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Panel 1: Emerging Russian-Turkish Relations

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Panel 2: The East-West Energy Corridor and Europe's Energy Security:

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PANEL 3: Common and Competing Interests in the Region

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PROCEEDINGS

MR. PIFER: Good morning. My name is Steven Pifer. I am a Visiting Fellow but also the Acting Director of the Center on the United States and Europe here at Brookings, and it's my pleasure to welcome you to today's conference on Turkey, Russia, and Regional Energy Strategies. And what we want to do is we want to take a look at how relations between Turkey and Russia have developed over the last several years, but particularly against the backdrop of energy questions and the issue of how you move energy from the Caspian and Central Asia to global markets.

And I think the Conference today is unusually timely. Just two days ago you had the signature of an agreement on the Nabucco pipeline, which would move from Turkey into Europe to bring energy from Caspian area that goes south of Russia, and we'll later have Dick Morningstar, the Special Envoy for Eurasian Energy, here to talk about American policy on this but also the Nabucco arrangement.

But also today's event brings together several parts of Brookings. First the Center on the United States and Europe has for several years now run a program on the frontiers of Europe where we look at those countries that are Europe, but they're on the frontiers of institutional Europe that border NATO, that border the European

Union, and how those countries can interact more with institutions such as NATO and the European Union.

A second part of Brookings is the Energy Security Initiative, and until recently, Jonathan Elkind was very involved in that project. He, of course, now is a senior official with the Department of Energy where he's working on these issues from within the government.

And third with this is also sponsored by our Turkey project which Omer Taspinar and Mark Parris have run for several years now an association with the Turkish industrialists and businessmen's association, TUSIAD.

So we have a lot of ground to cover, and we have some very smart people here from the United States, from Turkey, from Russia to help us think through these issues and how we ought to look at them. And, as I said, this afternoon we will have a keynote address by Ambassador Morningstar, the Special Envoy for Eurasian Energy. So I'm not going to get in the way of the discussions. I will now turn the meeting over to Omer Taspinar, who will chair the first panel.

MR. TASPINAR: Thank you, Steve. Welcome to Brookings again, and thank you, Ambassador Parris -- Mark, my colleague -- who played a big role in organizing this.

The goal here in this panel is to first start with a strategic picture, the big picture of emerging Russian-Turkish relations. And

then in the afternoon we'll panels focusing on the energy question, and, more specifically, regional issues, especially in the Caucasus.

For this panel we're very lucky to have three very distinguished experts. We'll start with a view of emerging Russian-Turkish relations; from Washington with Steve Larrabee, who is a Senior Political Scientist at RAND, and he holds the Chair of European Security, and Steve will provide for the 10 minutes that he's allowed to speak a kind of American and European perspective of this emerging partnership, but also he'll make remarks about the nature of this relationship.

Then we'll focus on the regional dimension with Ambassador Volkan Vural, who was an ambassador to countries such as Iran, Russia, Germany, and Spain, and he's currently the counselor for the Dogan Media Group. We're very lucky to have him, especially since he was an ambassador to Russia. We'll be lucky to get into his insight about not only the Turkish dimension but also how it looked from Moscow when he was there.

And then we're very lucky, also, to have Vladimir Milov, who is currently the President of the Institute of Energy Policy, a Moscow-based independent consultancy. He's an economist by training, and he will also talk about the emerging Russian-Turkish partnership from

an angle from Moscow and focus on the strategic potential and the strategic limitation of the partnership.

So with this, hopefully, the presentations, all together the three presentations, will not take longer than half an hour, 10 minutes each, and then we'll have about 45 minutes for Q and A. So could I ask Steve to go first, and then to Vural and Vladimir.

MR. LARRABEE: Thank you very much, Omer. This is a great pleasure to be here. This is a topic which is of great importance and, quite frankly, of increasing importance. When you look at Turkish relations with Russia, the most important and significant aspect of it I would argue is the degree to which these relations have changed. Historically, Russia and Turkey have had a conflictual and hostile relationship. They fought nearly 13 wars over several centuries, most of which, in fact, the Turks lost.

Stalin's territorial pretensions after World War II were one of the main driving forces for Turkey's decision to join NATO; however, in the last decade relations have increased and improved, significantly, Russia today, particularly in the economic field. Russia today is Turkey's largest trading partner. There's also a very lively suitcase trade, and Russia accounts for about a quarter of all the contractual work that Turkey does worldwide. So the economic dimensions are very significant.

Energy has been, of course, a major driver of the new relationship between Turkey and Russia. Turkey imports at present about 65 or 66 percent of its natural gas from Russia. According to Turkish analysts, if trends were to continue along the lines that they have over the past few years, this could raise, increase to as much as 80 percent in the next decade.

Political relations have also greatly improved. President Putin -- then President Putin's visit to Turkey in December of 2004 was the first visit by a Russian head of state in 32 years, and since then there have been numerous and increasing high-level visits between the heads of state of Turkey and of Russia.

And there are, in fact, a number of Turkish strategists who have argued that increasing relations, increasing emphasis should be put on relations with Russia at the expense, in fact, of Turkish relations with the West -- and I'll come back to that.

But the overall impact of this, I would argue, of these trends, has been to make Turkey much more sensitive about Russian interests and much more cautious. And indeed, in some areas you can see a very important overlap of Turkish and Russian interests. And this is particularly true, let's say, in Central Asia where Turkey, like Russia, showed very little enthusiasm for the Bush policy of democracy promotion, fearing, like Russia, that this would in fact destabilizing the

region. And thus Turkey took a rather status quo or put its emphasis on maintaining the status quo in Central Asia, the same as Russia.

Also, in the Black Sea area you can see an overlap. The reasons are different. Turkey sees the Black Sea, as Turkey has a strong historical interest in the region and tends to see the Black Sea as a kind of Turkish lake. And it has opposed, as has Russia for different reasons, of course, any extension of NATO into the Black Sea despite the fact that Turkey is a member of NATO.

Now, the reasons for this have to do with the fact that the extension of NATO would first of all, could conflict with certain Turkish interests in the region, but it is also taking into consideration Moscow's concerns as well.

And finally, the Turkish position has been influenced in particular by the signing of the Montreux Straits Convention in 1936, which was a fundamental pillar of Turkish foreign policy, and Turkey does not want to see anything occur that would in any way weaken or undermine the Montreux Straits Convention.

Finally, on NATO enlargement as well, there is an indirect and tacit overlap of interest between Turkey and Russia. Turkey does not want to see, is not particularly enthusiastic about, does not favor an extension of NATO membership at this particular time at least to Ukraine or Georgia as, of course, Russia does not as well. Now, the

reasons for some of these things may be slightly different, but the fact is that there is a commonality of interests here which has been developing and which has introduced into Turkish foreign policy a certain degree of caution and desire not, if possible, to avoid clashes with Russia.

Indeed, as I said, there are some Turkish strategists who have argued that relations with Russia, political relations ought to be strengthened and even some of them even argued that Russia could pose an alternative to Turkish ties with the West, particularly ties in recent years have been quite strained. But a reversal of alliances, in my view, on Turkey's part is highly unlikely for several reasons.

First of all, the image of Russia in the Turkish historical consciousness still remains rather negative, and therefore it would be, I think, rather difficult to convince most Turks to have a real reversal of the lines.

Second of all, Turkey lives in a very -- is located in a very hostile and volatile neighborhood, and it still needs, even if it's less true than it was in the Cold War, it still values and needs U.S. support and have the close tie with Washington.

Thirdly, Russia's and Turkey's interests, particularly in the energy field, in many ways conflict both in Central Asia and in the Caucasus. And I'll talk about this in a minute.

And fourthly, and perhaps the most important reason, this would involve in a reversal of the lines, this would really involve on the ideological/political plane a reversal and rejection of Ataturk's of joining the West. And this would require a wholesale rethinking of Turkey's relationship with the West.

Now Turkey at the same time wants to be and has tried to play and has played a important and increasingly important regional role, particularly in the Caucasus. And here, of course, the recent efforts at rapprochement and reconciliations with Armenia stand out.

Now, again, Russian interests and Turkish interests here, I would argue, basically conflict. Russia does not want to see a -- well, put it this way -- the rapprochement between Armenia and Turkey would eventually lead to a reduction of Russian influence in Armenia and a reduction of Armenia's dependence on Russia. It would open up all sorts of possibilities of bringing Armenia into economic and regional cooperation seems, particularly in the energy field All of this is something that would reduce Armenia's dependence on Russia.

From the Western perspective and the U.S. perspective, of course, that is a good thing, but from the perspective of Moscow it is not. Now, some people have argued, but, well, the Russians really have not intervened and have not really signaled that they are opposed to this. I would submit the reasons that that is the case is because the

rapprochement with Armenia, in fact, has resulted in strains in the relationship with Azerbaijan. Azerbaijan has become quite worried that this rapprochement would in fact reduce its own leverage to get concessions in, over in Nagorno-Karabakh, and therefore, because of this, and because of the impact and strain that the rapprochement put on Turkish relations with Azerbaijan, this has slowed the process down, and it is not clear whether in fact the rapprochement will be finally concluded.

So therefore Russia in a way has not had to signal its discontent. The Azerbaijanis, in fact, have done, indirectly for other reasons, the Russian's job for it, so there's been no need to do it. But if, in fact, the reconciliation were to really take off, take off and come to completion, I think it is highly likely that Russia would in fact begin to put pressure on Armenia to slow the process of rapprochement.

Now, the real conflict that is emerging (inaudible) is again over energy and here, of course, the main issue is the question of the Nabucco Pipeline which would bring Caspian energy from through Turkey up through the Balkans into Hungary and Austria. This is a project which the Russians have opposed. They have their own pipeline that they want to favor which goes more or less in the same direction en route to South Stream, and they have done everything possible that they could to try to undermine Nabucco, including making

a number of rather attractive offers to Azerbaijan to try to buy up Azerbaijan's gas, which would therefore keep it from being offered to Nabucco.

Nabucco faces a number of problems and obstacles right now, and the main one is the question of who will supply the gas. Azerbaijan is the, in fact, the only country that is firmly committed to supplying gas to Nabucco, but Azerbaijan cannot supply the full amount, maybe half the amount of the 31 billion cubic meters that's needed to make Nabucco fully operational.

There are also questions of financing, of how the pipeline will be financed. It's been also hindered up until very recently by internal squabbles within the E.U.

Germany, in particular, is not particularly interested in seeing it succeed and has expressed reservations about some aspects of the financing. And, finally, some aspects of Turkey's own policy, particularly its desire for a 15 percent lift up (?) have slowed things.

But the fact of the matter is that Nabucco is for Turkey a major priority. Turkey would be one of the major beneficiaries if Nabucco is built and completed. First of all, it would enhance Turkey's regional role. It would also make Turkey a major cog in European energy policy and would enhance its influence even in the U.N.(?) and also Turkey hopes and probably would be the case. It would, could

give its membership application new impetus. It would not overcome all the resistance by any manner of means, but it would be a positive step.

Thirdly, Turkey will benefit economically as the pipeline runs through that Turkish territory. The largest part the pipeline runs through Turkish territory. Turkey would receive 60 percent of the tax revenue from the pipeline, and, secondly, it would -- as it is expected anyway -- to also attract infrastructure investment and create new jobs. So for all these reasons Turkey has been a very, very strong proponent of Nabucco.

The question, of course, is whether Nabucco will ever get built because of the obstacles that I've mentioned. But the intergovernmental agreement that was signed on July 13th, two days ago, which involves between Turkey, Austria, Hungary, Bulgaria, and Rumania has given new impetus, and it's giving Nabucco a new boost and also in many ways increased its credibility of being able to obtain financing.

Also, in the meantime, Iraq in the last couple of days has said that it would commit 15 billion cubic meters of its own gas to Nabucco if it's built, and that is about half of what Nabucco needs to operate to its full capacity. And, therefore, combined with Azerbaijani gas would

pretty well allow Nabucco to have the 31 -- 30 cubic meters that it needs to operate at full capacity.

And also Turkmenistan, although not a very reliable partner in many ways, has in recent days also expressed interest in shipping gas through Nabucco. So all in all, the prospects for Nabucco over the last few weeks have, in fact, improved. And if you take into consideration at the same time that the economic, global economic recession has reduced the cost of steel pipe and other things, this has reduced the overall costs of Nabucco.

So the prospect, one would have to say, although Nabucco is by far not out of the woods and it still faces obstacles, it is increasingly likely that Nabucco will be built, and this would be in fact a rather strong blow to Russian energy hopes and interests.

Let me stop there and turn it back to Omer.

(Inaudible speaking off-mic)

AMBASSADOR VURAL: Good morning. My presentation will be a personal history of Russia from a Turkish perspective. I have some notes for today's discussion which can be distributed later, but I'm not going to read them, just to point out that I arrived in Moscow in 1988, in autumn of 1988 as a new Turkish ambassador from Tehran.

I was instructed by the Prime Minister, which is rather unusual for an ambassador, that I had one primary mission in Moscow

to oversee the gas deal, the natural gas deal we signed with the Soviets in 1984 and which came into force in 1987. So this was my primary mission.

And according to us all this deal, this economic deal with the Soviet Union was far more important than the 1966 agreement Turkey had with the Prime Minister Kosygin, which in fact laid foundations of -- foundation of the Turkish heavy industry: the boats and other than steel plant and the Armenian plant, Armenian glass factory, and many other industrial installation with soft Soviet credits and technical know-how.

Because, as was explained to me that the gas deal had a win-win situation, it provided a secure supply for our growing energy needs, and it allowed for a compensation against, in fact, 70 percent of the gas to be bought from Russia, from Soviet Union would be paid by Turkish export products and services.

These, of course, were the golden days of glasnost and perestroika in the Soviet Union. To tell the truth, I went through glasnost and hardly any perestroika.

The Cold War was prevailing and mutual fears and suspicions were not absent. The next day on my arrival in Moscow, the first time I was in my office which was a bit far from the residence, I saw a long queue of people waiting in the cold, the chill of Moscow

autumn, and then I questioned, I learned that they were asking for a visa, some five, six hundred people. There was as certain relaxation of travel into Soviet Union, and people, as a close destination, wants to go to Turkey.

But I learned that the lawsuits (?) almost toppled (?) the staff of the Embassy to handle visa requirements, charged no money, and the visas took at least 20, 21 days, or a month to get. There was hardly any. This was a bureaucratic thing. So I the same day, I sent a report to Ankara asking for a change of the visa requirement and proposed that instead of this advanced visa, we should issue it at the airport or proof of arrival in exchange for a stamp fee of \$10 to \$15.

But knowing my bureaucracy, I also called Prime Minister Ozal and explained to him the situation. He immediately understood it, and a few months later Turkey, we were able to announce that Soviet citizens no longer required visa. They could freely travel to Turkey and obtain their visa at the airports.

In 1988, the number of Soviet citizens visiting Turkey was about 2,000, and last year the Russians only visiting Turkey is more than three million. The visa was a result, the (inaudible) was -- a result was that it was very difficult to find a seat at their airport which flew twice a week to Istanbul. So I called my classmate, the Minister of Transport, asking for the services of the Turkish Airlines. He said the

feasible two studies of the Turkish Airlines proved that this was not a good, profitable connection.

I insisted. Prime Minister Ozal intervened. We had an experimental flights for two months -- for two weeks, a week, twice a week, then today the Turkish Airlines most profitable line is Moscow. And we fly -- and Turkish Airlines fly to almost every destination in the former Soviet territory.

The relaxation of travel between Turkey and Russia or Soviet Union had also a meaningful effect. Soviet tourists carried back Turkish textiles, sports shoes, leatherware, blue jeans. All of a sudden shops were opened in Istanbul to cater for the needs of Soviet tourists. These shops still exist today.

This, of course, this freedom of travel has also led to mixed marriages mostly in the form of Turkish men marrying Russian or Ukrainian girls. I received a lot of complaints, especially from the ladies of travel resorts (phonetics). I remember vividly a letter written to me by a Turkish woman. She told me that because of the lifting of visas, which she correctly blamed me for that, her husband didn't come home and spent all his money entertaining the visiting young Russian girls.

Despite this positive environment and increasing human contacts, mutual fears and suspicions continued, especially after 1988

when the Soviet Union became to disintegrate. Turkey's role came under closer examination. Throughout this period I was traveling extensively in the Soviet Union visiting Azerbaijan, Turkmenistan, Uzbekistan, and all the rest. I saw the decay in the system, but could feel a sign of revolt. There were no national liberation movements around. It was with this observation that I submitted a report arguing that the Soviet Union may disintegrate but it should not be expected in the form of national revolts or upheavals.

While trying to establish close relations with the communist leadership in each republic before the independence, my primary goal was to establish, economic and culture, of course, to our economic and cultural ties. At the same time I constantly reassured the leadership in Moscow that Turkey's main focus was and remains Moscow. I also explained to them to assure them that Soviet -- that Turkey had no interest in the destabilization of the Soviet Union and no interference in their domestic affairs.

This was the official policy of Turkey, but at the procedural level and at the level of certain associations, there was suddenly an excitement in Turkey. Historic (inaudible) Turkish ideals resurfaced. Media coverage of the Soviet Union was becoming increasingly nationalist oriented. Furthermore, one could see the agitation in Georgian apartheid, Chechnyan origin towards its citizens, they were

rediscovering their ethnic origins, and they wanted to have a role in the shaping of the new (inaudible) map.

So just to give an (inaudible), at that period, to the astonishment of my colleagues, my counselors in the Embassy, I asked for an appointment with the KGB chief. My colleagues told me that no Turkish ambassador ever contacted or visited the KGB chief, and they asked for authorization from Ankara. I said, no, an ambassador, I can always talk to him, and I went to see him.

I explained to him the situation, our intentions, the advantages of our economic cooperation, the complimentary nature of our economies and so forth, and I also explained about policy towards the Republics.

To what extent I was able to convince him, I don't know, but at the private level I could detect a certain relaxation in Marc Servais (phonetics). Turkey's prudent approach during the disintegration of the Soviet Union enhanced, I believe, Russian confidence in Turkey. Similarly, Russian commitment to their economic engagements with Turkey enhance their status as a reliable partner.

In the period 1990-1991, Turkish-Russian relations were severely tested. Turkey was one of the first countries in the world that recognized immediately the independence of former Soviet Republics, including Armenia and the Baltic states. We were probably the first

country to open embassies in all the Republics except Armenia. Not only the Soviet Union but I also felt the impact of the disintegration. Instead of one ambassador we now had two or three ambassadors in the former Soviet territory.

There was no doubt that the proactive diplomacy with Turkey carried certain risks and caused resentment in Moscow. It was my job to calm down and reassure the Soviets of our peaceful intentions, but knowing that my efforts will not be enough, we convinced our Prime Minister Demirel to visit Moscow before visiting any Republic. So he did that, and he was able to have very fruitful discussions in Moscow before proceeding later about a month or two months later to other newly emerging Republics.

Since the '80s, the economic and energy cooperation constitute the driving force behind Turkish-Russian relations. In addition, according to our perception, despite its diminished role in world affairs as compared with the Soviet period, Russia is still a key actor in the commonwealth of independent states. They are aware, of course, of the fact that renewed self-confidence of the Russian administration under Putin and Medvedev, this new self-assertiveness, especially in its foreign policy is felt in the Caucasus and also in Turkey. The use of force we have seen in Georgia last August probably testifies to this self-assertiveness.

Russia is extremely vigilant towards development in a media neighborhood as well as its contiguous regions. The rest of the economic and nutria (?) penetration of the former Soviet geography has led to a perception of creeping encirclement and thereby a strong impulse to conflict. In its relations with Turkey, Russia, we feel, is much more confident. They know that the huge economic cooperation and trade between the two countries, as well as the energy dependency cannot be overlooked easily.

In 2008, Russia has become Turkey's first trading partner. The volume of bilateral trade is about \$28 billion. Just to make a comparison, in 1992 the volume of bilateral trade was around \$1.4 billion only. And in my time in 1988, it was less than 500 -- \$500 million.

In 1988, I was present at the grounds laying ceremony of the project undertaken by the Turkish Construction Company. One was a hospital and the other was a hotel. Over the years, the total value of projects undertaken by Turkish contractors in Russia alone has reached \$30 billion. Turkish direct investments in Russia surpassed \$6 billion. Russian direct investments in Turkey, on the other hand, is estimated to be around \$4 billion.

Russia, as we all know, singularly is the main energy supply of Turkey. Turkey imports roughly two-thirds of its natural gas

requirements from Russia, and one-third of our oil comes also from Russia. Always we have had numerous disagreements with Russia, especially on energy matters, and these disagreements still continue.

The Baku activity to Ceyhan oil pipeline was a source of disagreement. We also under the Blue Stream Project under the Black Sea softened Russian attitude towards us. The energy diplomacy of Russia is something to watch for. Turkey alone cannot change its dependence on Russia. This requires a multilateral approach, and I think you have to note with satisfaction the signing of the intergovernmental agreement on the (inaudible) which is important. Now what remains to be done is to fill that pipeline if it's ever to be constructed with the gas that is required.

Turkish-Russian, of course, are not problem-free. The level of mutual dependence acts as a restraining factor. Caucasus are really (?), Armenian conflict, Russian energy diplomacy, Russian relations with the trans-Atlantic community, with the West, are all important. Any tension in these relations affect Turkish-Russian bilateral relations as well.

I think from the Turkish perspective the best way to deal with the newly emerging Russia is not confrontation but cohabitation. We must engage Russia and recognize its legitimate interests. On the other hand, we have to diversify our energy resources. Iran, Iraq,

including the northern parts of Iraq, must be put into the energy equation. Russia must not feel threatened by the West. And, of course, we have to watch with great care the developments between Russia and the Ukraine and as well as the situation in the Caucasus.

Turkish-Russian relations constitute an important and integral part of Turkey's overall foreign policy. I believe that the current state is healthy and sound, but it cannot be a substitute -- and I repeat -- it cannot be a substitute to Turkey's trans-Atlantic ties with the United States and Europe, and cannot be a substitute to Turkey's membership in the European Union. Those political leaders in Europe who reject Turkey's E.U. membership for ideological reasons must be made aware of the wider strategic consequences of their policies.

And while being hopeful on the future of Turkish-Russian relations, of course, I have to end with a certain caution and within limits of our cooperation with Russia.

Thank you.

(Applause)

MR. TASPINAR: Thank you. Milov?

MR. MILOV: Thank you very much. Good morning, and I have some Power Point slides for you and, Omer, I will be grateful if somebody can help download them.

First, this is not an official Russian view, of course, on the Russian-Turkish relations, and, you know, it's rather an independent overview of what's going on there. I'm not representing the official position of the Russian government. And I would say that -- Omer, can anybody help me download the slides which I have prepared?

I'd say there's a great mix of, on one hand, certain reciprocity in approaching each other between Russia and Turkey when it comes to energy issues, and on the other hand there are certain contradictory interests. And this is what I will try to explain in my slides.

And recently, Turkey has been becoming, obviously, more strategic Eurasian energy hub and energy competition crossroads. It has been a focus of attention when it came to discussion about the potential routes of evacuation of energy resources produced in the Caspian Basin and in Central Asia, and also about the evacuation of resources produced, but --

The middle is, is this the one? Yeah, thank you, sorry about that.

So, obviously, the eyes are focused on Turkey as the new potential energy hub and especially Turkey's particular interest of Russian policymakers when it comes to discussion of a new energy transit routes because Russia is desperately seeking alternatives which might help it minimize the transit dependence on certain post-

Soviet countries like Ukraine or Belarus which currently dominate, for instance, in the structure of transit corridors which help export Russian gas. So Turkey is becoming increasingly important not only for the Caspian and Central Asian energy producers but to Russia as well, and there's also a growing interdependence when it comes down to energy supplies.

Recently, Turkey has become a third largest European consumer of Russian gas with gas supplies from Russia doubling in the recent eight years. And, currently, in the structure of Turkey's gas imports, as Steve correctly said, Russian supplies constitute about two-thirds, which is even higher than the share of Russia in the structure of Bodush (?) gas import contracts.

And I'd say that this leaning towards increasing mutual dependency, it was intentional from both sides, and it has been developing ever since late '80s and early '90s where Russia and Turkey has been negotiating a long-term energy supply contracts.

So on one hand we see, for instance, European Union countries willing to minimize its energy dependence on Russia; on the other hand, Turkey has been consistently opening up its energy market towards Russian resources, which is good news for Gazprom and has been welcomed by Russia, but I'd say the relations are not problem-free by all means.

And, particularly, this relates to seeing Turkey as a potential transit route for Russian energy supplies, particularly gas. What Gazprom, the Russian gas supply monopoly is looking for is an alternative to Ukraine, Belarus and other current transit countries which sometimes deliver certain problems in transportation of the Russian energy resources.

And Turkey is viewed as an alternative here, but the problem is that Gazprom is mostly looking at Turkey as a problem-free transit country where as in these negotiations about transportation of Russian energy resources, Turkey sometimes a bigger role for itself, and I'll let my Turkish colleagues elaborate on whatever Turkey's vision of its national interest is.

But, definitely, through some negotiations it became clear that Turkey has been viewing itself often rather as a potential re-seller of Russian gas to, let's say, European consumers than just a plain provided of 300 services, and also displays a lot of conversions and a build-up of energy interdependence in the recent decade. There has been a lot of negative reaction from Moscow policymakers related to Turkish participation in certain projects which are viewed as hostile and sometimes even anti-Russian by the Kremlin.

This is where I think my vision differs from that of the Russian authorities because there inevitably will be pipelines built that will

bypass Russian territory, and there are obviously two ways of dealing with it. One way is the way which is probably chosen currently by the Russian authorities, which is try to oppose these projects, obstruct them, and try to take certain steps to prevent these projects from taking place in reality, which I think is a dead-end strategy because, inevitably, certain pipelines which bypass Russia will be built. I think to me the other way of handling the issue is probably a much better option, which is try to integrate with these projects, participate in them, and participate in building up a more diverse Eurasian energy space.

For instance, when I used to work in the Russian government in 2002, I deeply regretted Lukoil's decision to reject an offer by the Ossory government to participate in the Baku-Tbilisi-Ceyhan Pipeline. Lukoil has been offered 7.5 percent equity stake at the moment. I think it was a grave mistake on the Russian side to try to ignore and snob the Baku-Tbilisi-Ceyhan project instead of participating in it and make the Eurasian energy space more integrated and more secure.

I think I also do not understand really Moscow's hysteria about Nabucco Pipeline. It's quite obvious that even if it will be built, there will be certain problems with reliability of supply of energy resources from anything beyond Azerbaijan, be it the potential of trans-Caspian link, which is supposed to supply Turkmenistan gas, or be it the Iranian or Iraqi supplies, I'd say the reliability of those potential

suppliers is questionable and here is where Russia can be, in fact, competitive. To me, for instance, such an option is Russian gas supplies to Nabucco is quite realistic and probably very profitable from the commercial point of view.

So I don't understand all this hysteria at all, pretty much the same as about the construction of some soon Ceyhan oil transportation pipeline which is viewed by Moscow as a competitor Borga Select (?) Andropolis-Bosphorus Bypass, which is currently Moscow's favorite. So I think this vision of Moscow that it can, in fact, try to prevent all these pipelines bypassing Russia from being built, I think this is the wrong strategy, which adds a lot of hostility and misunderstanding into Russia-Turkish relations.

I think this is a component which probably makes it difficult to build up a full-trust relationship with Turkey, and it also doesn't really work, because it was a common wisdom among Moscow policymakers just 10 years ago that Baku-Tbilisi-Ceyhan Pipeline, for instance, will never be built. It's currently operating for several years already, as we all know.

Nevertheless, Moscow views Turkey as an increasingly important energy corridor to transport Russian gas to the European markets. As you can see in that graph, the right bar shows the decreasing share of Ukraine and Belarus in transporting Russian gas

to the European markets as the new transit corridors via Baltic and Black Sea would emerge. There is a questionable issue whether Russia favors transit of gas through Turkey or through Black Sea bypassing Turkish territory, which is also a component of uncertainty that is leading up to the Russia-Turkish relations.

For instance, just a little less than four years ago, speaking in Sum Soon Vladimir Putin has been promising that the second line of a Blue Stream pipeline will be eventually built, which then prevented the main Russian vision of developing a southern gas transportation dimension. All of a sudden after all, two years ago in the middle of 2007, Russia surprisingly announces a completely new project called South Stream which was clearly invented to bypass Turkish territory. And to me it was obviously a result of difficulties in negotiations with Turkey in terms of this scheme of Russian gas through Turkish territory. Turkey has been insisting, as far as I understand, that it acts as a re-seller of gas rather than a transit country.

There has been a response. Immediately, Turkey had activated more negotiations on construction of alternative gas pipelines to ship Iranian gas or gas of other producers, and the discussion about the Nabucco Pipeline has been seriously activating ever since.

But all of a sudden, after some time this may actually -- Vladimir Putin again for the first time in recent years has been

mentioning the potential construction of a Blue Stream 2 Pipeline. It has been done for the first time in years, which shows again that some switch in Russian position have happened.

I'd say it's quite clear to me why it has happened, simply also as an aftermath of the recent Russia-Ukraine gas transit crisis of this January. Initially, as you can see on this map, the South Stream routes was expected to pass through Ukrainian and Rumanian exclusive of economics. And also the Black Sea, obviously bypassing Turkey, which was as far as I understand unwelcomed by the Turkish side. But after the gas war of this winter, it became clear that it will be eventually impossible for Russia to build, to obtain permission from Ukraine to build South Stream.

I mean it's exclusive economic zone, so Russia's eyes currently are turned towards Turkey in terms of potential construction of the South Stream route, so the attempt to bypass Turkey had proved to be unsuccessful, and Turkey became more and more important again as a transit dimension. This is why I think also, obviously, Putin had returned to the idea of construction of a Blue Stream 2.

So just to briefly conclude, there is obviously a growing interdependence in energy supplies between Russia and Turkey, something exactly the opposite which we see in the European

continent where Europe, who's obviously looking for ways to diversify and (inaudible) supplies, and this convergence in terms of supplying Russian energy to the Turkish market seems intentional and basically welcomed by both sides.

Turkey is becoming extremely important for Russia as a potential alternative corridor for the post-Soviet -- as opposed to the post-Soviet countries like Ukraine and Belarus, particularly after it became evident that it will be largely impossible to build a South Stream through Ukrainian section of the Black Sea, but Russian complexities and the relations which are undermined by the different competing interests and different vision of the Turkish role as a transitor of Russian gas, and also I'd say probably a bit of paranoia on the Russian side about the construction of potential new oil and gas pipelines which bypass our territory, if this attitude will not change that this factor will indeed be a problem.

So, generally. the picture is very mixed, complex, and quite interesting, and we look forward to see the upcoming developments here.

Thank you.

(Applause)

MR. TASPINAR: Thank you, Vladimir.

We have less time than I'd hoped for the Q and A, but -- we're running a little bit late, so hopefully we'll still have about 25, 30 minutes for Q and A.

Let me ask the first question, and then we'll open it to the floor. I'd like to focus on an issue that I think we did not really cover at the strategic level about Turkish domestic dynamics, essentially. And I would like to ask the question to Ambassador Vural.

Beyond economics, beyond trade, what do you think are the domestic drivers of Turkey's willingness to engage Russia? Because at least from Washington during the Bush Administration years, there was this perception that Turkey's relations with the West were somewhat troubled. Partly, there was the perception of a rise of particularly slum in Turkey, but more importantly, the Kurdish problem created tensions in Turkey's relations with first the European Union, but also after the 2003 Iraq War with the United States. So there was a certain perception that there was a pro-Russian lobby emerging in Turkey, sometime called the Eurasian alternative to Turkey's trans-Atlantic partnership.

So if you could say a few words, Ambassador, about these domestic dynamics in the post-Cold War eroding, but, more importantly, under the off-party years. Who's the pro-Russian lobby in Turkey in terms of a strategic partnership with Russia?

AMBASSADOR VURAL: Well, it's a very interesting question. We now see different alliances. We see the alliances of people who have never met, ideologically, reforms now merging into one group. I think the main dynamics of the pro-Russian lobby in Turkey, apart from the consumers, apart from shopkeepers, or touristic installations, owners of hotels in Turkey, is those people who feel offended by the European attitude towards Turkey's membership.

The emergence of Sarkozy in France and to a certain extent American's policies, which instead of membership proposed that Turkey should be a -- have a privileged partnership relationship within Europe, really causes great resentment in Turkey. This is one lobby which in fact turns to other alternatives.

Now there is deposed democracy movement in Turkey. Of course, we have initiated a number of democratic reforms in Turkey, and some people think that those reforms erode the very essence of the Republic. Those were worried, and, in fact, now a group what are interested, the initially invested, educated people but becoming more oriented towards Russia and other alternatives, this is another group.

Church is -- the belief in certain quarters that have parted is using democracy to advance an Islamic agenda. That is a certain worry of some people in Turkey which must be taken into account. Then they also say that these reforms initiated by the government are

not for democracy, per se, but to advance, to mitigate the role of the republicans. And therefore there is a mixed group of people who are now becoming dejected by the European or Western attitudes and becoming more involved with pro-Russian groups lobbies.

Of course, during the Bush Administration, what happened in Iraq, the disintegration of Iraq, are the challenges with Iran, which we had in the country despite our differences, nevertheless enjoy a very sound economic cooperation. Those policies in Turkey, of course, created an environment as well which are not conducive to -- let's put it a pro-Russian or pro-Asian for others. MR.

TASPINAR: Steve, you wanted to say a few words?

MR. LARRABEE: Yeah. I don't disagree with that analysis, but I would say when it comes to Russia itself, first of all I don't really see a large pro-Russian lobby. The lobby is particularly strong among some industrialists in the construction industry which has very important interests in Russia in which there is a large business. It's very strong among the oil and gas thing, but there isn't a lot of strong popular support for, in my view anyway, for a pro-Russian policy, and I argued why I thought there would not be a kind of reversal of alliances.

On the Eurasian aspect, yes, there is this -- I would still consider it very strong -- the minority view that Turkey should, has this common interest with Central Asian countries, and should pursue this

in these interests. But, in fact, that policy conflicts with Russian policy because Russia does not particularly want to see Central Asia become a Turkish sphere of influence at all. But that is still a minority view.

So I don't really think that the reasons for the increase in better improvement in relations with Russia, I think really think it has to do with, as I said, with economics and with energy, and that is what's really driving.

Now, it's true, of course, that Turkey is playing a more important regional role and a more independent role. That has a lot to do with many of the factors that Ambassador Vural said, and it has to do with Turkey's -- the end of the Cold War and the fact that Russia is no longer a major threat as the Soviet Union was. But the driving forces, I would argue, are in fact economic and energy.

MR. TASPINAR: Thanks. (Inaudible)

AMBASSADOR VURAL: I agree with what Larrabee has said. I mean full Russian or full or uninterested mood in Turkey should not be exaggerated. It doesn't have a deep popular support that narrow economic interests of certain segments of the society, but deep down the Turkish society is pro-Western, pro-United States, pro-European. And this has not changed. But the rejection of Turkey by the E.U., especially, has created an atmosphere of Turkey distancing

and resentment against the West, against Europe, and some members of the European Union, not all.

So, I mean one has to, when you look at the figures, numbers the pro-Western lobbying or thinking in Turkey is still strong, and it's unchallenged. But we have increasing economic cooperation, which is seen by the Turkish population as mutually advantageous, and they don't want to -- like many countries in Europe, Turkey also will hate this scenario to have to be confronted with the choice of swaying (?) ties with Russia and/or maintaining a close alliance, close-knit alliance. So we don't want to be pushed into that corner. We want to have our Western alliance, part trans-Atlantic community; we also want to have good relations and economic cooperation with Russia.

MR. TASPINAR: Thank you. Let's open it up to the floor now with questions. I see someone behind, in the very back. Please wait for the microphone and identify yourself, please.

MR. CHEN: Yeah, Chia Chen, free lance correspondent. Since (inaudible) influence and decide everything, if I may I would like to ask some particular question.

Last time German ambassador here and he asked a question. He said: "Turkey should decide what they want in E.U." And could you answer this question?

And also this Counselor Vural talk about Turkey influence sphere in Central Asia, and we were -- Martin (?), independent leader from Xinjiang, is in U.S., and she had been apply visa to Turkey many times and got reject. Only recently that Turkey give her the visa. What's the intention of the Turkey and to Counselor Vural?

MR. TASPINAR; Okay, thank you.

MR. CHA-TEN: No, this is very important.

MR. TASPINAR: I know.

MR. CHA-TEN: Because he talk about what do you think the Central Asian going through the period instable [sic] from now on. What's Russia think about that, and what Russia is going to do with it?

Thank you

MR. TASPINAR; Okay, I guess the first question is about Turkey's willingness, vocation, in terms of its relation with the E.U. Was there any question marks there?

And then, of course, we don't want to start the new panel on Turkish-Chinese relations; however, to the angle of Russia-Turkey, to what degree the recent developments in Xinjiang impact Turkey's Eurasian policy. I guess both Ambassador and Steve.

AMBASSADOR VURAL: I think Turkey's E.U. vocation (?) is very clear. We were the first country to sign an association agreement

with the E.U. back in 1960 that had the ultimate objective of becoming -- Turkey becoming a full member in the process.

So, but if you go back centuries -- I mean becoming part of Europe, of the European system, has been part of the Turkish history, in fact. In fact, the Ottoman Empire in the times of its decline, it was referred to that as the "sick man" (?) of Europe of Asia," but Europe. Therefore the other European vocation, and this has been confirmed throughout.

So our commitment to become a member of the European Union is very strong, and it has been advocated by numerous governments which has taken power since 1960. So that's the (inaudible).

Regarding the events in Xinjiang (?) and what -- of course, we are -- I think our diplomacy is -- I can't speak for the government -- but our diplomacy is very prudent, very careful. We don't want to intervene in the internal affairs of countries; on the other hand, we recognize the legitimate rights of the human rights issues happening in what's going on in China today. So we are worried about the situation, but our effect to intervene is limited. I think it's the responsibility of the international community to invite the Chinese to treat their own citizens with respect, with dignity, and, of course, recognizing their cultural rights and rights of existence.

MR. TASPINAR: Thank you. Steve?

MR. LARRABEE: Well, on the E.U. question I very much agree with Ambassador Vural. I think it's important to understand that for Turkey membership in the E.U. is not simply an economic issue; it's a much broader issue, it's a civilizational issue with the civilization choice that goes back, really, to the founding of the Republic in 1923. So there is a lot of support for Turkish members have been in the E.U.

On the other hand, two parallel trends have emerged in recent years, and particularly since the referenda in France and in the Netherlands a few years ago. One is a decreasing support in Europe. I'm not talking about the E.U. Commission where there's a lot of support, but (inaudible) the population for Turkish membership in the E.U.

And the way that the E.U. has treated Turkey and particularly the talk of a privileged partnership after the opening of negotiations for a session has had a negative impact in Turkey and led to decreasing support for the E.U membership, which three or four years ago stood almost at 70 percent. Now, depending on which surveys you see, it's down to 40, 45, 50 percent. So the majority of Turks still support E.U. membership, but the degree of support is declined and that largely due, in my view, to disenchantment with E.U. policy and the way the E.U. has treated Turkey.

MR. TASPINAR; Thanks, Steve. Mark?

AMBASSADOR PARRIS: Thank you. My question is for Vladimir Milov. One could draw from your presentation the conclusion that -- surprise, surprise -- Moscow's approach to Turkey is essentially one-dimensional; that is, it views Turkey as a very important square on the chessboard of its energy strategy as an energy superpower.

The corollary of that would be that other than that, nothing really much as changed in Russia's relations with Turkey -- that is in areas like the Caucasus. It would continue to view the problems in zero-sum terms; that is, you know, it's our near board (?), it's no longer the Ottoman Empire, this has traditionally been zero sum, it's essentially -- therefore on the issues like Nagorno-Karabakh, and Armenian-Turkish normalization, Russia, despite the progress and the quality of the changes that have taken place in relationship may not be a partner in cooperative terms, in terms of where Turkey would like to see some of these come out.

What I'm trying to do is get a sense to whether or not the big changes that have taken place are essentially about energy, period, or whether something qualitative has changed in Russia's way of looking at Turkey.

MR. LARRABEE: Thank you. And, yeah, I think you're very much right in viewing Moscow's mindset as seeing Turkey as a square

on a chessboard. And I also have to say that despite relatively positively developing relations in the recent period, they're hardly being anything beyond and trade, which essentially played out as a driving factor for such development. And in terms of energy, what Moscow has been doing is largely conquering the Turkish market quite successfully, but that's it. And I don't think that it would be fair to say that Russia and Turkey have managed to develop a joint strategy in terms of working on new infrastructure projects and so on.

You can also remember some examples beyond my presentation. For instance, Turkey has almost convinced some of the influential Russian decision-makers that it's far better to opt for a construction of a bypass oil pipeline bypassing Bosphorus solely through Turkish territory, not going into Bulgaria and Greece. But the top policymakers have rejected this option, finally choosing the Bulgarian-Greek dimension.

So there has been very little conversions of interest even in that. And I can tell you my personal feeling is that the Moscow decision-makers are actually very uneasy thinking about what the Turkish influence in different areas of the post-Soviet space and other Eurasian territories might be. They are quite uncertain on what Turkey is about, and Caucasus in Central Asia and Ukraine were also. I think it's an important factor, because Ukraine pursues, like, the White

Stream Pipeline project for instance. And different issues far beyond energy and economics are possible emergence of relations between Turkey and the Ukraine is indeed a concern for Moscow.

So I think this approach to international politics, in general, as a zero sum game, it raises a lot of uncertainties and concerns for Moscow in a place of something which could have been absolutely resolvable issues that should not have produced a concern.

The same as with Nabucco pipeline. I think it's a problem invented from nothing, because it does no harm to strategic Russian interests in general, and our long-term supplies to a Southeastern European market is secure, but Nabucco has been raised on a flag as the main offender of Russian interests. So I think the zero-sum game approach, as you correctly said, is, unfortunately, probably a priority in Moscow is visionally based (phonetics).

SPEAKER: Mark, I agree with you and Vladimir. On the Russian side, I think it is more or less a zero-sum game and does not like this change.

The Turkish side is different. The fact I would argue that the growing economic relationship and intense (inaudible) relations, particularly in the energy field has in fact made Turkey more sensitive, as they argued, to Russian concerns and interests. They are less willing to confront Moscow. I'm not criticizing this, I'm just trying to say,

analytically, that -- and you saw this, for instance with one example recently, when Russia invaded Georgia. Ankara was very cautious about saying anything too negative about that and did not come out as strongly, certainly, as the United States and most of the West European allies, because they want to try to maintain a certain balance, continue to have good --

AMBASSADOR PARRIS: My point is that only one side is going to be accommodated.

SPEAKER: Well, I'm trying to support you in a nuanced way.

AMBASSADOR PARRIS: If I can add one thing, when you think about the nature of the problems that the two countries faced in the 1990s, Turkey was really concerned that there were PKK offices in Moscow. And after the Beslan incident, there was a new wave of cooperation, especially at the intelligence level between Turkey and Russia. There's a huge Chechen minority in Turkey, and Russians were concerned that money was flowing (inaudible). Help was flowing to the Chechens.

Turkey apparently stopped that. In return, Moscow shut down the PKK offices. So in a way the minority politics, the nature of minority politics started to change. One can see that as one angle where, basically, there was something beyond just energy and the cooperation between Turkey and Russia,

MR. TASPINAR: (Inaudible)

SPEAKER: A very quick question to Vladimir. First, I think the Prime Minister Putin's visit in August, what do you think is going to come out of it?

And another significant visit that took place recently, the Russian Orthodox Patriarch visited Istanbul and Ankara, and he was received very highly. Do you think this is a factor? Do you think this is as new dimension in the relations?

AMBASSADOR VURAL: Well, I still think that as much as with the previous visits in high-level meetings of Mr. Putin, I think this will be still mostly focused on pipeline diplomacy, which has been topping his agenda with Turkey recently, too.

And following his remarks after meeting with Prime Minister Erdogan in May, I believe there is going to be a lot of developments on the energy side, and I don't think we really can speak about any breakthroughs in dimensions other than that.

I'd say that the exchange of treatment of Chechen diaspora in Turkey for shutdown of the PKK offices, I don't see this as a really large break-through in relationships but just an exchange of friendly gestures, which does not end up as a significant progress factor. I don't see, really, an ability for significant progress in further areas beyond energy. So I don't expect much from this August visit, frankly.

MR. TASPINAR; Cory?

DR. WELT: Thanks. Cory Welt, Georgetown University. I also had a question for Vladimir. I wanted to push you a little bit more on your analysis of South Stream. Given what she said, given the interesting Bulgarian policy review that's been announced, given the new signing of the Nabucco agreement, all of these things would seem to suggest that South Stream is really in very difficult straits.

And so I wanted to push you a little bit more and ask what your prognosis is. Do you see that South Stream really is dead at this point, or do you see ways in which this project could still move forward? And, regardless, it certainly seems that Turkey, given the difficulties of South Stream, as you pointed out, becomes a much more important partner for Russia in terms of presenting an alternative to Nabucco, but at the same time you seem to suggest in events that will be moving in a certain direction that would suggest that Nabucco would be moving forward with or without Russian participation, and possibly even with Russian participation.

And given that, how realistic do you see a alternative to Nabucco that builds upon Blue Stream?

AMBASSADOR VURAL: Well, to be frank with you, I do see the South Stream project as dead, which is a purely paper project which does not exist in reality.

When I was talking to Caspian people in 1999, I used to work in the Russian government at the time. I was saying to them, like, "Look, the main problem for North Stream would be not commercial issues, not the high cost of the project but the negotiations with Baltic littoral states which would present obstacles with agreeing for a pipeline to be built in their waters."

I think this is the main problem for South Stream as well, because you have to get the agreement either of Ukraine, which will be against it, which was the initial design, or Turkey, which will indeed, I think, prefer to push Russia to rely on the surface routes which pass through Turkish territory and not just the Turkish section of the Black Sea. This is why I pointed out about the return of the Blue Stream 2 option. I think Turkish government will be softly but surely pushing Russia towards this direction in the first place, probably creating obstacles for the development of the South Stream.

This is why all of the agreements which Russia made on the downstream end of the South Stream are far less important than what happens in terms of getting permissions in building the sub-sea section in either Ukrainian or Turkish zone of the Black Sea.

I think South Stream is the project which Russia simply uses, you know, as a leverage to threaten the Ukraine to get more favorable transit conditions, but I don't see any real prospective of this project

going forward. And if the Russians would choose to expand the capacity of the Blue Stream, I think this opens way for Russian gas to be supplied through Nabucco and to at least, maybe initially not in a long-term basis, maybe only marginal basis, on a temporary basis, but I see Russian gas supplied through Nabucco as a very realistic option, given the difficulties with finding reliable supply sources which Steve has been talking about.

MR. TASPINAR; Thank you, Vladimir. Unfortunately, we are running out of time. So our second panel will probably start at 11:10. We'll have a shorter break.

(Recess)

MR. PIFER: I think our first panel got us off to a very good start. What we'd like to do with the second panel, which is on the East-West Energy Corridor and Europe's Energy Security, is now drill down a little bit into the energy question and look specifically at the pathways that move energy from the Caspian and Central Asia, through Turkey through the Black Sea into Europe, and what does that mean for Europe's energy security.

The talk about east-west energy corridors goes back a number of years. In the Clinton administration in the early 1990s, a big focus was on the promotion of multiple pipelines, finding ways to move oil

and gas out of the Caspian region, out of Central Asia, through transit routes that were other than through Russia or through Iran. The idea was to promote a general diversification in transit routes to bring energy to global markets. The most striking example of success of this policy was the Baku-Tbilisi-Ceyhan pipeline.

Now we have a situation where Russia is increasingly interested in maximizing the transit of energy through Russia, Turkey sees an opportunity for it to play a greater role as an energy hub and as an energy transit country, and what we'd like to do with this panel now is talk a little bit about what this means for European energy security and then also what it means for Turkish and Russian policies on energy questions.

I'm glad that we have three people who have joined us. I'll just give you a very brief introduction. You should have in your handouts the fuller biographies. Our first speaker will be Jeff Makhholm, who is a senior vice president at the National Economic Research Associates, and he is going to talk about the situation within Europe, Europe's energy security situation and how the east-west energy corridor can impact on that.

Our second speaker is Ambassador Mithat Balkan, who is a distinguished former Turkish diplomat, he is now a senior adviser at Calik Energy, and he is going to discuss the Turkish perspective on these

issues and the role that Turkey can play as an energy transit state and as an energy hub.

Our third speaker is Alex Petersen. He is the Dinu Patriciu Fellow for Transatlantic Energy Security at the Atlantic Council of the United States, and he is going to talk about the Russian perspective including what this east-west energy corridor can mean for Russian pipeline policy. Jeff, it's open to you.

MR. MAKHOLM: Good morning. It's a pleasure to be an economist among a distinguished group of diplomats and scholars of government and politics. It's rare enough for economists to view the world through other people's eyes, and I'm grateful for the chance to visit with and discuss Russian-Turkish-European gas security and supply issues in this setting. As an economist, perhaps the best contribution that I can make here is to offer a different perspective on Europe's energy security vis-à-vis their supplies from Russia and the East.

I have been a part of three economic conferences in 2009 already, and they all bear, and an underlying theme of all of them, the dislocation that happened in January and the threat of politics and political maneuvering and political leverage on gas supply security to the E.U. and the European non-E.U. states. What I've been asked to discuss is Europe's energy security and how the east-west corridor can affect it.

The security of E.U. and non-E.U. European gas supply is a problem. You saw it in January. The shutoff of Russian gas to Ukraine and the dislocation and cold consumers in Europe that resulted is proof of what the E.U. people in Brussels have feared for many years. European gas consumers are exposed to the whim of particular supplies, particularly Russian. In contrast, it's useful to look at Europe. If you look at it from outer space you can see a continent served by pipelines from different directions just like this continent in North America. But in North America, we suffered a bigger supply disruption than the January disruption for Ukraine when Hurricanes Katrina and Rita put our major energy hub in the U.S., we call it the Henry Hub, underway for a week. It was a severe supply disruption from the Gulf of Mexico. However, other than those directly affected by the hurricane, nobody suffered an involuntary shutoff of gas and nobody was cold. What is the difference between North America and Europe that caused that to be so?

In Europe, conference after conference deals with gas supply security and E.U. attempts to draft new legislation to deal with the problem. Just this summer, the E.U. Parliament passed what's called the Third Legislative Package to try to deal with the lack of competition on its pipeline system. Those conferences deal with the political and operational repercussions of the problem, that is, where the gas is going to come from to Europe and who will build the pipelines to get it there. There is quite a

contrast with the other major continental gas supply system we have here in North America and it's useful to describe it.

Nobody holds conferences like this in North America to deal with supply security and who will build the new security-enhancing pipeline. Why? Why not? European and North Americans use about the same amount of gas. Our gas supply systems are about the same size with the same quantity of pipes and the same amount of gas consumed by the people of these two regions. They employ the same pipeline technology.

They have roughly the same size in terms of the quantity of gas, the share of gas on the market and so forth. Why is Europe so concerned about supply security when North America is not? The reason is North America over the course of six decades of agonizing trial and error, lots of trial and lots of error, created a highly competitive gas market that takes politics out of the security and supply question. That is, supply security issues for gas in North America no longer include diplomats or economists in the construction of pipelines and the serving of the market.

Consider the following. Gas is just a commodity like other commodities, oil, coal, gold, wheat, whatever. The measure of competition in such commodities is the futures trading markets that grow up around them to buy and sell those commodities on a forward basis. That's the measure of competition in commodities markets.

North America and Europe both have futures markets in gas, but on roughly equivalent volumes, the U.S. gas futures market is about 2,600 times the size of the European gas futures market, 2,600 times greater trading in futures in gas on this continent than in Europe. What that means is that other than what virtually constitutes rounding errors, there is no independent gas market in Europe. Almost all gas imported to the continent and almost all the gas produced within the continent flows under long-term highly restrictive contracts pegged to the price of oil. There is no longer any such contract like that in the United States or in Canada. Twenty-five years ago these markets in the U.S. and Canada were beset by those kinds of contracts, but they all died in the late 1980s.

Why does North America have such a competitive market that does not include diplomats or economists in supply security questions as opposed to Europe? It's because North America has a genuinely competitive and openly transparent gas transport system and Europe does not. Its pipeline system is a patchwork of local monopolies, many of you know this as well as I do, overseen by uncoordinated and disjointed national organs of control, either owners or regulators, with a what we would consider shocking lack of transparency and no pipeline rivalry to speak of for the inland transport of gas.

Competitive commodity markets absolutely need competitive or at least transparent transportation and Europe has got neither.

Therefore, when the question of supply security comes up, it's a question of bilateral deals between those who bring the gas to Europe and those who do the gas buying for Europe's gas consumers, that is, the gas distributors in Europe who are generally aligned with the gas transportation companies that are monopolies in their own respective countries. Neither of those parties, those who supply gas to Europe or those who buy the gas for European consumers, have any intrinsic interest in fostering commodity competition or the competitive gas transport that would support it.

Those who own the pipe monopolies in E.U. member states and also in the non-E.U. European states have utterly no interest in encouraging transport rivals in their own countries. Suppliers like Gazprom have utterly no interest in seeing their market power in Europe diminished by the competitive movement of gas across the continent. That would countervail in Gazprom's situation any attempt by them to use flowing Russian gas as a political or economic lever and it would create a supply risk uncertainty that would ultimately diminish the value of Russian gas and the price of Russian gas.

Up to 2009, up to today, the E.U. competition director in Brussels, detests the status quo and the lack of competition in the E.U., has also proven utterly no match for the combined political pressure principally of the major consuming countries in Europe of Russian gas,

Germany, France and Italy, and also from the political pressures from those outside the continent to make any material move, any material move at all, in the direction of open, transparent and competitive transport of gas.

We have conferences like this one where the politics of Nabucco is weighed against the politics of South Stream through the Black Sea. With no competitive market to produce substantial independent gas buyers to judge the issues of where the gas is going to come from for their own consumers it becomes a bilateral political question, and there is where things get complicated and there is where the diplomats enter the issue. Whether and who builds any major new pipeline to Europe under this system will be a function of state-to-state negotiations and the possibility that those negotiations would remedy the underlying lack of competitive gas markets or the underlying lack of competitive transport of gas through pipeline is not very large. That is to say, there are two conceptual pathways to security of supply in Europe that those of the European Competitive Directorate perceive.

The first one is competitive transport and flexible spot gas markets to deal rapidly with any natural, operational or political supply disruption as happened when Hurricane Katrina put the Henry Hub in Erath, Louisiana, underwater for a week. The second involves more pipeline, more hardware and more redundancy to deal with security from a

bilateral political perspective using the local monopolies in Europe that now exist as the buyers under that scenario.

The first is the comparatively inexpensive one that rests on many institutions, I count seven of them, that Europe does not now have. The second is the comparatively costly option, costly simply because it ties up more capital but recognizes the institutional and political status quo in Europe. The question of Nabucco versus Gazprom's incremental pipeline supply projects is part of the second path, the relatively expensive path, for security of supply in Europe.

Over the course of a century of tortured institutional development in dealing with investor-owned pipelines all doing what pipeline owners do naturally, trying to bar entry into their markets and exercise their market power, that's what pipelines do is left alone, North America got on that first path, but it took a century and it was not easy. I believe that the E.U. eventually will get on the cheaper and more effective first path, but it will similarly take decades to develop the underlying institutions to do so.

Until then, the kind of action taken on Nabucco just a few days ago will be very important. Russia wants to exercise market power as the largest incremental supplier of European gas. It wants to do what integrated pipeline suppliers have done since John D. Rockefeller first discovered the power of pipelines to affect markets and commodities

about 140 years ago, to bar entry into transport markets and thereby boost the price of the commodity involved. He did it in Appalachia and Gazprom is trying to do it to gas supplies going from the East to Europe.

Nabucco and Turkey as a transit state is just the kind of transport rivalry that can help to secure the flow of gas to Europe from the East. It should be vigorously supported by the great gas buyers in Europe, Germany, Italy and France. We haven't seen a lot of that to date. In the long-term, I see no choice in Europe but to work in developing the institutions needed to support the kind of competitive pipe transport markets that would moot Russia's attempt to exercise market power and also would benefit Turkey as a competitive transport link between Europe and the Middle East and elsewhere. In the near term I wish the best for Nabucco and Turkey, for this link is a step in the right direction. Thank you very much.

MR. BALKAN: Good morning. Of course, the United States in its domestic affairs would not have many diplomats dealing with its domestic questions and energy questions, but it has very prominent diplomats working abroad outside the United States working on energy questions there. Of course there is a reason for that, and that is of course the political nature of pipelines outside the United States. They are not really pipelines, but they also deal with the prosperity of nations, their connections, the socioeconomic and political consequences of their

establishment and projections of influence by one country or the others or other regions.

Turkey also in its foreign policy deals effectively with its energy relations as well. They are intermingled. When you look at Turkey's relations with its neighbors you see that with each neighbor it has an energy connection; Russia, Blue Stream, and the Western connection through Ukraine, and when you get to Turkey, one pipeline there. Azerbaijan and Georgia, the BTC and BTE pipelines. Iran, the natural gas pipeline connecting with Turkey. Iraq, Ceyhan pipeline. And with Syria we are working on an Arab pipeline connecting Egypt, Syria and Turkey together. With each one of our major partners outside our neighborhood, the E.U. and the United States, we also have major energy connections, Nabucco being one, the Italian connection, and we work together with the United States on energy issues, our greatest achievement being the BTC and NBTE together with the United States and other countries of the region.

Another point that really affects our energy policy is also the great burden that the Turkish Straits carries on oil transport through the Black Sea to the Mediterranean, 40 percent of that oil being Russian oil exports and Kazakh and Azeri oil quantities increasing very, very significantly. So we are working on bypass pipelines. With BTC we have

actually it is also a bypass pipeline and working on the south through Ceyhan pipeline.

So the projects that I have mentioned have already been realized or some are on the way or are being negotiated are on the way to be realized hopefully. But to see where we are today we have to also look back perhaps a decade and based on that experience, see where we are going to go in the near future.

I can separate these into two phases, the first phase being the BTC and the BTE. It was a pipedream that became a reality, and it's fully operational today. In fact, BTC is the first pipeline that links the Caspian with the Mediterranean and bypasses Russia. Kazakhstan has joined the project. Talks are in progress to increase the capacity of the pipeline.

BTC pipeline -- gas pipeline on the other hand, is considered to be the first leg of the connection to Europe for the other gas and the Trans-Caspian pipeline, also opening the way for Iranian, Iraqi, and Egyptian gas to Europe.

Now, the second phase, to my mind after the BTC and the BTE, starts on the work -- starts with the work on trying to build on what the BTC and BTE have achieved. Now during the phase, the first country's achievement was the Turkey-Greece Italian connection. Turkey-Greece connection started operating in 2007, showing that the East-West

connection corridor is on the right track. Back on the double (inaudible), the company to undertake its construction and operation was established, and inter-government negotiations started.

However, the conditions of the time when the BTC and BTE were taken up and the conditions at the second phase were very, very different. BTC became a reality, because there was a very strong political will on the part of the countries of the region, Azerbaijan, Georgia, and Turkey. All three parties were ready to compromise.

At the time when oil prices are around 20, 30 dollars, Turkey makes significant sacrifices to make this become a reality. It reduced its transit fees, the transit fees it was to receive, at the minimum levels to be competitive with the (inaudible) transfer.

Azerbaijan also made some sacrifices. For example, it gave up its transit rights to Georgia.

The United States was committed to the project at the highest level. That was a presidential envoy coming and going every few weeks to the region. The President of the United States was involved personally.

The project could not have seen today without the United States support. The presence of a major oil company committed to the project and leading the project was also of paramount importance.

This positive picture during the BTC did not stay the same. It changed. There was a new factor, because BTC was an oil project. It was enough to bring the oil from the region to Jaham (?) and from Jaham it would be distributed to all those in need. But for the gas projects, you need also the consumers to come effectively and be an active part of the world pictures and the consumers in question here is Europe -- European Union.

Now, there are two pipelines completed on the East-West corridor, one of them being the South Stream Project that was mentioned and the other one Nabucco. And then dealing with these projects, the EU, as I said, had to come in and play an active role.

Now, the EU has been working for some time to shape a common domestic and external energy policy. It is still working on it.

The Commission -- the EU Commission has been very active in trying to establish relations with the supplier countries and to bring them into the picture and they have worked with Azerbaijan, Kazakhstan, and Turkistan; sign some MOUs. They have talked to Iraq and to also during the Maastricht Turkey-EU meeting to the Egyptians forecast, but these were only (inaudible) the work of the Commission itself without great significant support from the member countries.

The general approach of the EU changed somewhat, especially after the two Ukrainian crises and two summits were held in

Prague and Budapest, and the government seemed to come in more effectively. However, in spite of this general picture, when you look at the EU concretely on national oil companies of individual member states, you see that they sent different signals and confused especially the countries of the region and the leaders of those countries. They didn't know whether the EU was supporting South Stream or Nabucco or where the real objectives of the EU were.

Now, for example, (inaudible) assigned together with Gazprom, with the blessings of Bulgaria, and later, Austria, agreements that really took South Stream ahead of Nabucco, and Nabucco seemed doomed from the perspective of the countries of the region in favor of the South Stream.

Now, what should the supplier countries do? Why should a seemingly doomed project like Nabucco join hands with Russia for the realization of South Stream?

Now, another factor was that the balances established here in the first phase when the BTC and BTE were initiated started to be questioned in Turkey and elsewhere. For example, voices were raised in Turkey, pointing out that the transit fees being received from BTC were hardly enough for providing maintenance and security for that pipeline. That change in circumstances required a review of this change.

An arbitration process was started for this. It was also said that the sacrifices made for the realization of the BTC and BTE should not be repeated for the new projects that were being negotiated, that Turkey deserved to be an energy hub and not just a passive transit state.

Azerbaijan, on the other hand, questioned to low gas prices that were agreed upon when the BTE was being realized. The talks between Turkey and EU also were not really promising. The EU while in the opening of the energy sectors with Turkey was imposing on Turkey the outcome on which it really had not negotiated at all with the EU. This was another factor.

The intense competition of China and India came into the play also as far as central Asia was concerned. Russian Federation. Russian Federation became more and more assertive. It decided to bypass as much as possible transit countries and go directly to the (inaudible). So, North Stream to Germany, South Stream to EU, through Bulgaria and (inaudible) to Turkey. It regarded Turkey, solely as a consumer country and not as a transit one.

And other's intimidations and pressures on Belarus and Baltic States, international oil companies, etc., by Russia we all know about. And all these made it obvious that Russia regards this dominance in the energy sector as one of its main tools to be used for the attainment of its political objectives.

On the oil front, too, we see similar trends. As I said, more than 40 percent of Russian oil passes through the straits, so the increasing volumes of Central Asia, Azerbaijan, etc., Caspian are competing with Russian oil to pass through the straits, and there to Russian wanted to maintain its control.

The CPC negotiations with major oil companies and Kazakhs were delayed for more than two years, because Russia wanted to keep control of the CPC. It was successful in that.

And another project, the competition between Burgas-Alexandroupoli and Ceyhan, Russia got 51 percent of the Burgas-Alexandroupoli pipeline by assuring control of passage starting from Kazakhstan, CBC -- Black Sea -- down to the Aegean. So, there, too, we see the first to dominate and control energy transit, energy routes.

The image of the United States also suffered in the meanwhile; faced with other problems in the region, the United States gave the impression that the Bush administration's commitment towards energy projects in the region was not what it was in the past. Producing countries were not reluctant to offend Russia by going into deals with the West. The Georgian crisis and the declaration of the so-called Medvedev Doctrine. The weak American and EU response from their perspective of the Georgian crisis have no doubt increased the pressure on the Caspian states.

Such an involvement made it far difficult for the private sector to initiate or participate or find financing for the new projects. This led to a situation where gas resources east of the Caspian could not reach Nabucco and Azerbaijan was left as the only source. It is interesting to note that Russia came out with renewed efforts to buy gas from Azerbaijan after the Georgian crisis. Recently they agreed on a very high price for a very small volume of gas, which brought Russia further into the game.

Now, Turkmenistan is also considered to be an important source for Nabucco. I have outlined the Russian and EU approaches to the Central Asian states. The United States has also been very, very active to bring in Turkmenistan into the game. But Russia wasn't represented in that region by, at the time, President Putin and himself, and every time he went to the region, the only agenda item on his talks was energy. And these Russian efforts succeeded in achieving long-term bindings from Turkmenistan, Kazakhstan, and others.

Turkmenistan and others – its new president shows some openings to the outside and he promised ten billion cubic meters of gas to Europe through Nabucco, and later, recently, this also promise was retreated by him. Of course this is a very favorable -- it's a very positive signal. But I don't think this is a new opening, even to membership had he made such promises, which was -- which is now repeated by the new

Turkmen president. But those promises were always -- I will give you the gas at the Turkmen border; the rest is up to you. You solve the problems: economic, political Caspian status, deal with Russia. Come to the border. You will have that gas. I don't think that approach of Turkmenistan has changed. So, what has to be done is for the Western countries -- Turkey, others -- is to bring a solution to Turkmenistan under the leadership of a prominent or major company, and it is only in that manner that you can bring Turkmenistan gas to the project.

Now, the other countries that are involved that need to be taken into the Nabucco supply of other countries, like Iran and Iraq -- there's really -- they have also already -- first of all, I would only say that, yeah, of course it's one of the richest gas countries, that it needs a lot of investment. For that investment it, it will take time. It's presently an importer of gas from Turkmenistan, and of course the nuclear issue, its relations with the West leave a lot to be desired, and it will take some time for that gas to come in. And Iraq -- that situation is improving, and Turkey, United States, and Iraq government is talking on this end. Iraq is, for the near term perhaps is the most positive supplier aside from Azerbaijan for Nabucco.

Now, in spite of these challenges, on the 13th of July an important event has taken place. An intergovernmental agreement for Nabucco has been signed. This is a very great and significant step. With

my signal but in my view, the opening of a new phase or a third phase in the East-West corridor in connection of the Caspian, Middle East with Europe, and the -- it demonstrates the particular will of the involved governments to realize this project. The high level accountants together with US representatives send a strong and positive signal to the countries of the region. It is also an assurance to the private sector that they will be supported in their work for the realization of the project. But this is only a first step.

All the challenges, all the difficulties I have tried to outline in historical perspective remain, and these challenges still need to be surmounted. The important thing is now to make the best use of this momentum gained by this agreement and move forward really quickly. The commercial agreements need to be finalized. Financing needs to be secure. And the most important thing to my mind is still for the Turkish diversifications, supply security -- that remains open.

If Nabucco is to move forward, Turkish requirements -- Turkish supply security needs still to be taken into consideration. When surrounded with all those energy-rich countries, for the Turkish people to see all those gas flowing through Turkey, to Europe, and a small amount of it being leaked to Turkey -- I don't think that would be supported by the Turkish public, so this needs to be looked into.

Azeri-Turkmen agreement, rapprochement, needs to be worked on. Turkmenistan needs to be presented with a (inaudible) Trans-Caspian project. Iraqi connection should be kept in stride. And doors should be left open to Iran.

Now, a few word on Turkish and Russian energy relations. Turkish-Russian relations have been touched upon this morning. They are very, very good; they are very improving, but when you look at the relations as far as the energy sector is concerned, there are very conflicting interests in the Turkish-Russian energy relations. Of course, we have been successful with Russia, to contain this, to compartmentalize this competition within Turkey and Russia and see to it that our relations in other fields have not been negatively influenced.

Now, as far as Turkey is concerned, Russia is also a very reliable supplies. Through Blue Stream, through Western route, we have always been assured of those supplies and when Iran had to cut the supplies, Russia was there, willing to help us and they are also -- on that sector we are very cooperative with each other. But when I look at the general picture in others' energy front, Russia regards Turkey as a competitor and does not want Turkey to fulfill its role as a east-west energy corridor. Of course as I said, the main objective is to monopolize Caspian and Central Asian resources.

Now recently Turkey and UN -- intense dialect started between Russia and Turkey. After the 13th summit, the Turkish Parliament and energy ministers visited Moscow. Prime Minister Putin will be coming to Turkey in August. Of course, as was said this morning, energy issues will constitute an important part of the agenda. The issues on the table may be Blue Stream two and the possible connection perhaps to Israel. South Stream, Nabucco, (inaudible) Ceyhan pipeline. This visit may be an important opportunity to see if will be possible to work together on all these projects to the benefit of all the companies of the region.

Now, when you look at the region, regional pipelines project are not, as I said in the beginning of my statement, merely transport projects. The projects also have wide-ranging political, social, and economical implications. The BTC and BTE provided the background for other projects to be realized: Kars-Tbilisi-Baku railway. Batumi airport serving Turkey, Georgia together. Highway connecting Turkish Black Sea coast with Georgia and Azerbaijan. All these projects -- and broad, increasing trade, increasing personal contacts, and others between the countries of the regions.

So, this also helped Turkey's relations with the Caspian and its status as a candidate country to the European Union to enhance the EU's neighborhood policy towards the region. Of course, the Georgian crisis was a setback in this respect.

We see that it was also important for Russia and join these projects, and I interpret proposals that were made some time ago by Turkey for a stability forum in the Caucasus in this context.

There are many people who believe that Russia needs to be engaged and brought into the general fold through dialogue and cooperation. I do agree. But the question that needs to be answered is: is Russia, itself, ready to compromise and work together with others on the energy front? So far, the signs do not seem to be very promising. Perhaps the Putin visit to Turkey in August may show otherwise.

Thank you.

MR. MAKHOLM: Well, thanks, first, to the Brookings Institution and to Ambassador Pifer for having me and for having us all here today. Great to see such a good turnout.

Before the EU toasts to celebrate the signing of the agreement with Turkey to realize Nabucco, European decisionmakers, I think would do well to take stock and to plan deftly for challenges ahead. As Brussels focused on negotiating a way, Ankara's demand for a 15 percent lift-off of natural gas flowing through Nabucco, Baku was busy signing an export deal, as you've heard, with Russia's Gazprom for 500 million cubic meters a year for Russian consumption but also, symbolically, potentially to be resold to EU consumers at ramped-up prices. With offers for Caspian producers on the table from Russia, China,

Iran, and potentially Pakistan and India, the EU, as well as US diplomats and companies will have to significantly step up efforts to put together a comprehensive deal to achieve a modicum of energy security for the European continent.

Now, while Nabucco is a primary project of what I would call the East-West energy corridor but what the EU calls the southern corridor to diversify supply away from Russian reserves, it is far from receiving the private sector investment needed to complete it by the 2014 timeframe cited by its consortium. And most importantly, the other necessary projects of the corridor which we've heard today have received very little serious attention from Brussels and, notably, from European capitals.

Now, Nabucco's first stage can be realized -- and this is important to underscore -- it can be realized, even after the recent deal with Moscow and between Moscow and Baku -- by tapping into Azerbaijan's Azeri (inaudible) fields, that the complete route delivering 32 billion cubic meters a year to European markets will require tapping into Turkmen reserves. As we have heard. Now, reaching them, of course requires a Trans-Caspian pipeline, a serious shore-to-shore pipeline and not necessarily a link between the infrastructure -- the offshore infrastructure within the Caspian. That any pipeline that could be built, a smaller one, between the already existing infrastructure on the sea

would not be able to hold enough – well, its capacity essentially would not be big enough.

Now, it's worth noting that Ashgabat has recently gone out of its way to court the West, if you will, revitalize the Trans-Caspian projects, not only mending fences with Baku but sending an envoy to Brussels and of course their foreign minister here in Washington. And a recent pipeline explosion on the export pipeline for Turkmenistan to Russia and subsequent tensions between the two countries allows for a window I think of opportunity during which Turkmenistan's president, Gurbanguly Berdimuhamedow, will be listening intently, more intently than he has in the past, certainly more intently than last April, when the initial misunderstood offer by the European Union was made for 10 bcm. But I would underscore that Western actors have a long way to catch up to their Chinese counterparts, who just poured 3 billion U.S. (inaudible) investment into Turkmenistan south Yoloten gas field and have stepped efforts to finish their export pipeline ahead of schedule next year. We're talking Nabucco earliest 2014 and that's even without the Trans-Caspian link to Turkmenistan without being realize the second phase, whereas the Chinese export pipeline will likely be finished at the end of 2010 if not earlier.

Now, the other potential option of course is Iraq, and it's worth, again, underscoring Iraq has enough natural gas to fill at least five

Nabucco-size pipelines -- at least five. Now, the highly anticipated natural resources law has been agreed and presents a far more realistic option worth pointing out that two of the Nabucco consortium members -- Austria's OMB, Hungary's MRL -- have invested in a field in Northern Iraq, and of course Italy's Edison is also exploring at the moment in Northern Iraq in the Sunni areas, interestingly not in Iraqi Kurdistan.

Now, as might be expected, decision makers I think here in Washington are far more keyed into the Iraqi option and I think decision makers in Ankara are as well than their counterparts in Brussels. I was recently in Brussels at a similar conference to this one, and there was zero discussion of Iraqi option until I brought it up, and then individuals that should not have been were baffled.

Now, both the Turkmen and the Iraqi options require what I would argue is a fundamental shift in priorities across the Trans-Atlantic community. To reach an agreement with a transit country, Turkey is a first step. Bringing producer countries on board is of course the major challenge. We have not yet gotten close to meeting the major challenge, and the record so far, I would argue, is abysmal. Baku was so frustrated with European and US efforts that it went out of its way to agree to a symbolic deal with Moscow to spur negotiations on between the European Union and Turkey. I just came back Baku, and that seems very much to be the thinking behind it. Last year, as I mentioned, in April, EU

negotiators left Ashgabat with less of a deal than they had going in, because they mishandled the meeting. Now, Brussels has made zero and Washington has made very little effort, in my mind, to court Baghdad for a Nabucco. So, there's a long way.

Now, much has been made about the East-West Transport Corridor, or the Southern Corridor, but little attention I think, not enough attention, certainly in this town and in Brussels, has been paid to Russia's energy interests in the Caucasus, particularly I'm thinking here of Armenian. So while BP, for example, or the BTC Consortium is the major presence in Azerbaijan and Georgia, we forget sometimes, of course, that Russian state-owned companies have a vise grip on Armenia's energy sector: 80 percent direct control and significant leverage over the rest. Until now, this control has not been particularly strategic outside of making Armenia's potential future regional integration difficult. But I think that is in fact set to change.

Armenia's Metsamor Nuclear Power Plant is, by most accounts, the -- or certainly one of -- the least-safe in operation worldwide. Now, both Moscow and Ankara, interestingly, have their sites set on the construction of a new plant that cannot only guarantee Armenia ample electricity, but would allow for export to neighboring countries. Most importantly, the way in which a new plant would be realized could virtually ensure Russian control over those exports, and thus, greater leverage over

Turkey, potentially Iran, and even Georgia. That would be importing that electricity.

The Russian Federal Atomic Energy Agency, Rosatom, is set to build Metsamor's replacement with the projected capacity of 1,000 to 1,200 megawatts, twice that of the current plant. And Armenian officials have said that the new reactor could allow for an export of 6 billion kilowatt hours annually, roughly the equivalent to Armenia's entire consumption last year.

Now, in a gas pump-brokered deal, Armenia is already set to supply Iran with electricity in exchange for the gas supplied by Iran in the Iran-Armenian natural gas pipeline. And in -- well, this was in September initially, but then also in a phone conversation later, President Gul and Prime Minister Serzh Sargsian are said to have agreed to electricity exports to Eastern Turkey of 1.5 billion kilowatt hours annually.

Now, with the Iran-Armenia natural gas pipeline and Russia's gas export pipeline to Yerevan, Moscow has already carved out a North-South Energy Corridor -- a North-South Energy Corridor -- perpendicular to the Western-oriented East-West counterpart. And the link is said to broaden potentially should Armenia begin to export electricity to Iran with Russian support.

Now, conventional wisdom in Brussels and Washington holds that Armenia's international isolation is in no small part due to its allowing Russian government-run concerns to take over its energy sector. Now, that may mean that Armenia's isolated from Western-oriented projects, but it does not, however, necessarily mean that Yerevan will not become a

regional electricity hub, extending potentially -- and I would argue that it is the case; Moscow's influence -- in the greater Black Sea/Caspian Region. Now, this could also be coupled with Armenia becoming an international nuclear fuel hub given its substantial uranium deposits that are now being also developed by Russia's Rosatom.

So it's important to note, I think, that realistic estimates are not necessarily 2014, but 2015, 2016, for Nabucco's completion. And, of course, we still don't know until there's significant deals with producer countries, but those are -- well, 2015/2016 is exactly the same time frame that the replacement for the Metsamor Nuclear Power Plant is set to be completed as stipulated by Russia's Rosatom. So interesting coincidence. I think we must keep in mind that the gains made by the East-West Transport Corridor may well be accompanied by a Russian energy coup in the Caucasus at the same time.

Thanks very much.

(Applause).

MR. PIFER: Okay. We have about 20 minutes for questions. Let me go ahead and open up the floor.

MS. McCONNELL: Nadia McConnell, U.S.-Ukraine Foundation. A question for Dr. Makhholm.

You very succinctly and eloquently presented the picture of the differences between the North American system and what's going on in Europe. You stressed the fact that the whole system there is not transparent. And in order for this to continue, does not it require cooperation

from countries of the EU with Russia to continue this non-transparency?
And are there any opportunities to break that cooperation?

For instance, my understanding that individual countries have separate agreements and nobody knows what the -- you know, who's paying what for gas. So what are the first practical steps to address this issue that might be undertaken?

DR. MAKHOLM: The lack of -- can you hear me? The lack of transparency in the pipeline shipment of gas in Europe is indeed shocking. And it is shocking to my European legal scholar counterparts to know that that battle was joined and won on behalf of consumers in the United States in a Supreme Court case heard and decided 97 years ago. It was 97 years ago that the Supreme Court in an Interstate Commerce Commission case decided that if a company served the public -- pipeline, electricity, canal, whatever -- that its books and records, operational and financial, didn't belong to shareholders, it belonged to the public. We forget in the United States how old and engrained the institutions are that require utilities -- pipelines and electric companies -- to present their information openly so that we can understand what capacity there is and what it costs to ship electricity and gas from one spot to another.

There is no European Federation counterpart to any political push to open up the member state gas company operations, be it E.ON Ruhrgas, Gaz de France, NL Gas Natural (?), Distrigas, Gasunie. None of those companies are compelled to offer up that information to be examined by anybody. And I see that that issue can only be joined, as it was 97 years ago, by the courts in Europe to resolve the question of transparency in

operational and financial matters. Without those things, it is quite absolutely impossible for there to be pipeline rivalry or any sort of competitive movement of gas across the continent.

I think it's a great challenge, and it may take a decade or two to break that link on secrecy that is so shocking to us in North America, both in Canada and the U.S., where those issues were settled many decades ago.

SPEAKER: If I may add. Can you hear me? I'd add a quick footnote to that.

I am perhaps more pessimistic in that I think unity on energy is fundamentally tied to EU unity across the board. So one will have to solve the perennial issue of the European Union, which is in fact that unity. It is different from -- I mean, one would think energy being a functional issue that within the EU, this would be one of the first issues tackled, but that's where we come to the difference, I think, between North America and the European Union. Twenty-seven countries, Russia next door, significant geopolitical machinations that do not exist in North America, and therefore, energy is fundamentally a geopolitical issue. And, therefore, it is fundamentally tied to the foreign and more strategic military policies even of the European states. So, therefore, one has to solve that issue of the European Union speaking with one voice in terms of foreign policy, for example, I think, if you're ever going to tackle energy policy as well. Because there, in particular, you have significant business interests that are lobbying very hard that these changes not occur.

SPEAKER: But 1912 is like just yesterday compared to the age of the institutions that creates a unified market in the U.S., which is 1787, when the Constitution was passed by the Continental Congress. Our commerce clause in the U.S. Constitution gives the federal authorities sole jurisdiction, sole and absolute jurisdiction, over all interstate trade. There is nothing on the horizon like that in the EU. And for a pipeline system that spans many political boundaries, to have no single organ of political or regulatory control over that will allow the little local monopolies in France and Germany and Italy and Belgium and everywhere else to continue to conspire as a cartel with the supplying states and supplying regions of Algeria, Norway, the UK, Russia to both bar entry into their own markets and to serve the interests of those suppliers who want to prevent competition and the movement of gas in the continent.

SPEAKER: Let me follow-up on this question. I mean, Jeff, you did a great job in sort of describing these two alternate models: North America model and the European model. And I think we've heard from both you and Alex that right now major players in Europe -- Germany, Italy, France -- gas (inaudible) in Russia prefer that second year model.

I guess the question, for Turkey, is there a discussion about this? Does Turkey have a preference? Because as Turkey becomes more of a transit hub, you know, Turkey would be in a position perhaps to influence, you know, some of the debate on this. Is there a discussion, I mean, in terms of which model would work best from Turkey's interests?

SPEAKER: Well, you know, Turkey is in negotiation with the EU as a candidate country for eventual membership. And the model that

Turkey is being asked to apply is the model that whatever the EU will come out with. And we are discussing with the EU, but we cannot start the energy chapter (?) negotiations ourselves. So we are trying in the meantime to harmonize our relations with the EU, which seems to be in disarray itself. So there is a discussion going on, but it is directed at the EU.

MR. PIFER: Okay. There's a question here.

MR. ARTESH: This is Korai Artesh (?) from the Turkish Embassy. Actually, Mr. Balkan seemed to be a retired ambassador on paper, but according to our customs in the Turkish Foreign Service, he's still ambassador. Once an ambassador is always an ambassador. So I have hardly encouragement to challenge his comments, to which I almost 100 percent agree. My question will be to Mr. Makhholm, if I spell correctly.

Thank you very much for the interesting views for putting -- for this striking differences between the continents, let's say. And add to that, to this whole picture, is the political driving forces behind those fundamental differences, which is, in this part of the world, you have few real democracies with real free market economies and real companies. But on the other side of the continent, you have almost 40 countries, some real democracies, some semi-democracies, and some of them are actually twisting individually their arms to maximize their national interests and benefits. This is the reason why energy is becoming in Europe more than a commodity, but becomes a political tool, unfortunately.

This will bring my comment and question to the (inaudible) Nabucco actually. If we have pure views from the -- if you have the pure North American views, let's say, as you put forth, of course, first, you should

find the gas and then you should, you know, try to convince that the line is profitable, and then you build it. But as I said and as you said correctly, the dynamics over there is different. So we are not idealists or so hopeful, but still we believe that there are ample reasons to be moderately hopeful given the lost resources around Turkey.

And the question will follow of -- from the perspective of an economist, as you say, if you put on the table the two rival projects -- Nabucco and South Stream (?) -- because there are, you know, different views from different companies from different countries, which project seemed to be profitably in terms of -- in commercial terms seemed to be more attractive? I don't question the political attractiveness of Nabucco, it's quite obvious. It's a great project, but in economic terms, if you can share your views. Thanks.

SPEAKER: It's always been a goal of both state and federal regulators in Canada and the U.S. to encourage multiple lines to different regions of the continent. When gas pipelines were extended into New England, they came in pairs, two independent companies. When gas pipelines were extended in the mid-'60s -- that was in the late '40s -- in the mid-'60s, to Southern California, it came in pairs: two different companies managed to get certificates to build the lines.

Most regulators feel that despite the conception that pipelines are natural monopolies, something that I would argue is not so, that inherent structural rivalry is a very good idea and it promotes lower prices in the long term. In that respect, whatever the direct cost is of Nabucco versus South

Stream, those who would be interested in competition in Europe would prefer the independent route always.

And to the extent that the independent companies in Europe in the member states, in the EU and in the non-EU countries of Europe, aren't backing an independent route to a different part of the world, it's something that I would hold their feet to the fire about. It's always the case that if you attack monopolistic interests, ultimately the monopolies will fail. It happened with American Telephone & Telegraph. It happened with American oil and gas pipelines. It happens everywhere. You attack the sources of monopoly power -- Microsoft -- vigorously enough and those sources will crumble.

To the extent that those in Turkey have the ability to pull levers of political control in the EU, I would ask why do you allow the local monopoly gas companies to continue to make a quandary out of choosing one of those projects or another when one is clearly in the long-term best interest of rivalry in gas supplies flowing from the East to Europe?

MR. BARDEAN: I'm David Bardean (?).

Despite the attraction to transparency in the North American model, and of integration and competition in the North American model, when you look at North America's experience with long distance movement of gas, long distance movement of oil, long distance movement of electricity, don't you still have to have a strong government intervention, a strong government guarantee, something which involves arguably cartelization certainly to the losing side? That's the way they think it is.

Let's take three examples. Natural gas from Alaska to the Continental U.S. through Canada or otherwise, how long have they been

talking about it? And how can that be done without legislation? Number two: oil movement east-west, West Coast-Gulf Coast. Number three: electricity, again moving, connecting roughly the eastern and western parts of the country.

So aren't we leaving something out of the North American lesson, which is extremely relevant to the situation of our friends in Central Asia, the links from Asia to Europe, and Europe, the East-West Corridor, which is the subject of this panel, or the North-South Corridor, or any other corridor?

SPEAKER: That's a great question. I was in Alaska in December. I represent Alaska in their battles with American oil companies over the Trans-Alaska Pipeline Project. I'm familiar with the Alaskan view in the world and I have bets with people in Alaska at high levels of government -- not their newly departed governor; I've never met her. I probably never will meet her now. But the -- I have bets that in the next 10 years, if any section of pipe is laid on the Alaska gas pipeline to the Upper Midwest part of the United States, I lose the bet and buy dinner for a whole raft of public officials in Alaska.

The Alaska gas pipeline has been spoken about since the early 1970s, and I would wait on that. There are very few actors in the lower 48 states that are willing to sign the kind of long-term agreements to motivate the capital to get that sort of thing going. In gas in the United States, there is no longer any role for governmental control to motivate capital. It's all done privately and it's all done within the context of a very

competitive market. There will be no more government involvement in those things forever.

Electricity is different. Electricity is a different kind of technology that prevents you from tracking the electrons from one space to another. There's a market failure that goes on in electricity as a result. And there's no question that regulators will continue to be involved in choosing and creating rate base that is a guarantee of a return for projects. The biggest one in the United States is called a competitive energy -- it's called CREZ in Texas, to bring wind energy from the Panhandle down to the markets in Texas. That's all a big rate base project that was where the winners to build the transmission lines were selected by the Texas regulator. Regulators will continue to be involved in electricity transmission, but it's a different kind of technology.

Oil in the U.S. is a bit like gas, but it's regulated under a law that was passed in 1906 geared toward railroads. It's a not very good law. Oil pipelines in the U.S. are generally closed, vertically integrated, joint ventures among the oil companies. It's difficult to draw any conclusions from oil in the U.S.

But as far as gas in the U.S., there is no longer any need for government support of anything nor is the licensing process before the Federal Energy Regulatory Commission anything other than basically a rubber stamp. It's a snap once the buyers are there, the gas sellers are there, and the finances are there to build a pipe. There's no longer any political issue.

As far as Europe is concerned, transmission in Europe is just like that in the U.S.: it will require -- electricity transmission -- it will require government involvement to build the transmission links to hook the cities to the power plants because of that technology. For gas, there's no physical, operational, or economic reason why that network can't have the same sort of rivalry across it as we have in North America. The barriers are not technical or economic; they're institutional and political. And that's the challenge that the EU has, to create those markets there. There's no necessary role flowing from economics or from technology. It would require state involvement to building lines, in my opinion.

MR. PIFER: We have one last question back here.

MS. GILES: Stacy Giles (?).

I wonder, following up on this issue of why there's such a lack of transparency in the EU, if the role of foreign companies' investments in the local European companies, if that plays any role. I suspect it does.

But my question is actually for Mr. Petersen. Could you elucidate a little more fully on the role for effecting European industry security of this North-South Corridor, your electricity power you're talking about, nuclear power?

MR. PETERSEN: Well, what it does is it cuts, to some extent -- well, first of all, let's be clear, there is natural gas North-South Corridor of some significance, not a major significance, already essentially Russia, Armenia, Iran. The electricity aspect is linked to that because as part of the deal between Iran and Armenia, Iran receives -- parts of Northern Iran receive electricity and will receive more electricity likely with the construction

of the new nuclear power plant and Armenia receives more natural gas. So the idea of the deal was that Armenia's market would be diversified in that they wouldn't be completely dependent on Russian gas. So that said, that the deal was brokered by gas problems essentially does not diversify Armenia's consumption.

So that's the North-South Corridor in addition to other North-South corridors that do exist, connections between, for example, Azerbaijan and Russia and so on, and can potentially exist with other pipelines. For example, if the European Union and the United States, diplomats and companies, international (inaudible) companies, are able to put forth an offer to Baku and Ashgabat, for example, that is attractive -- which they have yet to do despite Baku and Ashgabat being very open to that -- there's certainly a great potential for there to be increased North-South corridors through the Caucasus. Because the deal on the table from Moscow, unlike it was in the past, is now -- has been made more and more attractive and is comparable in many ways to the deal that will likely be put forth by European companies and essentially the European Union.

The electricity aspect is one which is not necessarily North-South, but in fact, is Armenia becoming an electricity hub for the region, which would reach out to electricity imports for Turkey, Iran, and potentially Georgia as well. And the aspect of that that I think is important regarding the sort of Western-oriented -- the nature of the East-West Corridor, the fact that it is diversification for Europe and an alternative route, is that that hub would be essentially Russian-controlled and allows for greater leverage for

Moscow through those imports, which makes, for example, negotiations with Turkey and Georgia potentially more difficult in the future.

And we must keep in mind, of course, that the East-West Corridor or the Southern Corridor is not just -- or ought not to just be Nabucco. We shouldn't be wedded just to this project that, in fact, includes the Turkey, Greece, Italy interconnector; it includes expanding the SEP or BTE pipeline and its capacity; it includes interconnection pipelines in Southeast Europe and Turkey and so on. So let us just as a footnote not be wedded to Nabucco. As strategic as that pipeline is, I think the best way of viewing it is in fact as a corridor which includes not only energy links, but in fact, a transport corridor and a corridor that has electricity links as well, that can integrate the region in a functional manner that, frankly, spills over into some of the policy making of the countries in the region to be more Western-oriented. So we ought to view this as a corridor, a number of links parallel with similar objectives and similar functional ties as opposed to just one pipeline.

MR. PIFER: Okay. Well, that brings this panel to a conclusion. Just a couple of announcements.

We will now exit to my right, or to your left. We have a buffet lunch set up in the room next door. I would ask that you be back in this room and seated by 1:00 for our keynote speech.

And finally, let me ask you to join me in thanking our panelists for this presentation.

(Applause)

Thanks very much.

(Whereupon, a luncheon recess was taken.)

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MR. PARRIS: If you've lost your seat over lunch, again there is additional seating with video pipe across the hallway in that back room.

I'm Mark Parris. I'm counselor to the Turkey Project here at Brookings, and welcome back for a continuation of our daylong program. The last few days have had to me at least sort of back to the '90s feel about them. What I mean is things like signing ceremonies in Ankara, debates immediately thereafter on who won or who lost, and Dick Morningstar addressing these issues on behalf of the United States. Some of us have seen this film before.

We've spent the morning talking about Turkish, Russian and European perspectives on regional energy security. Our subject for lunch will be the U.S. perspective. Just a few months ago that would have been a short discussion. It's sad but it's that despite the active and successful role that it played in the 1990s in pursuit of an east-west energy transportation corridor, U.S. senior-level diplomacy has largely been missing in action over the past eight years.

That changed when the Obama Administration came to office, in the midst I might add, of yet another winter gas crisis in and around Europe. President Obama's new team understood the importance of getting back into the game and in what was almost an atavistic way, they understood the need for someone like Dick Morningstar to do what he had done so effectively in the 1990s as President Clinton's Caspian Energy Coordinator.

They approached the task in what is for Washington a strikingly direct manner. They asked him if he would do it again and he said yes. While it's probably hyperbole to suggest that his appointment in April produced the Nabucco Agreement we've been talking about this morning this week, those of us who worked with Dick on Baku-Ceyhan during the 1990s could not have been more delighted to see him get back into harness. He has had an intense first few months which have left him with little opportunity to speak in a considered way about his new responsibilities. So we at Brookings are delighted that he has chosen us for his first major policy remarks on the Obama Administration's evolving policies toward Eurasian energy.

I should add that Dick's impressive biography includes senior responsibilities during the Clinton Administration at OPEC, in coordinating U.S. investment and assistance through the former Soviet Union, and as our Ambassador to the European Union in addition to his role as Caspian

Energy Coordinator. He has agreed after his remarks to take some questions which I will moderate from up here. So please join me in giving a warm welcome to the Obama Administration's Special Envoy on Eurasian Energy, Ambassador Richard Morningstar.

MR. MORNINGSTAR: Thank you, Mark. It's certainly a great pleasure to be here today, and as I look out into the audience to see so many familiar faces, some of you who I haven't seen probably for the last 10 years. It's also a pleasure to talk about one of the most important pillars of U.S. diplomacy which is energy security. I want to thank Mark for inviting me to be part of this distinguished conference and to have the opportunity to talk to you about what the U.S. is doing with regard to energy security. Then we'll examine the issue from a global perspective, and then I'll talk about U.S. energy strategy and steps that we're taking to implement it.

First, just to tell you a little bit about my position, she did call and I said yes and I guess I'm to some extent a glutton for punishment, but Secretary Clinton did ask me to return to the U.S. government to work as her Special Envoy for Eurasian Energy and I officially began my duties on April 6 of this year. I can tell you that both President Obama and Secretary Clinton recognize the importance of energy in our political, economic and diplomatic relations.

The Secretary is constantly asking me what's happening in the various areas where we're working. I see her a lot. It really is working very well.

Since taking the job, I've traveled to Brussels, Sofia, Prague, Ashgabat twice, Baku, Ankara twice, Moscow, Kiev, Stockholm, Astana, just to name a few of my trips, so the pace and intensity has been somewhat incredible. Last night literally on a late night from Frankfurt I returned from the signing ceremony in Ankara for the inter-governmental agreement on the Nabucco pipeline project which really is I think a major milestone in opening a new gas corridor to Europe.

Senator Lugar, the ranking Republican member of the Foreign Relations Committee, and I represented the United States at this event, and I think the ceremony really demonstrated the commitment of Turkey and the other participating countries to the project and should provide a great impetus to the project. I would also say that Senator Lugar's tremendous interest in this area reflects the very strong bipartisan approach that the administration and Congress have taken with respect to these issues, and that's really important. In fact, I'm testifying tomorrow morning to the Foreign Relations Committee.

I thought one of the most interesting aspects of the signing that go beyond what one might have expected was that Prime Minister Maliki of Iraq attended the conference and announced that Iraq would like

to supply 15 BCM to Nabucco. Believe me, it's a long from here to there, but it's still I think very significant that he was there and talked about 15 BCM.

To turn to the main topic of the speech, and we can talk more about the signing or whatever else you want to talk about when I'm done with the speech, I'd like to address some basic questions about U.S. energy diplomacy. First of all, and I think is really important, we cannot reach our energy goals alone. We have to engage with friends and allies around the world to achieve our goals. In the 21st century, countries cannot insulate themselves from the global economy and global markets. Earlier this year we saw an example of the interconnectedness of global energy markets. The dispute between Russia and Ukraine in January 2009 resulted as you all know in a 2-week interruption of gas supplies to Ukraine and many countries in Europe. Homes in Bulgaria lacked proper heating, factories in Turkey went idle and on and on. So energy security is a global concern.

Perhaps for the first time in a concrete way in the international arena going back a couple of years, the G-8 summit in St. Petersburg laid out a set of security principles that the leaders of the G-8 committed to, and I'll highlight just a few of the key ones, open, transparent, efficient and competitive markets for energy production, for energy production supply, use, transmission and transit services,

transparent, equitable, stable and effective legal and regulatory frameworks, promotion of transparency and good governance in the energy sector, diversification of energy supply and demand, energy sources, transportation routes and means of transport, diversity in all of those areas.

These key principles have been reaffirmed in other important documents and declarations including the E.U.'s third energy package which they passed in March, and the declaration from the Sofia energy summit that I attended in April of this year.

It's these key principles that guide U.S. and strategy in energy diplomacy. What's our strategy? I would describe three main components of our Eurasian energy strategy. First, we want to encourage the development of new oil and gas resources and promote efficiency and conservation in the use of all energy resources. When we're talking about new natural gas production in Azerbaijan or in Turkmenistan, it's unlikely that even one molecule of that gas will reach the United States, but it's still important because it's going to add to the international gas supply. New supply in one place naturally frees up supply in another, and as the market for liquefied natural gas grows, we can start to think about gas moving around markets in much the same way oil does.

Second, we want to assist Europe in its quest for energy security. Taking goods and services together, the E.U. and the U.S.

account for the largest bilateral trade relationship in the world. The significant amount of bilateral trade and investment illustrates the high degree of interdependence of our economies. So we have an interest, a very important interest, in maintaining this level of commercial and economic activity with Europe.

In addition, Europe is our partner on any number of global issues, so we have a strong interest in an economically strong Europe and energy security is a key factor in maintaining Europe's economic strength. Of course, Europe is composed of many different states and energy security is a more pressing issue in some states than others which is something that we have to deal with. Some countries in Europe do not have a diverse energy mix and depend to a degree on one supplier and one transport group which is not necessarily the case with other countries. When that route is disrupted though to the countries that are dependent as we witnessed in January 2009, the consequences can be severe. The populations of countries in Central and Eastern Europe who suffered in the cold can attest to that. So our aim is to encourage the development of multiple market sources with multiple routes to markets. This approach furthers competitive, efficient markets and the best prices for consumers.

Third, and this is the same as when we were working on the issues in the late 1990s, and Mark, by the way, was the Ambassador to Turkey when I was working on these issues at that time and worked very,

very closely together, but we want to help Caspian and Central Asian countries find new routes to market. We want to help economic growth and prosperity in these countries. We want Turkey to play a major role in that part of the world. By expanding export routes, competition can be increased and their resources and demand will also increase.

Some people have portrayed our energy policy and Russia's as the next round in the great game in Central Asia and President Obama specifically rejected this analogy when he was in Moscow.

Energy security is not a zero-sum game. Our policy is not anti-Russia. As President Obama said at the summit in Moscow last week, the United States and Russia have more in common than they have differences, and we're working to have an open and frank dialogue with Russia in the energy area and to identify areas of mutual interest and benefit including investment on both sides of the ocean and in third countries. Zero-sum games are too expensive and we need to try to find areas where we can cooperate.

In this spirit, at the summit, the White House announced a new Binational Presidential Commission which will cover a host of different issues including energy.

Thinking about other sources of natural gas for Europe, I'd like to point out, and if you've been reading any of this stuff we've been saying in the paper you're probably not surprised that our position on Iran

has not changed. We do not believe that Iranian gas should be included in an east-west energy corridor at this time. The administration has reached out to Iran as you know, but it takes two to tango. I really have no idea what the effects of this last few weeks in Iran will have on these efforts. The point is that our diplomatic relations with Iran must be normalized and outstanding issues resolved such as the nuclear issue before we can think about or should think about Iran as a participant in Nabucco or other projects.

How are we going to achieve these energy security goals? First of all, the private sector and free-market forces at the end of the day are the primary means through which oil and gas are produced, transported and purchased, but governments can and should play a facilitating role. Government should put in place the business climate to attract investment and should work with neighboring states to expand the market and increase interconnectivities, and we can work with countries on these issues as well, on some of the political issues particularly that relate to energy security.

At the heart of our policy is the belief that energy security is best achieved through diversity, diversity in suppliers, diversity of transportation routes and diversity of consumers. We support opening a new corridor, a southern corridor, to bring Caspian natural gas to Europe. This corridor can include and should include Nabucco as well as the

Turkey-Greece-Italy interconnector. Both are important from a diversification and a strategic standpoint and they can help open up further upstream development, not just in Azerbaijan but also in Turkmenistan and hopefully in Iraq and will form a long-term bond between the countries of Turkey, the Caucasus, Central Asia and Europe.

It's also I think important to remember that new pipelines alone will not sufficiently provide for Europe's energy security. They're important and they're one major part of the puzzle, but they're still only a part of the puzzle. The U.S. supports the other initiatives that Europe is undertaking to increase its own energy security. Those initiatives, and Mark made reference to them in his introduction, focus on building a single market for energy, unbundling the distribution and supply functions of energy firms, building interconnectivity of European gas and electricity networks, enhancing LNG important capabilities and increasing gas storage.

To summarize -- and then we'll get to your questions and discussion -- which will be I think a lot more interesting than my speech, but in any event, the summarize to achieving our strategy is engagement. We play a supporting, not a leading role in Europe's energy security and the development of Caspian oil and gas. We need to continue to engage with the private sector, with the economic and with individual European states, with Russia and with the Caucasus countries and Central Asia.

Our job is to listen, identify common interests and priorities, and play a facilitating role where we can. Thank you. I'll leave it at that and we'll open it up for our discussion.

MR. PARRIS: Dick, I'm sure you've generated a lot of interest and I'm sure there will be a lot of questions. I see hands popping up already. Maybe though I'll just use the prerogative of the chair to ask you a softball question to get the ball rolling. You've done this before. What strikes you as the biggest differences between this time and last time so far?

MR. MORNINGSTAR: I think there are some differences and actually a few similarities, and I've even seen a few more similarities such as the agreement that was signed on Monday reminded me of the Istanbul Declaration in 1999, and then some of you remember in 1998 at the time of the seventy-fifth anniversary of the Ataturk Revolution there was a declaration signed by the leaders of the region in support of the Baku-Ceyhan pipeline. There were a lot of people at that time, many, many people, probably some in this room, who thought that Baku-Tbilisi-Ceyhan was a total pipedream and would never happen. Some of the companies were saying we don't have enough oil, there wouldn't be enough oil in the western Caspian to support it and it's going to be very difficult to do. But finally it did happen and it took a lot of steps and it happened and the pipeline didn't open until 2006.

So the signing on Monday reminded me of that, but what the signing will do is provide an impetus for the project, give confidence to the companies and to the countries involved that this is real and that people should start planning for it to happen. Baku-Tbilisi-Ceyhan was a little bit different, I think it is more complicated today, and that we are talking about a very concrete situation where there was oil that was being developed in the western Caspian, that exploration was being done and there was going to be oil that was going to be produced, and there really were no alternatives at the time.

We argued that back and forth with the companies, I won't get into all the details, but for any number of reasons, Baku-Ceyhan was the only choice at the end of the day if the companies were going to get their oil out of the Caspian.

MR. PARRIS: The gentleman here with the bag? Would you please identify yourself?

MR. NORIK: My name is Dmitri Norik (?). I represent myself. But I have two fundamental questions about energy security. Number one, is it true that the best way to deliver energy is as a raw product like gas, instead to transmit electricity? Because electricity transportation is very universal and the same as the internet of telecommunications is absolutely reliable can be.

MR. PARRIS: Second question?

MR. NORIK: The second question is this. Why if you try to find a common agreement with Russia and the United States in energy security, maybe the best way to achieve an agreement about atomic energy because it's two leading countries not only by scientific and engineering styles, but with atomic energy as accumulated in nuclear arms which will be decreased.

MR. MORNINGSTAR: Let me briefly respond, and let me respond to the second question first, in that certainly at the summit, and this is not my area of expertise, but nuclear arms was a major subject of the summit and the reduction of nuclear arms, but also as part of the presidential commission that was announced there will be a committee on nuclear energy to discuss how Russia and the United States can cooperate in that area.

Then the first question, I'm not sure I fully understand the question, there is more and more of an effort to expand electric grids. We have examples even today where Turkmenistan for example is delivering electricity to Afghanistan and there are other ways to expand electric transmission lines, so the point is well taken. That's not going to take away the need to deliver gas, but it may be a way to reduce it to some extent. I don't know. I'm not enough of an expert to really comment intelligently on it, but all I can tell you is that I think expansion of electricity will continue to happen.

MR. PARRIS: All the way in the back with the paper.

MR. CHEN: Chow Chen (?), freelance respondent. Special Envoy Morningstar, thank you for comments. What are the issues currently under discussion between the U.S. and Russia, and also what's the timeline of their conclusion?

MR. MORNINGSTAR: I can describe for you some of the issues that we'll talk about, but it's hard for me to tell you what a timeline is for conclusions because that will depend on the success of the talks that we have. We're going to have discussions in the energy area in several areas, and I'll tick off some of them. Excuse me if somehow I forget one or two of them as I'm going through it. First of all, we want to talk about investment and talk about how we can increase Western because in Russia. That's something we've been talking about since 1993 and all of us know, and many who are here from some of the companies know, how difficult that has been, and that the time has come to look at maybe new and more creative ways of doing business in Russia. I think we have to recognize that they just don't want to see new production and sharing agreements and I think we have to accept that.

But that doesn't mean that we can't look at other ways of investment where Russia can maintain control over its assets, it's so-called national patrimony, but that companies can make a significant return on their investment together with a predictable tax regime. That's

really for the companies to work out with their counterparts in Russia, but we need to try to help facilitate that.

At the same time, Russia has interest in its companies participating in North America and I think it's something that we have to explore. There was a lot of discussion when I was in Moscow a few weeks ago about LNG being delivered from the Arctic to the United States and Canada and that's something that may well make sense. People here will ultimately know whether commercially it makes sense, but it's certainly something that needs to be explored.

If there is a joint venture between Russia and the United States, is it out of the question? I raise this as a question because there are regulatory and political issues. But is it out of the question that there be joint ventures with the same companies in North America? That's also something we need to look at. We're beginning to see some work between Russia and American companies in third countries, another area which can be explored. So if these relationships can be developed, that can certainly help the overall relationship. So that's one area. A second area is energy efficiency which is a huge issue in Russia.

They want to work with us on that, and that's going to be an important area, as well as development of alternative energy technologies.

Just back for a moment to the investment point, we are in a tight global financial situation and whereas a couple of years ago Russia

may have said we don't need any kind of investment from outside, maybe they do today, and again we have to explore that point in the investment area. We ought to look at how we might be able to cooperate on projects, for example.

Maybe I'll just leave it at that. I've already given too long an answer. We just have to talk to each other to try to understand each other and see if there are areas of cooperation. I don't see any downside given right now that we really don't have much of a dialogue, so I think it's worth exploring.

MR. KREVISH: My name is Diogi Krevish (?) I come from Tbilisi, Georgia, and currently I'm associated with the Jamestown Foundation. On the very same day when world leaders met in Ankara to sign this breakthrough agreement on the Nabucco project, the President of Russia Dmitri Medvedev traveled to the occupied Georgian city of Tskhinvali, the first time that he made this kind of move. That leaves a question about Georgia's security and about a transit country's security so much connected to the viability of this energy corridor. How would you comment on that?

MR. MORNINGSTAR: I guess I'd make a couple of points. First of all, the day that President Medvedev went to South Ossetia, President Saakashvili went to Ankara and he's very much committed to the energy corridor. Security is an issue in general and I'm not the person

to talk overall about Georgian security, but I believe putting aside the South Ossetia-Abkhazia question for the purposes of this discussion, overall Georgian security I think will be something that is very much in the interests of American and European countries and we'll do everything we can to preserve that and the pipelines I think will be protected.

I would be very surprised to ever see, and I hope I never live to eat these words, any direct military action against a pipeline. I suppose in theory if more pro-Russian, I don't want to even put it in terms of pro-Russian, but let's say a different government came into power in Georgia, maybe there could be more economic pressure, I don't know, but that's all totally speculative. So I guess never say never, but certainly not so concerned about it that I think it should have an effect on the present pipeline plan.

MR. PARRIS: Let me exercise my prerogative again to maybe take this discussion of the Russian angle a little further. I can remember vividly one evening in Ankara, it must have been about 1998, sitting in the resident of the Russian ambassador at the time, I think it was the Russian foreign minister, and we were trying to describe to him how Russia would be welcome in BTC. I remember his reaction was something along the lines of there are arguments and there are facts, and the facts are this is directed against Russia. Do you sense in your new capacity Russia having moved beyond that kind of a basically distrustful

maximalist kind of an approach to one that maybe we will be successful in bringing into this at some later stage?

MR. MORNINGSTAR: The truthful answer is I don't know. I've had some good discussions both in Sofia and then in Moscow with their energy minister, Mr. Shmatko. He certainly is looking for ways that we can cooperate. At one point, and not to disclose confidential information because it's really not, he and others in Russia have said Nabucco is only 5 percent of European demand, and my response is why worry? I don't think Nabucco really is anti-Russian as such, but there is nothing wrong with European countries looking at even from a purely commercial basis to want to have diverse sources for its energy particularly in light of some of the things that have happened, but even if they hadn't happened, it makes a lot of sense.

And just because you want to develop competition and diversity doesn't mean that you're being anti anything. My guess is that if the Russians were sitting in the same place as the Europeans that they'd be doing exactly the same thing. I guess I'd leave it at that for the moment.

SPEAKER: Ambassador Morningstar, thank you very much. Again referencing the Baku-Ceyhan negotiations that Ambassador Parris would know as well, talking at that time benefited a lot not only from the construction of the pipeline but also the know how that it got during the

construction and we just saw Botash becoming a major player in construction of these kinds of bit pipelines. My basic question to you is BP at that time was the big player, was the heavyweight behind the project. Do you see commercially the companies that backed Nabucco taking the same approach? We're talking about smaller companies, but do you see them becoming major players?

MR. MORNINGSTAR: You raise an interesting point. You did have BP and other major companies who ultimately were behind Baku-Tbilisi-Ceyhan. We talk about smaller companies, but take RWE for example in Germany, they're a major company and they're very aggressive right now in the region in the exploration area. I wouldn't discount them. With the appropriate political and governmental support I think they can get a lot done.

Don't forget as well that there the suppliers. Taking Azerbaijan for example and Shah Deniz-II. Shah Deniz-II isn't simply owned by SOCAR, there is a consortium of companies who are going to want to sell that gas. So if they can see a good return on selling the gas to Europe which I think they'd like to do, they're going to want to move forward. There are large companies involved maybe in somewhat different ways.

MS. PORAZA: Ajim Poraza (?) from Turkish Daily. You said that we support putting a new southern corridor to bring Caspian natural

gas to Europe. Does that include Nabucco or will you be supporting alternative projects to Nabucco as well?

MR. MORNINGSTAR: Let me put it this way. Nabucco is clearly a very important project. It got a bit lift on Monday and a big impetus. That doesn't mean that it's the only project. There is the ITGI project which is somewhat smaller but would supply gas to certain areas in Europe. In fact, I think Bulgaria has signed on in the last couple of days to be part of that. They're also part of Nabucco and they're part of South Stream. So I don't think one necessarily excludes the other. But let there be no doubt that we believe that Nabucco is a very important project and it's the project that seemed to have the political impetus at this point. That doesn't mean there aren't a lot of steps that have to take place between now and when it gets into place because there are still a lot of issues, but we want to see that happening. More important than delineating between specific projects again is to remember that the southern corridor, although very, very important, is still that one part of the puzzle for European energy security.

MS. PORAZA: You said that your position on Iran, that you don't think Iran should be included in the project right now, in the eyes of the U.S. administration, what would be the best possible natural gas supplier to Nabucco?

MR. MORNINGSTAR: There are three obvious ones. I guess the way I would put it is this way. I think as a practical matter that Azerbaijan is necessary to Nabucco. There could be a lot of gas at Shah Deniz-II. They're doing other exploration. In fact, there was an announcement, I guess Greg wasn't there yesterday, about a new agreement, I'm talking to Greg Saunders from BP back there, another new MOU with BP and SOCAR to do further development that would include oil and gas. Both oil and gas. Right?

MR. SAUNDERS: Looks like gas.

MR. MORNINGSTAR: Looks like gas. In any event, there are strong additional possibilities from Azerbaijan that hasn't even been talked about yet.

The hope that I would have and there would be debate over this is is Azerbaijani gas in itself enough to sanction Nabucco? We'll see. There ought to be and will be I think other suppliers ultimately. Turkmenistan wants to be a supplier. Before going to Ankara I was in Ashgabat on Friday and met with President Berdimuhamedow and he stated very strongly that he wanted Turkmenistan to participate in Nabucco. He also said it publicly. Again there are going to be questions, I think soluble questions. We need companies and I think Western companies to get more involved both onshore and offshore in getting Turkmenistan to increase production. We have to figure out how gas is

going to be across the Caspian by a larger pipe or a small interconnector. Azerbaijan and Turkmenistan's relations have certainly improved over the last year or two.

President Aliyev and President Berdimuhamedow get along well so hopefully they can resolve Caspian boundary issues so that that doesn't become a complication. So Turkmen gas is a definite possibility, but again there are steps that need to be taken. Iraq is also going to be an interesting situation. Prime Minister Maliki's talk about 15 BCM at least shows a desire. The question is where in Iraq is that gas going to come from? If it comes from Northern Iraq there would have to be some kind of agreement between the Kurdish government and the national government to allow the project to go forward and for gas to be exported. Can they reach such an agreement? Who will sign the agreement? So there are all sorts of issues that will need to be worked out. We know gas is there. The question is how to get it in a situation where it can be exported. There are also questions of demand for gas within Iraq. So all those things have to be sorted out, but it's certainly a possibility.

Don't forget that Nabucco right now is not scheduled to open until 2014. That's 5 years from now. So when people talk about Iraqi gas can't be ready until 2016 or by the time you get Turkmen gas going westward, that's going to take a long time. Or Shah Deniz-II is going to take some years for that gas to be ready for export. There is time to get this

done. What is it that Churchill said, if it's going to take a long time, let's start now. So that's my view on it.

MR. WELT: Cory Welt, Georgetown University.

Ambassador, I wanted to ask you to follow-up on what you were referring to with regard to the political challenges of developing the Transcaspian Pipeline. You mentioned the need to get Azerbaijan and Turkmenistan to agreement and it certainly seems as you noted that it's far easier to do that now than it might have been in the past. I wanted to ask you if you foresee any other political obstacles to establishing that pipeline from Russia or Iran?

MR. MORNINGSTAR: Political obstacles from Russia or Iran? There may be political obstacles, that doesn't mean that they're not soluble. The good thing about the area that in the Caspian where this gas would go through doesn't go through disputed Russian waters or Iranian waters or Kazakh waters. Whatever the resolution is, it's either going to be Azerbaijan's territorial waters or Turkmenistan's territorial waters. So my feeling in the 1990s and my same feelings are today not everybody may be happy about it, but do it. Let's get the pipeline done and get an agreement between Azerbaijan and Turkmenistan to get it done. One of the things that they've talked about is rather than strict boundary questions, taking disputed exploration areas and coming to some sort of political and business settlement as to how they would be developed

which would hopefully make the actual boundary line less important.

They're continuing to negotiate. In fact, I think they told me in Turkmenistan that they were going to have further negotiations either this week or next week. It can happen. Will Russia put pressure on them? Maybe. Will Iran put pressure on them? Maybe.

But look at what the situation is with Russia right now in Turkmenistan. They closed off shipments of gas. The pipeline exploded because Turkmenistan claims, and I'm just saying what they claim, they didn't have enough notice to shut down the pipes so pressure increased and the pipe exploded. They will probably resolve those issues at some point and I would be surprised if there wasn't a resumption of gas shipments somewhere along the line, and whether or not there's compensation on the pipeline is another issue. So, yes, there may be obstacles, but I don't think in the end it should stand in the way of it happening because there will be very strong support from Europe, from the United States, from Turkey and from other countries in the region.

SPEAKER: Mr. Morningstar, you said that Turkey plays a major role in the energy sector. On the other hand, the United States supports Turkey's E.U. membership process. My question is how will these projects, especially Nabucco, affect Turkey's E.U. membership process?

MR. MORNINGSTAR: Let me put it this way. It's certainly not going to hurt. As you know, the United States is very supportive to Turkish accession to the E.U., but whenever we say that, I think it's very important whenever an official says that that we recognize that this is a European issue and that there are issues that go beyond the geopolitics which it seems to me is from the U.S. standpoint the very clear argument why Turkey should be a member of the E.U. But we recognize there are other issues than a European issue and that this is a European issue.

The question that came up during these negotiations was what about the energy chapter negotiations which are part of the accession process. My feeling on that, and maybe Turkey's conclusion, I don't know, is that if they sign the agreement it's going to be very difficult for the E.U. not to open those energy chapter negotiations. We have to recognize that there are structural impediments like if one country or two countries oppose it they can in effect veto it, but I think that from the political standpoint it's going to be hard to sustain that given this agreement. I would hope that would be the case.

On the other hand, if they hadn't signed the agreement or hadn't brought the agreement to a conclusion, I think Turkey would have been in a lot worse shape. At least now I think Turkey is on the moral high ground with respect to this issue and I think they did the right thing from the standpoint of their relations with the E.U. But as you know, this is an

extraordinarily difficult process, E.U. accession. It's hard to forecast the future. We're still talking about many years. So we'll just have to see how it unfolds.

MR. BRAVO: Nicolai Bravo (?), Embassy of Bulgaria.
Ambassador Morningstar, thank you very much for your presentation. It was very interesting. I have the following two questions. The cost of the project would be about \$10 billion. The E.U. commission stated that it would provide about \$200 million. Is the U.S. government ready to participate in direct financing of the project, because you said several times that it is a very important project for the U.S. government and I suppose that you have to participate. My second question, I have one more question, it's not a secret that South Stream and Nabucco are politically competing projects to some extent. The biggest issue for both projects is where the gas will come from. This is the biggest issue so far.

My question is, because you said that you visited both Turkmenistan and Azerbaijan several times, are American companies ready to invest in exploration of gas resources in both countries, because we all know that they need a significant amount of investment in their gas exploration.

MR. MORNINGSTAR: When you say in both countries, which countries?

MR. BRAVO: Azerbaijan and Turkmenistan.

MR. MORNINGSTAR: Maybe I could answer that quickly by saying no and yes. I'll expand on it a little bit. The answer on subsidies is no. The United States is not going to provide subsidies to a project that doesn't directly provide resources to the United States. Politically that just would be impossible I think in Congress. Having said that, there are financing agencies that can help in different ways between the Export-Import Bank and OPTIC, depending on who's involved in the building of the project, so that there can be possible help that way. With respect to European involvement, yes, \$200 million is 5 percent of the total project. On the other hand, both the EBRO, the European Bank for Reconstruction and Development, and the European Investment Bank were present at the conference. They both say that they're willing to support and provide financial guarantees to the project which will help. When we talked to the countries and the companies involved they think they can get financing. But financing is an issue so it still has to be worked through.

What did I answer yes to?

MR. PARRIS: Investment in exploration.

MR. MORNINGSTAR: I think you should ask the companies who are here like BP, for example. Greg Saunders?

MR. PARRIS: He just realized he has another appointment I think.

MR. MORNINGSTAR: Is BP willing to do projects in Azerbaijan and Turkmenistan under the right conditions?

MR. SAUNDERS: Your last phrase was the operative one.

MR. MORNINGSTAR: Under the right conditions, and that's a fair answer.

MR. PARRIS: That's the price of your sandwich, Saunders.

MR. MORNINGSTAR: Just from talking to the companies, and I didn't mean to put Greg on the spot, I guess I did, is that the companies that I've spoken under the right conditions and the right agreements want to do more in Azerbaijan and Turkmenistan. Look at the understanding that was signed between BP and SOCAR on Monday. There are other companies as well. One of the issues in Turkmenistan is that they look at offshore production and onshore production differently and they're perfectly happy to have companies come in and do production sharing with respect to offshore production of which there is a lot of gas apparently, but not necessarily onshore production. They want to do service agreements.

But where they've shown flexibility is that they're saying we're willing to look at creative ways to determine what a service agreement is and increase the reward aspect and so on sort of like what I was talking about before when we were talking about Russia. So there

are companies without naming any that have an interest in at least talking to the Turkmen about how to do about doing this,.

MR. PARRIS: I think you were being very generous with your time. To avoid abusing it, I'm going to take two more questions and then I'm going to ask one more and then I think we'll conclude this.

SPEAKER: CSIS. Considering the prospects on WTO accession and Russia's prospects on WTO accession --

MR. PARRIS: Slow down and speak more distinctly.

MR. MORNINGSTAR: I'm getting old and I'm getting sort of deaf.

MR. PARRIS: That makes two of us.

SPEAKER: Speaking about the WTO accession prospects of Russia and its relationship with Belarus and Kazakhstan and proposed - - do you think this may complicate or facilitate the energy dialogue in the region?

MR. MORNINGSTAR: Can you give me the last half of the question?

MR. PARRIS: The question is will the experience with the WTO process enhance or reduce the likelihood --

SPEAKER: Yes, will it complicate or facilitate the energy dialogue in the region.

MR. PARRIS: Of getting them into Nabucco?

SPEAKER: Nabucco and South Stream, would that have any effect on the situation?

MR. MORNINGSTAR: I've thought a lot about what Russia and those three countries are doing with respect to the customs union and the effect that it may have on its ultimate WTO negotiations and questioning are they serious about getting into the WTO. We did talk about that in Kazakhstan. I was there prior to being in Ashgabat. But I haven't thought about whether there is any relationship to the energy area. There may be. I'd have to think about it more to see if there is any connection. Off the top of my head it doesn't strike me as being particularly relevant, but I could be totally missing something, so I guess I should just leave it at that. That's I think no, but I can't be totally sure.

SPEAKER: Istanbul. Mister Ambassador, you just summarized the U.S. strategy on the three topics, and the second one was related to Europe's energy security and you said that the new energy strategy of the U.S. is to provide assistance in securing Europe's energy. Does this mean that the new strategy does not deal with other regions' or countries' energy security?

MR. MORNINGSTAR: No, not at all. We're certainly concerned. Since you're from Turkey maybe you're asking about Turkey's energy security and we certainly can consider that a very major issue and that one of the issues that need to be balanced and that Turkey is

balancing is their strategic interests with respect to an east-west corridor and how much gas it's going to need to buy to satisfy its demand over the coming years. Yes, we are very much concerned about that. We're concerned about energy security in the Caucasus and Central Asian countries. That's the area of the world that I'm dealing with. We're concerned about energy security in Russia for that matter. Will there be sufficient work done on the infrastructure so that they can continue to increase their production of gas? So we're concerned about energy security everywhere. There are other parts of the world that I'm not directly involved with and obviously we would be concerned there as well, but at least I can tell you that in the areas that I'm involved in, we're very much concerned.

MR. PARRIS: Let me conclude this by asking you to comment on the following. I think it's fair to say that when you were doing before the focus of the work was on oil. This time the focus is clearly on gas. Where do things like a new Bosphorus bypass come in and what will the U.S. position be if faced with a choice of supporting or not supporting Buros Andropolous (?) versus Samsan Ceyhan (?) and that sort of thing?

MR. MORNINGSTAR: I don't think we've gotten to the point where we've come to any kind of either/or conclusions with respect to that. I do think though, and I want to emphasize that I did talk a lot about gas in my opening speech and virtually every question related to gas, if I had to

rewrite this speech I'd probably put in a paragraph on oil at least, we are very much concerned about oil and that there is a major issue now with respect to how Kazakh oil from the Kashagan project and increases in production from Tengiz are going to get out. So we are strongly supportive of an expanded CPC pipeline by the way which we were strongly supportive of during the 1990s and we want to see a Kazakhstan-Caspian transit system developed whereby oil would be shipped south from Kazakhstan by pipeline and then shipped across the Caspian by tanker and then put into Baku-Ceyhan.

That could end up requiring some other pipeline and I think it's still early to determine which is the right way to go. The one place where I don't think it will go is through the Bosphorus because I think that the same issues that came up with Baku-Tbilisi-Ceyhan a decade ago will come up again today, the environmental issues within the Bosphorus, but that's something that's going to have to be explored as to what's the best route.

MR. PARRIS: This has been a good, meaty conversation. Thank you so much for spending so much time with us, and please join me in giving him a warm thanks.

(Recess)

MS. OLCOTT: Okay. It's really a pleasure to be here today, to follow upon such a distinguished group of speakers, having been

stimulated by our keynote address by Ambassador Morningstar, and all the morning presentations. This is now the concluding session of the day. I am not going to do lengthy introductions; you have everybody's biographies in the back. We're going to start -- everybody is going to speak 7 to 10 minutes, no more than 10 minutes, really, or I will stand up, so we will have time at the end for a Q&A session. We're going to start with -- Dr. Kardas will speak first, and he'll be followed by Professor Nadein-Raevsky and then by Cory, and then I'll introduce the Q&A session. Thank you very much. The floor is yours.

MR. KARDAS: Thank you. So I would like to talk about the geopolitical strategic dimensions of the Turkish-Russian relations in the common neighborhoods, which are basically the Black Sea Basin and the South Caucasus. Since we won't have much time to cover a lot of ground, I will just make my major arguments first and then basically go over the recent developments in the neighborhood that affect Turkish-Russian relations.

My presentation in a sense and some of my arguments follow on the first panel in the morning. I agree with most of what was said in the morning, especially in Steve Larrabee's presentation. My basic approach to the Turkish-Russian relations will be from an academic perspective. I am not representing any government views here. I am the least-qualified, even if I wanted to. So I will just present my own reading

of what has been going on between Turkey and Russia in the common neighborhood. So again, keep in mind that I'm talking about the Black Sea Region and the Caucasus. My first argument is that unlike the early post-Cold War rhetoric of a greater Turkic world in Central Asia, the Black Sea Basin, and Caucasus, and maybe even into the Balkans, the Turkish foreign policy in the recent years has started to follow a more realistic approach. Instead of advocating a pan-Turkic agenda, the Turkish interests in the neighborhood became increasingly realistic and pragmatic; meaning they are defined based on what can be achieved. So in that sense, Turkey retreated from Central Asia into the closer neighborhood, and this is where the Turkish-Russian relations are also flourishing. I think this is very important to understand the dynamics of the Turkish-Russian relations. Before, Turkey was trying to act as the promoter of a Western agenda in Central Asia, in other neighborhoods, and that I would say might have irritated Russia because if you present yourself as the promoter of some American or Western interest, it creates a certain set of dynamics. But if Turkey acts as a regional power that has its own agenda, that sets its own priorities, then it becomes less threatening to Russia. I would say that this transformation in Turkey's own perceptions of its own regional role changed the entire Turkish-Russian relations.

Also another change in that regard is what I would say is the growing self-confidence in Turkish foreign policy. What I mean is that

there is a big talk going on about what goes on with the Turkish foreign policy, right? There is this new notion of Turkey emerging as a central country instead of a bridge country. Now Turkey's trying to develop multidimensional relationships, not only with the West, but also with the Middle East, and with its closer neighborhoods.. And Turkey's going through a new phase of closer cooperation with Russia in this immediate neighborhood.

This new foreign policy approach has been criticized by some in the West because it is viewed as departing from the traditional Western or European orientation, and drifting the country away from the West. There is this discussion going on, but in the minds of the Turkish policymakers, drifting away is not the case. They emphasize the traditional ties to the West, but the key distinction here is, I guess, important, which is that whereas previously Turkey's Western connection was the most important external connection, now Turkey's Western connection and ties to the Western world, became one of many foreign connections. Ahmet Davutoglu calls it multi-axis, multidimensional foreign policy. That new perception is important because it affects the way Turkey approaches the Western political goals in the immediate neighborhood.

Let's remember what those goals are. I mean, we have been talking about the importance of the region for energy security, but

the region is also important beyond that. Right? There are certain important political and strategic issues at stake. During the Iraq and Afghan Wars, it was understood that the Black Sea and Black Sea Basin was an important strategic corridor for the transfer of American Forces, and later for their supply route.

Also, you see NATO and EU talking about the region as a potential source of instability, arguing that nontraditional sources of instability might arise there. So there is a growing security interest to contain possible threats from the region to the West. And, therefore, Turkey also views ensuring the stability in this immediate neighborhood through cooperation with the West. Although Turkey shares those political goals, it doesn't want that cooperation to come at the expense of antagonizing relations with Russia. In short, for Turkey, having a stable neighborhood and also assurance of economic needs is more important than promoting the Western agenda, which is in most cases to support the transformation of new nations toward more democratic polities. Turkey is fine with these goals. But as regards the other aspects of Western agenda, which are to contain Russia and to contain Iran, they are not necessarily shared by Turkey because such policies run contradictory to Turkey's own interests. Western policies to contain Russia and Iran become, especially when they involve American military measures, a

source of tension. So, Turkey doesn't want the U.S. presence to create additional troubles

I was going to talk about how those new perceptions of Turkey affected Turkey's response to the Georgian crisis, but -- how much time? --

MS. OLCOTT: You have five minutes.

MR. KARDAS: Okay, I will talk about the Georgian crisis now. So far, it has been emphasized that Turkey is playing the positive-sum game. Americans are playing the positive-sum game, and everybody's playing the positive-sum game except Russia. The impression is that they are the bad guys, right? So everybody agrees with that statement in economic relations, but the question is, is this also the same in political affairs? I would say that yes, it is. Whereas Turkey is trying to play this positive-sum game in security affairs, then you see Russia being less cooperative than the way Turkey understands, I would argue that those tensions became apparent during the Georgian Crisis last year. Turkey's basic approach to solving security problems in the region could be labeled as "cooperative security." What does it mean?

I would say that Turkey's trying to use economic interdependence and multidimensional institution building to promote peace and stability in the neighborhood. To realize those objectives, Turkey is using multilateral policies instead of unilateral policies. So that is really a

liberal and very optimistic type of approach to international relations. So Turkey -- in that sense, I would say that quite sincere in that. So in the Balkans, Turkey followed the same approach. Now in the Middle East, Turkey's also trying to follow the same approach, seeking to integrate all stakeholders in the solution of regional problems. So that's one of the reasons why Turkey insists on bringing in Hamas into the equation, right? This is because Turkey realizes that without bringing in the important stakeholders, there's no way you can have stable peace. Also, Turkey follows the same approach vis-à-vis Russia. But the challenge for Turkey starts when Russia starts to act as what I would call a spoiler. Or, when Russia starts not to play the positive-sum game.

So that was the challenge for Turkey before the Georgia War? The war essentially revealed the weaknesses of Turkey's approach that despite all the rhetoric of economic dependence, all efforts for multilateral institution building, Turkey failed to stop Russian invasion. Also, more importantly, the West failed to stop Russian invasion. So then the question is how Turkey responded to the Georgian crisis? I tend to call Turkey's response as appeasement. Some people may not like this word, but Turkey did try to appease Russia.

Then the question is why? I would say that it's partly because of this optimistic approach toward the stability in the region. It's also because of the economic interdependence. We have been talking

about the growing economic relations between Turkey and Russia. That's all positive. It's all good. But what are the side effects? What are the costs of those relations? There is the issue of what I would call an asymmetric-interdependence between Turkey and Russia. It became clear, for instance, when the customs issues between Turkey and Russia became a problem right before the Georgian War, into the Georgia War, and it now still goes on.

The week before the signing of the Nabucco treaty Turkey's minister was in Moscow to discuss all these energy issues. Moreover, he also discussed the customs issue. Still Russia doesn't give up its position. Russia uses asymmetric advantage over Turkey in that field for instance. So economic relations are good, but they also come at certain political costs and by building this close economic relationship with Russia, Turkey, in a sense created this vulnerability which affected the way it responded to the Georgian Crisis.

So here, what is also important is to study the role of the West, and Western countries in the crisis. The U.S. response came too little, too late. As for the Europeans, they also appeased Russia. So under those conditions, Turkey did its best to try to avert antagonizing Russia. Turkey I would say views Russia as what I call limited-aim revisionist. So, the understanding is that if you can contain Russia, then you have a stable neighborhood. This is the only way you can deal with

Russia. That's the understanding in Ankara more or less. There are certain costs of this perspective, for instance, if Russia decides to go into Georgia again this summer, we don't know what's going to happen, right? But that's always a possibility. Nobody can say that it won't happen.

My overall point is that this new approach of Turkey comes with certain political costs. And then Turkey's response to that problem of regional instability was to offer what was called "CSCP," Caucasus Stability and Cooperation Platform. A new multinational, multilateral initiative, which I would say has no substance. So I don't think it's going to contain Russian resurgence, but despite that, Turkey comes out with similar liberal optimistic strategies.

Another lesson Turkey drew from the Georgian War was to refocus on the so-called frozen conflicts in order to eliminate the sources of regional instability in the future. This is where Turkey's attention on Turkish-Armenian and Armenian-Azeri relations started. After the war, Turkey initiated the normalization process with Armenia and also wanted to push the resolution of Armenian-Azeri problems. And I guess I have to stop, but I can comment more on the Turkish-Armenian and Azeri relations later during the Q&A. Thank you.

PROFESSOR NADEIN-RAEVSKY: Ladies and gentlemen, dear colleagues. This year are for (inaudible) of mind radiated -- well, the Moscow State University and out of four diplomas, two were devoted to

Turkey's energy strategy and one of these two was Russian, another one a Turk. That means that both countries and the young people, citizens of these countries, do really pay great attention to the energy strategy of both countries, to our plans, to our possibilities, and to our future.

Yes, in our -- I have to remember just not on the positive things that occurred in our history. Well, Mr. Larrabee was speaking about thirteen wars between Russia and Turkey. I recall there were fourteen because the last one was the First World War, and Russia was defeated. It signed the (Russian) "peaceful treaty."

Well, anyhow, that is far way, and, of course, anything changed. And I was in Turkey in 1972 and remember just the people and the attitude towards the Russians, towards Russian people, the Soviet Union, and so on. They called it Russia, and the term as well as everywhere, though it was not true. And everything was changing year by year. In 1995 I saw another picture, and it was a much more interesting and much more productive. And in later years, I've seen another Turkey with quite another attitude towards the Russians. It's very important because two peoples were coming together.

And it's not only political problem of the governments and the parliaments, but it became just the attitude of both countries towards each other, the attitude of citizens and that's very important because sometimes for centuries we need time to improve the relations. We were quite quick

in our relations with Turkey. And, of course, there are some problems and some of them remain and still they are down. They haven't rise up, and thank God, they are not.

Well, the first one of them, of course, was a problem that irritated the Russian side from inside the Buro is the problem of pan-Turkey, the problem of attempts of mowing over Ottoman Empire, later some organizations in Turkey to the districts of Russia, and later the Soviet Union. There was a problem. And when the Soviet Union was ruined, there was, of course, some ideas then that there will be a 100 year talks and so on and Turkey will move forward.

And we were arguing with Mr. Larrabee in Greece in 1992-1993 just on this problem. There was an idea of a Turkish shield against the Muslim fundamentalism of Iran. Well, that was not a good idea because all these schemes, all these myths, they're always dangerous because they attach only one side of problem. The attitude of talks changed. Not simply the attitude of the people, but the attitude of allies. The ruling class of Turkey understood that the main thing is the interest, national interest, over the country. How you can move toward Turkish republic and (inaudible) when 90 percent of all the Turkish economy was bound to Russia. And that was much more important than any political interest.

And, of course, that helped Russia when Russia was coming up just because we didn't have goods even to sell to our people. Turkey was the country that was well just part of the Russian economy, let's say it this way. And, of course, that was very important. And thousands and thousands of citizens -- the so-called (Russian), the people who make trips, little trips to buy goods and so on, they helped Turkish economy. From \$3 to \$10 billion was the total trade in this field in the '90s. Later it changed, and now there are large companies and but again, Turkey is selling and selling goods to Russia. And Russia is continuing, just selling energy products. Well, of course, some machinery, of course some other things, and now we're speaking about a new project that will build atomic power stations, about four reactors we speak now. Let's see maybe that will be not a bad thing. Of course, there are some problems. They must be solved here. While the problems of payments. The problems of how -- well, the problem of how much they'll have to pay for energy and so on. But it is in the process of settling. It can be settled. It's not a problem at all.

Well, and another thing that is important is, of course, gas problem. I was just the one who in 1997 in (inaudible) was producing, pushing forward the deal of the Blue Stream, the political aspects of the problem, international aspects of the problem. We were to defend the idea before the citizens of (inaudible) region. It is normal tradition all over

the world and in our country in (inaudible) the tradition beginning from the Blue Stream. And it was a success. Thank God.

And the Blue Stream really works, and nowhere speaking that another that stage second is to be begun, and it will be built. I am sure that it will be built.

And, again, I agree with gentleman and my colleagues who are speaking today about the necessity of bringing of the South Stream so-called, if it will be constructed, of course, through a may be Turkish territory, Turkish part of the Black Sea. That will be, of course, a way out. Of course, when we're speaking about the roots, it is important to keep in mind that we were always -- I mean, the Europeans were always afraid of dictatorship of this. But no one today can name even a single example of this dictatorship. But another thing appeared in the field that no one could pay attention to. They tried to say anything but the reason, but the main ideas of this thing, the dictatorship of the transit countries. That is important. And that dictatorship was against this problem. I mean, the Ukrainians, then the other Russians, it was a new thing in gas problem. And you think in transportation, we never had this problem.

I am afraid the idea of Nabucco is will be also bound with these problems, but from another side because Nabucco will be just the property of the countries who build it. For the first time in the history, we never had something of that kind in the history of gas. But when we're

speaking about wrangling wild possibilities about the future gas for Europe and so on, we're forgetting about the crisis. The decline of productivity of gas in Russia lowered the productivity and dramatically. This year it will product from 7 to 18 percent fewer gas than last year. The next year it will not rise as well, only somewhere in 2012 we will expect the rise of productivity will be on agenda.

Nowadays, it's impossible because you see no one is necessary to buy it. It's necessary to have gas and the consumers thinking about their money and about their pockets. It's normal in nature, and that is the key problem. The key problem is that gas from any other country can dictate either simply selling. It can't believe through without consumer, so the dictator against consumer was the main dictate before, but now the main dictate is the dictate of transit countries. It is very dangerous, but very important. And I am -- I just guess why the European Union didn't pay attention to this problem. Now Russia asks to help in it, to help Ukraine to pay for the gas it buys just to sell further in Europe because if it will not fill the tanks with gas, it will not have opportunity to give enough gas for itself and to Europe as well because when winter will come, they will take the European gas again without permission. It is not their property, but they will take it. That is sure as they did it before. That is also a problem that needs to be solved.

And when you are speaking about energy chatter, or be treated to energy chatter, you must mean the main thing. It was constructed at the period when no one understood the problem, and only to be against human interests were put inside the energy chatter.

Well, but it's necessary to work over another problem that will balance the interests of consumers, the interests of those who produce gas. And, of course, the transit countries, all of them, all the interests must be well-balanced.

And one or two remarks about the things that were said before when we're speaking about Iranian gas. No one speaks about Iranian gas. It was the second country in the world after Russia, according to deposits and its possibilities. And it's a problem, a political problem. Besides, when we're speaking about Caspian Sea, please remember that it is not divided until now. That's why, according to international law, no one has a right to use it for any planned use. It's also important, of course, anyhow it is possible to solve but it is solved until now. So there are problems. I can't even name all of them, but if you have interest, I'll answer. Thank you very much.

MR. WELT: Thank you. Thank you, Martha. As your last speaker, I promise to be as concise as I can. I come to this issue of Turkish-Russian relations primarily as a Caucasus watcher. And it was from this perspective that I was asked to present my remarks.

Now as a Caucasus watcher, I have to say that these last six months have been extraordinarily strange ones. And that really follows a very unusual and discouraging autumn in 2008 with the war -- not only the war and the Russian occupation of South Ossetia and recognition of independence, but also this Turkish proposal that our previous speaker commented on a regional peace and cooperation platform, peace and stability platform. And it was a strange proposal because it was a proposal that would have been welcomed with great acclaim perhaps a year before the war. It would have been welcomed with great acclaim perhaps even three weeks before the war.

But as it turned out, it was a kind of proposal that was presented really in the wrong place in Moscow and, of course, at the wrong time and was effectively dead on the vine. Now after that bit of a fiasco, the Turkish-Russian relationship really became implicated in two other spheres in the last six months, and related to issues that under any other circumstances, probably would have seemed to be no less tractable than the issues related their ethnic conflicts in Georgia. I speak of the Turkish-Armenian-Azerbaijan triangle and also the matter of energy pipelines that we've discussed extensively today. And with these two issues in the last half of the year, for several months it very much seemed that reality as we know it in this region was turned right on its head.

There were some extraordinary developments that were taking place that we wouldn't have imagined could take place even just a few years earlier. Two in particular: Turkey's active diplomacy with regard toward normalizing relations with Armenia. In a way that seemed to suggest that Turkey had forgotten that the Nagorno-Karabakh Conflict ever existed and in a way really that seemed to suggest that Turkey had forgotten that Azerbaijan had ever existed. And this kind of dialog, while very positive -- and I want to speak about this more at the end -- seemed to raise the prospects of some kind of unarticulated Russian-Turkish-Armenian condominium in the Caucasus, which no one would have ever imagined or spoken of previously. Turkey's role in the Caucasus was always imagined to be some kind of a proxy, more welcome proxy to the United States in the Caucasus, and also a more interested proxy in the Caucasus to save the European Union. Nobody could have imagined Turkey taking on the role that it seemed to suggest in those months after the war at the start of this year.

And on pipelines, as has been discussed before -- I don't want to spend too much time on it -- suddenly as the European states began to get onboard to the Nabucco pipeline, it seemed in a very curious way that Turkey itself was emerging as the spoiler to its own pet project. And as many were commenting at the time in the last months in a very downright, un-neighborly fashion, trying to continue to push for extremely

subsidized prices of Azeri gas as the cost of its participation in the pipeline construction.

Now it remains to be seen, of course, whether all of these events in the last months have been just a temporary inversion of reality as we know it in the Caucasus and in the wider region or a longer term trend, but it certainly seems that the most recent signs suggest that it's been a bit of a blip and we have returned a bit more to reality as we know in the region. What happened? In large part I think we can say that we either have Azerbaijan to blame or Azerbaijan to thank for the developments of the latest weeks.

With regard to the Turkish-Armenian relationship, it was as if Azerbaijan suddenly woke up from its bad dream, suddenly realized what was happening without its participation and engaged in some very vocal protests to the Turkish side and also reminders to Turkey of the role, the historical role, it had played as Turkey's, as Azerbaijan's fraternal brother. Those sorts of reminders seem to have the impact that they desired, and Turkey has returned to a position that I think should have been expected from the beginning, which is that there is intrinsically a connection between resolution of the Karabakh Conflict and Turkish-Armenian reconciliation. It is extraordinarily difficult, if not impossible, to separate those aspects. It doesn't mean that the Karabakh Conflict needs to be

resolved 100 percent, but some movement has to be seen in alignment with Turkish-Armenian reconciliation.

And on the question of energy pipelines, as Alex Peterson had pointed out very well before, Azerbaijan demonstrated that it, too, was able and willing to woo Russia as an energy partner in a way that would enable Russia not to be so needy on some kind of Turkish-Armenian-Russian understanding. And it did so in a way that perhaps had the impact that Alex had discussed with regard to pushing for the Nabucco agreement.

So where does this leave the states of the Caucasus today? -- You'll notice that I've primarily left out one so far, which I'll get back to in a second. With Azerbaijan, it's really accomplished quite a rapid turnaround. It was much more regionalized and isolated at the beginning of this year than it has been in the past. And with its policies on the Karabakh Conflict and the Armenian-Turkish reconciliation with its policies and its maneuvers on the energy question, it's managed to maintain its former status. It's a partner for the Europeans. It's a partner for the United States. It's a very difficult partner with regard to certain questions, specifically with democratization and human rights issues, but it's a partner whose interests are not going to be ignored. Ambassador Morningstar already mentioned with regard to Nabucco, Azerbaijan is

necessary for the Nabucco pipeline to move forward. And it's also in many ways necessary for Turkish-Armenian reconciliation.

With Armenia, it's also had a bit of a turnaround in the last six months. At the beginning of this year, Armenia suddenly seemed to be in a position where all of its wildest dreams were about to come true. It was going to be able to retain its relationship with Russia, and perhaps deepen its security relationship and its economic relationship, but also it was about to -- it was on the verge of being able to reduce its isolation, an isolation that was worsened by Russia in fact through the Georgian War. It was going to be able to make further overtures, increase its trade possibilities with the West with an opening with Turkey, and on top of all of this, it was going to be able to keep its strategic depth in Karabakh. It looked like there could be a breakthrough agreement without Armenia having to move on resolving the Karabakh Conflict. And now we're back again as I said in a much more familiar situation.

Armenia has fallen back to a more defensive position externally, and most importantly perhaps, the Armenian government has ended up in a much more defensive position domestically. And for a government that looked to be on the verge of such great foreign policy success several months ago, it's now being blamed from across the political spectrum for a failing or even failed foreign policy. And there's great concern in Armenia about the prospects for the future on all fronts.

With regard to its relationship with the United States, I mentioned that Azerbaijan might be a troublesome partner with regard to democracy and human rights issues, but now the United States government has also indicated that Armenia doesn't fall too much higher than Azerbaijan with a certain percentage of millennium challenge corporation funding being cut precisely for short falls in democratic and civil rights achievements. It's a very, sort of awkward and unusual game where Azerbaijan now turns around and says to the Armenians, "Aha, you see, you're just as bad as we are," but that's really what seems to have been happening.

Outside of this circle, of course, we leave out the key component in the center, Georgia. Georgia -- we could perhaps forgive Georgia for wondering what all of the fuss has been about with regard to Turkish-Armenian reconciliation prospects, for the Karabakh Conflict, so on and so forth, these ongoing discussions on Nabucco. Georgia, of course, is the one that was in the spotlight. Georgia's the one that's suffering from Russian military occupation, from Russia's unilateral recognition of the independence of certain of its territories (inaudible) in South Ossetia, and even perhaps prospects of renewed war, if not this summer, then at some point down in the future. It's very hard to simply exclude outright the possibility of a Gulf War Part 2 against Georgia.

To the extent that Georgians have been following these developments around it, we could say that in large part they have been apprehensive. They have been wary of any new kinds of regional arrangements or understandings with the Turks and the Armenians that would give Russia even greater freedom of action in Georgia without risking its position and its relationship with Armenia.

At the same time, I think Georgians very well understand that in the long term, a Turkish-Armenian reconciliation has the capacity to transform the Caucasus and transform Russia's relationship in the Caucasus in a way that would be much more beneficial to Georgian interests. And so I think it's something that they support more broadly. And with regard to Nabucco, I believe Ambassador Morningstar mentioned that (inaudible) is a very strong proponent of the Nabucco pipeline of the Southern East-West corridor in general, but it's also true that Georgia remains effectively a bystander. It's a very interested bystander, but there's not a whole lot that Georgia can do to influence negotiations one way or the other. It's a key component of the final outcome, but it's not a key factor in the negotiations.

So I want to conclude and just look at where we are, and Nabucco has been covered extensively. I think I put myself in the position of saying that Nabucco certainly looks much more promising than it has in the past with the signing of this agreement, but as everyone has pointed

out, there are a number of steps still to be achieved. And the major and most interesting question for me is, what happens to Turkish-Russian energy relations with the prospects of a Blue Stream-2. Can a Blue Stream-2 be agreed upon quick enough and in a way that would reduce incentives of investors to go forward with Nabucco or not. That seems to me right now the most immediate challenge to the continuation of the Nabucco project, more so than South Stream.

And with regard to the Turkish-Armenian reconciliation process, I do want to stress how important I think this process is. It has immense potential to transform the region in a positive way. Any possible concerns about a Turkish-Armenian-Russian access of sorts, I think are overblown. There's much more prospect for helping promote integration of the Caucasus in a Western direction through this kind of reconciliation.

And at the same time, we have to recognize that the linkages with the Karabakh Conflict are there. They're not going to go away. The Minsk Group -- the presidents of the three states in the Minsk Group, the United States, Russia, and France, just on last Friday have gotten onboard with this notion that the Karabakh Conflict is explicitly connected with Turkish-Armenian reconciliation, even if they themselves do not say that so explicitly, by promoting a very -- by putting forth a very strong statement urging the presidents of Armenia and Azerbaijan to make their

agreement and make an agreement on the basis of certain principles that have been in place for the last two years.

And what's more, for the first time they published these principles that many people are familiar with but they hadn't actually put their signatures to. Now we have three presidents with their signatures on these principles. I think this is a very positive development. I remain pessimistic as a rule about the prospects of resolving the Karabakh Conflict in any kind of wonderful packaged way. And I also remain a little bit frustrated with the framework with which the conflict resolution process has been taking place. I think it's still very difficult to imagine Armenia and Azerbaijan voluntarily coming together and hammering out a solution to the last remaining issues that divide them. The issues that divide them are critical, fundamental issues. The status of Nagorno-Karabakh without a determination of how to deal with that in a consensual way -- I don't see how that process can move forward.

What I think would be a more productive way to link the two issues again is to once again start with the promise of the Turkish-Armenian reconciliation and really turn it back to the Armenians and phrase the question, what concessions can Armenia be convinced to make on the Nagorno-Karabakh Conflict in exchange for an open border with the Turks and concessions that will be a sufficient enough victory for Azerbaijan to drop their opposition to that Turkish-Armenian

reconciliation? This is sort of the circle that needs to be squared, and I don't think it's simply a matter of getting the two parties to agree. There are certain concessions that the Armenians have to make if they hope for that border to be opened. The question is whether there are concessions that they're willing to make, and in the end, how worth it is to the Armenians or to the Armenian government to have that border opened?

Thank you.

MS. OLCOTT: I want to thank you all for getting your presentations in in 15 minutes and giving us a half hour left to have discussion. I think that we've heard a rich group of presentations that have shown us both the conflicting interests between some of the parties and the conflicting understandings of reality of some of these states, both between states and within states themselves.

The understandings -- we've also had several other important issues raised. On the table, but not fleshed out and maybe we can get this somewhat fleshed out as I'm seeing people being penned up so they can say a Q&A. I think one of the things that I would like to see further teased out as we go to the question period is we've had on the table this notion of even if it wasn't explicitly stated, we have very uneven powers in some of these states. You have states like Russia and Turkey which have substantial -- which have a strong sense of themselves as international actors, and their expectation of the powers that they're able

to wield economic, political, and security are different than the smaller states that surround them in the Caucasus itself. This is implicit when, as Victor talked about, we talk about transit states. That's another issue that's been put on the table. What are the rights and what are also the responsibilities of transit states? And how is the new economics? There was no real talk of the economic, the changing economic realities, and have they changed over the past year?

How will these big states and smaller states and the transit states both defend their interests and meet their obligations. It's not just the transit states that we on this corridor of think tanks often talk about like Georgia and Ukraine, but also all the new transit states we're picking up in the Nabucco pipeline.

Finally, I think the issue of the frozen conflicts have been raised and raised really importantly, and I'm going to throw out the first question as you people think of your questions or maybe you already have them. Are we closer or further away to the solving of frozen conflicts than we were a year ago? Cory's given us a really good picture of the to's and fro's over the past year. But I suppose what I come away with is a question both in unresolved in the presentations and unresolved in life, is really the issue of whether -- what to make of what happened in Georgia last August and at least two of the speakers saying, well, we could have

another war. I mean, what happens when frozen conflicts are left untended?

In my mind at least, what happened in Georgia is partly the result of an unresolved frozen conflict that one of the parties, too, has decided to solve. Are we at risk of this? With regard to Nagorno-Karabakh, is the to'ing and fro'ing that Cory described the preparation of a readiness on the part of Russia and Turkey to say they've had enough of this conflict frozen? What would be the preconditions on the Russian or the Turkish side or how people understand the Azeri position to unfreezing this conflict unilaterally? Will they sit indefinitely with this as a frozen conflict?

I'm going to start with giving you each a chance to respond to some of things I've said, maybe in the order that you said before, and then turn it over to the audience for our last half hour.

MR. KARDAS: Okay, thank you. To the issue of frozen conflict, as I alluded during my presentation, this is one of the major points of divergence between Turkey and Russia. As part of this cooperative approach, Turkey is seeking to address the frozen conflicts, right? And Russia still insists on playing around some of those conflicts. There is the issue of Crimea in the future, Russian policy last summer and also Nagorno-Karabakh issue and the trans-Dniester. Other possibilities for further explosion of frozen conflicts are there. There are suspicions, which

are to a certain extent justified, that Russia might seek to manipulate them to achieve political influence. So this is what creates a potential uncertainty in the region. Turkey realized the costs of letting those frozen conflicts continue unaddressed in the wake of the Georgian War.

The uncertainty created by frozen conflicts had enormous implications for energy security as well. That's why after the war, Turkey realized it might be better to address them, This reasoning provided an incentive for Turkey to refocus on the Turkish-Armenian relations and also urge Azeris and Armenians to solve their problems. So Turkey's effort, I would say -- again, this is my own interpretation about it -- follows the same approach: to bring in all stakeholders together to solve regional problems. In the case of Nagorno-Karabakh, issue Turkey has supported the Minsk Group.

Turkey, in addition to trying to normalize its own relations with Armenia, also seeks to play a mediator in the Nagorno-Karabakh dispute between Armenia and Azerbaijan. And last, Turkey also supports the process initiated by Russian President -- who is also trying to bring together Azeri and Armenian presidents. Overall, Turkey is supportive of those multiple initiatives, realizing that those frozen conflicts have a potential to undermine regional stability and if they explode, Turkey's one of the first countries to be affected. So given the presence of the ethnic lobbies in Turkey, given the implications of frozen conflicts for regional

stability, and given the possible tensions between Russia and the West in case of hot conflicts, Turkey wants those frozen conflicts to be resolved. But again, Turkey's one of the actors. Turkey alone cannot wield lots of power in that context. For instance, I don't know what role Turkey may play in Crimea in the future. Again about the future of Georgia, Russian recognition of the breakaway regions changed the picture. But Turkey alone cannot do much there, I would say. There is a need for a broader Western consensus, American consensus on how to deal with these problems.

MR. NADEIN-RAEVSKY: Well, except for consensus, it's necessary to try to understand the reason and to know the nowadays situation in all the conflict regions. Three years ago, I visit Nagorno-Karabakh and when in the period I was there about a week, I understood what is there more than what are they going to do further in the solution of the problem with the Azerbaijan first of all. The suggestions that were made by Turkey last time, of course, they're not bad, just to begin with them and so on. But they totally ignore the Nagorno-Karabakh people and its position -- totally. No one wants to speak to Nagorno-Karabakh people, but I can say totally at issue if Armenia will go out of Nagorno-Karabakh and Azerbaijan will not be able to destroy it.

That is their reality, normal reality of this battlefield. You can't concentrate more than 25,000 people from both sides in any way.

It's impossible. The mountains first. Secondly, Azerbaijan is not the only ones who were expelled from the occupied regions. I mean the ones that are near the Iranian border, (inaudible) and so on. Well, about a million people, they say in Azerbaijan, remain Armenian (inaudible), but that's not the only problem. Well, remember that there's 400,000 Armenians were expelled from Azerbaijan, and no one speaks about their interests. But they could do as well. They're human beings, why not?

Then as for the ones that are the ones Nagorno-Karabakh, there is the (inaudible) Region that is occupied by Azerbaijan. Another way, then, to change this region for the ones occupied by nowadays, I mean, air forces of Nagorno-Karabakh will not agree to give this land back. That's also their reality. So the problem is much more difficult.

Well, please remember that 130,000 people were expelled from Armenia and Azerbaijan as well, so the problem might be solved, the conflict, just keep it in mind the interests of both Azerbaijanis and the Armenians. And the Nagorno-Karabakh people does not believe any international forces, who may keep here something. After Kosovo, they can't believe anyone from Europe. That's also a reality. What can we do with it? That's first.

Secondly, now about the solution of other conflicts. At for Georgian conflicts is Georgia will not begin another one. Everything will be okay.

MS. OLCOTT: Okay. Let's move on to Cory now so we can take more questions.

MR. WELT: Thanks. Two points. On this question of possible preparations for war, I think if there's anything good that came out of the August war, it's that the hypothetical became a reality and Azerbaijan has to include in its strategic planning for any war against Karabakh and Armenia having to fight the Russian Army as well. And I think that might not be an ironclad deterrence, but it seems to be rather significant.

And I think -- and (inaudible) has become even more articulate about explaining what his threats of war are. His threats of war are simply a bargaining chip with no intention to go to war and I think that that's genuine.

In regard to whether we're any closer to resolving the conflicts, it seems clear to me that Turkey wants to have this conflict resolved, wants to be able to snap its fingers and have it go away. The United States government would dearly love to have this thing resolved. I'm not entirely sure if the Russians -- if it means that much to them. I think the status quo will still be of some value to the Russians, and the fact of saying -- expressing like I think Putin did on (inaudible) not too long ago that both parties' solutions arise out of a consensus from both parties as a way to just sort of be productive about actually accomplishing anything.

Specifically, if I may, the main issue that's going to come up again has to do with this question of a referendum or some kind of referendum to resolve the status in Nagorno-Karabakh. All the other issues are more or less negotiable and to my mind the solution is to accept that there can't be a determination of the final status in Nagorno-Karabakh with or without a referendum. What needs to happen is a solution that involves an interim, protected, status from Nagorno-Karabakh without resolving the status issue and normalizing the relationships across the board.

That is not an easy solution to attain, but it seems much more possible to attain than one that has a promise of a referendum. The danger of the referendum is that if that gets into any kind of agreement, it's only in the agreement as essentially a fiction. It essentially becomes a nonbinding agreement to have a binding agreement on the status in Nagorno-Karabakh in the future. That's how the sides understand that. Azerbaijan is not --

MS. OLCOTT: I'm going to open it to the audience now, and then I'm going to give you guys time at the very end, at the very end, okay? Question? To whoever has the mike and then in the corner.

QUESTIONER: All right. Thank you very much. I'm (inaudible) from Azerbaijan and I think it's for government of Azerbaijan to answer the questions they are asked how much Azerbaijan can go to

unfreeze the conflict. And Cory, I think, answered it right and mentioned many points of that. But the point is, yes, Azerbaijan is not going to sit to the end while the conflict remains as it is today because it has Azerbaijan lands and Azerbaijan has demonstrated its constructive wheel to solve it peacefully. And I think Dr. Raevsky, your last name, you while answering these questions, you mentioned several points and one of them was like Azerbaijan cannot destroy Nagorno-Karabakh. Azerbaijan has never intended to destroy anybody, including Nagorno-Karabakh, which is part of our territory. And you mentioned the people who were expelled from these territories and those who expelled from other parts of Azerbaijan as well.

And you mentioned in your speech about international law. By international law, those expelled from Azerbaijan and went to Armenia or anywhere else are refugees. And those who went out of Nagorno-Karabakh are displaced people. So please have this distinction. When we are talking about the people of Nagorno-Karabakh, I am saying population because even in Russia, those people who live in favorite areas, their population is not people in all these territories. So those expelled from there, including 65,000 Azerbaijanis, are displaced people, and we are talking about themselves. And one million you mentioned IDPs, plus refugees, expelled from there. And Azerbaijan will continue and continues to the end to have the diplomatic solution for the conflict. We

are not intending to solve it militarily, but Azerbaijan has complete rights by U.N. Charter, by all international legal documents, including the document signed on November 2 in Moscow by three presidents, including President (inaudible). So thank you very much.

MS. OLCOTT: Thank you. There's a question in the very back. I'm going to take three questions and answer.

QUESTIONER: Thank you for the presentations. My name is (inaudible). I am from the Armenian Service. And I have a question I would like probably all of the speakers to elaborate.

Seems like -- although the first speaker, Mr. Kardas, mentioned that Turkey started a reconciliation process with Armenia, which actually I believe is a false statement because it was the Armenian president who invited Turkish president and started the whole process. But please elaborate on that.

Second of all, it seemed like the U.S. policy on the region was pretty much trying to divide the two issues from each other, which may be unhealthy in itself. Please elaborate on that. But that was what the Armenian side was getting to realize how things are going to evolve. So they were seeing the Turkish-Armenian relationships in a different framework, which is for a while excluding the Karabakh discussion. And that's what it was -- let's say that the Armenian side, that's what it was convinced with because the U.S. side was also talking about it.

There were a couple of statements from the State Department level where it was said that we see the Armenian-Turkish relationships as a separate process. So at the end of the day seems like the process stopped and the Armenian side is completely fooled. So comes out in a lose-lose situation. Would you please try to elaborate on these issues and give me your approach. Thank you.

MS. OLCOTT: Thank you. I'll take a third question and then give the speakers a chance and then we'll have another round.

QUESTIONER: Madia McConnell (?), U.S.-Ukraine Foundation. I must express some disappointment at the professor's sort of off-handed comment about Ukraine as a transit dictatorship. I think this is a term. But today is not the day to debate that. Perhaps we can have another session on that very topic. Last month President Medvedev, speaking to the Arab League, talked about the fact that Russia would oppose any efforts to promote democracy or democratic developments in the region. In light of this, it appears that any of those democratic developments would be defined as being anti-Russian.

However, I would have a question on respect to Turkey. It's been said that Turkey's supporting democratic movements or however you want to define it is seen as supporting U.S. interests. Is it the way it is perceived or does Turkey have in its own -- see it in its own self interests - - to promote human rights and democracy?

MS. OLCOTT: Thank you. I'm going to give you each like 2.5 minutes to pick and choose which you wish to respond to and then go back to the audience.

MR. KARDAS: Can I respond to both?

MS. OLCOTT: Yeah, you can. We have 15 minutes left.

MR. KARDAS: So the question regarding democracy promotion, Turkey supports the Western policies toward that objective, but especially if you go back to 2005-2006 period and look at the discussions taking here At the time the U.S. approach of promoting democracy through top-down policies, I would say, was quite irritating for Turkey.

The Turkish perspective was the following -- again, this is my own interpretation --: the U.S. lacked an understanding of what it takes to promote democracy and instill democratization in a country. There's a huge literature on the problems encountered in democratic transitions. The policies followed by the United States back then, the so-called colored revolutions or democratic revolutions were worrying to Turkey. There was a perception that those revolutions were promoted from outside. Turks shared the view that the U.S. lacked an understanding of local dynamics. Such policies were too much rushed. So there was a concern that they might lead to instability. In fact, one can actually

approach the Georgian crisis from that perspective. It shows the troubles involved in the democratization process, and transitions to democracy.

But if you look at U.S. perspective toward Iraq and Afghanistan back then, and compare it to Turkey's. Turkey always underlined such problems of democratization. Turkey kept saying: You are not trying to understand local dynamics. You are not trying to promote stable societies before you insist on building democracies. Turkey was worried about the negative consequences of such moves, but it doesn't mean that Turkey did not share the broader Western objective of democratization.

So, regarding the other question about Turkish-Armenian relations. I mean the process was already there. I mean the secret dialog, which produced the road map. It had been going on since 2005. There was always a dialog between Turkey and Armenia. You can trace it back even further. So the Armenian president invited Gul, but until the last moment, it wasn't clear that Gul would accept the invitation or not. So we don't need to discuss who initiated the dialogue or not. But your question is --

QUESTIONER: (off mike)

MR. KARDAS: Okay. So the Prime Minister said Turkey will not decouple the Karabakh issue from Turkish-Armenian rapprochement. My own understanding is that they may accept, for instance, Armenian

withdrawal from the occupied Azeri territories as a constructive step on Armenia's part. This is also a kind of response to Cory's question about what concessions could Armenia give, right? If Armenia could take such steps, they would also ease Turkey's hands. Remember what Turkish Prime Minister said in April or May after the Azeri reactions: we will never let Azeris down, right? So after that statement, Turkish concessions are difficult. Especially the domestic costs of that statement are huge. It is difficult to step down from that statement and go ahead with Turkish-Armenian normalization. Armenia has to do something.

If Armenia considers withdrawing from the Azeri territories, then Turkey can say that okay, we also partially open the border and give chance to further talks on Nagorno-Karabakh. That could be a compromise.

MS. OLCOTT: Thank you.

MR. NADEIN-RAEVSKY: As for the compromise, I can agree with my Turkish compatriot. It's nice just to look for compromise, but it's nicer to take into consideration interests of both peoples, expelled or those who were just kicked off, or those who have to go as well. All of them. All the interests must be respected first, and then all the sites must be involved into negotiations, including Nagorno-Karabakh.

MR. WELT: We didn't get to the dictatorship of the transit --

MS. OLCOTT: Fine. We have another round. We have to go back to the audience.

MR. WELT: First, I would support and modify this concept, this idea, of the withdrawal from the territories. I think the imaginable deal is any withdrawal from five of the occupied territories (inaudible) temporarily, perhaps as part of an international presence. And if that is the kind of deal -- the question is, is that the kind of deal that either side, not just deserves to be agreed to, but it's something like that.

And in regard to who made the invitation, first I think the real important issue to identify is that this support for normalization of relations disconnected from the Karabakh Conflict is a position that has been consistently supported by the Armenian side. There is nothing new. This might have been a very impressive invitation to come to Armenia. There's nothing new in that position, whereas I really do have a sense of a sea change within Turkey, it's willingness to decouple normalization from the Karabakh Conflict and that's what's changed and that's what's been so remarkable in recent months.

MS. OLCOTT: We're going back into -- no, we're going into the audience. Okay, I have several hands here.

QUESTIONER: Alexander (inaudible), Voice of America. I have actually a quick question and a comment. One comment has to do with the presentation by Professor Nadein-Raevsky. You mentioned that

the Caspian Sea has not been delimited, which is only partially correct. The northern part of it has been delimited between Russia, Kazakhstan, and Azerbaijan. And I have a question to Saban Kardas actually. You mentioned that between Russia and Turkey there is an economic asymmetric.

Do you think it would be an exaggeration to say that because of energy dependence of Ankara on Moscow, you may have, in fact, a sort of (inaudible) of Turkey taking place right now in foreign policy? In other words, you know some aspects of the foreign policy are directed related to that energy dependence. Thank you very much.

MS. OLCOTT: Questions -- no answers until we get the audience. We do this with order.

QUESTIONER: Hello. I'm Gulnur Aybet from the Wilson Center. And I have one remark and two short questions. First remark is regarding Georgia. I was wondering does the panel agree that the basic problem here is really NATO-Russia relations, which have sort of reasonably normalized with the opening of the NATO-Russia Council talks again? But basically there's this test of wills.

With regards to enlargement is still there and until that's gone back over and revised, it's not going to go forward because NATO hasn't made the pledge that they are going to enlarge now since the war.

So I was wondering what you thought about that because that to me is frozen in terms of Russia relations.

Second question, I'm curious about what you think about China's emerging involvement in the South Pars oilfield. I recently -- a lot of the Western companies that had invested there have withdrawn because of the uncertainty of the situation in Iran and the future of it and they think we're stalemated and all that, particularly Total's withdrawal I think or suspension has been quite significant. But recently the Iranians have turned and given a large bid if I'm not wrong to the Chinese for development of that field.

Obviously, in the short run due to objections, Iranian gas is not going to go through Nabucco, but in the long run, if South Pars which is actually the largest gas field in the world does get developed through alternative means like the Chinese involvement, where is that gas going to go through and where are Western interests with regards to that? And --

MS. OLCOTT: Okay.

QUESTIONER: Can I just have a quick, quick, final question?

MS. OLCOTT: No, let's move on -- we're out of time. There are more hands. In the corner and then here in the corner and then in the back. And we'll take all three questions and then the rest of the time we'll have the panelists.

QUESTIONER: Thank you. I'm from the Turkish Embassy so if I may I'll also make a short comment instead of a question, because you know there --

MS. OLCOTT: Just very short --

QUESTIONER: Of course, of course. Because it's not an accusation, but there are some --

MS. OLCOTT: Just make your point --

QUESTIONER: First of all. There is one commentator saying that it may kill Turkey's own project in Nabucco, but our opinion for (inaudible) it could be a pipeline that could carry gas from north to south, and not to be from west to -- from east to west -- which is clear (inaudible).

The second thing, Turkey appeasing Russia. Appeasement is the wrong word actually here; it's a negative connotation. By engaging with Russia, that's right, and that's probably what the U.S. economy is doing currently by the (inaudible) policy. But we are engaging with Russia on every issue. On issues of discrepancy, he made our points right. In terms of Georgia, for example, he is hardly supporting (inaudible) integrity. He made his points very clear. We're also doing it clearly, both behind the doors and in front in the public. So there is no appeasement, but yes there is engagement.

And finally, in Cory's presentation, you mentioned about, you know, strange things happening on the ground. That may be right. It's because strange things happened in August, so it changed the whole dynamics in the region. What else Turkey can do in the face of user force to one of its very close ally country, let's say, Georgia, by one of its number one trading partner. So it came with this idea and it actually worked in the first stage. All four countries accepted the idea but with the recognition of South Ossetia by the Russian government. Unfortunately, the idea was that. In the end, we are walking on a very fine line and unfortunately it's not easy in this geography to carry on, you know, a stressful foreign post let's say. So we are trying to do our best.

MS. OLCOTT: Thank you very much. There's a question and then in the back. And then if time we'll have a last one.

QUESTIONER: (inaudible), freelance correspondent. One of the items in the advertisement of the conference is stability in neighbor regions and I think we now deal with that. And the region in my term is this new independent state of a thousand Caucasus in the Central Asia. And in my study and observation as I say in the morning, the instability of region is coming. And if there is instability and what the effort of Panel 1 and Panel 2 will be even when. So I want to know what Turkey and the Russian in your relation (inaudible) and then how you two countries cooperated in preventing the instability of the region coming. Thank you.

MS. OLCOTT: Thank you. And then the last question in the back.

QUESTIONER: My name is Alexander Mirensen (?) and I would like to pose a question. Obviously, when we talk about the soft power and new approach in Turkish foreign policy, I mean, the only place which is excluded obviously is not in Iraq because Prime Minister said we'll never leave -- not in Iraq until the (inaudible) put down under Turkish control. However, the only case of actual attack on pipeline occurred on Turkish territory presumably caused by the Kurdish elements in Turkey.

So, I mean, obviously that's a very potential, but very important dimension of energy security in Europe or in Turkey or where else. Thank you.

MS. OLCOTT: Okay. Everybody has two minutes. We are virtually out of time. I know. The corridors are made for a reason, so --

MR. KARDAS: On Finlandization, can I say just no. I don't think Turkey is that much deprived of options to overcome this asymmetric dependence, in terms of an both security and also in terms of trade. Russian-Turkish trade is an important element in overall Turkish foreign trade; but it doesn't necessarily mean that the customs problems encountered by Turkish exporters are going to damage the Turkish economy entirely. We are not that desperate. So no Finlandization.

So regarding matter (off mike).

PROFESSOR NADEIN-RAEVSKY: First, it is necessary to solve what kind it is -- is it a lake or is it a sea? No treaty to now, up to now. No documents. Secondly, the Soviet Union and Iran. That's why when you write something with Kazakhstan or Uzbekistan, it is under this illusion inside one side of negotiations. It's understandable. That's why it's necessary according to international law to decide what is it and then to do right and to understand what kind of law, the sea law or the law for example (inaudible).

Secondly, Iran and China. While Iran (inaudible) until now it was not interested in expert because Iran made a huge program and gas is given to almost all the villages of the country first. (off mike) That's their social policy. That is the original country's right and why people voted for Ahmadinejad. We here in Moscow and New York and describe him as something terrible. But in Iran, they see him in another framework, you see? It is a different class. Now the way for Iranian gas to Europe is (inaudible)

MS. OLCOTT: Cory, you have the last minute and a half.

MR. WELT: I think I'll address a NATO issue, which is something that is strikingly optimistic today. Last year would have been very difficult to have this kind of session without this discussion. My impression of Turkey as a NATO member is a bit of an unenthusiastic supporter of expansion akin to many of the West, France, Germany, and

so on for the reasons that we've discussed, its concerns about Russia. That was before the war perhaps even more so afterwards. What's interesting about the NATO issue now, of course, is that President Obama's formulation on the principles on which we have to determine NATO expansion.

I'm paraphrasing him that people must want NATO membership, which the former administration was strongly criticized about their leaving out that obvious point. That a country must engage in reforms, and I'm not quite sure what kind of reforms, but with reforms, and that a country must be able to contribute to NATO's mission -- what kind of contribution, what kind of mission all sort of left out there. So it seems a way to adhere to the principle of NATO expansion without having to make any kind of hard choices about it.

For now, what it does do, is sort of put aside the Ukrainian problem for quite some time until they decide if a majority wants NATO membership. It doesn't really resolve the Georgian issue very much. Georgians want to join NATO, most of them, they expressed that in a referendum. They're engaging in reforms if that process continues, if they're able to have a domestic political stability, they might be able to check that box. And they have contributed to various NATO missions. The question remains then what are the fourth and fifth unspoken criteria? Do they still exist or have they somehow been eliminated by the need to

resolve territorial conflict, the need is not to risk a NATO conflict with
Russia.

MS. OLCOTT: Thank you very much. I want you to join me
in thanking the panelists. This concludes the very full day that you've had.
Thank you again.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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