CHAPTER 5


Introduction

Russian policy in the Caspian Basin in the 1990s went through several gyrations. Moscow initially was intent on charting a course of Westernization approached most of the region with what might be dubbed a policy of benign neglect. According to Aleksandr Livshits, "Some members of the Russian leadership believed it was necessary to dispose of Central Asia as soon as possible since it would supposedly retard the implementation of economic reform in Russia." (Izvestia, 2005:Pg5) There was little push for close economic or political cooperation, however, and in the realm energy, it remained more or less business as usual, with oil and gas flowing north through Russian pipelines, which conveniently meant that Russia controlled the economic lifeline of the region. Although there was a clear recognition of the significance of the region’s oil and gas deposits, throughout 1990’s did not take on immense political importance due to the policies under president Yeltsin.

After the disintegration of the Soviet Union, Russia experienced a dramatic power decline. This power decline was unprecedented especially in terms of its speed: no other powers in peacetime had experienced such a rapid power decline as Russia did. During the period of Boris yeltsin as president Russia declined to almost a weak state, then after Putin became president there was a dramatic rise in Russia’s position again, Within this context Russia’s policy towards the Caspian Sea moved from confusion and chaos to cooperation and consolidation .though there are still some confrontations exists. This chapter, divided into two phases of Russian policy toward Caspian region. The first phase during the tenure Boris yeltsin, Russia’s power declined in the sectors of economic, demographic, military and ideological. Then the resurgence then explores how Russia’s Caspian policy moved toward cooperation. Also try to highlight the contradictory nature of Russia’s policy, especially the fact that two main competing agencies-the Foreign Ministry and the oil industry faction-pursued varying approaches toward the Caspian Sea. Then in the second phase its consolidation.
International energy security is of special significance to Russia, which has one of the world’s biggest fuel and energy potentials. It occupies 13% of the world’s territory and has less than 3% of the world’s population, but 34% of gas and some 13% of the prospected oil reserves. Russia’s energy complex is an inalienable part of the global energy market. Russia leads the world in international gas trade and is the second biggest oil and petrochemicals exporter. From 2002 to 2004, it posted the world’s highest growth rate for major oil producing countries. Based on current estimates, we can conclude that Russia’s oil production can reach 530 million tons and export 310 million tons by 2015. Its role of a reliable energy supplier has been reinforced by the efforts to diversify oil export routes. The Russian government has made a decision on building an East Siberia – Pacific oil pipeline with the throughput capacity of 30 million tons and a terminal on the Pacific coast by 2008. The capacity of its trunk oil pipelines and sea terminals can be increased by 20% by 2010 and 40-50% by 2015 compared to 2005.

Russia’s gas production can reach 740 billion cubic meters and export 290 billion cubic meters by 2015. Russia is energetically working on new projects, such as the North European Gas Pipeline, and is preparing to develop the Shtokman field and East Siberian and Far Eastern fields. As a global energy and resource power, Russia will use its G8 Presidency in 2006 to promote international action on acute problems of energy security with due regard for the interests and possibilities of Russia and its role of a reliable and stable energy supplies (US Department of Energy 2006).

**Russia’s Energy Industry and its Global Role**

Russia’s energy industry includes oil, gas, coal, turf, shale production as well as oil refining, electricity generation, centralized heat supply systems, pipeline energy transportation, power transmission networks. The importance of the energy industry stems as much from advanced technology and excellent workforce as from Russia’s vast resource base. Its mission is to supply energy and provide energy-related services, contributing as strongly as possible to the advance of the national economy. The energy industry is currently one of the most important, sustainable, and fast-developing sectors in Russia, accounting for a quarter of GDP, a third of industrial output and a half of federal budget, export and hard-currency revenues. The Russian energy industry has unmatched experience in the deployment and management of huge centralized gas, electricity, heat supply systems and pipeline energy transportation networks.
Fundamental institutional changes took place in the national energy sector in the past 15 years, with much of the industrial capacity privatized to make companies more competitive in a free market environment. In the oil industry privatization has led to 10 vertically integrated majors and about a hundred smaller producers; in natural gas Gazprom, a monopoly, had to give up some market space in favor of independent producers; in coal Russia has over 60 coal-producing companies now. The national electricity system comprises the giant RAO UES (Unified Energy Systems) of Russia with many subsidiaries and over 70 regional power distributing companies. The changes have obviously improved independence, efficiency, and competitiveness in the sector.

Russia’s energy reserves are among world’s largest – a country with less than 3% of world population controls around 13% of global prospected oil reserves, 34% of natural gas, around 20% of coal, 32% of brown coal, and 14% of uranium. With over 12% of global primary energy production, Russia is an important player in international energy trade. In 2000-2004, production of primary energy resources grew by 19.4%, while domestic demand increased only by 4.9%. This can be partly explained by export growth. The other important reason has been continuous improvement of energy efficiency as the energy intensity of the national economy has gone down by 21% in the past five years. Since 2003, this has also contributed much to GDP energy efficiency as energy-saving industries have grown faster than energy-intensive ones. Seen as an effective way to curtail domestic demand and raise the reserves-to-production ratio, energy efficiency is set to remain a top priority for the future.

Oil Production and Refining

Since 1999, Russian oil production has been growing faster than anywhere else in the world, with the initial growth rate three times as high as in the Organization of Petroleum Exporting Countries (OPEC). Last year’s output was 470 million metric tons (3.45 billion bbl) compared to 323.5 million tons (2.38 billion bbl) in 2000 – a figure that the Russian Industry and Energy Ministry expects to increase to 530 million tons per year (10.67 million bpd) by 2015, primarily on the back of new explorations and developments. Oil is transported through a unique world-largest pipeline system. Transneft, Russia’s state-owned pipeline company, operates 50,000
km (31,000 miles) of trunk and over 19,000 km (12,000 miles) of auxiliary pipelines; 856 oil tanks with a total capacity of 13.4 million cu m (84 million bbl), and 360 oil booster stations.

Centralized management of the main pipeline network spanning 53 Russia's regions enables unified economic, financial and technological policies and an ability to concentrate on the most effective projects and know-how. Though Russia's oil exports (the country is the second largest in the world after Saudi Arabia) are still focused on Europe (93%), supplies to the Asia-Pacific Region are also growing. The Asian dimension is largely about China, both in absolute numbers and in growth proportions. The United States is also seen as a promising market with a high import capacity.

A future oil export system will rely as much on seaports as on pipelines. European supplies will increase as soon as the Baltic Pipeline System and the 62-million-ton seaport of Primorsk come on stream. The Asia-Pacific is to be covered by the proposed Eastern Siberia-Pacific pipeline network with the Perevoznaya transshipment terminal. The latest feasibility study of this system suggests a total capacity of 80 million tons (588 million bbl).

In the long term, U.S. markets are going to be accessed through the Western Siberia-Barents Sea pipeline system that is also expected to pump through up to 80 million tons (588 million bbl) of crude annually by 2020. Another increase is anticipated from the Caspian Pipeline Consortium expected to transit up to 67 million tons per year (1.35 million bpd) through Kazakhstan. All these projects might raise Russia's total pipeline and tanker export capacity to 303 million tons per year (6.1 million bpd) by 2010. Oil is also exported in steadily increasing quantities by rail. Russia's refining sector includes 28 facilities refining 295 million tons of oil per year (5.94 million bpd). Primary refining is increasingly concentrated at home: 2005 growth rate in this sector was 6.5%. Growth has also been strong in the production of automotive fuels (gasoline and diesel) and heavy fuel oils (US department of Energy 2006).
Natural Gas Production

Russia is the world leader in natural gas reserves (48 trillion cu m). OAO Gazprom currently accounts for 85% of the national gas production, which grew from 584 billion cu m in 2000 to 640.6 billion cu m in 2005. The Russian gas industry has traditionally been operated as a technologically and economically unified system in which output is optimized in each producing region to ensure reliable supplies to domestic as well as foreign consumers. Russia’s world-largest 600-billion cu m centralized gas transport system includes over 200 gas and gas condensate fields, 24 underground gas storage facilities, over 153,300 km (95,000 miles) of main pipelines, and 264 gas compressor plants (44,000 MW).

This powerful 5,000-km (3,100 miles) system spanning from the north of Russia’s Tyumen Region to France and Italy, in which gas pressure changes take five to six days to go from one end to the other, is monitored and controlled by a multifunctional system. Security of Russian gas supplies to Europe is guaranteed by bilateral and multilateral import and transit agreements on a company level; the supplies are monitored by European dispatch centers, for example, the Balkans Dispatch Center in Sofia, which covers exports to the Balkans and Eastern Europe. Another dispatch center is in Berlin and it monitors the Yamal-Europe gas pipeline.

Gazprom is closely involved in multi-company international Edigas Workgroup, creating a joint interactive system of communication between companies and dispatch centers to improve coordination and timing of the increasing number of European short-term contracts. The Russian gas transport system has a solid space capacity to meet contingency plans, which includes thorough integration of all pipelines, underground gas storage facilities, operational pipeline reserves, and a centralized management system. In Russia alone, the operational pipeline reserve is nearly 8 billion cu m, a healthy insurance against any emergency that might lead to disruption of supplies. This reserve is frequently used by Russian and foreign partners. No less important are underground storages: by helping alleviate risks of disruption in case of seasonal consumption peaks, they provide additional guarantees to national and export consumers. The total recoverable gas storage increased to 62.6 billion cu m last year.
The reliability was well tested during the unusually cold spell that spanned over Russia and most European countries in January 2006. Having retained and even increased supplies at times of need, Gazprom passed the test with flying colors. In late January, Gazprom additionally supplied 3.4 billion cu m and increased supplies to European consumers by 7%, an amount comparable to the fall of supply in the wake of Katrina, to 80 million cu m per day, even though Russia also suffered from extreme cold. On January 16-28, when the cold was the strongest, Gazprom was nearing its operational limits, increasing primary production by an emergency 800 million cu m (up to 1 billion cu m for the whole month) and supplies from underground storages by 2.6 billion cu m.

Like in oil, gas export has been growing faster than production in recent years, culminating in a 4% rise in 2005 (8% rise to 152.5 billion cu m for Western Europe and Turkey). With 22% of global gas trade, Russia is firmly in the first place as an international gas supplier. It sells gas to 21 countries in Europe, satisfying 25-28% of aggregate European demand. In 2005, Russia started its first spot deliveries of liquefied natural gas (LNG) to the U.S.

Russian gas comes to international markets by three main routes: via Ukraine, Belarus and under the Black Sea. To increase export capacity, Russia is building new export facilities: the North European Gas Pipeline (with an annual capacity of 55 billion cu m), which is to be laid under the Baltic Sea, will connect Russia with Germany. The recently discovered giant Shtokman offshore gas condensate field in the Barents Sea, when put on stream, will be used as a base for LNG production, and new Eastern Siberian and Far Eastern fields will justify an effort to reach out to Northeast Asian markets. The unique combination of vast reserves and centralized transport capability makes deliveries of Russian gas flexible and reliable.

Coal Production

Russia's total coal reserves are around 157 billion metric tons. With the fast-growing national coal production that reached 296 million tons per year in 2005, Russia is the world's fifth coal producer after China, the U.S., India and Australia.

All modern trends point at a need to produce and handle higher-quality coal.
Performance figures of Russia's coal preparation industry (over 110 million tons a year), which includes 41 plants; suggest coal companies go in line with the latest developments. All produced coking coals are prepared at home; the proportion of domestically prepared steam coals is also growing fast. Coal exports are growing. In 2005, Russia sold abroad 76.7 million tons of coal, mainly through seaports.

**International Cooperation**

Already an active player on the international energy markets, holding the first place in gas (208.6 billion cu m per year) and second in oil exports (251 million tons per year, or 5.05 million bpd), constantly increasing, thanks to high energy prices and healthy growth of domestic demand, Russia seeks to further increase its role as a reliable and responsible partner and a key global and regional energy security provider.

Today's energy market without Russia is unthinkable. With over 90% of Russian energy exports focused on Europe, Russia has been seeking to secure the existing and create new export routes to improve consumer security. The Baltic Pipeline System, the Yamal-Europe Gas Pipeline, the Caspian Pipeline Consortium, the expansion projects for the Druzhba Pipeline and Black Sea transshipment facilities have been great steps to achieve these objectives.

The latest major project in this department, the North European Gas Pipeline (NEGP), promises an ultimate solution to the diversification problem. It will expand the capability to export gas to Western Europe, honoring the existing and securing future long-term commitments; the NEGP is, in effect, seen as a direct link between Russian and European gas systems.

This pipeline facilitates intensive cooperation between Russia and the European Union on convergence of energy systems and strategies. This work is on the stage of a feasibility study into a future simultaneous unification of power transmission lines run by the Union for the Coordination of Transmission of Electricity (UCTE), UES of Russia, and electricity companies of CIS nations. Russia and the EU focus on greater stability, reliability, and sustainability of production, distribution, transmission/transport, and consumption of energy, including energy efficiency, energy saving, environmental safety, and the role of renewable.
The Russia-U.S. energy dialog has also made considerable progress. Sakhalin I project has produced first oil for the U.S. market; Gazprom delivered the first LNG cargo to North America in September 2005. Russia demonstrates impressive growth on the U.S. energy market, doubling performance there. While Russia’s current share on the U.S. energy balance has not yet gone beyond 4%, Shtokman provides enough reason to hope for major improvements: Gazprom has not yet named partners on Shtokman, but a complete investment decision on the development of this giant field is already planned to come together.

The Eastern dimension of Russia’s energy cooperation has as much to do with Asian and Pacific nations as with North America. By 2020, Asia is expected to account for 30% (100 million tons, or 735 million bbl) of Russian oil exports and 25% (65 billion cu m) of gas exports, compared to the current 3% and 5%. Russia is geographically most competitive as a Eurasian energy transit operator, capable of spanning equally effective centralized control of energy supply in the North-South, East-West, and South-Northwest dimensions. This is important less for Russia as an individual player than for international energy markets and, accordingly, global economy, which justifies the role of the Russian energy sector as a pillar of national economy and a key element of global energy security (US department of Energy 2006).

Russia after the disintegration of Soviet Union

Russia’s power decline

Few would doubt that Russia’s power rapidly declined after the collapse of the Soviet Union. The decline took place in almost every dimensions of power such as economic, demographic, military and ideological. Thomas E. Graham, Jr. described Russia’s power decline especially in the area of economy and demography. He stated that Statistics can not begin to capture the full costs of the decline, but they provide a sense of the scale of the problems. With the breakup of the Soviet Union in 1991, Moscow almost overnight lost half the population, two-fifths of the gross domestic product, and a quarter of the territory it had once controlled. Between 1992 and 1999, the Russian economy collapsed in real terms by nearly 40 percent, according to official statistics. By the end of the Yeltsin period, the Russian economy ranked sixteenth in the world (when calculated by exchange rates) or tenth (in terms of
purchasing power parity). When compare Russia’s economic performance other states, the country’s decline was also palpable. In 1999, Russia produced only 2.6 percent of the world output, measured in purchasing power parity, the United States-21.4 percent; the European Union -20.1 percent; Japan-7.6 percent; India -5.4 percent. Moreover, according to expert calculations, the growth rate of Russia’s economy would have to be more than 8 percent a year for the next 15 years to catch up with Portugal and Spain in terms of Gross Domestic Production (GDP) per capita.

Worse still, the demographic situation within Russia negatively affects the country’s potential for economic recovery. The mortality rate is high. This is especially so in the case of the mortality rate among young males. This mortality rate increases to levels never experienced in peacetime (Weir 2007). Male life expectancy well captures the gravity of the problem. It fell from 64.2 years in 1989 to 57.6 years in 1994, even though it increased to 61.3 years in 1998. Furthermore, the fertility rate is 1.14, well below the replacement level of 2.14. (Graham, 2002), Thus, Lev Godkov, a Russian demographer, predicted that in 20 years there could be one pensioner for every worker in Russia. He then warned that “Not even a rich economy could survive that kind of strain” (Weir 2007:234). This demographic situation led President Vladimir Putin to declare in July 2000 that “if the present trend continues, the survival of the nation will be threatened. We are faced by the real threat of becoming an enfeebled nation (Graham 2002).

The Russian military, once the pride of the country, was also severely weakened in the decade after the collapse of the Soviet Union. Above all, financial constraints bore much responsibility for the decline. The budget for the military decreased from approximately $130 billion in 1992 to $40 billion in 1998. (Ibid.), the military suffered from the lack of trained professional troops and resources for training, maintenance, and new equipment. This in turn led to increasing incapacitation of Russia’s conventional military capabilities. Western sources estimated that only 30 out of 80 Russian ground divisions were minimally operational (Garnett and Trenin 1999). Russia’s Air Force and Navy were no better. For instance, only 45 percent of the necessary Air Force flight training was performed in 1998, primarily due to the lack of fuel. This percentage decreased even further to 35 percent in 1999. Therefore, according to a military source, if the budget did not increase. only 40-50 percent of Russia’s Air Force would be operational by 2001. (Umbach 2000).
The lack of funding also contributed to a degradation of morale. Military officers often moonlighted to increase their pay; the commanders employed their units to perform services for local officials and businessmen in order to make money for provisions; enlisted men were often seen on the streets asking for money; 93,400 servicemen lacked apartments for their families by 1999; and military academies suffered from a shortage of uniforms for the graduates. All these factors obviously led to a deterioration of military discipline. This was clearly evidenced during Russia’s invasion of Chechnya between 1994 and 1996 (Graham 2007). To be sure, Russia is still a nuclear power. Many Russian defense experts call for placing an emphasis on nuclear weapons to compensate for the incapacitation of conventional military capabilities. Indeed, Russia appeared to follow this track in order to maintain its declining world power status. (Umbach 2000) The Unhappy Military: with the Next Millennium Almost Here, Russia Needs to Starts to Sort out Its Military Mess and National Security Needs (Aron, 1998) But Russia now lacks financial resources to maintain its strategic nuclear deterrent equal to that of the United States. (Umbach 2000).

Russia’s power decline was also evident in the area of ideology. Especially after the collapse of the Soviet Union, Russia lost its ideological appeal abroad. As Deputy Chief of the General Staff General Valery Manilov suggested, Russia’s aspiration for a continued superpower role was not likely to be realized because Russia no longer served as an alternative model of development. In his words, “Having suffered for more than Seventy years from the absence of democracy, Russia consciously and voluntarily renounces any claim to serve as a role model of social development for all humanity” (Manilov 1997:234).

Indeed, Russia’s power decline was severe. To be sure, some Russian officials often claimed that the country was still a great power. For instance, Foreign Minister Evgeni Primakov in January 1996 said that Russia’s foreign policy would reflect the “country’s status as a great power.” But this claim ironically illustrated the country’s power decline true greatness, whether among men or among nations, does not need advertising. It should be evident. Public assertions are therefore often indicative of the existence of reasonable doubt as to whether they accurately reflect reality. In fact, claims of a state’s greatness will often proliferate precisely when international and self-perception coincide in the diagnosis that its status, power and influence in world affairs have declined. (Adomeit 1995)
Few states now treat Russia with the respect that they once had for the Soviet Union. "Look at the great Russian people. In the past he mere mention of their name used to crumble the walls of impregnable fortresses. Now they are defeated by Lilliputians ... We have lost our identity; ‘Russians’ – this word has become an empty sound without meaning" (Kazitsev 2000:95). “It is time for us to give up our primitive habit of puffing up our cheeks and making a first-rank power of ourselves ... Whether we want to or not, we are now forced to admit that by all criteria Russia is a second-rank power (Graham 2007). Indeed, Putin openly admitted the country’s power decline just before he took over Premiership in August 1999. In a document titled Russia at the Turn of the Millennium, he wrote that ‘Let’s admit that for the first time in the last 200-300 years; Russia is facing a real danger of falling into the second, if not the third, echelons of states in the world” (Tysiacheletii 2002).

Russia’s Caspian Policy under president Yeltsin

Within the context of Russia’s power decline the country’s policy toward the Caspian Sea moved toward cooperation. For almost one and a half years after the collapse of the Soviet Union, the Caspian Sea was not a priority issue for Russia. This was not so surprising given the fact that the Russian government was so preoccupied with its own political and economic problems that it could not afford to be concerned about the Caspian issues. In the words of Angeliki Spatharou, the Russian government was “rather introverted in its effort to deal with economic problems and radical reforms.” (Spatharou 2001) as a matter of fact, Western oil companies conducted negotiations with such Caspian littoral states as Azerbaijan and Kazakhstan as if Russia was not even a factor in the Caspian basin (Reteyum and Ruseckas 1995:162).

To be sure, in discussions of the Caspian Sea between 1992 and late 1993 Russia opposed the national division of the sea. In October 1992 Iran organized the Tehran Conference of Caspian States in order to create the Treaty on Regional cooperation in the Caspian Sea. The draft treaty, prepared by Iran in consultation with other Caspian littoral states, was completed in 1993. It was aimed at promoting cooperation among the Caspian littoral states in the utilization of the sea. It also envisioned the establishment of a regional organization of Caspian states as an institutional framework for future activities. The draft treaty opposed the idea of any division of the sea among the Caspian states and any unilateral territorial claims, even
though the treaty did not directly cover the issue of the Caspian legal status. Russia became a primary supporter of the draft treaty (Vinogradov and Wouters 1995). The draft treaty was to be considered at the final meeting of the Caspian states in Moscow in October 1994.

Nevertheless, it must be stressed the Russia’s position at this time was not aimed at preventing Caspian littoral states such as Azerbaijan and Kazakhstan from developing their offshore oilfields and thus dominating this region. This was clearly evidenced in October 1993 when delegations of four Caspian states – Russia, Azerbaijan, Kazakhstan, and Turkmenistan – met in Astrakhan. The head of the Russia delegation, Victor Chernomyrdin, maintained that the Caspian was not sea, but a lake, and thus maritime law did not apply. He then proposed that the territorial waters of each Caspian littoral state is limited to a 12-mile zone and the rest of water area be jointly owned by all Caspian littoral states. “Yet, Chernomyrdin suggested that he did not oppose oil development in the sea. He stressed the importance of protecting the Caspian environment especially given the fact that 90 percent of the world sturgeon population lived in the sea. At the same time he emphasized the need for further development of Caspian hydrocarbon resources. Chernomyrdin stated that “The developers should employ new technologies and attract foreign firms highly experienced in oil and gas production” in shelf areas in order to prevent any possible environmental damage (Solovyev 1994).

This statement indicated that Russia did not think through the issue of the Caspian legal regime. Nasib Nassibli’s assessment of the Russian proposal for the Caspian legal regime at the Astrakhan meeting appeared to entail an element of truth. He said that the Russian proposal was aimed at testing the reaction of the Caspian states to the Russian approach to the Caspian legal status problem.(Croissant 1999) As a matter of fact, Iurii Merziliakov, Head of Russian Foreign Ministry’s Working Group on the Caspian Sea, suggested that the Caspian Sea was not a priority issue in the early 1990s. In his words, discussion about the legal status of the Caspian Sea was “of a theoretical nature.” (Merzliakov 1999) However, shortly after the Astrakhan meeting the situation began to change drastically. On November 26, 1993 Russia’s Minister of Fuel and Energy Iurii Shafranik and Azerbaijan signed an inter-governmental agreement “on cooperation in the area of exploration and exploitation of oil and gas oilfields on the territory of the Azerbaijani republic,” which provided
for Lukoil’s participation in the Azerbaijani offshore oilfields, Azeri and Chirag. Russia’s Foreign Ministry criticized Shafranik’s move. In particular, the ministry denounced the text of the agreement that the Azeri and Chirag oilfields were situated “in the Azerbaijani sector of the Caspian Sea”, which implied that the sector was part of Azerbaijani territory. The ministry also refused to clear the agreement. Thus, according to Segodnia, November 26, 1993 became the date of an undeclared “oil war” between Russia’s Foreign Ministry and the oil industry faction. (Razuvaev 2002). To be sure, negotiation between Azerbaijan and the Russian oil industry faction on developing the offshore resources in the Azerbaijani sector of the sea began in summer 1993. This negotiation proceeded well. Indeed, at the Astrakhan meeting Surat Huseinov, Azerbaijan’s Prime Minister, suggested that Lukoil would be asked to participate in developing the marine oil in the Azerbaijani sector. At the time of the signing the agreement, Shafranik reportedly said that it would have a positive effect on settlement of the Nagorno-Karabakh conflict.

This ‘oil war’ was manifested externally. In the words of Thane Gustafson; Russia spoke with “two voices” toward the Caspian Sea. (Gustafson 1995) Yet, several analysts interpreted this Russian contradictory policy as a “two-track policy” with one consistent aim. While the Foreign Ministry exerted political and economic pressure to prevent Russia’s exclusion from energy development projects, the oil industry faction reaped the dividends of Russia’s participation. For instance, according to Jim MacDougall, “It is more likely that Lukoil’s actions are part of an overall carrot and stick approach on the part of the Russian government” (MacDougall 1997:123). Likewise, Rajan Menon suggested that the Russian Foreign Ministry’s move was a “lever for squeezing Russian economic interests” into oil development in the Caspian Sea. (Menon 1998) “Treacherous. This was not the case. According to Gustafson by the autumn of 1994 Russian bureaucracies such as the Committee on Geology and Mineral Resources, the Ministry of Environmental Protection and Natural Resources, and the Ministry of Foreign Affairs, determined the country’s position. These bureaucracies advocated that all Caspian littoral states should have joint control over the sea beyond the 12-mile national zone. However, as Gustafson et al. suggested, the Foreign Ministry did not have a clear idea on how to resolve the contradictions between its formal diplomatic position and the actions of the oil industry faction (Gustafson 1995).

As a matter of fact, the contradictions between Russia’s Foreign Ministry and the oil industry faction continued to manifest themselves. For example, in September
1994 Azerbaijan signed the “contract of the century” with BP-led consortium of oil companies. Lukoil obtained a 10 percent share in Azerbaijan’s oil project. Stanislav Pugach, Head of Department of International cooperation in Russia’s Ministry of Fuel and Energy, whom Shafranik authorized to sign the agreement on his behalf, participated in the signing ceremony. At the ceremony Pugach stated that the Azerbaijani oil deal was “highly valued by the Russian government. However, on the same day Russia’s Foreign Ministry held an official news conference to condemn the oil contract as illegitimate. The ministry’s spokesman Grigorii Karas stated that Russia did not recognize the legitimacy of the oil deal “with all the ensuing consequences.” He then added that “the Caspian Sea and its resources were vital for all Caspian states, therefore any unilateral actions by any of them would inevitably infringe on the rights and interests of the other Caspian countries” (MacDougall 1997:180).

Two days later, Russia’s Foreign Minster Andrei Kozyrev reaffirmed the ministry’s stance by casting doubts on the legitimacy of the Azerbaijani oil deal. He suggested that Russia opposed any unilateral moves in the Caspian Sea. In his words, “There exist former USSR agreements which regulate all the issues connected to the Caspian Sea, and no one has repealed them. The obligations under these agreements apply to all the states which are the legal successors of the Soviet Union.

However, this statement by Kozyrev, according to the Financial Times, was greeted “with muted anger” by the oil industry faction. A spokesman of the Ministry of Fuel and Energy said he had no special comment on Kozyrev’s statement. The spokesman then added that various interests were involved in the oil deal including those of the ministries and Lukoil – “each of which could have a different position.” (Financial Times 1994) The mere mention of Lukoil in Russia’s Foreign Ministry provoked a whole range of negative emotions. The Russian Foreign Ministry’s spokesman, Mikhail Demurin, admitted that there existed two varying attitudes towards the Azerbaijani oil deal. He pointed out that the main difference between the Foreign Ministry and the oil industry faction lay “in various approaches to the necessity of a solid international legal base for the development of relations between sovereign states” (Ibid.). Likewise, Andrei Urnov, Head of the Russian Foreign Ministry’s Working Group on the Caspian Sea, acknowledged that Russia did not
articulate its interests in the Caspian Sea in an organized fashion in the mid-1990s. Interview with Andrei Y. Urnov, Moscow, Russia, June 11, 2003. Russia’s contradictory moves were in stark contrast to those of the United States. American oil company Conoco Phillips signed a contract with Iranian authorities to invest $1 billion on developing two Iranian oilfields in March 1995. But the United States government opposed the deal and thus Conoco cancelled it.

Under these circumstances, Russia’s two main competing agencies sought to establish a coherent policy toward the Caspian Sea. For example, in October 1994 representatives of Russia’s Foreign Ministry and the Ministry of Fuel and Energy agreed to form a coordinating council to arrive at a common policy. But the proposed council never met. (Gustafson 1995) Indeed, the policy struggle between the Foreign Ministry and the oil industry faction continued. This was especially so despite the fact that Russia’s President Boris Yeltsin appeared to determine the country’s position at the Russian-Turkmenistan summit in 1995. In May of that year Yeltsin and Sapamurat Niyazov signed an agreement which opposed the principle of the national partition of the Caspian Sea. At a press conference after the summit, Yeltsin stated that it was necessary to jointly develop the Caspian Sea resources including oil and gas. He then added that “The Caspian is a special inner sea; it cannot be divided either along its shores, or across its waters”

The Foreign Ministry continued to express its opposition to any national division of the Caspian Sea. Deputy Foreign Minister Albert Chernyshev said in an interview with Interfax in August 1995 that unilateral action on developing mineral resources in the Caspian Sea was impermissible. On the very same day, however, the Lukoil company and Kazakhstan’s Yuzhneftegaz company signed documents establishing a joint venture named Kumkol’-Lukoil to develop the northern part of the Kumkol’ oilfield in the Caspian Sea. Commenting on this episode, Kommersant Daily wrote that “The history of Azerbaijan’s struggle to establish an international Caspian consortium could be repeated, this time in Kazakhstan.” (Kommersant Daily 1995).

Furthermore, four months later Russia’s Foreign Minister sent a diplomatic note to Azerbaijan. The note rejected the definition of Azerbaijan’s “Sector” as part of its national territory contained in its constitution, which was published as a draft shortly before its adoption in the November 12 referendum. It also warned that Russia
considered Baku’s claim to sectoral division as “unlawful seizure” and reserved the right to take appropriate measures at a suitable time. (The Current Digest of the Post-Soviet Press, 1995) But around the same time Lukoil signed an agreement with SOCAR to develop the karabakh oilfield which was about 75-miles off the Baku coast. Lukoil obtained a 32.5 percent share Thus, speaking of Russia’s policy toward the Caspian Sea, The Economist pointed out that the policy ranged “from enthusiastic cooperation with its friends to cynical subversion of those it finds inconvenient.” (The Economist 1995) Aleksandr Lebed”, Russian presidential candidate in 1996, deplored that Russia’s foreign policy-makers had no concept of national security.

The policy struggle continued at least until late 1997. To be sure, the Foreign Ministry began to show its flexibility in late 1996. In October of that year, sources at the ministry suggested that Russia was ready to accept sectoral division of the Caspian, albeit a restricted one. Indeed, at the foreign ministerial conference in Ashgabat in November 1996 Primakov stated that We are prepared to recognize the jurisdiction of each Caspian state not only in the offshore zones of up to 45 miles but also regard to the deposits which are outside the agreed limits of this zone where oil extraction is already in progress or should begin soon. Of course each Caspian state should have enshrined the priority right to take part in projects which are being implemented both in the offshore zone of another state and beyond its limits. The mechanism for implementing this right is entirely open to agreement. For instance, agreement can be reached on the so-called dual tender system whereby only companies of third countries take part in the first tender. The central part of the Caspian outside the zones of direct jurisdiction of littoral states would remain at the disposal of a joint-stock company which is being created by all countries on an equal footing.

Both Iran and Turkmenistan expressed their general support for Primakov’s proposal. But Azerbaijan and Kazakhstan opposed the Russian proposal. For instance, Kazakhstan considered the proposal as yet another of Moscow’s attempts to dominate the sea because the proposal would allow Moscow to decide the fate of oilfields beyond the 45-mile zone. “It said that Primakov’s proposal “would create legal havoc in the Caspian Sea, draw dividing line through Azerbaijani, Kazak, and Turkmen oil and gas deposits, produce political complications, and obviously, discourage Western investment.” (Croissant and Croissant 1990:129). As a result, the Ashgabat meeting failed to produce a unified common stance of the legal status of the Caspian Sea.
It was only in late 1997 that Russia’s Foreign Ministry moved closer to the position of the oil industry faction by exploring the possibility of division of the seabed into national sectors along the modified median line. According to a Foreign Ministry official, Moscow would not press its previous proposal that the 45-mile national offshore zone should be established for the Caspian countries. He then stated that Moscow was prepared to consider “any compromise proposals aimed at reaching understating which would be acceptable to all Caspian countries. Mutual concessions are known to be the road a compromise” (Ebel1997:142).

It was against this background that both Russia and Kazakhstan managed to arrive at a common understanding as to the need to divide the bottom of the sea while leaving its surface under common jurisdiction of the littoral states. Following an informal meeting outside Moscow between Yeltsin and Nursultan Nazarbaev, they issued a joint statement in January 1998. The statement said that “a consensus on the legal regime of the Caspian can be reached through a just division of the seabed with its water space remaining in joint use for navigation, coordinated fishing, and environmental protection” (Piemani 2001:85).

Less than a month later Feliks Kovalev, the Russian Foreign Ministry’s Special Envoy, explicitly stated that Russia’s stance was to carry out “a fair division of the Caspian bed.” He then added that after Kazakhstan, Moscow would discuss its new proposal with Iran, Azerbaijan, and Turkmenistan. The next day both Russia and Kazakhstan began to conduct negotiation at the level of first deputy foreign ministers. The negotiation confirmed the need for the division of the Caspian seabed while leaving its surface under common jurisdiction of the littoral states (Gaisin 2000).

This negotiation then led to the agreement between Russia and Kazakhstan on the delimitation of the northern Caspian seabed. Both sides were expected to sign the agreement by April 28, 1998, the day before a summit of CIS. But the signing was postponed and concluded in July 1998. (The Current Digest of the Post-Soviet Press 1998) The agreement contained one concession by the Kazakhstan side. The agreement specifically provisioned that issues such as pipelines and telephone cables would have to be governed by subsequent agreements. According to the Financial Times, this provision provided Russia a tool to oppose the planned construction of an underwater trans-Caspian pipeline. Indeed, one Kazakhstani official mentioned that
Nazarbaev in effect “traded” recognition of Kazakhstan’s offshore mineral rights for a Russian veto over the pipeline. The Russian-Kazakhstan agreement finally resolved the internal contradiction between the Russian Foreign Ministry and the oil industry faction. The trend clearly indicates that Russia moved toward compromise to seek cooperation with the Caspian littoral states.

Moscow hoped that the agreement of July 1998 would encourage three Caspian littoral states, Azerbaijan, Iran, and Turkmenistan, to follow Kazakhstan’s suit. Acting Deputy Foreign Minister Boris Pastukhov said that the Russian-Kazakhstani accord would help to soften the Azerbaijani position. Merziliakov, Head of the Russian Foreign Ministry’s Working Group on the Caspian Sea, expressed hope that the signing of the Russian-Kazakhstan agreement would lead to agreement among all Caspian coastal states on the legal status of the Caspian Sea (Amineh 1999).

But three Caspian littoral states refused to sign an agreement with Russia. For instance, one day after the signing of the Russian-Kazakhstani agreement, the presidents of Iran and Turkmenistan issued a joint declaration which said that they would not observe the agreement. It stressed that “everything” – the seabed, the water mass, and the sea surface - must be divided. (The Current Digest of the Post-Soviet Press 1995) Iran heavily criticized the Russian-Kazakhstan agreement by noting that it was illegal. In contrast, Baku welcomed the agreement. Azerbaijan’s President Heydar aliev said that “I was pleased to learn that presidents Boris Yeltsin and Nursultan Nazarbayev had signed an agreement on the division of the Caspian Sea bed into sectors along the median line” (Interfax 1998). Natik Aliyev, President of SOCAR, expressed similar points. See “Azerbaijan: Azeri Oil Company Head Praises Russia-Kazakh Caspian Accord,” Nevertheless, Baku refused to sign an agreement with Moscow. One of the greatest stumbling blocs to this agreement was Baku’s insistence that the entire Caspian Sea – the seabed, the water mass, and the sea surface – be divided. In particular, Baku believed that if it agreed to divide only the seabed, Moscow had the right of veto to any trans-Caspian pipelines (Adams 1998: 167).
Conclusion

The Yeltsin era there were two major groups in the policy making. On one end of the spectrum were the "Atlanticists," who placed primary emphasis on good ties with the United States and wanted Russia to be part of Western civilization. On the issue of Russian policy toward the "near abroad" -- the newly independent countries of the former Soviet Union -- the Atlanticists stressed normal diplomatic relations, without Russia seeking to impose its will from a dominant position. Finally, in the area of economics, the Atlanticists advocated rapid economic reform and privatization. In the center of the Russian political spectrum were the "Eurasianists." They advocated a balanced foreign policy approach for Russia, with equal emphasis on Europe, the Middle East, and the Far East. On the issue of relations with the "near abroad," they advocated an assertive policy so that Russia would be clearly the dominant outside power. Finally, they advocated slower economic reform and privatization than the Atlanticists. Russia’s energy policy in general and in particular Caspian policy was in chaos and confusion during Yeltsin’s period. Clearly pro western Atlantics were calling the shots under Yeltsin as a result Russia lost its traditional areas of influences like, Caspian and Trans- caucuses region. The geopolitical interest of Russia in the Caspian region has been completely compromised. United States and NATO made inroads to the near abroad region. Western oil companies, without much competition from Russian companies seal the deals with many Caspian countries in oil and gas exploration and marketing. Countries like Azerbaijan move closer to US during this period. Also Russia failed to reach an agreement with other Caspian littoral states on the issue of the ownership of Caspian.