In August, bad inflation figures led to a public dispute between the private and public sectors, with the government accusing the private sector of raising prices too much and thereby undermining the anti-inflation program. A representative of the business community replied that the government was manipulating the stabilization program to make the figures look good. "The private sector would not increase prices if it were not for meeting its costs," Ankara Chamber of Commerce chairman Sinan Aygun responded. "We have to increase prices for subsistence or we would go bankrupt. Public institutions might be stalling price hikes, but they are incurring losses. . . . If the government is failing to curb inflation, it should bravely admit that instead of putting the blame on others."[31] Indeed, the inflation figures that were reported immediately afterward were disappointing.[32]

In short, the Turkish government's program, far from correcting the fundamental problem of excessive government spending, may instead be leading the economy on a disastrous course. Indeed, it is striking that, at the same time the government tries to control salaries, Turkey's military spending as a percentage of national gross product is actually increasing.[33] "Independent from Turkish-Greek rivalry that has prompted the Turkish military to buy more arms," the *Turkish Daily News* has explained, "there is also a necessity for the Turkish Armed Forces to continue its massive modernization to meet NATO standards."[34]

This explanation takes us back to the pipeline. "Turkey has increasingly become the centerpiece of American strategic interests in a very dangerous neighborhood," U.S. Ambassador to the United Nations Richard Holbrooke has emphasized. "Turkey is critical to the security and stability of Europe."[35] Words like those have clearly had an impact in Ankara. "Today, the Eurasian reality has come to the forefront," Foreign Minister Ismail Cem of Turkey told the *Turkish Daily News*. "You mentioned the Caspian oil area and the energy corridors that are being debated. The United States appreciates the importance of Turkey within this framework and it treats Turkey accordingly."[36]

Yes, it does, but perhaps not wisely. It is difficult to avoid the impression that an effort is being made to tide Turkey over until the oil revenue begins to flow. That would be a risky undertaking even if the oil revenues materialize as projected, but if they do not, the consequences for Turkey—and for its friends and neighbors—could be extremely serious. If technological advances continue on their current path, an economy built on oil may increasingly come to look as if it is built on sand.

Political Dangers: Poisoning Relations with Russia

The economic assumptions behind the pipeline are not the only ones that are questionable. Politically, the pipeline seems to be having an effect opposite to the one that was intended. Rather than promoting cooperation, the dispute over pipeline routes is stimulating rivalries as the countries of the region struggle to gain as much benefit for themselves as possible. Even Hollywood has taken note: the latest James Bond film concerns a struggle for control of pipeline routes, in particular one going from Baku to Ceyhan.

Hollywood is one thing; real life is another, and it is striking that American involvement in the pipeline issue has been accompanied by an intensification of conflict, especially in the territory of Chechnya. During Soviet times, the major pipeline from Baku went through Chechnya, and the Russians are suspicious that the insurgency there has been in large part inspired by foreign interests that desire to make the Russian route appear unreliable. In particular, the intense American involvement in an area bordering Russia has led them to question U.S. intentions. "U.S. national interests require that the military conflict in the North Caucasus, fanned from the outside, keeps constantly smoldering," Defense Minister Igor Sergeyev of Russia has claimed. The United States wants to "weaken Russia and take full control over the North Caucasus."[37]

In the United States, accusations of that kind are dismissed as expressions of bad faith or Russian paranoia. Yet, even if Sergeyev's statement goes too far, it is curious that an administration proclaiming the virtue of market economics globally interferes so blatantly with the market in this sensitive area. When we tell the Russians, in effect, that we believe in market economics except when our strategic interests are more important, what are they supposed to think? According to a 1999 public opinion poll, 87 percent of Russians agree that the "United States is taking advantage of the economic difficulties Russia is experiencing to strengthen its influence in the world."[38] Ordinary Russians are beginning to wonder whether American efforts to assist Russia on the road to a market economy are not instead part of a strategic design to crush Russia. As a Russian woman asked an American journalist: "Are you an American? Your America, it seems, is very glad about these so-called reforms. Is that so? Are

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you glad we are falling apart? There was an opinion here that there is gloating in America that we are becoming beggars."[39]

Russian suspicions are enhanced by U.S. condemnation of the war in Chechnya. Viewed in the West as a barbaric campaign, the war is seen in Russia as a necessary effort against terrorists to preserve Russia's territorial integrity. In particular, Russians do not feel the NATO countries have any business criticizing them, given NATO's conduct in the Balkans. "Today the people guilty of the Balkan tragedy are accusing Russia of committing illegal actions," writes *Novosti*'s London bureau chief, Andrei Olenin. "The political bias of their 'concern' is obvious. The aim is to undermine Russia's prestige and weaken her and to bring a break-up of the country, perhaps along the lines of the Yugoslav scenario?"[40]

The Chechen conflict is an indication of just how much Russia and the West have drifted apart. If the war was prompted by the rivalry over oil stimulated by the struggle to control pipeline routes, the tragedy for East-West relations will be incalculable. In this regard, it is significant that a representative of the Chechen insurgency, during a visit to Washington last February, indicated that the pipelines played a role in the Chechen war. "The foreign minister of the Chechen Republic, Ilyas Ahmedov, said in Washington that the Chechens had 'sacrificed a lot in the current, as well as in the previous war' to help Turkey to realize the Baku-Ceyhan pipeline route," the *Turkish Daily News* reported on the basis of an exclusive interview. "The Chechen people had paid a 'heavy price' in the current and previous wars so that 'Turkey would have a good opportunity to get the pipeline projects going,' Ahmedov said."[41] Perhaps Ahmedov was exaggerating the role of the pipeline in Chechen considerations in order to embarrass Turkey into providing greater support for the war against Moscow. But if what he said was true, it means that American policy has not contributed to greater stability in the region but has, instead, contributed to the bloodshed in the region.

Political Problems: Endangering a Possible Rapprochement with Iran

The attempt to bypass Iran may also be misguided. To be sure, the government of Iran since the revolution that overthrew the shah has been hostile to the United States, but recent elections indicate that popular sentiment is changing. Last December, when President Mohammed Khatami told a stadium packed with 5,000 students and academics that "we have no hostility toward the American nation," they cheered, drowning out a small group chanting "death to America."[42]

The shift in Iranian sentiment is one of the most positive developments affecting American diplomacy in the last few years, and to its credit the Clinton administration has attempted to respond to it, notably in an address by Secretary of State Madeleine Albright on March 17, 2000. Nevertheless, as Khatami also said, "A high wall of mistrust exists between Iran and the United States."[43] Breaking down this wall requires a tangible gesture from the United States, and a more flexible position on pipeline routes, not seeking to exclude Iran, is one option that needs to be considered seriously. The rewards of an improved relationship, putting to rest two decades of hostility, are too great to jeopardize for a pipeline route that, as we have seen, is difficult to justify commercially in any event.

Ultimately, no policy for Caspian energy can ignore Iran if it is to be successful. "One cannot contemplate a map of the Caspian without factoring in Iran," Mike Stinson, senior vice president for government affairs of Conoco, bluntly told a subcommittee of the Senate Foreign Relations Committee last year. "It is simply too important to the region." Noting that "most energy companies operating in the East Caspian believe a transport route through Iran would be highly competitive and probably represent the lowest capital costs," he reminded the subcommittee that other countries are working with Iran, taking advantage of the absence of

American competition.[44] In this situation it is questionable whether Washington's policy enhances American influence in the region, and the results of the February 2000 Majlis (parliamentary) elections, with their overwhelming rejection of hard-line opponents of the United States, provide an opportunity for a thorough reexamination of the Clinton administration's policy toward the pipelines.

Conclusion

In his Farewell Address, George Washington advised the American people to "observe good faith and justice toward all nations. Cultivate peace and harmony with all. . . . Who can doubt that in the course of time and things the fruits of such a plan would richly repay any temporary advantages which might be lost by a steady adherence to it?"[45] Unfortunately, this was not the path followed after the Cold War ended. "When the Soviet Union disappeared, what happened?" Mikhail Gorbachev asked rhetorically in a speech in Washington last December. "Geopolitical games," he answered. "And now we are paying the price for that."[46]

Nowhere are these geopolitical games more in evidence than in the Caspian. For all the high-minded rhetoric about democracy and markets, Baku-Ceyhan is about the control of oil. "The world runs on oil and gas, and those who control it will wield commercial and geopolitical power," Sheila N. Heslin, director for Russian, Ukrainian, and Eurasian affairs on the National Security Council staff in 1995 and 1996, has forthrightly explained. "The United States simply cannot afford to allow Russia and Iran to dominate the energy resources of the Caspian."[47]

But Russia and Iran are located in the area; the United States is not. Those who would trust in American assurances should take a look at the response to the war in Chechnya. Immediately after the fall of Grozny to Russian forces, NATO's secretary general visited Moscow to repair the relationship that had been damaged earlier by the war in Kosovo. Even if one accepts that there was little the West could do to affect the Chechen war, NATO's eagerness to initiate a dialogue with Russia under such circumstances should raise some questions about how much the United States would—or could—do if relations between the Caspian states and Russia deteriorated.

Simply put, geography matters. Consequently, our effort should not be focused on muscling aside states in the region but on working with them, especially if they show an inclination to work with us. That was the spirit that characterized the end of the Cold War, but it is now steadily disappearing, as is reflected in the new Russian security concept with its greater emphasis on foreign threats to Russia. "My own vivid memory is of the optimism of most Russian strategic thinkers about their ability to convert western powers to the primacy of OSCE over NATO, an OSCE creating a new and common European home with full Russian participation," observed Ambassador Tanvir Ahmad Khan, a former Pakistani foreign secretary who now is chairman of Pakistan's Institute of Strategic Studies. "The revised security concept is a reflection of Russian disenchantment with the West in this regard." In Khan's view, instability in the region is a direct outgrowth of these Russian apprehensions. "In redefining its mission, NATO created an obsession in Russia with the possibility of its interference in many areas of Russian interest, including the Caucasus, the Caspian Sea states and Central Asia, on the pretext of the western commitment to democracy and human rights. The decision to crush Chechnya was taken partly to pre-empt such interference."[48]

Presumably this is not what President Clinton had in mind when he watched approvingly as the Baku-Ceyhan agreements were signed in Istanbul. It is ironic that an OSCE conference, which should be an instrument for bringing countries together and resolving conflicts, might in the end turn out to have been the setting for intensified confrontation. And if technological developments heralding an end to the era of oil reach fruition soon, the irony will be compounded.

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It is bad enough that blood may now be being shed for oil; but if oil is on the way to being just another commodity, the tragedy will be compounded by the sheer futility of playing games with the fate of peoples.

Notes

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23. Quoted in "President Demirel Urges More Foreign, Less Domestic Borrowing," *Turkish Daily News,* Internet edition, November 27, 1999.

24. Ibid.

25. Ibid.

26. It may be that President Demirel meant that the debt should be denominated in a foreign currency: Turkey would guarantee to pay in dollars, rather than Turkish lira, thereby gaining a lower interest rate. As the 1994 Mexican debt crisis demonstrated, however, such a course can prove catastrophic in the event of devaluation—and the Mexican *tesobonos* were short-term paper, which is inherently more predictable. Given Turkey's record, this approach would appear to be extremely hazardous, and it is not at all clear why foreign investors would not insist on higher interest rates as a protection against devaluation.

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