
6. Russia's national security interests in the Caspian region

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I. Introduction

The Caspian region has recently assumed increasing significance for the littoral states and for regional and global powers. This has been the result of national and regional security factors as well as purely economic ones. The latter are linked to the prospects of extracting hydrocarbon energy resources to be exported to the world market.

In the works of strategic analysts today several definitions of the Caspian region are to be found, ranging from a purely geographical one, which includes only the Caspian littoral states, to others which notably extend its borders on the basis of economic and geopolitical dimensions. In the latter case the region is regarded as a vast territory from the Pamir in the east to the Black Sea in the west, Kazakhstan's border with Russia in the north and the Persian Gulf in the south. Although this approach—which underlies the SIPRI project on the Security of the Caspian Sea Region—may be questioned, energy resource endowment is the key factor (not denying the importance of others) which is the basis for joining very disparate countries and even subregions—Central Asia, the South Caucasus and part of the Middle East—into a single whole. It is the oil and gas component that makes the extended interpretation meaningful.

In the discussion that follows of Russia's national security interests in this region, both concepts of the Caspian region are used.

II. The southern direction of Russia's national security

An analysis of documents adopted in Russia in recent years suggests that its south is viewed by the Russian leadership as a source of varied threats and challenges of a predominantly non-traditional type. Russia's new national security concept concentrates on the full spectrum of new challenges and threats.¹ Among these terrorism, separatism and internal conflicts are cited. It is in the Caucasus and Central Asia that these threats proliferate.

The national security concept provides for measures which include, in particular, 'contribution to the settlement of conflicts, including peacekeeping activities under the aegis of the UN, the OSCE [Organization for Security and Co-operation in Europe], and the CIS [Commonwealth of Independent States]'. Significantly, Russia's national interests 'require a Russian military presence in

¹ The text of Russia's national security concept was published in *Krasnaya Zvezda*, 29 Jan. 2000.

a number of strategically important regions of the world under appropriate circumstances'. Military deterrence is not seen as the only way to meet the challenges discussed above. Nonetheless, the new military strategy bears the mark of these threats.

The national security concept defines the fields in which the armed forces and other military units would be used—in world or regional war, in local wars and international armed conflicts, in internal armed conflicts, and in operations in support of and for the restoration of peace. From this list alone it can be seen that, given the scope and character of the threats coming from the Caspian region, Russia cannot countenance the demilitarization of the Caspian Sea which a number of the littoral states are demanding. Arguing the need for Russia to participate extensively in peacekeeping operations, the head of the Main Directorate for International Military Cooperation, Colonel-General Leonid Ivashov, has noted that they 'must become the most important means of preventing and eliminating crisis situations as they appear and develop'.²

III. Russia's interests

In its triple quality as a Caspian state, a regional power and a global power, Russia naturally has vital interests in the Caspian region. This reflects the enhanced role the region has come to play in world politics and the world economy—a salient feature of the new geopolitical reality where geographical factors are closely allied to political interests. The interests of all the actors involved clash to some degree, but this is most evident in the ethno-political conflicts in the Caspian Basin and the belt of states nearest to it, which include the consumers and suppliers of energy and the countries whose territories oil and gas supplies must transit on their way to world markets. The conflicts are those between Georgia and Abkhazia, in Nagorno-Karabakh (between Armenia and Azerbaijan), between Georgia and South Ossetia, between North Ossetia and Ingushetia, in Turkey (with its Kurdish population), in Russia (Chechnya) and Iran (with its Kurdish population), and others.

The situation in the Caspian region and around it has so far been one of conflict and uncertainty. Russia's sensitivity to conflicts there reflects not only its relations with external partners but also the interplay between its geopolitical and its geo-economic interests.

Security threats

Excessive emphasis on the geopolitical aspects of regional problems can impede an accurate assessment of the actual threats and security risks emanating from the area for all the major players, and it is these latter that ultimately shape Russia's interests in the Caspian region, both on the wide and on the narrow definition of the region. A few main arguments illustrate this.

² Ivashov, L., Briefing at the Russian Defence Ministry, 5 May 2000 (text distributed at the briefing).

First, Kazakhstan lies in the region. It is Russia's key partner among the newly independent states of the former Soviet Union, sharing a 7000 km-long border with it, and ethnic Russians make up more than one-third of the population. Second, the region directly adjoins the North Caucasus, one of the most complex and troubled areas of the Russian Federation where one ethnic zone—Chechnya—has not fully emerged from the acute phase of armed conflict. Third, the most bitter inter-ethnic conflicts in the region have not been settled to this day, to say nothing of the potential, 'slumbering' conflicts. Fourth, some of the states of the region are extremely fragile in terms of their administrative and state polity, ethnic composition, political systems and so on: to give one example, Azerbaijan and Georgia are fragmented in so many ways that keeping them stable and their populations consolidated is a task of enormous complexity. Fifth, the states of the region have become a focus of keen interest on the part of a number of outside powers which are almost openly competing to bring them into their spheres of influence. Sixth, the South Caucasus states border on the biggest regional powers of the Middle East—Iran and Turkey—and the problems of the Caspian hold a conspicuous place in Russia's relations with them. Finally, for Russia the region is the source of such serious threats as international terrorism and religious extremism, drugs and arms smuggling, migration (of refugees and migrant workers), and so on.

In 1999–2000 the states of Central Asia came under attack from Islamic extremists who invaded the territory of Kyrgyzstan, Tajikistan and Uzbekistan from Afghanistan. These events provided a strong impetus towards cooperation between these states and Russia in the security domain. This cooperation has been given a new format in the Shanghai Forum.³ At a conference in Astana in Kazakhstan in March 2000, representatives of China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan pledged to combat 'international terrorism and religious extremism'.⁴ Russia has come to regard the terrorist threat to the Central Asian states as a threat to itself as well. Replying to a question about the ranking of external threats to Russia, Sergey Ivanov, then Secretary of the Security Council of the Russian Federation, assigned second place to international terrorism: 'NATO expansion to the East; international terrorism; and attempts to create a model of the world which would make it possible for one country to act at its own discretion, in disregard of the opinion of the overwhelming majority of countries'.⁵

The fact that the strikes by Islamic extremists in the summer of 1999 in the directions of the Ferghana Valley and of Dagestan took place at the same time was interpreted by Russian strategic analysts as evidence that the extremists wished to entrench themselves in these most vulnerable regions of the CIS, then seize political power there as well as in Chechnya, and thence continue the expansion of Islamic extremism. As things became tough for the extremists in Chechnya and Dagestan, they concentrated their pressure on Kyrgyzstan and

³ On the Shanghai Forum see chapter 5, section V in this volume.

⁴ Stern, D., "'Shanghai Five' in big push on international terrorism', *Financial Times*, 31 Mar. 2000.

⁵ *Več* (Moscow), no. 44 (2 Nov. 2000).

Uzbekistan. The military successes of the Taliban in Afghanistan have made these threats, which earlier seemed fantastical, more real.

The perception of a common threat breathed new life into the 1992 Treaty on Collective Security Treaty (the Tashkent Treaty).⁶ Within the framework of the treaty, following the setting up of committees of defence and foreign ministers, a new body was created in May 2001—the Committee of Secretaries of the Security Councils of the parties to the treaty, whose tasks include coordination of the struggle against international terrorism, drug and illicit arms trafficking, the joint settlement of regional conflicts and the maintenance of strategic stability. A conference of heads of the parties to the Tashkent Treaty held in October 2000 in Bishkek saw the signing of an Agreement on the Status of Forces and Facilities of the Collective Security System and a plan for measures to set it up in 2001–2005. The aim is to create regional bodies, joint military bodies and a unified command structure.⁷ According to Sergey Ivanov,

A question currently under study is the creation of military units, their strength and commanding bodies, joint action, as well as questions of deployment, land use, financial resources, crossing of the border, and so on. That is to say, military forces will effectively be set up in the Central Asian region. In general, military formations across the Tashkent Treaty space (the East European, Caucasian and Central Asian zones) will fall under a single command and act according to the rapid-reaction principle.⁸

Economic interests

Despite the priority attached to security interests, economic interests are also important to Russia. These are: (a) the development of mutually advantageous trade and economic relations with the states of the region; (b) the use of their transport capacities; and (c) participation in the production and shipment of energy resources. The development of a new network of roads and pipelines in the region will create a quite new infrastructure there which will fundamentally alter the geo-strategic situation. However, everything depends on what the true volume of Caspian resources is, whether their development will be profitable, and whether it will be possible to ensure supply to the world oil market. Supply can only be ensured by major international investment.

According to Robert Ebel, the following factors are encouraging investors to tie up capital in Caspian oil:

Oil companies must continually search for new supplies to replace those barrels now being produced and there is nothing as attractive as something which has been denied but which is now available. Second, the Caspian oil potential is world-class. Third, this potential can be developed within an acceptable time-frame only through the involvement of multinational oil companies. And fourth, and possibly most important, the bulk

⁶ On the membership of the Tashkent Treaty see the appendix in this volume. The text of the treaty was published in *Izvestiya*, 16 May 1992.

⁷ Romanova, L., 'Sozdayutsya sily bystrogo reagirovaniya' [Rapid-deployment force created], *Nezavisimaya Gazeta*, 12 Oct. 2000.

⁸ Interview with S. Ivanov, *Vek* (Moscow), no. 44 (2 Nov. 2000).

of the new oil to be developed will be for the oil market; local demand is comparatively small and is likely to stay that way.⁹

IV. Will the Caspian come to rival the Persian Gulf?

The initial estimates of oil reserves in the Caspian seem to have been overstated.¹⁰ The 1995 contract on the Karabakh oilfield in Azerbaijan was considered one of the most promising not only for Western but also for Russian investors. The US company Pennzoil, the project operator, guaranteed 30 per cent of the quota share of the Caspian International Petroleum Company (CIPCO), set up to develop the oilfield on 10 November 1995 in Baku; 45 per cent was guaranteed by the Russian–Italian LukAgip enterprise, 12.5 per cent by Lukoil, 5 per cent by Agip and 7.5 per cent by the State Oil Company of the Azerbaijan Republic (SOCAR). Three years of prospecting yielded no results, and in September 1998, having spent \$90 million on prospecting for oil, CIPCO terminated its activities.

A similar fate befell another consortium, the North Apsheron Operating Company (NAOC), whose members were BP (Britain), Unocal and Amoco (the USA), Itochu (Japan), Delta Oil (Saudi Arabia) and SOCAR. As company executives admitted, drilling for oil by the NAOC in three Caspian offshore fields revealed no commercially viable reserves. BP Amoco (as it now is) has decided to leave the consortium. The NAOC cannot be expected to invest \$2 billion in the development of the Caspian deposits in the coming years as was planned.

Currently, Azerbaijan itself is suffering a shortage of oil, so that even the new Baku–Supsa pipeline is not working at full capacity. As reported by the Russian press, in order to save the situation, ‘the Americans proposed an original project—bringing oil from the Kazakh oilfields in the north of the Caspian by tanker to Baku, to be later transported along the Baku–Tbilisi–Ceyhan pipeline. The economic absurdity of this project is obvious’.¹¹ Nursultan Nazarbayev, President of Kazakhstan, backed this project, which will become unprofitable anyway after the commissioning of the Tengiz–Novorossiysk oil pipeline in 2001.

Mobil (the USA), Monument Oil (Britain) and Dragon Oil (the Netherlands) have followed the consortia in deciding to reduce the scale of operations on the oilfields of Turkmenistan, a fact explained both by the excessively high costs of oil extraction and transport and by their desire to secure from Turkmenistan a revision of the tax treatment for the development of the Garashsizlik oil deposit.

In contrast to Azerbaijan and Turkmenistan, the chances for Kazakhstan to become a major petroleum extractor look impressive. In the summer of 2000,

⁹ Ebel, R., ‘Introduction’, in *Caspian Energy Resources: Implications for the Arab Gulf* (Emirates Center for Strategic Studies and Research: Abu Dhabi, 2000), p. 9.

¹⁰ On the oil and gas reserves of the region see also chapter 3 in this volume.

¹¹ Pravosudov, S., ‘Chislo protivnikov trassy Baku–Dzheikhan uvelichivaetsya’ [The number of opponents of the Baku–Ceyhan route is increasing], *Nezavisimaya Gazeta*, 5 Sep. 2000.

the Italian company ENI reported the discovery of the Kashagan oil deposit, the largest in the region, in the Kazakh section of the Caspian shelf. It is at a depth of 4000 metres, and the results of exploratory drilling confirmed that it may yield 600 cubic metres of oil and 200 cubic metres of gas a day.¹²

In the last days of August 2000, Chevron completed the purchase from Kazakhstan of an additional 5 per cent of the quotas of the Tengizchevronoil (TCO) joint venture, thus increasing Chevron's share from 45 to 50 per cent. Since it was founded in 1993, this joint venture has increased output at the Tengiz oilfield from 60 000 to an average of 215 000 barrels a day.¹³

However, this has not changed the overall picture yet. A number of Caspian states had greatly overstated their oil reserves in order to attract investors. For the Western oil companies, some analysts argue, it was not as important to proceed to develop the Caspian reserves as to stake out a claim in the region for the distant future. If this is the case then it will be neither unexpected nor surprising if they gradually freeze work on the Caspian. In this situation it is no longer so important whether the oil reserves in the offshore Caspian fields are 'commercial' today or not. What was unprofitable yesterday may become profitable tomorrow.

Furthermore, it may be presumed that the excitement about the oil reserves of the region is intended as a cover, a justification for penetration into the region for purposes dictated by geopolitical and military-strategic designs.

Thus the reasons why interest in Caspian oil is flagging may include: (a) the unexpected mismatch between the real reserves of oil in a number of the Caspian fields and the preliminary estimates, which proved grossly overstated; (b) the completion of the initial stage in which the petroleum companies established their positions in the Caspian; (c) the completion of the geo-strategic opening-up of the region; (d) oil price fluctuations; and (e) the desire on the part of the relevant companies to wait for the normalization of relations between Iran and the USA, when it will become possible to negotiate the transport of oil along the Iranian route.

The Iranian route is the most efficient one. In a statement made as early as March 1999, Richard Morningstar, special adviser to the US President and the Secretary of State for Caspian Basin Energy Diplomacy, did not exclude the possibility of a pipeline to Iran being laid if Iranian-US relations warmed up and argued for the Iranian route.¹⁴ As reported by the Russian mass media, during his presidential election campaign in 2000 George W. Bush stated that, since the earlier claims of vast energy reserves at the Caspian shelf were not confirmed, the transport of Caspian oil via the territories of Iran and Russia might be economically appropriate.¹⁵

¹² Prime-TASS, cited in *Segodnya*, 26 July 2000.

¹³ Sidorov, M., 'Dolya Shevrona uvelichilas' [Chevron's share has increased], *Nezavisimaya Gazeta*, 5 Sep. 2000.

¹⁴ Novoprudskiy, S., 'Zlatnik ne tol'ko mal, no i dorož' [Zolotnik is not only small but precious], *Finansovye Izvestiya*, 16 Mar. 1999.

¹⁵ Kolchin, S., 'Kaspiyskaya neft' opazdyvayet' [Caspian oil is late in coming], *Vremya-MN* (Moscow), 9 Nov. 2000.

In any event, the chances for Caspian oil coming on to the world market still remain uncertain. What is going to happen if the fulfilment of all these plans is delayed?

Some factors may call Caspian oil exports into question in the short run. The littoral states—the potential oil exporters—are politically unstable. Transport will be costly along some routes, particularly Baku–Ceyhan; there are political obstacles in the way of others (Iran); and there are threats of instability along third routes—indeed, to a certain degree, along all possible routes. The newly independent states are ill-prepared to handle oil revenues efficiently. Iraqi oil will enter the market; foreign investors may eventually gain access to Saudi Arabia; oil prices may fall again. There is no negotiated legal regime for the Caspian Sea; there are environmental problems; there is keen competition between regional powers; and, finally, there are threats from terrorists, religious extremists and radical nationalists.

Environmental problems may seriously complicate not only the development of the resources of the Caspian but also the maintenance of security and stability in the region. One of these problems is connected with the rise in the level of the Caspian Sea which took place in the last quarter of the 20th century. More than 1400 oil wells drilled shortly before the start of that rise have been flooded. Another problem is the vulnerability of the Caspian's biological resources—the sturgeon, seal and rare bird species. 'Environmental reports caution that an enclosed sea such as the Caspian is particularly vulnerable from an ecological standpoint to oil spills and other related sources of pollution.'¹⁶

Russia may view the USA's opposition to Russia's advancing its own interests as a risk factor. The USA is undertaking to support the newly independent states in strengthening their sovereignty but understands this mainly as protecting them from Russia. According to one leading US analyst, 'leaders and peoples of Central Asia and the Caucasus see in Russia the main threat to their independence'.¹⁷ Naturally, this understanding of the interests of the Central Asian and Caucasian peoples on the part of US politicians inhibits constructive cooperation between Russia and the USA in the region. At the same time, however, the two powers have common interests, such as combating drugs smuggling, Islamic extremism and international terrorism, the settlement of conflict situations, and the attainment of peace and stability in the region, which chime with the interests of local states. These common interests should foster Russian–US cooperation.

¹⁶ Kemp, G., *Energy Superbowl: Strategic Politics in the Persian Gulf and Caspian Basin* (Center for Peace and Freedom: Washington, DC, 1997), p. 33. On the environmental problems of the Caspian Sea see also chapter 4 in this volume.

¹⁷ Ruseckas, L., in *Caspian Studies Program Experts Conference Report: Succession and Long-Term Stability in the Caspian Region* (Harvard University: Cambridge, Mass., Oct. 1999), p. 109.

V. Is there a conflict of interests between Russia and the USA?

For Russian strategic analysts it is important to understand how significant the Caucasus is for the United States. In the USA itself opinions vary on this point, and the answer is not clear. According to Ambassador Robert Blackwill, one of the main US interests is 'that there be no weapons of mass destruction to attack against the American homeland or American forces abroad'. Where the Caspian is concerned, Blackwill believes, only Iran has a weapons of mass destruction programme, but this has little to do with its being a Caspian state. A second critical US interest, in Blackwill's opinion, is energy security, but today it is the Persian Gulf, not the Caspian, which is vital in this regard. Among other interests he cites 'the absence of hostile hegemony', the opening up of the world trade and financial markets and perhaps the maintenance of the strength of the US alliance system, but the Caspian region does not figure in any of these objectives.¹⁸

Other opinions suggest much greater US interest in the region. According to Ambassador Thomas Simpson, former coordinator of aid to the newly independent states at the US State Department, speaking at a conference at Stanford in 1999, US policy in the Caspian region has the following objectives: 'strengthening the independence and viability of the new states as market democracies, mitigating regional conflicts and fostering cooperation; bolstering the economic security of the United States, its allies and states of the region by promoting the development and free flow of Caspian energy resources to global markets; and advancing the interests of American companies'.¹⁹

At the same time the insistent lobbying for the construction of the Baku–Ceyhan pipeline, which may not be worth the money to be spent on it within the foreseeable future, suggests that the USA is ready to sacrifice economic efficiency to political imperatives. The desire to support Turkey as a key US ally in the Middle East undoubtedly played a prominent role in shaping the US position on this question.

Clearly, the most realistic solution to the problem of transport is to construct several pipelines. In any case, the capacity of any one pipeline is limited to 1 million barrels of oil a day. Allowing for the prospect that the region will produce 3–6 million barrels per day in 10–20 years' time, several pipelines will be needed. In addition, irrespective of the cost of laying the pipelines, the petroleum companies do not want all the oil produced to follow the same route—all the more so if the instability in most of the states on whose territory the pipelines will be laid is taken into account. As Kemp notes: 'Ideally, for the world's major energy consumers, the near future will see a harmonious settlement of the legal access disputes and will ensure that sufficient redundancy is built into the pipeline distribution system so that if one transport route is interrupted for any reason, other routes will still keep the energy flowing. In

¹⁸ Blackwill, R., in *Caspian Studies Program Experts Conference Report* (note 17), p. 112.

¹⁹ *CISAC Monitor* (Stanford University), summer 1999, p. 2.

theory, the United States should welcome pipelines that run through Georgia, Turkey, Russia and even Iran to ensure this redundancy'.²⁰

However, to ensure that the pipelines work at full capacity, it is necessary that sufficient volumes of oil be extracted in the region. This requires not only the availability of reserves and the right technical conditions, but also the devising of a new legal status for the Caspian Sea, insofar as its former status is not recognized by a number of Caspian states and is in need of revision after the breakup of the USSR and the formation of the newly independent states. The development of resources may proceed even without consensus being reached on the status of the Caspian but even so this lack of consensus is a factor of geo-strategic instability.

As is known, Russia has compromised on this issue, having backed down from a position based on the idea of a condominium—that is, joint ownership of the sea and its resources exercised by all the Caspian states—and reached an understanding with Kazakhstan on the partition of the Caspian seabed. An agreement on this was signed on 6 July 1998 by the presidents of Kazakhstan and the Russian Federation.

Iran now has effectively two positions on the legal status for the Caspian—a principal and a 'reserve' one. The principal position, which until recently it shared with Russia, was that of a condominium. Its chances of being implemented began to decline as development of the Caspian oil proceeded, since it was unacceptable to the other Caspian littoral states: for them the condominium principle would have implied that they would have to prevent other Caspian states and foreign oil companies from oil prospecting and production in keeping with contracts already concluded, which would be deemed illegal.

Conscious that this variant was unrealistic after other Caspian states had signed contracts with major oil companies and particularly after Russia had changed its position and negotiated a partition of the Caspian seabed with Kazakhstan, and having expressed opposition to the partition of the seabed, Iran stated in March 2000 that as a 'reserve' variant it will support such a version of legal status as provides for a complete partition of the Caspian into national sectors. Iran believes that it must be divided on the basis of the principle of 'equal division', that is, not along the median line but in a way that would allow each of the Caspian states 20 per cent of the Caspian 'pie'.²¹ (Partition along the median, originally proposed by Azerbaijan, would have given Iran a deep-sea sector where either oil resources are entirely lacking or their development will require immeasurably greater effort and, even if technically possible, will be unprofitable.) In addition, there are fears in Iran that, if partition along the median went ahead, its neighbours would not have to contend with such deep water and would moreover simply be able to pump oil from a reservoir which, it is assumed in Tehran, is actually situated under the 'Iranian' sector.

Some experts believe that Iran is not altogether interested in Caspian oil reaching the market, as it already has sufficient oil resources and the ability to

²⁰ Kemp (note 16), p. 50.

²¹ See also chapter 3, section III in this volume.

transport them to the world market. In its hypothetical sector of the Caspian there are few proven reserves, they lie at great depth, and Iran lacks funds of its own to develop them. To transform the sea sectors currently under the jurisdiction of neighbouring states into a sphere of interests of Western oil companies is of no advantage to Iran either. In this connection, it must be noted that the competitiveness of Caspian oil on the world market will be determined both by the market (demand for oil and price levels) and by production costs. Experts consider that: 'New volumes of oil from Azerbaijan or Kazakhstan are expected to involve transportation costs of between \$2.50 and \$5 per barrel before it has even reached a sea terminal. Given production costs that are not among the world's lowest, the problem of transportation costs calls into question the competitiveness of Caspian oil supplies'.²²

The Caspian region's great proneness to conflict will be the main barrier to the transformation of the littoral states into petroleum exporters. The opinion is often expressed that the great oil potential (if it is confirmed) will in itself be able to eliminate that conflict-proneness. However, this view is not shared by everybody, the West included. Laurent Ruseckas and Hendrik Spruyt, analysts from Columbia University, believe that:

Economic factors are likely to increase rather than decrease the likelihood of conflict and insecurity in Central Asia and the Caucasus in the years ahead. In conflicts where Western governments are playing a mediating role, they should realize that windows of diplomatic opportunity are closing rather than opening . . . Western policy in the southern republics of the former USSR is based on a liberal perspective, namely, that open markets and energy-induced growth will lead to greater economic expansion and general peace. This view, however, is dubious at best and counterproductive at worst . . . The states of the South Caucasus . . . and Central Asia . . . will handle profits from hydrocarbon exports with great difficulty.²³

In their opinion, 'hydrocarbon incomes may paradoxically lead to economic stagnation. Worse, income distribution that disproportionately benefits particular patronage networks of ethnic groups could spark civil strife'.²⁴

VI. Oil, development and security

Expectations of the oil miracle have already led to negative results in some states of the region. In Kazakhstan, for instance, the economic development strategy geared to giving priority to the extraction of energy resources has been accompanied by neglect of traditional vital economic sectors, animal husbandry and cattle breeding in particular. With fluctuating oil prices, the high cost of hydrocarbon production and transport, and the uncertainty about the size of the

²² Ruseckas, L., 'Caspian oil development, Caspian energy resources', in *Caspian Studies Program Experts Conference Report* (note 17), p. 14; and Jaffe, A. M. and Manning, R., 'The myth of the Caspian "Great Game": the real geopolitics of energy', *Survival*, vol. 40, no. 4 (winter 1999), pp. 112–31.

²³ Briefing on 6 Jan. 1999 by Laurent Ruseckas and Hendrik Spruyt at the East–West Institute on the project 'The 21st-Century Security Environment' (unpublished).

²⁴ Briefing by Ruseckas and Spruyt (note 23).

reserves, the population's expectations of rapid prosperity may turn into acute discontent at the lack of progress in raising standards of living. Even if all the obstacles are quickly removed it is impossible to be sure that incomes from hydrocarbon exports will quickly and definitively improve the situation. The benefits to be derived 'are the greatest in well-developed countries with functional, multi-sector economies and stable political institutions like Norway'²⁵ and these conditions are clearly absent in the Caspian littoral states. The political systems dominated by patron-client, clan and tribal networks, authoritarian leaders and widespread corruption, and the long-standing and potential, if so far somnolent, conflicts reduce the possibilities of growth and the appropriate use of oil wealth.

It is true that the oil boom in the Caspian has already brought dividends, both direct and indirect, to Azerbaijan, for instance, which is regarded by the West as a key partner. This has been reflected in the development of infrastructure and oil exploration by foreign investors in Azerbaijan. It would seem that Russia cannot compete with the West in terms of the benefits to Azerbaijan from cooperation. However, about 2 million Azerbaijani citizens, predominantly employed in small and medium-sized businesses, are resident in Russia today. According to the lowest estimates they transfer several billion dollars a year to Azerbaijan, providing the livelihood of several million family members.²⁶ According to the First Vice-President of SOCAR, Ilham Aliyev, \$1.7 billion has been invested in Azerbaijan's oil sector so far, \$700 million of it by US companies,²⁷ but this total is less than the income derived from Azeris working in Russia in the course of a year. (Unfortunately, Russia's lack of a meaningful immigration policy may make it difficult for it to use this factor effectively in its own interest. Its withdrawal from the Bishkek agreements on visa-free movement for citizens of the CIS states within the CIS, announced in August 2000 and dictated by its security interests,²⁸ may cause additional complications in the development of cooperation around the Caspian.)

The problem of the transit of Caspian oil has also taken on a significance which visibly exceeds the resource and economic potential of the Caspian. The creation of the new pipeline and other infrastructure in the region is, naturally, directly linked to the strategic interests of world and regional powers and the entrenchment of their influence in the region. The struggle for pipeline routes, often lacking in common economic sense, has sometimes taken on a singular intensity—to the point of refusal to observe international treaties in the case of

²⁵ Briefing by Ruseckas and Spruyt (note 23).

²⁶ At hearings in the Russian Duma in Dec. 2000 it was stated that annual money transfers to Azerbaijan by its citizens working in Russia amount to c. \$2 billion. Ayrapetova, N., 'Vizovoy rezhim kak chast' obshchey sistemy bezopasnosti' [Visa regime as part of a general security system], *Nezavisimaya Gazeta*, 12 Dec. 2000.

²⁷ Gadjizade, A., 'V poiskakh neftyanogo puti' [In search of an oil route], *Nezavisimaya Gazeta*, 11 Jan. 1999, p. 5. According to data cited by Gregory, Azerbaijan received a cumulative foreign direct investment (FDI) of \$2 billion over the 9 years 1989–97 and Kazakhstan \$4.3 billion. Gregory, P., 'Developing Caspian energy reserves: the legal environment', *Caspian Energy Resources* (note 9), p. 52.

²⁸ *Diplomaticheskyy Vestnik*, no. 9 (2000).

Turkey's intention to limit tanker movements through the Bosphorus²⁹—interwoven as it is into the context of the new geopolitical rehashing of the world which has been effectively carried out in the 1990s in place of the Utopian new world order. Unfortunately, the establishment of spheres of influence and double standards have been the decisive elements of this global process. Champions of the Baku–Ceyhan pipeline, for instance, did not conceal that it must be built primarily for political and strategic considerations independently of whether it will be cost-effective. This is a clear indication of the particular importance of Turkey for the United States (it is less important for Europe, which Turkey is striving to join) and of the desire to reduce Russia's influence in the region. These imperatives are so strong that even the argument that the pipeline would help 'pacify' and stabilize conflict territories was used in support of its construction, when in fact it is stability that is the necessary precondition for the construction of the pipeline.³⁰

Russian politicians' fears are not explained by primitive mercantile interests of competition with Turkey for the dividends from the transit of oil pipelines, although that competition is quite natural. The concern is rather about geopolitical interests. In the words of Paul Sampson: 'Most potent, however, is the Turks' desire for the political influence that comes from being the transit point for petroleum in the region . . . Ankara fears that if the [Baku–Ceyhan] pipeline is not built, it will lose its foothold in Azerbaijan and its political influence in Central Asia and the Caucasus'.³¹ As a Turkish journalist writes: 'Thanks to the projects for the Baku–Ceyhan oil pipeline and the Trans-Caspian Gas Pipeline, Turkey will be able to keep the Straits out of danger, earn money and receive an alternative to the existing pipeline through which it obtains oil from producers in the Middle East. In addition, Turkey will play a significant role in the Eurasian energy corridor via Anatolia'.³²

It looks as though the United States realizes all the difficulties involved in the implementation of the plan for transit of Caspian oil via Turkey and that the transit of oil by the cheapest, most convenient and efficient route—via Iran—will help lessen the dependence of the newly independent states of the Caspian region on Russia—a goal they seek to attain—but will dash Turkey's hopes of gaining influence in the region. A normalization of Iranian–US relations will mean that the West would switch its attention from the Caspian states to the much more attractive and stable Iran.

The oil companies are also interested in cooperating with Iran on a swap basis. Iranian Foreign Minister Kamal Kharazzi has said repeatedly that Iran was ready to purchase (although he did not specify over what period) up to

²⁹ On Turkey's policy on tanker movements through the Bosphorus and the Dardanelles see chapters 3 and 8 of this volume.

³⁰ Wirninhaus, R.-F., German Institute of the East, Hamburg, report at the Second International Conference on Oil and Gas Resources of the Caspian: Transportation, Security, Economic Development held on 7–8 Nov. 1998 in Tehran. The text in Russian is published in *Vestnik Kaspiya* (Moscow), no. 1(15) (Jan./Feb. 1999), p. 226.

³¹ *Transition*, Feb. 1999, pp. 27–28.

³² Dikba, K., 'Hazar' da dans' [Dances around the Caspian], *Da* (*Dyalog Avrasya*) (Istanbul), spring 2000, pp. 16–17.

1.5 million barrels of oil and 200 million cubic metres of natural gas to satisfy its internal needs.

Generally speaking, in Russia specialists already seem to understand that diversification of the transit routes for Caspian oil to suit the strategy of the petroleum companies is inevitable. There is reason to hope that the construction and commissioning of the Tengiz–Novorossiysk oil pipeline by the summer of 2001 will prove to be a model of successful cooperation between Russia, Kazakhstan and the Western oil companies.

Meanwhile, on 17 October 2000, agreements on the implementation of the project for the Baku–Tbilisi–Ceyhan oil pipeline, with an annual capacity of 50 million tonnes, were signed between the government of Azerbaijan and a number of major oil companies—BP Amoco, Unocal (USA), Statoil (Norway), TPAO (Turkey), Itochu (Japan), Ramco and Delta Hess (Saudi Arabia). The estimated cost of the 1730 km-long pipeline is of the order of \$2.4 billion. On the part of Azerbaijan, the sponsor group includes the Azerbaijan International Operating Company (AIOC).³³ However, even after the signing of the agreements, debates on the fate of the pipeline continued. ExxonMobil, which is a member of the AIOC, told Azerbaijan that this ambitious project ran counter to the company's interests.³⁴ The heart of the matter is that Azeri oil alone is not sufficient to fill the oil pipeline to Turkey. Experts therefore did not rule out that its construction would be long-drawn-out.

In order to ensure the profitability of that project, it will also be necessary for Kazakhstan's oil to be pumped along the new pipeline to Turkey. However, an underwater oil pipeline will be needed to deliver it to the western shore of the Caspian, and such a pipeline would entail the risks of blowouts of great quantities of oil if the pipeline were to rupture in conditions of seismic impact, insignificant but chronic oil leaks from crevices in the pipe, and the creation of a vibro-acoustic barrier which could catastrophically alter the migration runs of the Russian sturgeon even when the pipeline was working normally.³⁵

The Russian Government also resolutely opposes the construction of the trans-Caspian gas pipeline because in the event of seismic danger it threatens ecological disaster in the Caspian. It seems that by buying Turkmen gas and commissioning the pipeline via the Black Sea to transport Russian gas to Turkey—Blue Stream—Russia will manage to prevent the trans-Caspian pipeline project being realized. The well-known disputes between Azerbaijan and Turkmenistan may also play a role here. 'Having made a bid for the absorption of 50 per cent of the capacity of the Trans-Caspian Pipeline, Azerbaijan has created a new consortium—Shah Deniz—which may simultaneously provide natural gas for Turkey.'³⁶

³³ On the membership of the AIOC consortium see chapter 3 in this volume. Oil production began in Nov. 1997.

³⁴ Kolchin, S., 'Oil market boom missed', *Moscow News*, nos 44–45 (15 Nov. 2000).

³⁵ Mishin, V., 'Zvukovoy baryer dlya russkogo osetra' [The sound barrier for the Russian sturgeon], *Vremya-MN*, 25 Oct. 2000.

³⁶ Tesyomnikova, Ye., 'Problema Kaspiya: ostorozhny optimizm Moskvyy' [The Caspian problem: Moscow's cautious optimism], *NG-Sodruzhestvo*, no. 5 (31 May 2000), p. 1.

Because the military–strategic importance of the Caspian region is growing both for the West and for the new states on the Caspian, Russia, despite the overall slackening of its military activity, is compelled to pay attention to the military component of its presence in the Caspian. In December 1998 the headquarters of the Joint Grouping of Russia’s Defence Ministry forces in Dagestan was set up in Kaspiysk. The grouping includes the 136th Motor Rifle Brigade quartered in Buinaksk, ships of the Caspian flotilla, army aircraft and airborne units. According to press reports, it is envisaged subsequently to set up a naval base there, which would include, apart from coastguard units, a division of hovercraft and marine units.³⁷

As mentioned above, calls for the demilitarization of the Caspian which are heard from some of the Caspian littoral states, made as they are at a time when the role of the military factor is clearly enhanced, cannot but be viewed by Russia as an attempt to weaken its already vulnerable southern flank, which is called on to deter the potential threats that abound there. Azerbaijan’s President Heidar Aliyev, in particular, has spoken of the need to demilitarize the Caspian. When rifts appeared between Iran and Russia after the signing of the 1998 Kazakh–Russian agreement on the partition of the Caspian seabed, Iranian officials, saying that the agreement was unacceptable to them, argued for demilitarization of the Caspian. The Iranian leadership views the Russian military presence in the Caspian under certain circumstances as a source of possible friction and even challenge to the sovereignty of other states. Moreover, the possibility of Russia’s military positions in the Caspian being reinforced as a result of the partition of the seabed is for Iran one of the arguments for not accepting that principle. According to Hosein Kazempur Ardebili, adviser to the Iranian Oil Minister, although the partition of the seabed ‘may be of direct economic benefit to the littoral states, it is liable to increase the likelihood of the Russian naval presence in cases where the limits of sovereignty will remain unclear’. Ardebili also stated: ‘Russia must withdraw its armed forces from the Caspian in accordance with a definite timetable and then confine its presence to coastguard level’.³⁸

VII. Russia’s Caspian policy becomes more active

In 2000 Russia’s leadership embarked on preparations for the development of the Russian, northern section of the Caspian Sea shelf. A group of Russian companies have pooled their efforts with this aim. On 25 July 2000, Lukoil, Yukos and Gazprom signed the documents creating the Caspian Oil Company. Shortly before drilling of the first exploratory borehole in Astrakhan Oblast had been completed and a deposit discovered with reserves approaching 300 million tonnes of hydrocarbons. The development licence on it belonged to Lukoil.³⁹

³⁷ *Nezavisimoye Voyennoye Obozreniye*, no. 8 (1999), p. 2.

³⁸ Ardebili, H. K., ‘The legal regime of the Caspian and its influence on regional energy security’, Report to the International Conference in Tehran, 7–8 Nov. 1998.

³⁹ Ignatova, M., ‘Vместе весело бурит’ [It’s fun to drill together], *Izvestiya*, 26 July 2000.

The administration of President Vladimir Putin has stepped up Russia's Caspian policy. The former Minister for Fuel and Energy, Viktor Kalyuzhny, was appointed Deputy Foreign Minister and Special Representative of the Russian President for the Caspian Sea region. Kalyuzhny started with a significant step. As the entire experience of recent years had shown that the elaboration and adoption of a new international status for the Caspian would take time, whereas drilling activity on the Caspian was proceeding anyway, it was worthwhile to start negotiating agreements on individual types of economic activity. The new Russian propositions paid particular attention to the problem of disputed oilfields, which has the potential to aggravate relations between CIS member states neighbouring each other on the Caspian. The significance of this problem goes beyond the economic issues.

At the end of July 2000 Kalyuzhny, starting a visit to the littoral states which dispute the rights of ownership of particular deposits, proposed to them that they should compromise on the basis of the 50 : 50 principle whereby the second claimant compensates half of the costs to the first claimant which started the offshore development and extraction and they then negotiate the partition. This proposal takes into account the real situation—the fact that the Caspian littoral states have already begun tapping the mineral wealth without waiting for the new legal status of the Caspian to be defined.

The centre of gravity in the Russian proposal has been transferred to bilateral agreements between countries directly neighbouring each other in the Caspian. This found expression in the July 1998 agreement between Kazakhstan and Russia on the partition of the seabed. Russian diplomats who championed this approach contend that successive agreements between 'pairs' of neighbours could pave the way for collective agreements. Russia's concern over the problem of disputed fields reflected an understanding of its conflict potential and the possible consequences for peace and security in the region. Offering a solution to this problem, Russia was partly switching the negotiating process on the Caspian onto the track of preventive diplomacy. However, the proposal did not find an echo in such capitals as Ashkhabad and Tehran, whose leaders continued to insist on the need first to elaborate a new status of the sea and only then tackle particular questions on that basis.

Kalyuzhny's visit demonstrated Russia's desire to improve relations with Azerbaijan. This task was facilitated by the fact that he had belonged to the petroleum lobby and was attuned to a pragmatic attitude on Caspian issues, all the more so since it took place against the background of a certain cooling in Azerbaijan's relations with the USA. President Aliyev accepted Kalyuzhny's proposal of the 50 : 50 principle. Kalyuzhny also put forward the idea of creating a centre in Baku for strategic development of the Caspian Sea to monitor the situation and work out proposals.

However, this gesture towards Azerbaijan caused irritation in Iran and Turkmenistan, in spite of the fact that Russia has fewer differences with those states over the Caspian problem. In Yerevan, the steps towards progress in Russian–Azerbaijani relations were also watched attentively. It was not by accident that

in the summer of 2000 Russia's mass media published a series of discussion materials on the prospects of relations between Russia and Armenia, and Russia and Azerbaijan. A number of 'hack' articles in the Moscow press, clearly written to order, even warned of the dangerous consequences of a lurch towards Azerbaijan for Russia's interests in the Caucasus. The stepping up of the Caspian negotiating process took place simultaneously with a surge of activity over the costs of the proposed Stability Pact for the Caucasus and with the appearance of new ideas as to how to settle conflict situations in the region.⁴⁰ Georgia, which is not a Caspian littoral state, increasingly made itself felt as an important actor in the region because of the role it already plays as one state through whose territory Caspian oil enters the world market.

Thus, despite added activity and fresh ideas, Moscow was unable to smooth out the differences between the five littoral Caspian states on key issues involved in the utilization of the Caspian. To sum up, Russia's greatest partner, Iran, did not change its negative attitude to the two aspects of Russia's policy in the region that are most important for Russia—the principle of partition of the seabed between neighbouring states and continued military activity in the Caspian. For its part Russia failed to give official support (although unofficially some Russian officials did express such support) to Iran's call for the sea, if it is partitioned into sectors, to be divided equally with each littoral state receiving 20 per cent.

In contacts with Kalyuzhny, Turkmenistan voiced doubts about the wisdom of discussing Caspian issues in the framework of the regular CIS summit meeting in Minsk. This, in its view, would have been regarded as discrimination against Iran. Turkmenistan also argued against the proposal, put forward during Kalyuzhny's tour of the littoral states' capitals, that the questions of shipping in the Caspian, the use of its biological resources, its ecology and the creation of a single joint centre to manage the Caspian should be tackled in succession. Russia's argument that the threat of a biological disaster in the Caspian Basin impels the parties to take urgent measures to save the fish resources (to take one example) without waiting until the new status of the Caspian is defined left Turkmenistan unconvinced. Turkmenistan was also anxious about the allegations circulated by the news agencies (although disproved by Kalyuzhny on his arrival in Ashkhabad) that on his visit to Baku he had expressed support for Azerbaijan's position on those oil deposits in the Caspian that are claimed by both Azerbaijan and Turkmenistan.

It must also be stressed that Azerbaijan has reaffirmed its adherence to the principle of partitioning the sea into national sectors, and there was no genuine rapprochement between its position and that of Russia. Russian diplomats say that Russia will never agree to the partition of the Caspian into national sectors. 'Moscow will agree to recognize only the resource jurisdiction of the adjoining countries negotiated among themselves, that is to say, such a division of

⁴⁰ Radio Free Europe/Radio Liberty (RFE/RL), *RFE/RL Newslines*, vol. 4, no. 65, Part 1 (30 Mar. 2000); and *RFE/RL Newslines*, vol. 4, no. 99, Part 1 (23 May 2000). On the proposal for a Stability Pact for the Caucasus see chapter 8, section VI in this volume.

resources of the Caspian seabed, on which, say, Azerbaijan, Turkmenistan and Iran may agree among themselves, while keeping the sea and its surface in common ownership.'⁴¹

Relations among the Caspian littoral 'five' are marked by constant shifts and temporary alliances of states to win support for some demands and block others. The core reason for this situation is the differences in the interests of and the active steps taken by outside actors. However, the course of events in the Caspian region cannot be examined separately from the situation in Central Asia and the Caucasus. The unsettled state of the Chechen problem will continue to have a serious impact on Russia's Caspian policy, while its security interests will hardly be overshadowed by economic ones.

The well-known triad with the help of which Russia had been safeguarding its security interests in this region throughout the 1990s—its military bases, the protection of the CIS external borders and the peacekeepers—had cracked by the end of the 1990s. The evacuation of the Russian military bases in Georgia and the withdrawal of Russian border guards from a section of the CIS external borders⁴² are creating additional risks for Russia which aggravate the growing threats from international terrorism, ethnic separatism and Islamic extremism. It is difficult as yet to say how successfully these threats can be countered by means of improved cooperation between Russia and the republics of Central Asia and the South Caucasus in the domain of regional security.

It is hard to predict what turns Russia's policy may take in the turbulent flow of the activities of the numerous actors in the Caspian, but one thing is beyond doubt: in the short run the region will retain a conspicuous place on the scale of Russia's strategic priorities.

⁴¹ Dubnov, A., 'Nad sedoy ravninoy morya' [Over the grey expanse of the sea], *Vremya-MN*, 26 July 2000.

⁴² See chapter 5 in this volume.