The United States and Iran: Competition Involving Turkey and the South Caucasus

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Note: This draft is being circulated for comments and suggestions. Please provide them to acordesman@gmail.com
Executive Summary

US and Iranian efforts to bolster their strategic ties to Turkey and the Caucasus are becoming a steadily more significant aspect of their confrontation. The region holds both immense attractions in both geopolitical and economic terms for the United States and Iran, but also complex challenges.

Turkey’s primary political, economic, and security ties are with the West, although the ruling Justice and Development Party (AKP) has also sought to strengthen relations with its Middle Eastern and Central Asian neighbors. There is growing competition for influence in Ankara between the United States and Iran as it “looks East” in reaction to de facto rejection by EU, wrestles with tensions with US since invasion of Iraq, and deals with the Islamist versus secular struggle in Turkish politics.

These trends have had a mixed impact on Turkey’s relations with the US and Iran. They create growing challenges for the US in maintaining military and strategic relations with Turkey. Due to having previously fought a protracted war against PKK insurgents and to continuing fears of Kurdish separatism, Turkey opposed the US intervention in Iraq, thinking that it would cause instability along its southern flank. As a result, during pre-deployment for Operation Iraqi Freedom in 2003, Turkey denied US troops the permission to transit or stage operations from its territory.

At the same time, conflicting regional ambitions make Turkey a natural regional competitor with Iran – one that largely shares the United States’ strategic goal in making sure that the Middle East remains outside Iranian control. From Iran’s perspective, their relationship is clouded by Turkey’s military ties to the US, as well as by strong political, religious and historical differences. Turkey, after all, remains a secular Sunni state that has little affinity for many aspects of Iran’s Islamic Revolution. Yet, Iran is still likely to attempt to exploit the new tensions in the US-Turkish relationship to increase its influence in Ankara, to evade American sanctions, and to use Turkey as a key corridor for its energy exports.

Turkey has pursued a “zero-problems” policy under the AKP government, reorienting Turkish relations with all neighboring countries, including Iran, primarily through economic engagement. Since then, although Turkey remains a committed member of the Western security bloc, it has attempted to act as a mediator for hot button foreign policy issues in Central Asia and the Caucasus, Iran among them. While this has caused some apprehension in US policy circles, Turkey nonetheless it remains a reliable, if complex, ally. As such, the US must realize that it needs to rely on dialogue, rather than assume Turkey should share its approach and policies.

While Turkey is of critical interest to both competitors, the Caucasus are in many ways a strategic sideshow for the US, but of direct strategic interest to Iran. Armenia and Azerbaijan’s importance in US and Iranian competition lies largely in whether they can help the US limit Iran’s influence in the Black Sea area, as well as in their impact on energy export routes.

The US faces many of the same issues in dealing with Azerbaijan in terms of Iran that it does in dealing with Turkey. Its location on Iran’s periphery and access to Caspian and Middle Eastern energy reserves are assets that both Iran and the US value. Azerbaijan maintains close ties with the US, serving as an extremely significant part of the US logistical effort to sustain operations in Afghanistan. However, Iran remains a significant power in the region, and Baku can afford to neither provoke nor ignore it.
In Armenia, meanwhile, Iran plays a significant economic role and has bolstered its influence by playing on a mutual wariness of Azerbaijan and Turkey. Armenian relations with Iran are focused on trade and are of critical importance, since Armenian borders with Turkey and Azerbaijan are closed due to historic tensions with Turkey and the unresolved Nagorno-Karabakh conflict with Azerbaijan. Desperately needing a regional ally, Armenia has welcomed Iranian support. While the United States has been a strategic partner of Armenia without taking sides against Azerbaijan, it is clear that here Iran is the closer ally. Once again, the challenge for the US will be focus on incentives and good relations while quietly applying pressure and avoiding any open confrontation.

At present, US and Iranian competition does not have a clear, substantive impact on the other Black Sea states. Georgia is not central to US-Iranian strategic competition, given its close alignment with the United States. While Georgia and Iran share a vibrant trade relationship, the Georgian foreign policy preoccupation of limiting Russian meddling in its internal affairs takes precedence and it is Washington which provides the strongest countervailing weight against Russian influence. Policymakers in Tbilisi are likely to continue to see ties with the United States as the best hedge against Russian aggression, making it unlikely that they will support Iran in any major security disputes with Washington.

In sum, strategic competition is not the primary consideration for US and Iranian policy in this region. Both countries have specific evolving interests that are likely to shift in the hierarchy of each country’s grand strategic objectives in the post-Iraq and post-Afghan era. The manner of US withdrawal from the region, and the nature of broader US-Iranian competition will likely affect the manner and scale of each country’s engagement with Turkey and the South Caucasus, although the region is likely to remain of interest due its economic importance and energy wealth.
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United States and Iranian efforts to bolster their strategic ties to Turkey and the Caucasus are becoming a steadily more significant aspect of US and Iranian competition, and one with a direct impact on which power has the most influence in Iraq.

**Turkey:**
- The competition for influence in Ankara is growing as Turkey “looks East” in reaction to de facto rejection by EU, tensions with the United States stemming from the invasion of Iraq, and secular compromises with Islamist factions in Turkish politics. This is creating growing challenges for the US in maintaining military and strategic relations with Turkey. Having previously fought a protracted war against PKK insurgents, Turkey is particularly cautious about an independent Kurdish state arising from a destabilized Iraq. At the same time, due to recent tensions, Turkey relations with Israel may be cooling. In order to weaken Turkish ties to the US and Israel, Iran will seek to exploit these issues, to increase its influence in Turkey at the expense of the United States, and to use Turkey as a means of evading American sanctions and as a key corridor for its energy exports.

**Armenia and Azerbaijan**
- In many ways, Armenia and Azerbaijan are strategic sideshows for the US, but of direct strategic interest to Iran. Their importance in US and Iranian competition lies largely in whether they can help the US limit Iran’s influence in the Black Sea area, as well as in their impact on energy export routes.

**The Other Black Sea States**
- At present, US and Iranian competition does not have a clear, substantive impact on the other Black Sea states.

**Turkey**

US and Iranian competition is particularly important in the case of Turkey. Turkey's primary political, economic, and security ties are still with the West, although the ruling Justice and Development Party (AKP) government has sought to strengthen relations with Iran as well as its other its Middle Eastern and Central Asian neighbors. Some analysts believe this shift will come at the expense of the US, and be affected by the deterioration of Israeli-Turkish relations, but this is still uncertain.

Turkey has a key strategic position. It controls the Bosporus Straits leading from the Black Sea to the Aegean and shares a border with Syria, Iraq, and Iran. Turkey entered NATO in 1952 and NATO’s Air Component Command Headquarters is located in Izmir and NATO’s Rapid Deployable Corps-Turkey is headquartered in Istanbul. Furthermore, it is an important commercial power in the region and could be central to US efforts to economically isolate Iran through sanctions.

Turkey is also becoming a major energy-transit nation that links Caspian, Middle Eastern and Central Asian suppliers with their European consumers, and an alternative east-west route to those monopolized by Russia. Turkey has been a major transit point for seaborne traded oil and is becoming more important for pipeline-traded oil and natural gas, with significant volumes transported to westward to Europe. Growing volumes of Russian and Caspian oil are being sent by tanker via the Bosporus Straits to Western markets while a terminal on Turkey's Mediterranean coast at Ceyhan allows the country to export oil from northern Iraq and Caspian suppliers, notably Azerbaijan.¹

These trends have had a mixed impact on Turkey’s relations with the US and Iran. Competing regional ambitions, a complicated historical relationship, and religious and political differences make Turkey a natural regional competitor with Iran – one that largely shares the United States’ strategic goal in making sure that the Middle East remains outside Iranian control. Yet, despite this broad array of shared interests, the US and Turkey have entered a new era in their relationship, marked by both conflict and collaboration, and one that Iran is likely to attempt to exploit. Furthermore, although Turkey remains a committed member of the Western security bloc, it has attempted to act as a mediator in hot button foreign policy issues in Central Asia and the Caucasus that directly affect Iran.

Turkey has undergone considerable change since the collapse of the Soviet Union. Reforms began under the government of Turgut Ozal in the early 1990s, but it was an EU decision to make Turkey a candidate for membership in 1999 that “catalyzed an era of revolutionary change.” As a result, between 1999 and 2002, a broad left-right coalition oversaw remarkable reforms in Turkey: the rewriting of one-third of the Turkish constitution, the enactment of international human rights legislation, measures to discourage torture, and new laws curtailing restrictions on freedom of expression, civil society, and the media. Some difficult and expensive reforms have slowed since 2007, however, when French Prime Minister Sarkozy and German Chancellor Merkel expressed their opposition to Turkish accession to the EU.

Turkey is also witnessing some erosion in its strong secular tradition as the moderate Islamist AKP government of Prime Minister Erdogan has gained in influence. The Turkish military was “persuaded” to relinquish some of its authority, accept more transparent defense budgets, and curb its influence in the judicial system.2 Prime Minister Erdogan and the AKP have steadily grown in popularity and influence as Turkey has experienced years of economic growth and effective civil governance. Another election victory in 2011 further weakened the political powers of the military, forcing the resignation of virtually the entire Turkish high command in late July 2011.

Turkish Relations with the US

Turkey has been a crucial partner for the United States and plays an important role in US strategy. In his first major overseas trip in 2009, President Obama spoke in front of the Turkish parliament and described the country as a “critical ally” and an “important part of Europe.” During the Cold War, the United States granted Turkey extensive aid that today totals more than $12.5 billion in economic aid and more than $14 billion in military assistance.3 This flow has slowed considerably since the Gulf War, with US foreign assistance amounting to about $15 million in 2009 and $8 million in 2010. The US and Turkey are, in general terms, not major trading partners, with Turkey ranking 28th among countries to which the US exports merchandise and 48th among countries from which it imports goods.4 However, the US is Turkey’s most

3 http://www.state.gov/r/pa/ei/bgn/3432.htm#relations
important arms supplier, and US entities may be involved in as much as 80 percent of Turkey’s defense-industrial activities.\(^5\)

Turkey remains a close security partner of the US, and has cooperated with the US on many regional issues. The US and Turkey also cooperate in areas like sharing intelligence in Turkey’s fight against ethnic Kurdish insurgents, helping to ensure the smooth withdrawal of US troops from Iraq and Afghanistan, cooperating against al-Qaeda factions, and partnering in various regional mediations, including between the Israelis and the Syrians, and the Israelis and the Palestinians, and between Palestinian factions.

In spite of such cooperation, there are serious tensions in the relationship. The rise of the Justice and Development Party (AKP) in Turkey since 2002, and of its charismatic leader, Recep Tayyip Erdogan, has created a significant division between Islamist and secular forces in Turkish politics. Some analysts have suggested that under the stewardship of Erdogan and Turkish Foreign Minister Ahmed Davutoglu, Turkey has begun to pursue a policy that “Looks East,” in reaction to de facto rejection by EU, and has moved towards regional engagement to compensate.

US Embassy cables released by “Wikileaks” highlight growing concerns amongst US officials over the long-term trajectory of Turkish policy. These include worries over growing Islamism and anti-Americanism inside Turkey, as well as uncertainty over the country’s newer foreign policy alignments.\(^6\) This uncertainty is exacerbated by President Erdogan’s regular criticisms of US foreign policy at various international forums.

Tensions between the two countries stem from some of the United States’ policies in the region. Turkey cooperated extensively with the US during the 1991 Gulf War, but failed to elicit the regional payoff it had hoped for. Instead, the US-led economic blockade of Iraq during the 1990s forced Turkey to close its eastern border, costing billions of dollars in trade and increasing poverty in its southeastern provinces.\(^7\) As a result of this and of continuing fears of Kurdish separatism, Turkey opposed the US intervention in Iraq, thinking that it would the potential for instability along its southern flank, from Sunni-Shiite conflict and Kurdish irredentism.

As a result, during pre-deployment for Operation Iraqi Freedom in 2003, Turkey denied US troops the ability to transit or stage operations from its territory. Turks also remember the “Hood Event” in July 2003, following the US invasion, when Turkish Special Forces soldiers operating in Northern Iraq were briefly arrested, hooded, and interrogated by US military personnel. This further inflamed tensions, and reinforced anti-American sentiment in Turkey.

Since that time, however, Turkey has generally supported US efforts in Iraq to prevent any cross-border violence from Kurdish separatists and terrorists such as the PKK, but also to gain influence in oil-rich Iraqi Kurdistan. Turkey has continued to permit the use of Incirlik Air Base for the transport of non-lethal cargo in support of US operations. Furthermore, once US troops had committed to Iraq, Turkey was one of the first countries to offer troops – as many as 10,000 – in support of the US mission.\(^8\) The deployment was later cancelled due to fierce Iraqi

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8 [http://news.bbc.co.uk/2/hi/europe/3172228.stm](http://news.bbc.co.uk/2/hi/europe/3172228.stm)
opposition. In 2008, Turkish troops mounted a brief incursion into Iraq against the PKK, utilizing about 10,000 soldiers backed by armor and air assets. The incident attracted a great deal of media attention, but there are indications that even before the incursion, some Turkish troops were forward deployed inside Iraq with the consent of the Kurdish peshmerga, and presumably with the knowledge of US forces.9

These examples of Turkish assistance help explain why many analysts and senior US officials, including Defense Secretary Robert Gates, have urged a measure of understanding for Turkey’s positions. In June 2010, he said, "I personally think that if there is anything to the notion that Turkey is, if you will, moving eastward, it is, in my view, in no small part because it was pushed, and pushed by some in Europe refusing to give Turkey the kind of organic link to the West that Turkey sought."10

Moreover, Turkey has every reason to share the US goal of creating a stable Iraq and acts as Iran’s primary competitor for influence in the country. In a historic policy shift, Turkey has worked to normalize relations with the Kurds of northern Iraq – in part to gain access to huge gasfields of Iraqi Kurdistan – and has invested heavily in Iraq with bilateral trade reaching $6 billion in 2010. Trade is now more than double that of 2008,11 the year when Turkish Prime Minister Erdogan became the first Turkish head of state to visit Baghdad in nearly two decades.12 Iraqi politicians have often turned to Turkey for help with internal political issues. In October 2010, Iraqi Prime Minister Nour al-Maliki, who has himself in the past had tense relations with the Turks, travelled to Ankara for talks on resolving stalled efforts to form a government in the aftermath of the 2010 Iraqi parliamentary elections.13

The Turkish government has also been critical of Iran’s actions in Iraqi. It openly rebuked the Iranian government for its efforts to influence the 2010 elections, and has criticized Iran for actions that increase the sectarian divide within Islam. Turkish firms also compete with Iranian ones for reconstruction contracts across the country. Recently, a Turkish consortium outbid an Iranian group for a $11 billion contract to renovate Sadr city, Baghdad’s largest Shiite neighborhood, and a presumed center of Iranian power inside Iraq.14

Turkey has supported the fighting in Afghanistan in its capacity as a member of NATO and has made military, training and development contributions to the ISAF effort. Turkey has commanded ISAF four times (2002, 2005, 2009-2010, and 2010-2011), currently commands Regional Command Capital, and has set up two Provincial Reconstruction Teams in Wardak and Jowzjan Provinces, with approximately 1700 troops stationed in Afghanistan.15 In these regions, Turkey has chosen to focus on three Afghan challenges: Wahhabism and Pashtun nationalism;

9 http://www.telegraph.co.uk/news/worldnews/1567458/The-Turkish-troops-inside-Iraq.html
10 http://www.bbc.co.uk/news/10275379
11 http://www.nytimes.com/2011/01/05/world/middleeast/05turkey.html
12 http://uk.reuters.com/article/2008/07/10/uk-iraq-idUKL1039555320080710
the chronic antagonism between Afghanistan and Pakistan; and the country’s security forces deficit.

The Impact of Turkish-Israeli Relations and Problems in US-Turkish Relations

Turkish relations with Israel have chilled in recent years and Tel Aviv has claimed that Ankara is strengthening “its identification and cooperation with Iran.” However, the outgrowth of tensions between the two countries is largely independent of Iran. The 2008-09 War in Gaza, was launched during Turkish-mediated talks between Israel and Syria over the Golan Heights, which greatly angered the AKP government. Prime Minister Erdogan criticized Israeli President Shimon Peres at the World Economic Forum over Gaza, publicly calling him a “liar” and a “killer” in front of other delegates. By mid-2010, polling showed that 78 percent of Israelis considered Turkey as an “enemy.”

The Mavi Marmara incident in end-May 2010, in which Israeli commandos raided a Turkish flotilla headed for Gaza and killed eight Turkish citizens, further inflamed tensions, which remain high more than a year later. In the aftermath of the raid, Turkey recalled its ambassador and has downgraded diplomatic relations, with a charge d’affaires now the highest representative at the embassy in Tel Aviv. In July 2011, Turkey reiterated its demand for an apology from Israel and has threatened to further downgrade relations.

A rapid recovery in Turkish-Israeli relations does not appear likely, especially not while the current governments are in power, and perhaps for much longer. However, it is important to note that bad as the relationship may be, it nowhere near approaches the hostility between Tehran and Israel. Erdogan’s three conditions for ending the crisis – “an apology, compensation to the victims and the lifting of the Gaza siege” – are considered rather lenient by Tehran, which would like to see the conditions widened to encompass the return of Arab lands, including the Golan Heights.

This worsening relationship with Israel has affected American domestic politics and relations with Turkey. In mid-2010, President Obama warned that Congressional suspicion of Turkish motives and declining confidence in Turkey as a dependable long-term ally could affect US and Turkish relations, and warned of its potential impact on bilateral relations, particularly on military supply.

There have been other tensions in US-Turkish relations. These include a controversy over the sale of unmanned drone aircraft to combat PKK separatists, and in March 2011, it was reported that the planned Turkish procurement of 100 F-35 Lightning II multirole fighters had been stalled over a US refusal to share key pieces of technology, including the “source code.”

Turkey also opposed the deployment of a US ballistic missile defense system on Turkish soil, for

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16 “78 pct of Israelis view Turkey as enemy: poll,” Agence France Presse, June 10, 2010. Available at http://www.google.com/hostednews/afp/article/ALeqM5h-VvhgxjVcleA21QBUCIULnxuJ0gg


18 http://www.atimes.com/atimes/Middle_East/MG26Ak01.html


fear of damaging relations with Russia.\textsuperscript{21} Despite these reported tensions, other arms sales have continued. In June 2011, Turkey partnered with US company Sikorsky in a $3.5 billion deal to provide Turkey’s next generation of utility helicopters.\textsuperscript{22}

**The Turkish Role in European Economic and Energy Security**

Turkey is the largest economy in the region and increasingly important to the energy security of Western Europe. Despite much ado regarding Turkish engagement with the “East,” trade figures show that it remains firmly tethered to the West.

The EU27, cumulatively, is Turkey’s largest trade partner, accounting for a resounding 42 percent share in Turkish trade, including 39.3 percent of all imports and 46.3 percent of all exports, bounds ahead of any other partnership. By comparison, Russia and China are Turkey’s second and third-largest trade partners, and account for a mere 8.8 percent and 5.5 percent export share respectively. Iran and Iraq, the two largest Middle Eastern partners account for 3.6 and 2.5 percent respectively.\textsuperscript{23} In 2008, the EU27 also accounted for 75% of Turkish FDI inflows.

There have, however, been attempts to diversify this dependence, as macroeconomic figures show. 2008 marked the first year where the E.U.’s export share fell below 50%, departing starkly from their traditional average of 56-58%. These are, in part, a reflection of the vastly expanded Turkish economy, with trade having boomed from $116.5bn in 2003 to $334bn in 2008. BRIC and Middle Eastern countries have been the primary beneficiaries of this diversification, and collectively in 2010, Middle Eastern and North African countries (including Israel) accounted for 15.4 percent of all Turkish trade.\textsuperscript{24}

Turkey is also growing in importance as a transit country for oil supplies from Russia, the Caspian region, and the Middle East to Western European end-users, as can be seen in Figure 8.1. Growing volumes of tanker-borne Russian and Caspian oil now pass through the Bosporus Straits to Western markets. Approximately 2.9 million bbl/d flowed through Bosporus in 2009, 2.5 million bbl/d of which was crude oil. Oil shipments through the Turkish Straits decreased from over 3.4 million bbl/d at its peak in 2004 to 2.6 million bbl/d in 2006 as Russia shifted crude oil exports toward the Baltic ports. Traffic through the Straits has increased again as Azerbaijani and Kazakhstan crude production and exports rose.\textsuperscript{25}

Congestion in the Straits has also been a major incentive to create overland routes, as well as other “Bosphorus bypass” options, some of which would also transit Turkey. The Ceyhan terminal on Turkey’s Mediterranean coast is the most important of these projects to date, and marks a Turkish attempt to establish itself as a regional energy hub. Already the terminal serves as an important outlet for northern Iraqi oil through the Kirkuk-Ceyhan pipeline, and for Caspian energy exports through the Baku-Tbilisi-Ceyhan pipeline which transports light Azeri crude. The Turkish government is also constructing the Samsun-Ceyhan pipeline that could reduce traffic in the Bosporus by almost 50 percent and would transport oil from the Black Sea overland to

\textsuperscript{21} http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=37061&cHash=2c22c84892

\textsuperscript{22} http://www.hurriyetdailynews.com/n.php?n=turkey-chooses-us-helicopters-for-3.5-billion-deal-2011-04-21

\textsuperscript{23} http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113456.pdf

\textsuperscript{24} Ibid.

\textsuperscript{25} http://205.254.135.24/countries/cab.cfm?fips=TU
Ceyhan on the Mediterranean.\textsuperscript{26} The Nabucco pipeline, when operationalized will further increase Turkish importance for Western European consumers, linking them to additional gas supplies from the Caspian region, as well as the Middle East.

However, for Turkey to function as a transit state, it will require additional energy-sector investment to upgrade infrastructure and capacity. Domestic Turkish demand continues to increase with an expanding economy, cutting into capacity available for re-export. By some estimates, all surplus capacity could be exhausted within the next decade, without additional investment.

Security concerns may also have an impact on the Turkish transit route. In July 2011, a blast in Iran’s Western Azerbaijan province disrupted Iranian gas supplies to Turkey, following a previous attack in August 2010 that was blamed on Kurdish separatists.\textsuperscript{27}

\textbf{Figure 8.1: Turkey as an East-West Energy Corridor}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure8.1.png}
\caption{Turkey as an East-West Energy Corridor}
\end{figure}

\textbf{Source: IEA}

\textbf{Turkish Relations with Iran}

Turkish relations with Iran are characterized by both conflict and collaboration.\textsuperscript{49} From Iran’s perspective, their relationship is clouded by Turkey’s military ties to the US, and by strong political, religious and historical differences. Turkey remains a secular Sunni state that has little affinity for many aspects of Iran’s Islamic Revolution, and both nations have historically competed for regional influence, long before even the creation of the Ottoman Empire. Bilateral

\textsuperscript{26} [Webpage](http://205.254.135.24/countries/cab.cfm?fips=TU)

\textsuperscript{27} [Webpage](http://www.naharnet.com/stories/en/11486-blast-hits-iran-turkey-gas-pipeline-cutting-supplies)
relations suffered in the 1980s and 1990s due to disagreements over the PKK, which is alleged to have used Iranian territory to launch attacks into Turkey, and Turkey has also protested what it perceives as Iranian support for Turkish Islamists.

Turkey has pursued a “zero-problems” policy under the AKP government where Turkey has sought to reorient Turkish relations with all regional countries, including Iran, primarily through economic engagement. Bilateral trade has expanded substantially, and Iran is now Turkey’s largest Middle Eastern trade partner, accounting for 3.6 percent of Turkish trade, behind only the EU27, Russia, China and the US.\(^{28}\) Trade reached $10.6 billion in 2010 -- a 97 percent improvement over 2009 -- with expectations it would surpass $15 billion in 2011 under the terms of a preferential trade agreement.

As a result of sanctions, and an unfavorable investment climate in traditional trade centers such as Dubai, Iranian companies have also increasingly turned to Turkey. By 2010, the number of Iranian firms in Turkey had risen to 1,470, up from 319 in 2002, and with a record 284 companies registered in 2010 alone.\(^{29}\) There have been numerous high profile political exchanges between the country, including mutual visits by their respective heads of state, a matter that has raised eyebrows in the region and in the West.

Energy cooperation has been an important component of the Iranian-Turkish relationship. As Turkey’s energy needs have increased – it imports 70 percent of all the energy it consumes – they have coincided with an Iran that has been actively seeking new markets. Turkey now imports about 10 billion cubic meters a year of gas from Iran, about 30 percent of its needs, and plans to invest $12 billion in developing Iran’s South Pars gas field.\(^{30}\)

In Q1 2011, it was reported that Iran had grown to become Turkey’s largest energy supplier, supplying 1.8 million tons of crude oil between January and March 2011, which amounted to about 30 percent of Turkey’s total crude imports.\(^{31}\) Ankara and Tehran have also discussed cooperating in the Nabucco project to build a pipeline to deliver Iranian oil across Turkey to Italy, thus greatly expanding the scope of Iran’s oil markets in Western Europe.\(^{32}\) In July 2010, a Turkish firm signed a $1.3 billion deal with Iran to “build a gas pipeline from Iran to Turkey that would supply gas to Europe.”\(^{33}\)

Economic cooperation has facilitated some security cooperation, particularly in areas of mutual concern. Turkish and Iranian bilateral relations suffered in the 1980s and 1990s due to disagreements over the PKK, which used the Turkey-Iran border to launch attacks into Turkey, but these tensions largely dissipated when Iran began courting Turkey as a new partner in


2002. As Turkey and Iran have pursued better bilateral relations, the two have also agreed to cooperate against terrorism in the region; this included a move by Tehran to classify the PKK as a terrorist organization.\(^\text{34}\) In December 2009, Iranian and Turkish military forces coordinated to fight guerrilla separatists of the PKK along the Turkish border with Iran and Iraq.\(^\text{35}\) In June-July 2011, Iran launched major operations against Kurdish separatists in its mountainous border region near Turkey and Iraq, complemented by more limited Turkish action on the other side of the border.\(^\text{36}\)

Despite these areas of common interest, Turkey and Iran have very different conceptions of regional security and the regional balance of power. During unrest in Syria, with tenacious opposition protests against the regime of Bashar al-Assad, and the flight of many Syrian refugees into Turkey, Tehran and Ankara have found themselves pitted against each other. Iran has expressed unconditional solidarity with Assad, offering diplomatic and military support, whereas Turkish Prime Minister Erdogan has attacked the unrest as “savagery,” urged Assad to fire his powerful brother Maher, and demanded Syria implement comprehensive reforms.\(^\text{37}\) As a result, Iran is believed to have warned Turkey against maintaining this stance, reinforced in a stern editorial published by the magazine *Sobh’eh Sadegh*, an IRGC-run publication.\(^\text{38}\)

### Differences in the US and Turkish Approach to Iran’s Nuclear Program

Turkey has opposed coercive measures to pressure an end to the Iranian nuclear program, including sanctions and the use of military force. It has argued that such threats only increase Iranian intransigence and its rationale for a nuclear deterrent. Turkey appears to be as concerned as any other regional country about the prospect for any nuclear proliferation in the Middle East, but it has also expressed a belief that such objectives can be achieved only through persuasion, and not force. Turkey has voiced support for a diplomatic solution and offered to assist in mediating proximity talks and some form of peaceful settlement between the US and Iran.\(^\text{39}\)

Turkey also opposes the use of military force against Iran. Ankara believes that military force will only delay Tehran’s effort toward nuclearization, further convince Iran that a nuclear deterrent is the only way to achieve security, and have collateral impacts on Turkey. Likewise, the Turkish government contends that imposing more sanctions on Iran will unite Iranians behind the regime and harm the opposition, in addition to exposing Turkey to negative economic repercussions. Since the nuclear program enjoys broad support in Iran, Ankara argues, the only sensible policy is to engage the government and persuade the Iranian polity that nuclear weapons

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\(^{34}\) Laciner, Sadat, "Mistrust Problem In Turkey-Iran Relations," Journal of Turkish Weekly (February 21, 2008).


\(^{39}\) “Iran President Holds Turkey Talks,” BBC News, August 14, 2008.
are unnecessary for their country’s safety. The Turkish government remains profoundly opposed to nuclear proliferation in the Middle East, but it believes that proliferation is only likely to be prevented through persuasion, not threats.

Turkey has announced its support for Iran’s right to possess nuclear energy for peaceful purposes, although it has also stated that this should occur in compliance with the IAEA. Yet, in late November 2009, Turkey abstained from an IAEA resolution that overwhelmingly rebuked Iran for building a second secret enrichment plant and called for the cessation of construction of the Fordo facility.\textsuperscript{40} The abstention – of which Turkey was one of three out of twenty eight -- was seen as a political blow to US attempts to convince Iran of economic and political isolation should its nuclear program continue. In 2009, Turkey joined Brazil, and broke from US objectives to broker a nuclear fuel swap with Tehran, which would have allowed Iran to enrich uranium at a considerably high level of purity, but the consensus dissipated upon strong objections from the United States and Europe.\textsuperscript{41} Turkey has a number of reasons to take this stand and these are likely to have a lasting impact on US and Iranian competition. Turkey is an important commercial power in the region, but its economy is export-oriented, heightening its need for regional markets to facilitate trade and growth. This has conditioned Turkish compliance with US and European-led sanctions, which seek to economically isolate Iran. The current Turkish government has also framed its opposition to sanctions as a matter of principle. In September 2010, Turkish President Abdullah Gul claimed they would only create “hatred and hostility amongst the [Iranian] people.”\textsuperscript{42}

Despite this stated opposition, Turkey has publicly announced its intention to abide by UN sanctions, and taken action under UN mandates in ways that benefit the interests of the US. In March 2011 for example, Turkey intercepted Iranian cargo bound for Syria that included light weapons such as automatic rifles, mortars and rocket launchers.\textsuperscript{43} Turkey has, however, opposed any unilateral US or EU sanctions. This distinction has complicated Western attempts to isolate Iran, as the scope of UN sanctions is narrower. UN Resolution 1929 for example, only designates only two Iranian banks as supporting proliferation activity, whereas the US Treasury lists over seventeen.\textsuperscript{44}

As a result, the US has made increased efforts to persuade Turkey to cooperate with its unilateral sanctions measures against Iran. In late February 2010, US Deputy Secretary of State James Steinberg commented on Ankara’s reluctance saying, “Turkey has as much reason to be concerned about the prospect of a nuclear Iran as anybody…We need them to work with us to


\textsuperscript{41} Joe Klein, “Dealing with Tehran: The Return of Diplomacy,” Time, (May 20, 2010) \url{http://www.time.com/time/politics/article/0,8599,1990549,00.html}

\textsuperscript{42} Gordon Fairclough and Rebecca Blumenstein, “Turkey President questions Iran sanctions, seeks Israel apology,” Wall Street Journal, September 20, 2010. Available at \url{http://online.wsj.com/article}


\textsuperscript{44} \url{http://www.reuters.com/article/2011/04/27/us-turkey-usa-iran-idUSTRE73Q6YA20110427}
make sure that Iran doesn’t become nuclear weapons-capable.” The US has warned Turkey that Iran may attempt to exploit legitimate trade ties between Ankara and Tehran to facilitate its proliferation activities, but to limited avail. Despite repeated attempts to halt international investment in Iran’s energy sector, Turkey has stated that US and EU sanctions will not prevent its cooperation with Iran in supplying growing Turkish energy needs.

So far, Turkey has not changed its policies. In early 2011, for example, Turkey ruled that charges leveled against the Jafari network, which was designated by the US Treasury under E.O. 13382 for providing assistance to Iran’s ballistic missiles program, were not binding in Turkey, and that key individuals would not be questioned or charged. Another example of tension with US officials has been the continued operation of several Iranian banks – particularly Bank Mellat, which operates in three Turkish cities – despite US and EU sanctions. Turkish Foreign Minister Davutoglu has previously reacted angrily to any suggestions that Iranian banks in Turkey were facilitating the nuclear program, terming these reports “baseless, entirely provocative and biased.”

Implications for US Policy

The long-term trajectory of Turkish foreign policy remains uncertain, but it is clear that increased Turkish cooperation with Iran could prove to be a major impediment to efforts to pressure Iran. This requires a cautious US response and one that focuses on the fact that Turkey is an important US ally rather than the divisions between the two countries and Turkish tensions with Israel. The US needs to be more sensitive to Turkish concerns and interests, and remember that the US and Israel often do not have the same strategic and policy priorities. Turkey is an emerging major power in the Middle East, and will play a critical role in Iraq and any effort to contain Iran. This scarcely means the US should accept every aspect of Turkish policy, but it does mean that the US cannot expect Turkey to share every aspect of US policy, and continued diplomatic and military dialogue on the basis of equals will be the best tool available to the US.

The US-Turkish relationship has evolved extensively since the days of the Cold War. Turkey now has a much broader array of regional interests that are sometimes at odds with US foreign policy in the region, but nonetheless it remains a reliable, if complex, ally. As such, the US must realize that it needs to rely on dialogue, rather than assume Turkey should share its approach and policies. The US should strive to keep relations from becoming zero-sum and demonstrate an

46 http://www.haaretz.com/news/international/u-s-to-turkey-don-t-let-iran-exploit-your-growing-trade-ties-1.358474
47 “Turkish Daily Says UN Fails in Anti-Gas Deal Attempts,” IRNA (September 28, 2007).
appreciation for Turkey’s own interests and challenges that may occasionally limit cooperation on specific issues.

Turkey has strong reasons to not confront Iran, not least of which the fact that Turkey is an important commercial power in the region with an export-oriented economy, in whose core interest it is to engage and integrate with other regional economies. As such it is unlikely to enthusiastically cooperate with the US. Neither can Ankara, with its growing Muslim identity, ignore the wishes of its people, many, if most of whom, actively detest Israeli policies in the region, and instinctively associate with the Palestinian plight.

However, the US and Turkey retain a broad array of shared interests, which the US should seek to leverage in ways that serve US interests in ways that serve Turkey’s interests as well, and deepen the US-Turkish relationship. Both countries remain interested in stability in Iraq, in Afghanistan and in the wider Middle East in ways that promote democratic institutions and economic growth, as well as mitigate Iranian attempts to move towards regional hegemony. By all accounts, Turkey is deeply concerned with the Iranian nuclear program and seeks to prevent its growth, although its placatory approach diverges sharply from the policies advanced by Washington.

Turkey is attempting to maneuver in ways that require a careful balancing of relations between the West and Iran. For the foreseeable future, this will continue to cause tensions between Washington and Ankara. Already there have been some tradeoffs in relations with the West, but in net terms, Turkey remains engaged principally with the West. Similarly, the AKP government has often been maligned for its attempts to ease the secular Kemalist tradition and advance some Islamist tenets, but it has also been one of the most vigorous Turkish governments in history to pursue integration with the EU and implement major political reforms, such as the rebalancing of civil-military relations.

As a result, Turkish relations with Iran remain relatively limited and with an uncertain future. Turkey and Iran are natural competitors for regional influence, and both have grown increasingly assertive in their attempts to achieve regional hegemony. The “Arab Spring” has highlighted to Turkey the many differences in strategic vision between Tehran and Ankara, not least the moral and political costs of business with autocratic Middle Eastern regimes out of touch with their peoples. Turkish business interests in Qaddafi’s Libya have been embarrassing, opened Ankara to allegations of hypocrisy, and complicated its future relationship with the Benghazi rebel government. Similarly, Turkey’s considerable effort in engaging with the Assad regime appears to have been for naught, as the regime continues to struggle for survival, and its defiant (Iranian-supported) policies negatively impact on Turkish national security.

An overall net assessment of Turkish relations shows that Turkey has far more interests in common with the United States, than with Iran. If Washington can look past the newfound assertiveness and independence with which Ankara conducts its foreign policy, and accept that on some issues, including Israel, they will not see eye to eye, then the US and Turkey can continue a positive and durable relationship. Such an outcome would do much to constrain Iranian influence and provide a regional counterweight to its ambitions, one that is far more attuned to core American ideals, such as the promotion of democracy and economic prosperity.

Furthermore, Turkey’s outreach and its success in reconciling Islam and modernity gives it a unique influence among regional actors in ways that the US and NATO cannot match, and gives Turkey a unique influence in the region. The US and the West need friends and allies within the
Islamic world that seek progress, development, and a focus on the most progressive core values of Islam. No one can win if the US and the West are seen are confronting Islamic rather than working with Islamic states to meet the challenge of extremists and terrorism.

**The Black Sea and the South Caucasus**

The Caucasus is located on the peripheries of Iran, Turkey, and Russia, and has been an arena for political, military, religious, and cultural rivalries and expansionism for centuries. The area is not a major area of competition between the United States and Iran, but it is geopolitically significant due to proximity to countries and regions important to the US strategic interest. The South Caucasus fall primarily within the European sphere of influence, and developments in the South Caucasus only have a moderate impact on US strategic interests.

The US has fostered close ties with all three South Caucasian armed forces – Armenia, Azerbaijan and Georgia – and troops from all three countries have participated in US-led stabilization efforts in Iraq and Afghanistan, and granted transit privileges for US materiel into the Afghan theater. The South Caucasus offers the US other benefits including the potential for the region to play a role as an east-west trade and security corridor linking the Black Sea and Caspian Sea regions, contain crime, smuggling and terrorism in the region, support democratization and increase the scope of the “Northern Distribution Network” bringing supplies into Afghanistan. US aid to the three states has been significant as seen in Figure 8.2 but the region remains beset by civil and ethnic problems with few easy solutions, and is influenced by other regional powers including Russia, Turkey and Iran.

The Caucasus region has extensive mineral deposits and energy resources, and limiting Iran’s ability to exploit these resources has been a key goal of American policy in the region. However, Iranian influence has flowed through the region for centuries, as has Russian and Turkish influence, and the small South Caucasian countries can ill-afford to antagonize these powerful actors. Moreover, Iran has attempted to boost its influence in the South Caucasus in recent years, including in Azerbaijan -- with whom it has strained relations, but historical legacies, and ethnic and civil issues similarly limit its outreach ability.

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Figure 8.2: US Foreign Aid to South Caucasus States, 1991-2010 and FY 2012 Request

<table>
<thead>
<tr>
<th>South Caucasus Country</th>
<th>FY1992-FY2008 Budgeted Aid¹</th>
<th>FY2009 Actual²</th>
<th>FY2010 Actual²</th>
<th>FY2012 Request²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>1,821.17</td>
<td>52.357</td>
<td>45.599</td>
<td>44.3</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>832.24</td>
<td>25.835</td>
<td>28.101</td>
<td>16.6</td>
</tr>
<tr>
<td>Georgia</td>
<td>2,108.23</td>
<td>311.817</td>
<td>78.956</td>
<td>78.607</td>
</tr>
<tr>
<td>Total</td>
<td><strong>4,761.64</strong></td>
<td><strong>390.009</strong></td>
<td><strong>152.656</strong></td>
<td><strong>139.507</strong></td>
</tr>
<tr>
<td>Percent</td>
<td>13.6</td>
<td>50</td>
<td>46</td>
<td></td>
</tr>
</tbody>
</table>

Sources: State Department, Congressional Budget Justification for Foreign Operations for FY2011, March 2010.

a. Assistance to Europe, Eurasia, and Central Asia (AEECA) and Agency budgets.
b. AEECA and other “Function 150” funds. Does not include Defense or Energy Department funding, funding for exchanges, Peace Corps, or Millennium Challenge Corporation programs in Armenia and Georgia.

Source: Congressional Research Service

Azerbaijan

The dissolution of the Soviet Union in December 1991 brought an end to the Cold War and produced a number of successor states, including Azerbaijan, which immediately underwent major political and economic transformation. Azerbaijan has significant offshore oil reserves in the Caspian Sea including 7 billion barrels of proven crude oil reserves, and roughly 30 trillion cubic feet of proven natural gas reserves.⁵¹ Azerbaijan also has crucial energy transit routes to Europe, such as the Baku-Tbilisi-Ceyhan (BTC) pipeline, that bypass Russia.

Azerbaijan is the only Shia-majority Muslim neighbor of Iran, yet is closer to the US than to Iran. Out of the three South Caucasus states, visible US-Iranian competition is most apparent in Azerbaijan, because of the ethnic component and because of the Iranian fear of potential impact on its security and territorial integrity from a US presence on its direct periphery. However, Iran and Azerbaijan have many tensions of their own, including conflicting claims on maritime and seabed boundaries in the Caspian Sea, and Iran’s support for Armenia during the Nagorno-Karabakh conflict.

US Cooperation with Azerbaijan

The United States opened an Embassy in Azerbaijan’s capital, Baku, in March 1992. The US State Department describes the US as “committed to aiding a transition to democracy in Azerbaijan and its formation of an open market economy… a more democratic environment by promoting media freedom, supporting electoral reforms, bolstering government checks and balances, increasing public participation in government and oversight, and combating domestic and transnational criminal activities.”⁵²

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⁵² [http://m.state.gov/md2909.htm](http://m.state.gov/md2909.htm)
Today, the US and Azerbaijan are close strategic allies, and the country is a significant component of the US logistical effort to sustain military operations in Afghanistan. It offers one of the main overflight, refueling and landing routes for US and coalition troops bound for Afghanistan, and a major land route for military fuel, food and construction supplies. The Azeri route is part of the “Northern Distribution Network,” to alleviate the US reliance on Pakistan.53 The US has also been engaged in efforts to help Azerbaijan find a peaceful solution to the conflict with Armenia over Nagorno-Karabakh.

In October 1992, the US initiated the Freedom Support Act (FSA), which continues today. In FY 2010, the US provided approximately $22 million in humanitarian, democracy, and economic reform assistance to Azerbaijan through the FSA. The US is also engaged in efforts to mediate the Nagorno-Karabakh conflict, and since 1992 has played a leading role in the Minsk Group of the OSCE, co-chairing the group with Russia and France. Despite a ceasefire, intensified negotiations since 2004, and some progress towards a settlement, so far the conflict is yet to be resolved, and sporadic violent incidents continue.54

Azerbaijan’s oil wealth is a potential focal point in the contest between the US and Iranian interests in the Caucasus. Since independence, Azerbaijan, with access to the most readily retrievable oil reserves in the Caspian Sea, was an attractive destination for Western corporations. There remain some obstacles obstructing access, including outstanding legal issues on the division of the Caspian as per the Soviet-Iranian treaty of 1942, a Russian insistence on maintaining rights over the Caspian, and apprehension over exploitation and investment in a region not known for its stability with uncertain reserves, and no obvious route to market. Despite this, Western companies have invested heavily in the country – BP for example has $31 billion of interests in Azerbaijan – but firms have indicated a growing worry of Iranian influence in Azerbaijan, and it’s potentially destabilizing impacts.55

The US and Azerbaijan have signed a bilateral trade agreement, which entered into force in April 1995 and confers upon Azerbaijan the status of most favored nation. US companies are involved in offshore oil development projects with Azerbaijan and have been exploring the emerging investment opportunities.56 Bilateral trade amounted to about $2.3 billion in 2010.57

In July 1992, Azerbaijan ratified the Treaty on Conventional Armed Forces in Europe (CFE), which establishes comprehensive limits on key categories of conventional military equipment and provides for the destruction of weaponry in excess of those limits. Although Azerbaijan did not provide all data required by the treaty on its conventional forces at that time, it has accepted on-site inspections of forces on its territory. Azerbaijan approved the CFE flank agreement in May 1997. It also has acceded to the nuclear Non-Proliferation Treaty as a non-nuclear weapons state. Azerbaijan participates in the North Atlantic Treaty Organization’s (NATO) Partnership

54 http://www.state.gov/r/pa/ei/bgn/2909.htm
56 http://www.state.gov/r/pa/ei/bgn/2909.htm
57 http://www.census.gov/foreign-trade/balance/c4632.html
for Peace, and maintains a 90-troop presence in Afghanistan. Azerbaijan also maintained a peacekeeping deployment in Iraq until November 2008.\footnote{\url{http://www.state.gov/r/pa/ei/bgn/2909.htm#relations}}

**US-Azeri Tensions That Might Give Iran Added Influence**

There are some indications of Azeri frustration with the US, although these remain limited and are unlikely to constitute a watershed in their strategic partnership. In April 2011, Azerbaijan indefinitely postponed military exercises with the US – perhaps as a result of growing Turkish-Armenian rapprochement, of growing street protests against the Aliyev administration, and growing frustration at tepid US support for the Azeri position on Nagorno-Karabakh. The Azeri Defense Ministry, however, noted that it intends “to continue military cooperation with the US.”\footnote{\url{http://www.eurasianet.org/node/63360}} Released embassy cables from “Wikileaks” also complicated matters, particularly in comparing President Ilham Aliyev to the impetuous and hotheaded Sonny Corleone from the Godfather movies.\footnote{\url{http://www.freerepublic.com/forum/1518,734307,00.html}}

The slow US process of about 10 months to name a new US ambassador to Azerbaijan was further perceived by some in Azerbaijan as a reflection of growing US indifference to the country.\footnote{\url{http://www.hurriyetdailynews.com/n.php?n=8220usazerbaijan-relations-in-the-obama-presidency8221-2010-07-02}} There are also growing – but limited – worries that the US support for the Aliyev administration and entrenched patronage networks inside the country may lead to growing anti-Americanism inside the country. To date these issues do not appear to have detracted from expanded security and economic cooperation.\footnote{\url{http://www.spiegel.de/international/world/0,1518,734307,00.html}}

**Iranian-Azerbaijani Relations**

Iranian relations with Azerbaijan are strained in spite of the fact that Azerbaijan is the only other Shia-majority country in the region. A major proportion of the world’s ethnic Azeris (estimates range from 6-12 million) reside in Iran, constituting the country’s largest ethnic minority at between a third and a quarter of Iran’s population. Iran’s Azeri minority is also amongst the richest groups in Iran, is represented in senior positions inside the Iranian government, and is heavily connected to the crucial bazaar trade.\footnote{\url{http://www.google.com/hostednews/afp/article/ALeqM5jRWYA1KIUxP6wFDdTnFRsnugkFgg?docId=CNG.363298fc7347ba63c4b288eb7bbce000.5b1}} Iranian goods are readily available inside Azerbaijan, and Iranian media organizations such as the Sahar TV channel are broadcasted across the country.\footnote{\url{http://www.hurriyetdailynews.com/n.php?n=8220usazerbaijan-relations-in-the-obama-presidency8221-2010-07-02}}

Iran was one of the first countries to establish full diplomatic relations with Azerbaijan, its independence on 18 October 1991. Soon after, in early December 1991, Iranian Foreign Minister Ali Akbar Velayati visited Baku, where he signed a number of agreements on political, economic, and cultural cooperation and pledged to support Azerbaijan’s membership in
the Organization of the Islamic Conference. Within the few days of the visit, Iran recognized Azerbaijan, upgraded its consulate in Baku to an embassy, and established full diplomatic relations.

Relations deteriorated, particularly after the June 1992 election that catapulted the Popular Front of Azerbaijan and President Abulfaz Elchibey to power. Elchibey was secularly oriented and vehemently anti-Iranian, resulting in a government in Baku diametrically opposed to Tehran’s desires. Elchibey endorsed autonomy for the Iranian Azeris as well as the unification of the populations of his country and Iranian Azerbaijan, a stance that alienated the Iranian government. At the same time, officials in Azerbaijan alleged that elements in Iran fostered Islamic fundamentalism among the Shia population or sponsored terrorism. When Elchibey was overthrown by a coup 1993, there were allegations of Iranian involvement. Some Azeris also suspect Iran of encouraging ethnic unrest among Azerbaijan’s Talysh minority, which lives near the Iranian border.

The Nagorno-Karabakh War in 1992-1994 and continued hostilities between Armenia and Azerbaijan also helped frame Azeri relations with Iran. The war is alleged to have resulted in about 20 percent of Azeri territory lost to Armenian control and during the war, Iran is perceived to have supported Christian Armenia over Shia Azerbaijan, as a result of its strained relationship with the Elchibey administration. Iran also feared the destabilizing impact of Azeri refugees pushed over the border as a result of combat operations, as well as the potential for such military activity to increase ethno-nationalist fervor amongst its own Southern Azeri population. Movement in 2009 toward rapprochement between Armenia and Turkey may have contributed to moves by Azerbaijan to improve relations with Iran, although Turkey has reassured Azerbaijan that such rapprochement will not make headway until Armenian forces withdraw from areas around the disputed Nagorno-Karabakh region.

Furthermore, the conflicting claims over the maritime and seabed boundaries of the Caspian Sea between Azerbaijan and Iran also provide continued uncertainty, with Iran insisting on an even one-fifth allocation and challenging Azerbaijan's hydrocarbon exploration in disputed waters.

Other Issues and Future Relations

There are important differences between Iran and Azerbaijan despite their ethnic solidarity. Azerbaijan is a strongly secular country, in contrast with Iran’s Shiite theocracy, and has often acted firmly against the Islamization of the political, religious and social spheres. Iran, on the other hand, fears that as an independent country, Azerbaijan stirs the aspirations of ethnic cohorts in Iran for greater rights or even secession. This fear may have grown with the rise of the Iranian opposition “Green Movement” and its rhetoric in support of ethnic minorities, particularly given that Mir Hossein Mousavi, the opposition leader, is himself Azeri-Iranian.

67 http://traxturfans.blogsky.com/1389/07/05/post-279/- cite real report
68 http://205.254.135.24/countries/cab.cfm?fips=AZ
Iran has some trans-Azeri contacts to discourage the spread of ethnic consciousness among its “Southern Azerbaijanis,” and has criticized politicians in Azerbaijan who advocate separatism in Iran. Azeri officials similarly suspect that Iran supports extremist Islamist groups inside Azerbaijan, including “radical Islamic groups and Hezbollah terrorists,” according to Azeri President Ilham Aliyev.\(^69\)

In 2005-2006 under the Aliyev administration, Iran and Azerbaijan made some improvements to their relationship, and cooperated in a variety of different areas, including trade, security, and in particular the energy sector. On 20 December 2005, President Aliev and Iranian President Ahmadinejad attended the inauguration ceremony of a new gas pipeline from Iran to Azerbaijan’s landlocked Nakhchivan Autonomous Region, which is separated from the mainland of Azerbaijan by a strip of Armenian territory. The new pipeline will supply the region with Iranian natural gas. However, it is worth noting that the Nakhchivan pipeline is not the only one Iran has opened in the past five years. On 19 March 2007, President Ahmadinejad joined President Robert Kocharyan of Armenia to inaugurate a gas pipeline to pump Iranian natural gas to Armenia,\(^70\) and in January 2011, Iran and Azerbaijan agreed on a five-year deal to supply about a billion cubic feet of Azeri gas to Iran annually.\(^71\)

Yet, political relations became increasingly strained through 2010 and 2011. A warming Iranian relationship with Armenia and expanded trade ties with the country rankles inside Azerbaijan, while warming relations between Azerbaijan and Israel worried Tehran.\(^72\) Iranian media has seized upon reports of expanded Israeli-Azeri security cooperation and accused Azerbaijan of being a major base for Israeli and US intelligence officials to spy on Iran.\(^73\) Furthermore, in the aftermath of the “Arab Spring,” and protest demonstrations in Baku – some by banned Iranian-supported opposition parties – senior Azeri officials have publicly accused Iran of interfering in the country’s internal affairs to increase its influence. No firm evidence has yet emerged to prove tangible Iranian support, but given its perceived close ties with conservative Azeris, many Azeri officials have taken this support as a given.\(^74\)

Friction also continues over Caspian Sea territorial issues, and narcotics. The export of narcotics from Iran into Azerbaijan continues to skyrocket. Seizures of heroin that originates from Iran in Azerbaijan nearly quadrupled during the first quarter of 2009 (59,000 kg), compared to the first quarter of 2008 (15,000 kg).\(^75\)


\(^{74}\) [http://www.eurasianet.org/node/62889](http://www.eurasianet.org/node/62889)

\(^{75}\) Central Asian Regional Information and Coordination Center (CARICC), Tashkent (2009).
Implications for US Policy

The US faces many of the same issues in dealing with Azerbaijan in terms of Iran that it does in dealing with Turkey. Azerbaijan continues to maintain close ties with the US and maintains close economic, political and military cooperation, including serving as an extremely significant part of the US logistical effort to sustain operations in Afghanistan. Such ties will continue to weigh on Iranian perceptions, and limit Tehran’s influence in the country.

However, Iran remains a significant power in the region, and Baku can afford to neither provoke nor ignore it. President Aliyev has stated that he does not support a United States attack against Iran and in May 2005 Baku and Tehran signed a non-aggression pact barring third countries from using their territories for offensive operations against each other. Yet, President Aliyev has stated his support for sanctions and economic isolation, and believes it could be effective if enforced by a broad coalition.  

Despite this public rhetoric, Azerbaijan did not sign UNSCR 1929, and its trade ties with Iran of about a billion dollars annually complicate its willingness to enforce sanctions. The US has not given Azerbaijan a specific list of companies that violate the sanctions and US embassy spokesman Keith Bean noted that only one Iranian company – many suspect Iran’s Bank Melli -- was formally banned. Iran is not one of Azerbaijan’s top five trade partners, and some believe that increased Azeri enforcement of Iranian trade will not seriously impact on the economy.

Azerbaijan is not a critical component of US-Iranian strategic competition, and its impact on US policy will decline as the US withdraws its forces from Afghanistan. However, it is still an important part of US interests in the region. Its location on Iran’s periphery and access to Caspian and Middle Eastern energy reserves are assets that both Iran and the US value, although Azerbaijan, by virtue of its size and relative influence, is unlikely to want to be perceived as a pivot for regional competition. Much will depend on US dialogue with Azerbaijan, US aid, and Azeri confidence that the US will remain a key player in the region.

In net terms, while Azerbaijan has made some countervailing moves towards Iran, Iranian-Azeri relations remain limited and prone to significant tensions, whereas US-Azeri relations remain strong, barring relatively minor disagreements. The key to US-Iranian competition, therefore, is to maintain as close relations as possible, and to continue aid and support, without confronting Azerbaijan over the differences in its policies towards Iran. As is the case with many other such countries, a policy of “carrots” (incentives) is likely to accomplish far more than a policy of “sticks” (pressure).

Armenia

The United States has been a strategic partner of Armenia without taking sides against Azerbaijan. It recognized the independence of Armenia on 25 December 1991, and opened an

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76 “Iran unilaterally lifts visa regime for Azerbaijani citizens,” APA (11 November 2009).  
77 http://www.eurasianet.org/node/62363  
78 http://www.eurasianet.org/node/62363  
79 Ibid.
Embassy in Yerevan in February 1992. Washington has made a concerted effort to help Armenia during their transition from totalitarianism and a command economy to democracy and open markets, and is influenced by a strong and vibrant Armenian diaspora in the US.

In 1992 Armenia signed three agreements, including a bilateral investment treaty, with the United States. Yet, the cornerstone of the US partnership with Armenia has been assistance provided through the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act, enacted in October 1992. Under this and other programs, the US to date has provided Armenia with nearly two billion US dollars’ worth of humanitarian and development assistance.80

Armenia and Iran

Iran plays a significant economic role in Armenia, and has influence through a mutual wariness of Azerbaijan and Turkey. Armenian relations with Iran are focused on trade and are of extreme importance, since Armenian borders with Turkey and Azerbaijan are closed due to historic tensions with Turkey and the unresolved Nagorno Karabakh conflict. In a somewhat unusual outcome, Iran has been a benefactor of Christian Armenia, as a result of tensions between Iran and Azerbaijan. Desperately needing a regional ally, Armenia welcomed Iranian support, while is believed to have included the supply of weapons despite Iran’s public professions of neutrality in the conflict.

In reality, however, Iranian support for Armenia seems to have fallen short of any military involvement; rather, Iran supplied Armenia with necessary goods and energy, counteracting the Turkish-Azerbaijani embargo on the country and considerably weakening Azerbaijan’s main bargaining chip against Armenia. Tehran’s posture is further complicated by Shiite fundamentalists in Iran who have urged it to forego its policy of neutrality to embrace solidarity with Shites in Azerbaijan.

Energy relations bind the Armenian-Iranian relationship. Iran exports natural gas to Armenia to offset its blockade by Turkey and Azerbaijan, and imports power supplies to benefit from Armenia’s electricity surplus. Energy security has been a growing Armenian concern, since it has been dependent on gas shipments from Russia through a pipeline that transits Georgia, which have sometimes been jeopardized by Russia’s fractious relations with Georgia, incentivizing a turn towards Iran as a natural gas supplier.

Expanded energy cooperation took place in late 2008 with the agreement that a natural gas pipeline to connect the two countries, and in February 2011, senior Iranian oil officials stated that Iran would export 400,000 gallons of diesel and gasoline each to Armenia daily after 2014 when a 220-mile pipeline from Tabriz towards the Armenian border completed construction.81 Other joint projects have included two 130 MW hydroelectric power stations along the border in a project worth $233 million,82 a fuel pipeline, high voltage transmission lines to connect their power grids,83 and a 460 kilometer railway network that allows landlocked Armenia direct access

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80 http://www.state.gov/r/pa/ei/bgn/5275.htm
81 http://www.iranenergyproject.org/2953/iran-to-supply-armenia-with-gasoline-diesel-oil
82 http://www.rferl.org/content/Armenia_Iran_To_Build_Power_Plant_Amid_Increased_Ties_/2160885.html
83 http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=36910
to the Persian Gulf.\textsuperscript{84} In late May 2011, Armenia and Iran signed a MoU to boost cooperation in the energy sector. It was reported that the countries had agreed to build a 500-800MW power line to interlink their electricity grids.\textsuperscript{85}

Iran has other important economic relations Armenia. Official trade statistics pegged trade at about $285 million in 2010,\textsuperscript{86} including the export of raw materials and foods, and imports of fuel, fertilizer and chemical products. Furthermore, since the Russian invasion of Georgia in 2008 – and with a continuing blockade by Turkey and Azerbaijan – Iran has become the most viable and reliable option for resupply to approximately 4,000 Russian troops stationed in Armenia.\textsuperscript{87} Their presence in Armenia was extended until 2044.

### Impact on US-Iranian Competition

These Armenian ties to Iran have caused Yerevan problems in dealings with the United States, despite signing a Cooperative Threat Reduction Agreement with the US Department of Defense. Armenia has shied away from criticizing the Iranian nuclear program underscoring the importance it attaches to its relationship with Iran, and in June 2010, Armenian President Serzh Sarkisian publicly stated that the Iranian crisis could not be resolved until the West addressed “Iran’s sense of being in danger.”\textsuperscript{88}

These actions have been met with a tough US response. An embassy cable released by “Wikileaks” written by then Deputy Secretary of State John Negroponte to the Armenian President expressed “deep concerns about Armenia’s transfer of arms to Iran, which resulted in the death and injury of US soldiers in Iraq,” and threatened sanctions and a cutoff in aid should transfers continue. The arms in question -- Bulgarian rockets and machine guns -- were transferred to Iran in 2003 and used by Shiite militias in attacks in 2007 that killed a US soldier, and injured six others.\textsuperscript{89} Any Armenian support is believed to have since ceased.

Still, Armenia has generally been a dependable partner for the United States in military matters. The Armenian Parliament ratified the Conventional Armed Forces in Europe (CFE) Treaty in July 1992. The treaty establishes comprehensive limits on key categories of military equipment, such as tanks, artillery, armored combat vehicles, combat aircraft, and combat helicopters, and provides for the destruction of weaponry in excess of those limits. Armenian officials have consistently expressed determination to comply with its provisions in spite of concerns they have about Azerbaijan exceeding that country’s treaty limits. Armenia has provided data on armaments as required under the CFE Treaty and is receptive to CFE inspections.

There are indications that Armenia is trying to establish mechanisms to ensure fulfillment of its arms control obligations. Armenia is not a significant exporter of conventional weapons, but it

\textsuperscript{84} http://hamsayeh.net/world/780-iran-and-armenia-to-join-railway-systems.html

\textsuperscript{85} http://www.upi.com/Business_News/Energy-Resources/2011/05/31/Armenia-Iran-deepen-energy-relations/UPI-47941306877124/

\textsuperscript{86} http://armstat.am/en/?nid=380


\textsuperscript{88} http://www.rferl.org/content/Armenia_Iran_To_Build_Power_Plant_Amid_Increased_Ties_/2160885.html

\textsuperscript{89} http://www.guardian.co.uk/world/us-embassy-cables-documents/184879
has provided substantial support, including materiel, to ethnic Armenian separatists in the disputed and predominantly ethnic Armenian enclave of Nagorno-Karabakh located within Azerbaijan’s borders. Armenia acceded to the nuclear Non-Proliferation Treaty as a non-nuclear weapons state in July 1993. The US and other Western governments continue to discuss efforts and initiatives to establish effective nuclear export control systems with Armenia.\(^{90}\)

**Implications for US Policy**

The US faces many of the same issues in dealing with Armenia that it does in dealing with Azerbaijan and Turkey. Once again, much will depend on US dialogue with Azerbaijan, US aid, and Armenian confidence that the US will remain a key player in the region. The US also retrain considerable leverage and has shown a willingness to employ diplomacy to try to curtail Iranian influence. Moreover, although Armenia has historically been a close ally of Iran, it cannot easily afford increased US pressure, and hedges its security by continuing to build its bilateral relationship with the United States, in optics, if not in substance. Once again, the challenge for the US will be focus on incentives and good relations while quietly applying pressure and avoiding any open confrontation.

**Georgia**

Georgia’s location between the Black Sea, Russia, Armenia, Azerbaijan, and Turkey gives it strategic importance as a transit corridor, and it has the potential to become a gateway from the Black Sea to the Caucasus and the Caspian basin. Current Georgian perceptions are shaped by the aftermath of the 2008 Russian military incursion that seized and declared independent the regions of Abkhazia and South Ossetia. As a result, of these and other tensions with Moscow, such as its ban on Georgian imports, Georgia has increasingly turned to other neighbors and to the West for security, and to diversify its export markets. In August 2008, its Parliament voted unanimously to withdraw from the Commonwealth of Independent States (CIS).

**US Relations with Georgia**

The US pursued a close relationship with Georgia after the government of Eduard Shevardnadze took power in early 1992, and has provided over $3 billion in assistance to Georgia since 1991.\(^{91}\) US relations with Georgia today are intricately linked to the 2008 Russian military incursion, and since then, the US has made several attempts to increase cooperation with Tbilisi, including providing over a billion dollars for post-conflict reconstruction. The US has also assisted in longer-term development priorities to transition Georgia to a market-oriented democracy anchored in the Euro-Atlantic community. Georgia has explicitly expressed its desire to join the European Union and NATO, and has made such efforts central to its long-term strategy.

Since the 2008 War, the US has attempted to re-emphasize its commitment to Georgia, while balancing its “reset” in relations with Russia, which is perceived by many in Georgia as coming at its expense. In 2009 and 2010, senior US officials including Vice President Biden and

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\(^{90}\) [http://www.state.gov/r/pa/ei/bgn/5275.htm](http://www.state.gov/r/pa/ei/bgn/5275.htm)

\(^{91}\) [http://www.state.gov/r/pa/ei/bgn/5253.htm](http://www.state.gov/r/pa/ei/bgn/5253.htm)
Secretary of State Clinton have visited Tbilisi and in January 2009, the two countries signed the US-Georgia Charter on Strategic Partnership.

The Charter outlined the importance of the relationship as strategic partners, reiterated US support for Georgia’s territorial integrity and sovereignty, pledged to expand defense, security and energy cooperation, as well as to build Georgia’s capabilities and “strengthen Georgia’s candidacy for NATO membership.” However, as stressed by Deputy Assistant Secretary Matthew Bryza, the charter did not provide security guarantees to Georgia.92

The 2008 War has, however, has reshaped Georgian perceptions of Washington’s reliability as a security provider, and Georgia is concerned that the US has slowed, perhaps even halted, arms sales to the country for fear of antagonizing Russia, or instigating a new round of hostilities.93 Embassy cables released by “Wikileaks” appear to concur with this assessment,94 and even US Defense Secretary Robert Gates has admitted that the US was “careful” in its security assistance to Georgia.95 The US reluctance to supply lethal equipment to Georgia has been criticized by some in the US legislature, including Senator John McCain, and senior Georgian officials have repeatedly requested US military equipment including early-warning radars, anti-air and anti-tank equipment.96

Nevertheless, US-Georgian cooperation continues in several spheres. The US has emphasized large-scale energy infrastructure projects, including rehabilitation of the East-West natural gas pipeline and reconstruction of the high-voltage Senaki power line, which will help to enhance Georgia’s energy security.97 Furthermore, as of January 2011, Georgia was the second-largest non-NATO troop contributor to the ISAF mission in Afghanistan with nearly a thousand soldiers. A Georgian infantry battalion also deployed with no caveats to Helmand Province in April 2010.98

**Iranian Relations with Georgia**

Official diplomatic relations between Iran and Georgia were established in May 1992.99 Iran considers Georgia to historically and culturally be part of Greater Iran, and Georgia cooperates with its Iranian neighbor in many fields including energy, transport, trade, education, and science. Iran is one of Georgia’s most important trading partners and an Intergovernmental Joint Economic Commission is functioning between the two countries. The primary Iranian strategic interest in Georgia is to limit US and Turkish influence in the country, deepen economic and trade ties, and ensure stability in a way that does not impact Iranian security.

93 http://www.eurasianet.org/node/61934
94 http://wikileaks.foreignpolicy.com/posts/2010/12/07/wikileaked_us_ambassador_to_russia_we_cant_arm_georgia_due_to_the_reset
95 http://www.eurasianet.org/node/61934
96 http://assets.opencrs.com/rpts/RL33453_20110415.pdf
97 http://www.state.gov/r/pa/ei/bgn/5253.htm
98 http://www.state.gov/r/pa/ei/bgn/5253.htm
99 Ministry of Foreign Affairs, Georgia
The beginning of 2010 saw increasing cooperation between the two countries. Representatives from Iran's foreign ministry visited Tbilisi in May 2010 to discuss Iranian investment in the construction of a hydroelectric plant as well as Iran’s intentions to import electricity from the country. The meeting led President Saakashvili to invite his Iranian counterpart Mahmoud Ahmadinejad to Tbilisi. In late May 2010 Iranian ambassador Majid Samadzade Saber announced that Iran and Georgia intend to lift visa restrictions for travel between their countries.

Iran has opened a new consulate in the Georgian city of Batumi and then Iranian Foreign Minister Manouchehr Mottaki underlined support for the sovereignty and territorial integrity of Georgia, instead of recognizing Russian-held Abkhazia and South Ossetia. President Saakashvili was among the first countries to welcome the Turkish and Brazilian fuel swap proposal to broker a settlement to the Iranian nuclear crisis, describing it as a “diplomatic victory.”

**Implications for US Policy**

Georgia is not central to US-Iranian strategic competition, but Tbilisi has increasingly looked to Iran diversify its relations and safeguard its security. In net terms, Georgia is still oriented towards the United States, primarily to provide a countervailing weight against Russian influence. While Georgia and Iran share a vibrant trade relationship, the Georgian foreign policy preoccupation to limit Russian meddling in its internal affairs takes precedence.

Policymakers in Tbilisi are likely to continue to see ties with the United States as the best hedge against Russian aggression, making it unlikely that they will support Iran in any major security disputes with Washington. Many Georgian foreign-policy initiatives such as troop deployments to Iraq and Afghanistan are designed to elicit this cooperation, and Georgian officials themselves have explicitly said as much. In November 2010, Deputy Foreign Minister Nino Kalandadze stated, “We largely ... depend on the United States for political support. Therefore, it is absolutely groundless to suggest that we are somehow questioning this strategic cooperation. We have no under-the-table relations with anyone, especially Iran.”

However, the impact of Georgia’s war with Russia war should not be understated. Georgia remains tied to the West, but the lack of any decisive US and NATO response to the Russian invasion in 2008 has not been forgotten. It will color the extent to which Georgians believe they can rely on the US for their security, and offering Iran an opening to expand its influence.

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103 [http://www.civil.ge/eng/article.php?id=22308](http://www.civil.ge/eng/article.php?id=22308)