

WHY TURKEY NEEDS ARMENIA MORE THAN ARMENIA NEEDS TURKEY

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By **Ted Tourian** LLM, Los Angeles, 29 January 2010 The early momentum driving the Armenian-Turkish protocols has considerably slowed down in recent weeks. For instance, the Turkish Foreign Ministry has issued the following official statement on the Armenia-Turkey Protocols:



"The Constitutional Court of the Republic of Armenia has declared its decision of constitutional conformity on the Protocols between Turkey and Armenia signed on 10 October 2009 with a short statement on 12 January 2010. The Constitutional Court has recently published its grounds of decision. It has been observed that this decision contains preconditions and restrictive provisions which impair the letter and spirit of the Protocols."

This was in response to the Republic of Armenia's (ROA) Constitutional Court's acceptance of the Protocols, but only after placing a number of restrictions on their legal interpretation and implementation. The reason for this decision is that the Protocols are a vaguely written document, and should not have any precedence, or authority to legally govern ROA's policies, and legal rights.

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This was in response to the Republic of Armenia's (ROA) Constitutional Court's acceptance of the Protocols, but only after placing a number of restrictions on their legal interpretation and implementation. The reason for this decision is that the Protocols are a vaguely written document, and should not have any precedence, or authority to legally govern ROA's policies, and legal rights.

Furthermore, the rapprochement between Armenia and Turkey has also come under fire by Azerbaijan. The latter is attempting to procure concessions from Armenia before normalization takes place. In fact, Azerbaijan has threatened Turkey that it would export natural gas and oil through alternate transit routes, by-passing Turkey. Azeri President Ilham Aliyev has told the Wall Street Journal: "Azerbaijan can export gas in four directions: Turkey, Georgia, Iran and Russia".

Yet, it is the opposite of what Aliyev said that holds water. It is this reason which puts Turkey in a position of needing Armenia more than Armenia needs Turkey for the ratification of the protocols.

The following analysis looks at the reasons why Russia, Georgia and Iran are unacceptable transit routes for Azeri and Central Asian petroleum products, leaving Armenia as the only compromise that can satisfy the major powers in the region. It is for this reason that Armenia should not compromise on any issues that would have a damaging effect on the long-term well-being of the nation of Armenia.

1) Russia and its disputes with the European Union

The primary reason why Russia is not an adequate oil or gas transit route for Europe is its unreliability. Russia is considered an unreliable trade partner by Europe because Kremlin has used its position as Europe's major gas supplier as a bargaining chip to prevent NATO expansion to its former spheres of influence, turning off the faucet when it feels threatened or looks for a concession. As such, Russia's long-term policy is to ensure that all natural gas supplies from Central Asia and surrounding areas travel through its territory, in order to secure this geopolitical asset. The following section looks more in-depth at these assertions.

In recent years, Russian-Ukrainian disputes have, on several occasions, stopped the flow of gas from Russia to Europe. The fall-out from these trade disputes has caused the EU Commission and Presidency to declare that these crises have caused irreparable and irreversible damage to customer confidence in Russia and Ukraine, rendering them reliable partners.

Recent history suggests that this dispute is far from over, despite an agreement between Russia and Ukraine in January 2009 to end the recurring gas shortages in Europe.

For instance, on Oct. 2, 2007 Gazprom threatened to cut off gas supplies to Ukraine because of unpaid debt amounting \$1.3 billion. This dispute appeared to be settled on Oct. 8, 2007. But on Jan. 5, 2008 Gazprom again warned Ukraine it would reduce its gas supplies on Jan. 11, 2008 if a \$1.5 billion gas debt was not paid. Presidents Putin and Yushchenko announced on Feb. 12, 2008 an agreement on this particular gas issue. Ukraine would begin paying off its debts for natural gas, consumed in Nov.–Dec. 2007 and the price at \$179.5 will be preserved in the year 2008. The presidents also decided to replace RosUkrEnergo and UkrGazEnergo by two new intermediaries, creating them as joint ventures of Gazprom and Naftohaz.

The gas crisis of 2009 began with a failure to reach an agreement on gas prices and supplies for 2009. Ukraine owed a debt of \$2.4 billion to Gazprom for consumed gas, and Gazprom asked this amount be repaid before the commencement of a new supply contract. Although in Dec. 2008 more than \$1 billion was paid by Ukraine to reduce its debt, Gazprom remained committed to cut supplies to Ukraine by Jan. 1, 2009, if Ukraine did not redeem its \$1.67 billion debt for gas supplies and \$450 million in fines. On Dec. 30, 2008, Naftohaz paid \$1.522 billion, but parties were not able to agree the price for 2009. Ukraine proposed a price of \$201 and later \$235, while Gazprom demanded \$250 per 1,000 cubic meters. Negotiations between Gazprom and Naftohaz were interrupted on Dec. 13, 2008.

The impact of Russia-Ukraine haggling was also felt in Hungary, Romania and Poland, which reported that pressure in their pipelines had dropped. Bulgaria also reported supply was falling and that transit to Turkey, Greece and Republic of Macedonia was affected.

This trade dispute stems from Ukraine's Orange Revolution in 2004. Since then, Ukraine has moved closer to the west, looking for NATO and European Union membership. Russia is penalizing a former republic of the USSR and Warsaw Pact for removing itself from Russia's sphere of influence. Moscow rewards more "loyal" ex-Soviet republics with lower prices. The dispute is also compounded by a full-scale political crisis inside Ukraine with President Viktor Yushchenko at war with his former ally and Prime Minister, Yulia Tymoshenko.

Obviously, Russia is concerned in a stronger NATO presence encircling it and the West's insistence to deploy its

missile shield closer to the Russian border, under the guise of defending against "rogue states" like Iran and North Korea. In fact, the Russians feel that "it is highly likely that the missile threat from 'problem' states is not the genuine reason for the creation of the missile defense system by the Americans," Mikhail Barabanov, editor of Arms Export magazine wrote. "The real motivation of the multibillion-dollar undertaking is the desire to expand U.S. military and strategic capacities and constrict those of other states that have nuclear missiles, Russia and China most of all."

To provide itself security from NATO's tightening grip, Russia has focused on strengthening control over its strongest geopolitical advantage, natural gas supplies headed for Europe, which relies on over 150bn cubic metres a year (cm/y) of natural gas.

Indeed, Russia has started to pay full price for Central Asian gas exports. After years of buying gas from Central Asia at low prices, state-controlled Gazprom agreed with the three former Soviet states of Kazakhstan, Turkmenistan and Uzbekistan to pay them European prices for their gas on long-term contracts, rather than see those Central Asian nations sell their gas directly to Europe and thus break Russia's stranglehold on exports to the Continent.

The tension between Russia and the West continues. Whereas the West wants energy independence from Russia, Russia wants to monopolize natural gas flow to Europe to prevent NATO expansion.

2) Georgia an Unstable Energy Hub

Georgia is a key transit point in the recent Central Asian oil boom, acting as the hub connecting the Baku-Tbilisi-Ceyhan pipeline.

However, Georgia suffers from instability due to its poor relations with Russia. Last year we witnessed a mini-war over South Ossetia where Georgia took a heavy drubbing. A few years ago Russian military bases were replaced them with NATO forces. Furthermore, Georgia has ethnically diverse provinces, each with identity issues with the central Georgian government. The recent Osset independence encourages minorities in Abkhazia, Ajaria, Akhalkalai and Kaxeti to seek their sovereignty, with Russia fueling independence tendencies as the West promotes stability to prevent oil-transit stoppages. These diverse and competing interests can potentially lead to widespread civil war.

The above questions and more remain unanswered as to whether Georgia can exist as a viable trade hub to deliver Central Asian oil and gas to European markets.

3) Energy Passage through Iran is Unacceptable to the United States

Central Asian oil and gas passing through Iran is unacceptable to the United States. The obvious answer garnering much rhetoric is Iran's supposed nuclear threat to Israel. However, the more insidious answer lies with Iran's foreign policy of trying to unhinge oil trading from the US dollar.

First of all, Iran has begun to expunge its US dollar reserves and started to replace them with Euros. In fact, the head of Iran's Central Bank recently boasted that Iran has gained \$5 billion by excluding the U.S. dollar from its currency basket and replacing it with the Euro.

Secondly, Iran has been advocating to other OPEC nations that they should stop trading oil strictly in US dollars, and replace trading in a basket of currencies that include the Euro, the Japanese Yen and China's Yuan. So far, only

Venezuela has agreed to stop trading oil in US dollars. However, that is not to say that this policy is not favored by other countries. For instance, China, Russia, India, and Brazil (all major consumers of oil) support Iran's recent initiatives.

Currently, Iran has only faced sanctions from the United Nations, and the United States and its allies. India, China, Russia and several other countries remain undeterred from trading with Iran.

The perception that Iran is a military threat to Israel, and more importantly, its attempt to move away from trading oil in US dollars bears a striking resemblance to the scenario of Saddam Hussein's Iraq vs. U.S./Israel.

For instance, prior to the Coalition of the Willing's invasion into Iraq, some commentators asserted that Saddam Hussein sealed his fate when he announced in September 2000 that Iraq was no longer going to accept dollars for oil being sold under the UN's Oil-for-Food program, and decided to switch to the euro as Iraq's oil export currency. As well, like Iran, Iraq was mired in global sanctions that severely restricted its ability to trade.

If Iran's foreign policy on oil currency exchange becomes a successful alternative for international oil trades, it would challenge the hegemony currently enjoyed by the financial centers in London (IPE) and New York (NYMEX), a factor not overlooked in the following (UK) Guardian article:

Iran is to launch an oil trading market for Middle East and Opec producers that could threaten the supremacy of London's International Petroleum Exchange.

...Some industry experts have warned the Iranians and other OPEC producers that western exchanges are controlled by big financial and oil corporations, which have a vested interest in market volatility.

The IPE, bought in 2001 by a consortium that includes BP, Goldman Sachs and Morgan Stanley, was unwilling to discuss the Iranian move yesterday. "We would not have any comment to make on it at this stage," said an IPE spokeswoman.

The above factors have contributed to Iran's isolation from the West. Keeping Iran isolated, and preventing the achievement of Iran's foreign policy goal would prevent the cascading process-- among industrialized nations--from dropping the US dollar as the predominant currency in oil trading. The reason for this is that industrialized nations would likely only move in tandem on the currency exchange markets in an effort to thwart U.S. neoconservatives from pursuing their strategy of dominating the world's largest hydrocarbon energy supply. Any such efforts that resulted in a dollar currency crisis would be undertaken – not to cripple the U.S. dollar and economy as punishment towards the American people per se – but rather to thwart further unilateral warfare and its potentially destructive effects on the critical oil production and shipping infrastructure in the Persian Gulf.

It should be noted that central banks throughout the world are extremely reluctant to currently 'dump the dollar,' because the global community is dependent on the oil and gas energy supplies found in the Persian Gulf, which are currently in close alliance with the United States.

4) Armenia – The Only Viable Option?



Armenia is the best option for delivering Central Asian and Azeri gas to European markets in light of the West's strategy of isolating Iran and Russia, and the recent turmoil in Georgia. Armenia also offers a compromise for both Russia and Iran.

First, using Armenia as a transit line is beneficial to the West's policy of isolating Russia. With the normalization of the Armenian-Turkish relations and activation of the negotiations on Nagorno-Karabakh, it is possible that "Nabucco" pipelines would go through Armenia rather than Georgia. If Turkey decides to cooperate with Washington and reaches a stable agreement with Armenia under US guidance, Russia's entire position in the Caucasus is weakened and an alternative route for natural gas to Europe becomes available, reducing Russian leverage against Western Europe.

A Turkish opening to Armenia would alter the balance of power in the entire region. Since the August 2008 Georgia-Russia conflict the Caucasus, a strategically vital area to Moscow has been unstable. Russian troops remain in South Ossetia. Russia also has troops in Armenia meaning Russia has Georgia surrounded.

Second, using Armenia as transit line for the Nabucco project is feasible to Iran. Last year, Iran "returned" to "Nabucco" project. After the election of Barack Obama as the US president and the statement of his intentions to improve the relations with Tehran served as a political signal to start the negotiations with Iran on the "Nabucco". At the beginning of 2009, Turkey, actively lobbied of Iran's participation in "Nabucco". Tayyib Erdogan even stated in Brussels that there was no sense to build the gas pipeline without Iran's participation.

These recent developments are consistent with Iran's long-term goals of using Armenian territory to export gas to Georgia and the EU. However, only interference from Russia prevented this objective from realisation where Iran built a pipeline to Armenia that was of small capability, in order to prevent Iranian gas entering the European market. This occurred where Gazprom took major precautionary measures against an expansion of Iran's role and indeed against any independent Iranian gas-export policy in Armenia or beyond. It imposed from the outset on Yerevan -- against Tehran's will -- to reduce the Iran-Armenia pipeline's diameter from the originally designed 1,420 millimeters (the size of major gas export pipelines) to 700 millimeters. This measure precludes any transit of Iranian gas to third countries through this pipeline, confining Iran to the Armenian market.

Finally, and most importantly, Russia is amenable to Armenia being an alternate transit route to deliver natural gas to Europe. Russian energy firms already own or manage several major power plants that account for as much as 80% of Armenia's electricity production. In addition, they are the sole suppliers of the country's main energy resources: natural gas and nuclear fuel.

Furthermore, Russia has enhanced its already dominant role in Armenia's energy sector by buying the country's electricity grid after years of behind-the-scene maneuvering. The Armenian government gave the green light recently to the formal takeover of the Electricity Networks of Armenia (ENA) utility by a subsidiary of Unified Energy Systems (UES), the state-controlled Russian power monopoly.

In addition to Russia's dominance of Armenia's electricity market, Russian interests have also consolidated their

dominance in Armenia's natural gas pipelines. In December 2004, Russian giant Gazprom was invited to build and repair one part of the Armenian-Iranian gas pipeline, between Kadjaran and Ararat, at a cost of \$90 million. As payment for its work, Gazprom would receive the No. 5 generating unit at the Razdan power plant, Armenia's largest heating and power plant, which supplies 20% of the country's electricity needs. Armenian President Robert Kocharian had earlier dismissed reports of such a deal.

Furthermore, the Armenian government agreed that the new pipeline's section on Armenian territory would be given over to Gazprom via the ArmRosGaz company, in which Gazprom and its offshoot Itera hold a combined 68% interest. Controlling the pipeline and distribution network within the country, Moscow can exercise all but discretionary control over the access of gas from a third-country supplier -- a situation that Moscow seeks to achieve in certain European countries as well.

Conclusions

Despite the rhetoric from Turkey that it may abandon the Armenian-Turkish Protocols, it is clear that Armenia is a necessary cog in the world of global oil transit.

Russia, Georgia and Iran are unacceptable transit routes of Azeri and Central Asian petroleum products, leaving Armenia as the only compromise that can satisfy the major powers in the region.

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