Pavel Zástěra

The “great game” on the Caspian, area of interests and conflicts
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Research Paper

Introduction

The dissolution of the USSR agreed in Belovezh forest in early December 1991, marked a new era for the whole Caspian region, which was until that time shared by two powers, the Soviet Union and the Islamic Republic of Iran. The emergence of the newly independent republics of Azerbaijan, Turkmenistan, Kazakhstan and Russia – the successor of USSR – around the Caspian Sea, called for a new modus vivendi. In addition, the Caspian region, by connecting two distinct areas of the former Soviet Union, i.e. the Caucasus and Central Asia, carried all the geo-political weights and instabilities of both areas and therefore turned again into a region of interest for regional and extra-regional powers.

Even 15 years after collapse of USSR, Russia continues to see the Caspian region as its historical zone of interest. Reluctant to accept any major change, the Russian government is pursuing a policy of re-establishing its economic, political and military dominance. The area is also increasingly important for the USA, the EU, China and Turkey; many international oil and gas companies are active in the region.

At first, theoretical approaches to and estimations of hydrocarbon reserves in the Caspian region will be presented. The second chapter is dedicated to the unresolved legal status of the Caspian Sea, which contributes to the instability in the region. The third section focuses on the geopolitics of pipeline routes from the Caspian and latest developments.
1. From the Great Game to the Great Gain

1.1. Theoretical approaches to the Caspian Region

Kozyrev’s Russian foreign policy towards the USA was one of “friendship and partnership, based on mutual confidence, respect and general loyalty to democracy and economic freedom” and remained the basis for Russian-American mutual relations. However, the appointment of former intelligence director J. Primakov as Russian foreign minister in 1996 has shifted the focus of the Russian policy from ‘Far abroad’ to ‘Near abroad’ issues, especially “with aim to stress the strengthening of Russian-Commonwealth of Independent States (CIS) relations”. This approach implied direct amplification of Russian influence within the Caspian. On January 19, 1996 eight heads of states of CIS, including Russia and Turkmenistan, accepted the Conception of distraction and regulation of conflicts on the territories of CIS countries. In November 1996 an unsuccessful conference of ministers of foreign affairs of littoral states on legal status and economic cooperation was held in Ashkabad.

Zbigniew Brzezinski and other neo-conservatives openly stated that the USA had to preserve its unique status of super-power. In his “The Great Chessboard”, Brzezinski wrote that the US policy should balkanise Eurasia, so that no power could emerge between the EU, Russia and China. This approach was influenced by Mackinder’s Heartland theory of geopolitics.

The resurgence of geopolitical thinking in the 1990s about the region was connected to the huge hydrocarbon reserves estimations ranking the Caspian side by side to the Middle East, thus increasing its importance manifold. “I cannot think of a time when we have had a region emerge as suddenly to become as strategically significant as the Caspian,” said Dick Cheney in a speech to oil industrialists in 1998. In May 2001 he recommended in the national energy policy report that “the president makes energy security a priority of our trade and foreign policy”, pointing out that the Caspian basin is a “rapidly growing new area of supply”.

According to M. Mendelbaum, referring to the expression “The Great Game” for the Caspian Basin “(...) is to deploy an historical analogy. It is to compare what is happening in the Caspian Basin now with the imperial rivalry between Russia and British India in the Caucasus and Central and Southwest Asia in the nineteenth century.” The recent situation is different as opposed to British-Russian rivalry, as there are more than two actors involved in the stake, be it in the private or public sector. In opposition to the zero-sum games, where the dominant logic is that of conflict as the only rational solution bearing gain, the Caspian region with energy reserves fits the logics of economic gain and thus of cooperation (Mendelbaum, Matzke).

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1 Camp David Declaration, February 2, 1992
2 Ch. Freeland, “Russia aims to Regain Status as Great Power”, Financial Times, January 14, 1996
3 The conception was signed by presidents of Armenia, Georgia, Kirghizstan, Moldova, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan
4 L. Kleveman, “The new Great Game”, Guardian, in http://www.guardian.co.uk/comment/story/0,3604,1066570,00.html#article_continue
5 M. Mandelbaum, “The Great Game Then and Now (Address to the Conference on Oil and Gas in the Caspian Sea Region: Geopolitical and Regional Security, sponsored by the Friedrich-Ebert Foundation)”, in http://www.cfr.org/publication/179/great_game_then_and_now_address_to_the_conference_on_oil_and_gas_in_the_caspian_sea_region.html
1.2. The evaluation of the hydrocarbon reserves in the Caspian

For the energy analysis, Uzbekistan is usually added on the list of five littoral states, especially because of its important gas reserves and common geological fields. Today it is clear that the Caspian Basin will not become another Middle East regarding the volume of natural resources deposits as it was expected. In 1998, the US Energy Information Administration (EIA) provided estimates of proven and potential reserves of oil in the Caspian showing that the total proven reserves equalled 3.1% of world proven reserves in 1997. Potential reserves estimated at 171 billion barrels represented 25% of proven reserves in the Middle East.\(^6\) The estimations of hydrocarbon reserves remain nonetheless imprecise and vary widely by source. The MacKenzie Consultation Agency estimates proven reserves in the Caspian at 39.4 billion of barrels, but for others potential reserves could exceed 80 billion barrels.\(^7\) Recently, the EIA has estimated proven oil reserves in the Caspian region between 17 and 44 billion barrels, comparable with Qatar on the low end and the USA or the North Sea on the high end.\(^8\)

<table>
<thead>
<tr>
<th></th>
<th>Proven Oil Reserves (Billion Barrels)</th>
<th>Proven Gas Reserves (Trillion Cubic Feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>7.0</td>
<td>1.37</td>
</tr>
<tr>
<td>Iran*(^1+2)</td>
<td>10.1</td>
<td>19.6</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>39.60</td>
<td>3.0</td>
</tr>
<tr>
<td>Russia*(^1)</td>
<td>2.7</td>
<td>N/A</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>0.6</td>
<td>1.86</td>
</tr>
</tbody>
</table>

Sources: BP Statistical Review of World Energy, 2006\(^9\)
*\(^1\)only the regions near the Caspian
*\(^2\) Asia Pulse PTE Ltd, 25 January 2001

Despite the improbability that the Caspian could represent more than 4-5% of world oil production, reserves of this little explored region are important in actual energy penury on the world market and its increasing price. The Caspian region gas potential is to some extend more significant that its oil potential. In the 1998 International Energy Outlook Turkmenistan, Uzbekistan and Kazakhstan each ranked among the 20 top proven gas reserves holding countries (on 11\(^{th}\), 14\(^{th}\) and 16\(^{th}\) position respectively).\(^10\) However these estimations were mitigated to actual 232 trillion cubic feet (tcf) proven gas reserves in the region, comparable to those in Saudi Arabia.

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\(^7\) Sébille-Lopez (2006): p. 192
2. Caspian in the light of legal controversy

2.1. The Legal Status of the Caspian Sea

At present, the legal status of the Caspian is defined by the agreement between the Soviet Union and Iran (Persia), dated 26 February 1921, and the agreement on trade and navigation between the USSR and Iran (25 March 1940).

The 1921 Treaty of Friendship between Iran and Russia stated that both sides should equally share the privileges of navigation in all parts of the Caspian Sea, and Russia declared invalid all earlier treaties that had been concluded between both countries. The 1940 Treaty of Trade and Shipping contains provisions on the fishing rights in the Caspian Sea. It states that except for a 10 miles exclusive fishing zone in the coastal territories of both countries, fishing remains free all over the Caspian Sea. No differences between commercial ships and warships are made. Flight over the Sea and issues regarding the seabed were not dealt with in the treaty. The 1964 air agreement between Iran and the USSR did not deal with the flight over the Sea either. The connecting line between the Iran-USSR land border points was the hypothetical line between Astara port and Hassabqoli port.

Following the collapse of the USSR, there was a necessity to redefine the status of the Caspian Sea, taking into account interests of all the littoral states. Previous agreements concluded between Iran and the USSR now only settle matters of trade, navigation and fishing, but do not define the legal status of the Sea as a whole. Moreover there are no indications on the ecological regime and the regime for exploration of the seabed by littoral states.

The Russian position regarding the post-Soviet period is based on the assertion that the emergence of three new littoral states to the Caspian Sea following the disintegration of the USSR did not cause any modification of the former legal status. I. Merzliakov, Head of the Working Group on the Caspian Sea of the Russian Ministry of Foreign Affairs, writes that nothing would have made the new members of the “Caspian Club” (Azerbaijan, Kazakhstan and Turkmenistan) raise questions concerning the legal status of the Sea, “if not its considerable oil and gas resources under the seabed.” In 1992, the Organisation for Cooperation between the Caspian Littoral States was established in Tehran; in 1996 an agreement was signed on the legal regime based on common use and an oil company for activities was established by Iran, Russia and Turkmenistan. It was decided to jointly supervise the activities of the Caspian Sea. Nevertheless the positions of Caspian states were too divergent to transform agreed principles into reality.

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12 Ibid.
2.2. Positions of Littoral States and main solutions

In a first step, Russia argued that the 1921 treaty had laid an equal and mutual condominium for shipping in the Caspian Sea and the same rule should be applied to exploration and exploitation of its resources. In a second step, Russia changed its stance and came with a compromise according to which, within 45-miles zone, each country should have exclusive rights on the exploitation of the seabed. This proposal failed to gain support by the states except Iran. According to the 1996 joint statement between B. Jelcin and Kazakh president N. Nazarbaiev, the joint participation in the exploitation of the natural resources of the Caspian Sea is based on the “exchange of concrete proposals, including geophysical and geological survey activities and the exploitation of hydrocarbon deposits.” 14 In 1998, Russia and Kazakhstan agreed to draw a border along the bottom of the sea, dividing up the seabed and the mineral resources along the modified median line; water remained under joint supervision. In addition to the 12-mile zone of control analogical to territorial waters, another 20-mile exclusive fishing zone was drawn. The seabed was divided according to further agreements of neighbouring states.

Until 1997, Iran saw Condominium as the most beneficial option. If not accepted by all the border counties, Iran wishes to insist on the principle of equity. In this strategy, Iran insists that the Caspian Sea should by divided into five equal sectors (both the seabed and the surface), 20% for each state.

Azerbaijan does not feel concerned by the 1921 and 1940 treaties between the USSR and Iran, arguing that exploitation of oil on the territory was what has been proceeding since the 19th century and with the implicit consent of Persia. It instead claims the division of the Caspian Sea into national sectors. In 2001, Russia reached an agreement with Azerbaijan, which leaves the surface water for joint supervision (condominium) and the seabed has been divided according to the modified median line.

Initially, Turkmenistan was inclined to support the positions of Iran and the USSR in the Caspian Sea issues. Later, the Azerbaijan method has opened the way for investment in oil fields without serious definition of the borders. Today, some oil fields (Chirag, Azeri oil fields) are being claimed by both Turkmenistan and Azerbaijan. The country wants the borderline to run in the middle of the southern section of the Caspian Sea, in order to divide the distance between Azerbaijan and Turkmenistan into equal sectors, because it would give Turkmenistan a better share of Caspian oil and gas resources.

Kazakhstan proposed to consider the Caspian Sea as “Sea” and to apply the rules of the UN Convention on the Law of the Sea to all its issues, including delimitation of maritime boundaries. It could eventually claim internationalization of the river Volga, access to the Baltic Sea through the Volga-Baltic Sea canal and the Volga-Akhtyuba Delta, which would not be acceptable for Russia. However, the Caspian Sea has been beyond the jurisdiction of the Convention, and the norms of the international law of the sea do not apply to it because of its uniqueness. Later in 1998 Kazakhstan signed a compromise agreement with Russia.

Bahman D. Aghai proposes thee main options of determining the share of each littoral state from the Caspian Sea:

1) Dividing the Caspian Sea into equal parts.
   Each of five littoral states should possess 20% of the Caspian Sea. The theory is based on the 1921 and 1940 treaties between Iran and Russia and it should be applied to new littoral states. This solution is backed mainly by Iran, which considers that the legal status of the Sea is to be built on historical background and on just and fair redistribution.

2) Dividing the Caspian Sea based on the hypothetical line of Astara-Hosseingoli and the interior divisions formerly used in the USSR.
   According to this solution Iranian share would be just 11% of the Sea and the rest would be shared between other countries on the basis of interior administrative divisions. The argument, promoted by Azerbaijan, suggests that the borderline between Iran and Russia before the dissolution of the Soviet Union was clear, well known, leading from Astana in the west to Hosseingoli on the east. According to this method, Russia and Iran were newer sharing the Caspian seabed. Iran strongly rejects this proposal arguing that the Iranian-Russian borderline was not stated in any official document and the interior delimitations between the former Republics of Soviet Union should be neglected because of their internal status.

3) Dividing the Caspian Sea, according to the modified median line.
   In such case Azerbaijan would gain 21% of the Sea, Iran 14%, Kazakhstan 28%, Russia 19%, Turkmenistan 18%. The method dividing the area along the median line is generally used when only two states are concerned. In the Caspian Sea the modified median line could be applied, taking into consideration the length of the shore, the slope of the seabed near the shore.

Nowadays, the legal status of the Caspian is still unclear and it is not very likely that a solution could be found in the near future. This is the more so the case because of the obvious economic interests in the region.

3. Politics of Export Routes in the Caspian and existing rivalries

3.1. Oil exports from the Caspian Region

Turkey has lobbied hard with the USA and the oil companies for the construction of an oil pipeline that would join Baku in Azerbaijan and the Turkish Mediterranean port of Ceyhan. The Consortium lead by mostly Western oil companies, including British Petroleum, Norway's Statoil, Exxon,
MacDermott and Pennzoil signed the “the Deal of the Century” with the Azerbaijani government in 1994.

The US government has assertively backed this project ever since 1995, not only to support Turkey, but also because it believes that such a pipeline would enhance economic and political ties in the region and weaken Russian influence. American concerns also shifted to blocking pipeline routing through Iran and US sanctions towards Iran were tightened. In 1998, the Ankara Declaration of support for Baku-Tbilisi-Ceyhan (BTC) pipeline as a main oil export route from Baku was signed by the presidents of Turkey, Azerbaijan, Georgia, Uzbekistan and Kazakhstan. The idea that oil would go trans-Caspian into that pipeline and the support for a trans-Caspian gas pipeline was announced. It was followed by a signing ceremony by presidents of the USA, Turkey and certain Caspian Basin countries. BP was leading a consortium of oil companies for the Baku-Ceyhan route and Chevron took part in the engineering and construction phase. The USA have officially promoted “multiple pipeline strategy” (the US Administration did not oppose the construction of new oil pipeline from Baku to the Russian Black Sea town Novorossiysk) and it qualified the development of westward going BTC pipeline as an “important new step”.17

As the energy dependence of Europe is foreseen to grow substantially in the following years, the EU also feels increasingly concerned about its future energy supply and is focusing on its diversification as much as possible. According to the International Energy Agency, oil imports to the EU should grow from 76% in 2004 to 94% in 2030 and the EU gas dependence will increase from 49% to 89% during the same period.18 For the EU “the development of major international pipelines to deliver oil from the Caspian Region and the Central Asia (...) is vital.”19 The EU’s Commissioner for Energy A. Piebalgs characterised the opening of the BTC pipeline as a “milestone project (...) for the economic development of all participating countries as well as for the security of energy supply in Europe and worldwide.”20

Russia has backed the Caspian Pipeline Consortium (CPC) project, able to deliver oil from the Kazakhstani large Tengiz field in the northeast of the Caspian Sea to the world market through Russia and its terminal in Novorossiysk. The governments of Russia, Kazakhstan and Oman participated in the project together with international oil companies. The new route was officially open already in October 2001 and the consortium has plans to enlarge the capacity to 1,35 million bbl/d by 2009.21 The importance of CPC, under the influence of Russia, as a main oil export route from Kazakhstani part of the Caspian Sea would be mitigated by the construction of TransCaspian

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oil pipeline joining the East coast of the Caspian to the BTC pipeline in Baku and providing additional oil.

China with its fast growing energy needs becomes another actor in the Caspian region feasible for oil supplies to Eastern Xinjiang region and further eastbound pipelines to Chinese energy demanding industrial centres. The Chinese national company CNPC proposed the construction of a US$3.5 billion, 3000 km long Kazakh-Xinjiang oil pipeline from western Kazakhstan to China, but if implemented, the program will not be started until the next decade. In addition to this project, Exxon, Mitsubishi and CNPC are also studying a natural gas line from Turkmenistan to China.

3.2. Natural gas export routes

The issue of natural gas exports from the Caspian region is at least as complex as the issue concerning oil export routes. In Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan the productive capacity of gas is on the high level, but there is a lack of access to the export markets. According to R. Soligo, “US diplomacy has failed to weaken Russia's position of dominant transit country for natural gas exports from the region, despite its promising initiatives” in the Caspian.

The US Government backed efforts to establish the Trans-Caspian Pipeline (TCP) already in 1999. The pipeline would bring gas under the Caspian Sea from the port of Turkmenbashy in Turkmenistan to Baku and further by existing or projected pipelines to the European market. The project has faced a competition from the 1200 km long Blue Stream pipeline, supplying Russian gas to Turkey and South Eastern Europe, thus increasing substantially regional dependence on Gazprom deliveries. Yet, the main difficulties to the project were the often changed terms by the authoritarian Turkmen president Saparmurat Niyazov and reluctance of Azerbaijan to share the access to limited Turkish market with Turkmenistan. Turkmenistan, considered by US diplomacy as a “lost case”, has also existing agreements with Gazprom, to export gas to Ukraine via Russia and to Turkey via Iran. Officially, Russia opposes the TCP construction because of ecological issues, but its completion would change current advantageous situation when Russia is importing Caspian gas to its internal low price market and exporting its gas to the lucrative European one.

The shift in the American and European policy in the Caspian towards more energetic stance came after the crisis in January 2006 when Gazprom, the Russian natural gas giant, temporarily cut off gas supplies to Ukraine. The Bush administration has been very active in the Caspian this year, showing its willingness to counter growing Russian influence in the former Soviet republics and European gas supplies. Despite Azerbaijan's flawed 2003 presidential elections and the oppression of the opposition, the USA granted President I. Aliyev a first official visit to the White House in April. Security co-operation, security of gas supplies for Europe and reforms in Azerbaijan were the main topics on the agenda. Aliyev’s importance also increased after US lost its major K2 airbase in Uzbekistan for supplying Afghanistan.

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In May, Dick Cheney met president Nazarbayev during his official visit to Kazakhstan, right after the Baltic-Black Sea conference in Vilnius where he accused Russia of energy blackmailing. "Memorandum of understanding" for the economic development up to the year of 2010 in order to co-finance Kazakhstani projects in business field was signed between the two governments, with an allocation of an amount of $158 million by the American side.  

The EU is also promoting the construction of pipelines avoiding the Russian territory. On the visit to Kazakhstan, the day before Cheney’s arrival, the EU’s Energy Commissioner Piebalgs expressed support for the TCP. Recently, the Nabucco project to supply Western Europe with gas from the Caspian region received political backing from five transit countries Turkey, Bulgaria, Romania, Hungary and Austria. Based on gas supplies from Azerbaijan, the 3300 km long pipeline is supposed to start operations in 2011. The Nabucco project will be an alternative to Russian gas for Central and Western Europe, and hence it ranks on the top of the EU’s energy security agenda.

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Conclusion

In the Caspian region energy politics, legal and security topics are closely interrelated. For new independent states of the Caspian Basin, the exploitation of energy resources and diversification of export routes not only represent the prospect of economic development, but also mean greater political independence.

The 2001 incident between Iran and Azerbaijan concerning exploration and production activities in offshore Alov-Araz Sharq (called by Iranians Alborz oil field) showed to which point the situation in the Caspian region is tightened. When all diplomatic actions went unnoticed, the Iranian boats requested the research vessels to leave the area and Iranian aircraft flew over the area, which is claimed by both sides. Turkey replied by sending its F-16 fighter jets to Baku.

Agreements between Russia, Kazakhstan and Azerbaijan concerning the delimitation of mutual borders and the exploitation of resources were concluded in the Northern part of the Caspian Sea. However, Russia has not succeeded to persuade the two remaining countries to accept the same principle for delimitation of the Southern Caspian Sea. Even if negotiations on the legal status are not concluded, the current agreements seem to provide sufficient guarantees for multinational oil companies and foreign governments investments. In the recent period of fast growing energy needs and dependence on Middle Eastern and Russian resources, the Caspian Basin has the potential to contribute to the diversification of energy supply of neighboring countries and the EU and therefore remains a strategically important region for the future.

To secure access to energy resources in the Caspian region, the United States try to preserve autonomy and promote development of regional economies. Russia’s concerns about growing US influence in the region are based on suspicions that Washington wants to democratize local regimes, thus weakening Russia’s position in the Caspian. Nevertheless, both the United States and Russia are unlikely to pursue policies in the Caspian region, which could damage their bilateral relations.
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[17] Mandelbaum M., “The Great Game Then and Now (Address to the Conference on Oil and Gas in the Caspian Sea Region: Geopolitical and Regional Security, sponsored by the Friedrich-Ebert Foundation)”, Available [online]: 02.05.2006 on: http://www.cfr.org/publication/179/great_game_then_and_now_address_to_the_conference_on_oil_and_gas_in_the_caspian_sea_region.html


