CHAPTER 3
ENERGY RESOURCES OF THE CASPIAN SEA REGION

Introduction

The collapse of the Soviet Union and the end of the Cold War led to a dramatic change in the landscape of Eurasian geopolitics. On the one hand, it resulted in the emergence of the eight independent states of Central Eurasia: the sub-region of Central Asia consisting of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan; and the sub-region of the South Caucasus consisting of Armenia, Azerbaijan and Georgia. On the other hand, it changed the control of the Caspian Sea basin from two littoral states the Soviet Union and Iran—to the five countries of Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan. The strategic geopolitical importance of Central Eurasia and the Caspian Sea region are obvious. They connect Northeast and Central Europe with countries on the Mediterranean Rim, Middle East and, further on, the Indian Ocean and Asia-Pacific. Central Eurasia and the Caspian Sea region are located between, Russia an unstable regional power, the Middle East a resource-rich region confronted with structural political and economic crises and Asia-Pacific home to highly populous states with great economic potential. Central Eurasia and the Caspian Sea region are adjacent to Iran a United States (US) adversary Turkey a Western ally Afghanistan a war torn country undergoing reconstruction and Iraq a chaotic and unpredictable country.

At the end of 2001, the total global oil stock was estimated at 1,050.0 billion barrels (BBbl) proven reserves (see Table). Of the world’s total, 863.29 BBbl of oil was located in OPEC member states (Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela and United Arab Emirates) and 242.12 BBbl in non-OPEC countries.15 Fourteen countries (Algeria, China, Iran, Iraq, Kuwait, Libya, Mexico, Nigeria, Norway, Russia, Saudi Arabia, US, United Arab Emirates, Venezuela) accounted for 90 percent of the total global proven oil reserves. Of these, just five countries (Saudi Arabia, Iraq, UAE, Kuwait, and Iran) hold almost two-thirds of the world’s proven oil reserves. (United States Department of Energy 2002) The Caspian Sea...
littoral states of Russia, Kazakhstan, Azerbaijan, Turkmenistan and Iran account for an extremely important share of the world's oil reserves. Of these five countries, Iran and Russia are the two main powers in terms of oil reserves. In 2001, Iran ranked fifth (89.7 BBbbl or 8.5 percent of the global total) in the world in proven oil resources, and Russia seventh (48.6 BBbbl or 4.6 percent). Kazakhstan has much larger reserves than were estimated during the Soviet period and, after Russia, is considered to be the richest of the former Soviet republics in oil resources. Its proven oil reserves (8.0 BBbbl or 0.8 percent) rank it fifteenth in the world. Azerbaijan has been an important source of oil for more than a century and, in 2001, its proven reserves ranked it sixteenth (7.0 BBbbl or 0.7 percent). Turkmenistan also has significant oil reserves, estimated at 0.5 BBbbl in 2001. Together, the total proven oil reserves of the five Caspian Sea littoral states were 153.8 BBbbl in 2001, about one fifth of the combined total 734.7 BBbbl of Europe, the US and the Middle East (Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates and Yemen) (BP Statistical Review of world energy 2004).

The Caspian Sea region's natural gas potential is, by some measures, more significant than its oil potential. Regional proven natural gas reserves are estimated at 232 trillion cubic feet (Tcf), comparable to those in Nigeria. Natural gas production from Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan in 2005 was approximately 5.2 Tcf, comparable to three quarters of Canada's production (US Energy Information Administration 2006). Turkmenistan and Uzbekistan are the region's largest natural gas exporters, but Kazakhstan has exported smaller volumes due to a lack of export infrastructure. The Caspian region's leading oil producers. The region will need considerable investment in upstream projects and export infrastructure before its full potential can be realized.
Natural gas reserves of Caspian region

Caspian Sea Natural Gas Reserves in Context (2006)

- Russia*
- Iran
- Qatar
- Caspian Sea
- Saudi Arabia
- North Sea
- Nigeria
- Algeria
- Egypt
- Netherlands

*Does not include Eastern Siberia, Sakhalin reserves
Source: Cedigaz (2006), World Gas Conference (Amsterdam, June 2006)
The oil and natural gas reserves of the Caspian Sea region are undeniably significant. The proven oil reserves of the five Caspian Sea littoral states total 153.8 billion barrels (BBbbl), while their total natural gas reserves are estimated at 2688.3 trillion cubic feet (tcf). The five Caspian Sea littoral states have about 14.6 percent (1,050.0 BBbbl) of the world’s total proven oil reserves, and almost 50 percent (5476.7tcf) of the world’s total proven natural gas reserves (BP Statistical Review of World Energy 2002).

Since the end of the Cold War, states and non-state actors have assigned more significance to economic and resource concerns. Conflicts over the control of global oil and gas have become more probable as global energy consumption rises, environmental conditions deteriorate, the availability of oil and gas decreases, and prices for these commodities rise. Internal conflicts over oil and gas could arise in countries where these are the main source of income. The possession of a huge military arsenal and an extended alliance system is no longer sufficient for state survival. The survival of state and domestic society instead depends on economic dynamism, the cultivation of technological innovation, and getting access to raw material inputs required for both. Resource competition could be accompanied by ethnic hostility, economic injustice, and political competition; all factors, which are linked to disputes over the control of hydrocarbon resources. With the world’s energy demands projected to rise rapidly over the next decades, can Central Eurasia and the Caspian Sea region become a viable alternative to the Persian Gulf as a global energy supplier? What are the potential obstacles for the production and security of supply of the region’s energy resources? According to some expert the following factors will be crucial and will determine the future of Caspian as an energy supplier in the post cold war world-

• The increasing global demand for oil and gas.

• The scarcity of oil and gas resources.

• The dispute over ownership rights of these resources (Amineh 2003:243).
The question of the Caspian legal regime entails many issues such as navigation, fisheries management, environmental protection, and hydrocarbon resources. Among these, the issue of hydrocarbon resources, especially the ownership or control of those resources, is the most critical. Russian Deputy Foreign Minister Chernyshev stated that “the use of Caspian mineral resources is the most acute problem related to the Caspian Sea status (O'Lear 2004:170). Similarly, in the words of Iurii Merzilakov, Head of the Russian Foreign Ministry’s working Group on the Caspian Sea, It is more or less obvious that the new members of the Caspian club; Azerbaijan, Kazakhstan, Turkmenistan, would have never raised the question of the Caspian legal status if not for its considerable oil and gas resources under the seabed.

According to Abraham S Becker the dispute of the Caspian legal status by saying that the dispute was mostly about the profits, influence and power of denial that accompany the right to dispose of valuable mineral resources (Becker 1998:235). For example, Russia was disappointed that it did not have an energy-rich sector of the Caspian Sea. It was also concerned that it might lose its traditional dominance in the Caspian region as western oil firms moved in to develop energy resources in the region. For two Caspian coastal states, Azerbaijan and Kazakhstan, the ownership of hydrocarbon resources in the Caspian Sea was critical. These states pinned their hope of economic recovery on those resources. Moreover, these states were believed to have more energy reserves in their sector of the Caspian Sea than Russia and Iran.

After the collapse of the Soviet Union more advanced Western technology discovered undetected oilfields in the Caspian Sea. Yet, it must be stressed that there is no consensus as to the actual amount of energy reserves in the sea (Ahmirahammadi 2000:125). Various organizations provided different estimates. For instance, one optimistic by the U.S Department of Energy said that the Caspian Sea might hold as many as 200 billion barrels of oil. Naturally, the Caspian Sea, at times was considered as the “[Persian] Gulf of the 21st century (Hircshhausen and Engerer 1999:130). However, several analysts cast doubt on this optimistic estimate by saying that political motive was responsible for the inflation of Caspian energy reserves.
Later, other organizations provided less optimistic estimates. For instance, in early 1998 the London-based International Institute for Strategic Studies (IISS) released a report which pointed out that the 200 billion barrels of Caspian oil suggested by the US Department of Energy was an exaggeration. Instead, the amount of Caspian Oil reserves ranged between 25 and 35 billion barrels (approximately three percent of the world reserves). Thus, the report suggested that the amount of Caspian oil reserve was not comparable to those of the Persian Gulf, but to those of the North Sea. Later other studies by the Baker Institute supported more “realistic” estimates by IISS (The International Institute for Strategic Studies 2000).

In these conditions, uncertainty about the extent of energy reserves in the Caspian Sea will persist for years to come. Geological tests are not extensive enough to provide reliable assessment. By the mid-1990s only seven percent of the Caspian shelf was explored. Even in the early 2000s the exploration was not extensive enough to provide reliable figure for energy reserves in the sea. Viktor Kalyuzhny, the Russian President’s Special Representative for Caspian Affairs, stated in 2002 that “It’s difficult to cite a precise figure for the Caspian fossil fuel resources; its mineral wealth hasn’t been fully explored yet (Amineh 2003:87).

Indeed, the Caspian Sea brought not only despair, but also hope. On the one hand, there were several disappointing results especially in such offshore oilseeds as the Karabakh, the Dan Ulduzu-Asharafi, the Lankarana-Talysh, and the Yalama in the Azerbaijan sector of the Caspian Sea. For instance, some estimated that Karabakh oilfield contained approximately 900 million barrels of oil. But in January 1999 the Karabakh oilfield announced that it closed down its operation after failing to discover enough oil reserves. On the other hand, there were promising results in the Kashagan oilfield in the Kazakhstani sector of the Caspian Sea. Some estimated that the Kashagan oilfield might contain at least 25 billion barrels. A western oil executive in Almaty said that “There might be six Tengizes in there (Kashagan). As a matter of fact, the Kashangan oilfield turned out to be one of the largest discoveries in the past 30 years. The Economist pointed out that proven oil reserves in the Kashagan oilfield were estimated between 18 billion and 35 billion barrels. It then added the amount of oil reserves could increase threefold if a big new find off the Kazakh coast as promising as results announced by in July, 2000 suggests.
Regional and international Actors in the Caspian region

The vast oil and natural gas resources of Central Eurasia have transformed the region into a location in which the forces of interstate rivalry, enterprise competition, and responses by regional state and non-state actors intersect. All major industrialized powers and many of the multinational companies that have their home base in these countries meet in Central Eurasia and the Caspian Sea region. Contenders from late-industrializing countries are trying to get a foothold in the region. Local actors have to respond to new social forces in the region. In such a complex matrix of social forces, competition and cooperation are ad hoc and multi-level. The main actors involved in Central Eurasia and the Caspian Sea region are: the immediate and highly interested regional powers China, Iran, Russia, Turkey and also Pakistan and Afghanistan; western countries, especially the US, European Union (EU) and its member countries; and western Transnational Corporations (TNCs). ((Amineh 2003) the region is not incorporated into the territorial sphere of security institutions of one of the major powers and its allies. Here we examine the position regional and international powers /actors in the Caspian region and the policy they pursue for securing control over energy sources. Several experts identified many external powers besides the littoral sates. These external powers included the United States, China, France, Japan, Saudi Arabia, Turkey and the UK. So far their involvement in the issues of the Caspian, the degree of their involvement was minimal in comparison with that of the United States.

Russia remains the most prominent regional power in Central Eurasia and the Caspian Sea region. It continues to try to re-incorporate these areas into its security system, as can be illustrated with its aim of establishing a unified air defense system in the context of the Commonwealth of Independent States (CIS). For Russia, CIS provides the possibility of reviving the former security, political and economic order of the Soviet Union within a new political constellation. Other attempt at regional co-operation is the Eurasian Economic Community (EAEC) of Belarus, Kazakhstan, Kyrgyzstam, Russia and Tajikistan. Its main objective is deepening co-operation in the economic and humanitarian fields. Russia sees its decline in power as due to its own economic problems, the wish of Central Eurasia states to distance themselves from it, and increasing US involvement (military, political and economic) in the region.
The two main competing agencies involved in Russia’s Caspian policy making were the Foreign Ministry and the oil industry faction. Besides these two competing agencies, other Russian organizations too were involved in the country’s Caspian policy making. Several analysts identified, for example, the Ministry of Environment, the ministry of defense, the Ministry for Cooperation with the CIS states, the committee on geology and Mineral Resources, the Duma and the fishing industry as organizations involved in the country’s Caspian policy making. Among these agencies the Foreign Ministry and the Ministry of Fuel and Energy are have a significant role. Also the Russian oil companies like Lukoil and Yukos (which later nationalized in a by president Putin and other companies also played a crucial role in shaping Russia’s Caspian policy. According to Usin Lee “one is surprised to note that interests of private oil companies have regularly clashed with those of the Foreign Ministry (Lee 2004). The Russian government held large amount of Lukoil’s shares to influence the company’s decisions until April 1996, the time period during which the most critical policy struggle between the two main competing agencies; foreign ministry and ministry of fuel and energy took place. Therefore, we view Lukoil’s behavior as Russia’s official position.

Russian oil companies such as Lukoil, Yukos, and Rosneft could be characterized by “the unique and seemingly paradoxical fusion of government structures and semi-independent private entities often acting by consensus. Drawing on the recommendations of a special interdepartmental commission, Russian Prime Minister Viktor Chernomyrdin was charged with the goal of making of these companies consistent with ‘Russia’s state interest (Lee 2004:135).

Azerbaijan

After its independence, Azerbaijan, like all other former Soviet republics, experiences severe economic hardship resulting from the consequences of the collapse of the Soviet Union such as disruption of supply links. Worse still, economic conditions further deteriorated as the country continued to engage in an exhausting war in Nagorno Karabakh for years (Croissant,1997). According to the European Bank for Reconstruction and Development (EBRD), Azerbaijan’s GDP in 1995 in real terms was 34 percent of its
1989 size, whereas the figures for Kazakhstan and Turkmenistan were 45 percent and 63 percent, respectively. Under these circumstances, Azerbaijan linked the country's future with the development of the oil industry (Forsythe 1996). For the rapid development of the country's oil industry Azerbaijan's sovereignty over its sector of the Caspian Sea is essential. Approximately 80 percent of Azerbaijani oil production comes from offshore fields. Accordingly, if Baku does not retain sole control over its sector of the sea, rapid economic recovery will be difficult.

As a result, Baku most adamantly argued that the Caspian Sea should be divided. Indeed, Azerbaijan was the first of the Caspian littoral states to begin actual development of Caspian oil reserves with foreign investment. Negotiations with foreign oil companies on developing sea's offshore mineral resources began even as early as 1990 (Bagirov 2001). In January 1991, Azerbaijan declared a public tender for the exploitation of the three oilfields in the sea: Chirag, Azeri and Gunashli (Lee 1999:141). The tender was made jointly by the USSR Ministry of the oil and Gas Industry and by the Council of Ministers of Azerbaijan.

These negotiations were about to bear fruit in 1993. In June of that year Azerbaijani authorities were about to head for London to discuss final contract terms with an international oil consortium, which did not include the Russian or Iranian Oil companies. The conclusion of Azerbaijan's first major oil agreement with the oil consortium was expected no later than September 1993. (Bagirov 1996) hope for the rapid development of energy resources in the Caspian Sea did not come true primarily because of political instability in the country. Shortly before the planned negotiations on the contract terms in London, Azerbaijan experienced painful defeats in the Nagorno-Karabakh war: Azerbaijan lost 20 percent of its territory and approximately one million of the country's seven million inhabitants became refugees.

Moreover, in the midst of this defeat anti-Russian President of Azerbaijan Abulfaz Elchibey was overthrown through a military coup. In these conditions, Aliyev, the former first secretary of Azerbaijan's communist party, returned as the country's leader. Then in August 1993 he began to renegotiate the contract with an international oil
consortium. (Levine 1993). In this process, Aliyev, diplomatically include the Russian oil company Lukoil in the oil construction. Nevertheless, he was resolute in his position on the legal status of the Caspian Sea. This was most clearly evidenced in his position on the legal status of the Caspian Sea. This was most clearly evidenced in September 1994 when Aliyev issued a decree allowing SOCAR to “sign the contract of the century” with a BP-led consortium of oil companies. The 30 year contract provided for the development of the Azeri, Chirag and Gunashli oilfields in the sector of the Caspian Sea claimed by Azerbaijan. Thus, Baku in effect began to exercise its modernity over its sector of the sea (Aliyev 1997).

Kazakhstan

Kazakhstan, unlike Azerbaijan, took a cautious approach on the legal regime of the Caspian Sea at the beginning. This was no surprising because Kazakhstan’s stance on the legal status of the sea was not motivated by “twin goals” of avoiding conflict with Russia and retaining sovereignty over its sector of the Caspian Sea. Kazakhstan’s demographic situation bore some responsibility for this. A large Russian community, approximately 38 percent of Kazakhstan’s total population, lived in Kazakhstan. Especially their concentration along the very long border with Russia made the situation more complicated for Kazakhstan. It provided Russia a critical instrument to undermine Kazakhstan’s independence. (Menon 1998) Accordingly, Nazarbaev after independence sought to maintain a good relationship with Russia. Probably because of this, he at times supported the stance of Russia’s Foreign Ministry. For instance, commenting on the “contract of the century” in Azerbaijan, he said that Baku was trying to hog the blanket.” Nazarbaev then suggested that he would support the Soviet-Iranian treaty of 1940 (Gustafson 1995:88).

However, Kazakhstan never intended to give up its sovereignty over its sector of the Caspian Sea. (Gustafson 1995) The country’s economic future was closely linked to the development of energy resources in the sea. Viacheslav Gizzatov, Kazakhstani Deputy Foreign Minister, said that Caspian energy resources were not critical for Russia given the country’s oil reserves in other area, but this was not the case for Kazakhstan. In
his words, “For Kazakhstan, the exploration of Caspian mineral resources will determine how quickly the country will be able to stand on its feet.” Moreover, Kazakhstan was believed to have the richest energy reserves in its sector of the sea. (Gaisin 2000:59)

In these conditions, Kazakhstan, less forcefully than Azerbaijan, argued for the national division of the Caspian Sea. As a matter of fact, it was Kazakhstan which first signed an oil contract with Western companies, notwithstanding oil explorations deal. In December 1993 a new Kazakhstan oil company Kazakhstankaspishelf (KCS) signed an agreement with a consortium of seven Western oil companies on exploring the shelf of the north eastern Caspian over the next three years. In addition, Kazakhstan submitted the draft convention on the legal regime of the Caspian Sea to its littoral state’s meeting in Almaty in September 1995. The convention proposed that every Caspian littoral state should have territorial waters; the width of these zones should not exceed 12 nautical miles; and the water outside territorial waters should be available for common use by all Caspian states. However, the draft convention stressed that the Caspian seabed and its mineral resources must be divided between five Caspian littoral states and each state should have the right to lay underwater pipelines in its section. The convention obviously envisioned a compromise between Russia’s Foreign Ministry and Azerbaijan. It was for this reason that during the foreign ministerial meeting of the Caspian littoral states in November 1996 Kazakhstan criticized Azerbaijan for “blocking a new convention by its insistence on the division of the entire sea, and not only of the mineral resources of the seabed.” (Dekmjian and Simonian 2001)

Turkmenistan

Turkmenistan’s position in the affairs of Caspian Sea has been ambiguous and has changed several times. On the other hand, Turkmenistan was the first state which asserted sovereignty over its sector of the Caspian Sea by adopting the Law on the State Border in 1993. (Vinogradov and Wouters 1995) On the other hand, Turkmenistan supported Russia’s Foreign Ministry in opposing the national division of the sea. This ambiguity resulted in part from the Turkmenistan President’s unpredictable behavior. Kommersant Daily wrote that Saparmurat Niyazov had a “reputation for being capable of changing his
line of conduct flexibly and imperceptibly, proceeding exclusively from his own interests.” For instance, in October 1994 Niyazov suggested that Turkmenistan had no objections to the Azerbaijani “contract of the century” with an international consortium. However, at the Russian-Turkmenistan summit in Moscow in May 1995 Boris Yeltsin and Niyazov signed an agreement which opposed the national division of the Caspian Sea. (Lee 2004).

Turkmenistan’s ambiguity on the legal regime of the Caspian Sea also resulted in part from the fact that Ashgabat, unlike and Astana did not consider the question of the legal regime as its priority issue. Rather, Turkmenistan put much emphasis on developing its onshore gas fields (Dekmjian and Simonian 2001). This was not surprising given the fact that gas exports accounted for 85 percent of Turkmenistan’s hard currency. Vladimir measamed, a Russian expert, pointed out that Ashgabat would not pay much attention to the question of the Caspian legal status because “the priority of developing gas reserves as opposed to oil legal status because “the priority of developing gas reserves as opposed substantially reduced the sharpness of this problem” (Measamed 1999).

Turkmenistan’s officials continued to express their opposition to national division of the sea between mid-1995 and early 1997. For example, the country’s Foreign Minister Boris Shikhmuradov stated that water area beyond 20-40 miles should be a “zone of free navigation and joint decision-making.” It was only in January 1997 that Turkmenistan appeared to reverse the country’s position. Niyazov told western media that the Caspian oilfield called Azeri belonged to Turkmenistan “because it is located in Turkmen territorial waters.” By doing this, Turkmenistan implicitly indicated that it supported the national division of the Caspian Sea. This change resulted in so much from any geopolitical reorientation of the country’s foreign policy, as from its fear of being late in obtaining a share of the limited foreign financial investments. (Vinogradov 2000) Commenting on Niyazov’s announcement, Turkmenistan Deputy Foreign Minister Yelbars Kebpanov noted that Ashgabat had to “take the measure in order not to be just a witness during the division of ‘the Caspian oil pie.” (ibid: 239).
Niyazov made Turkmenistan’s position clearer by signing an agreement on the temporary division of the Caspian Sea into national sectors with Kazakhstan in February 1997. At a press conference both presidents stated that “All countries bordering the Caspian Sea must stand by the principle of diving the water is to a middle line until the Caspian Sea’s legal status is determined.” Niyazov added that during the Soviet period the Caspian Sea was “legally divided into territorial economic zone this principle should be observed.” He then stressed that “the CIS agreement clearly stipulates that the borders of every former Soviet republic area [are] indivisible and unchangeable” (Croissant 200:141).

In August 1998 Niyazov appeared to change the country’s position by signing an agreement with Yeltsin. The agreement stated that before the adoption of the new legal status of the Caspian Sea, all activity in the sea’s basin must be conducted “in strict accordance with prior agreements concluded between the USSR and Iran, on a consensual basis and with no side taking any sort of unilateral action.” But Turkmenistan’s position did not last long. Less than a month later, Turkmenistan announced an international tender for the development of hydrocarbon resources in its sector of the Caspian Sea. In doing so, the country supported the national division of the sea.

Iran

Various factors led Iran to develop its Caspian Sea policies including the division of the Caspian Sea. For example, Iran’s sector in the sea, compared with that of Azerbaijan and Kazakhstan, was believed to have much smaller amount of energy reserves. By advocating joint control over the sea Iran could gain economic benefit. (Menon 1998) In addition, Iran was concerned about the growing Western, especially American, influence in the Caspian basin. (Croissant and Croissant, 1999) Moreover, some 15 million ethnic Azeris live in Iran’s Northern provinces. This is twice the number of Azeris in Azerbaijan itself, and one fourth of Iran’s total population. Iran worried that a prosperous Azerbaijan with the help of its oil development had the potential for promoting Azeri separatism inside Iran. This in turn encouraged Iran to prevent Azerbaijan’s rise as a major oil country. (Croissant and Croissant 1999) Thus, shortly after the collapse of the Soviet Union advocated joint sovereignty over the Caspian Sea.
However, Iran began to show its flexibility on the legal status of the Caspian Sea in late 1994. For instance, two months after the signing of the "contract of the century" in Azerbaijan, Tehran and Baku signed an agreement that allowed the National Iranian Oil Company (NIOC) to participate in the Azerbaijani oil deal. The NICO acquired a 5 percent share. The agreement also provided for the joint exploration of oilfields in the Iranian sector of the Caspian Sea. As Izvestia pointed out, the oil agreement between Iran and Azerbaijan implied that Tehran in effect disavowed the Soviet-Iranian agreements of 1921 and 1940, which were cited in the protests of Russia's Foreign Ministry. Therefore, Tehran's stance on the legal status of the Caspian Sea seemed to distance itself from that of Russia's Foreign Ministry. Indeed, Iran's participation in the Azerbaijani oil deal caused great concern. Russia's Foreign Ministry officials began to speak about "bribery" about "a bone thrown to the Iranians" (Lee 2004).

Iran's new stance, however, did not last long. In April 1995 Baku, under U.S pressure, cancelled the NIOC's right to participate in the oil project. It was from this moment that Tehran voiced its loudest opposition to the national division of the Caspian Sea again became a close ally of Russia's Foreign Ministry (Waelde 2000:211). For instance, at a conference on the problems of oil extraction in the Caspian Sea in Almaty in 1995, Iranian Deputy Foreign Minister Abbas Maleki stated that the 1921 and 1940 treaties between Moscow and Tehran remained in force until new legal regime was adopted by all Caspian littoral states. This implied that Tehran and Moscow could claim the right of rejecting any offshore oil development deals with Azerbaijan, Kazakhstan and Turkmenistan.

Thereafter, Iran's stance became ambiguous. In February 1996 Iran began to carry out its first exploration project in its sector of the Caspian Sea. Moreover, in June 1996 the NIOC obtained a 10 percent share on developing the Shah Deniz oilfield in the Azerbaijani sector of the sea. Furthermore, Iran tried to persuade Western companies and the Caspian states to employ the Iranian pipeline route to transport Caspian oil. Iranian officials advertised that the Iranian route was best especially in terms of economic efficiency. For instance, Hassan Kashkavi, Iranian ambassador in Kazakhstan states that Washington could not ignore Iran in terms of geographic position.
However, at the same time Tehran opposed the national division of the Caspian Sea and criticized the unilateral action taken by Baku on numerous occasions. Shortly after the first production of early oil in the Azerbaijani sector of the sea in November 1997, Iran’s permanent representative to the United Nations sent a letter to UN Secretary Kofi Annan stating that “Azerbaijan’s claim of sovereignty and unilateral exploitation of the resources is contrary to the agreements reached between bordering countries and the legal status for the Caspian. We express our deep objection to the move by the government of Azerbaijan.

United States

For a few years after the collapse of the Soviet Union Washington did not show much attention to the Caspian basin. Washington viewed this region as under the Russian sphere of influence. Therefore, it did not answer the calls for help from the leaders of the Caspian region against perceived Russian encroachment of their state’s independence. John Maresca, former U.S Ambassador to the OSCE and a key representative of the US. Policy in the Caucasus, succinctly described the country’s policy towards this region. He stated in 1996 that there has been a gradual process of realization in the US and in the West in general that the Caucasus and the Caspian Basin are important for Western interests, largely, though not entirely, due to the energy resources to the region. This has led to an increased interest in the various conflicts in the region-Nagorno-Karabakh, Georgia and Chechnya.

The US has made significant efforts to involve itself in the geo-politics of the Caspian basin and Central Asia. They began with an over estimated picture of the oil and gas potential of the region. Former U.S. Secretary of State James Baker stated in New York Times: “Caspian Oil may eventually be as important to the industrialized world as Middle East oil is today (Baker 1997). While U.S. estimates have been pared down because real estimates and costs are a fraction of Middle East reserves and production, US interest in the Caspian remains as high because it would be an alternate source in case of a shut down in the Middle East. This happened earlier during the 1991 Gulf War when oil prices shot up. They also want this source to counter balance Middle East reserves to keep oil prices and the traditional oil cartels in check.
It is now clear that Central Asian and Caspian Sea oil is not going to be a swing factor in the oil market and that the costs of its transportation are likely to be commercially too high for the US market. What the US now sees as an important strategy is to control the pipelines that will carry these hydrocarbons to European markets, and to the growing demand from East, South and South East Asia. US companies like Unocal, Exxon, Penzoil and Halliburton are being encouraged in this enterprise.

US interests were made most clear during the US Congress hearings on Asia and the Pacific. Here, Vice President of UNOCAL Corporation, John Maresca pleaded that the US supports the construction of new oil pipelines. The argument was that the US needed to support the effort “to achieve balanced and lasting political settlements within Russia and the Newly Independent states and in Afghanistan.” In order to facilitate market reforms and oil pipeline routes which he called the new silk route, for which he stated: “The risks are high, but so are the rewards”. Maresca argued that the routes out of Central Asia that were being built were one from the North Caspian to the Russian Black Sea port of Novorossisk by the Caspian Pipeline Consortium (CPC), and the other by the AIOC from Baku through Georgia to the Black Sea terminal of Supsa (Maresca 1999). But since both these would go Europe that is an already saturated market, new routes were needed. Maresca thus argued that the best region for US oil companies to look towards was the Asian Pacific ‘economies’ that were to be the new oil guzzlers. Moreover, if Asia’s energy needs were not satisfied, they would add pressure on the oil markets driving oil prices upwards everywhere. Besides, oil routes through Iran had to be avoided.

The oil lobby convinced the US Congress that: “The only other possible route option is across Afghanistan, which has its own unique challenges.” And since the Taliban was not cooperating, Maresca stated: “our proposed pipeline cannot begin until a recognized government is in place that has the confidence of governments, leaders and our company.”(Ibid) The pipeline through Afghanistan and its multiple benefits were made clear, leading to later consensus on Operation Desert Storm. Vice President Dick Cheney continuously spoke of the need for unimpeded access to this region for American geologists and pipelines so as to ensure a conservation-free fossil fuel base for the future.
for US needs. In fact, Cheney kept repeating the importance of oil supplies flowing to the
US through the presidential campaigns where he stated “We have to go where the oil is.”
And “I cannot think of a time when we had a region emerge as suddenly to become
strategically significant as the Caspian”.

**Pipeline routes**

The most important issue of contention between Russia and United States and
allies in the region is pipe line routes. Most of the pipelines carrying Caspian oil and gas
build during the Soviet Union period go through Russian territory which gives Russia an
upper hand in the control over recourses of Caspian. Since 1990’s United States and
western countries has been trying to find an alternative route to export oil, which bypass
Russian territory, and has become the most contentious diplomatic issue between Russian
and west.

The question of the ownership of hydrocarbon resources in the Caspian Sea is
closely linked to the issue of pipelines especially for three of the coastal states,
Azerbaijan, Kazakhstan, and Turkmenistan. Unless these states can transport the energy
reserves to the world market, they will not gain economic benefit (Ebel and Menon,
2000). This is true because of Soviet policy and geography. During the Soviet period all
transport links of the southern Soviet republics moved northward in the direction of
Russia. As a result, for instance, in Kazakhstan there is no pipeline that links the
production centre in the western part of the country and the refining centre in the eastern
part. Kazakhstan exports its oil to Russia and, via Russia to the world market. Then,
Kazakhstan imports Russian crude from Siberia to refineries in the east. (Amirahemmadi
2000) Therefore, there exist no pipeline networks connecting the Caspian basin with such
states as Iran, Turkey and China. Moreover, three Caspian littoral states-Azerbaijan,
Kazakhstan and Turkmenistan-are landlocked. Before their energy reserves reach a
tanker, they have to cross at least one international border.

Naturally, this issue of pipelines had great significance for these three Caspian
littoral states. It also attracted much attention from other concerned parties such as
Russia, Iran, Turkey, and Western states, especially United States. This was not
surprising because the issue of pipelines entailed not only economic gains such as transit fees, but also potential levers of political influence (Ibid). The struggle for future routings of crude oil from CIS countries to the world market is entering a decisive stage. The victor in this struggle will receive not only billions of dollars annually in the forms of transit fees. The real gain will be control over pipelines, which will be the most important factor of geopolitical influence in the Tran Caucasus and in Central Asia in the next century. In these conditions, varying states sought to settle the question of the oil pipeline to suit their own interests. Seven major pipeline routes, available or proposed, competed for transporting Caspian oil. We can classify these seven major routes into five geographical terms: the northern, the western, the southern, the eastern, and the southeastern. Northern (or Russian) Routes

Baku-Novorossiisk

The Baku- Novorossiisk pipeline route would transport oil from Baku, Azerbaijan to the Russian Black Sea port of Novorossiisk. This pipeline route was in place even before the collapse of the Soviet Union. It was only necessary to reverse the direction of flow of an existing pipeline from Baku to Grozny and carry out repairs, especially in the section passing through Chechnya. According to Experts, this was a major advantage that Russia had in the Caspian oil derby (Lee 2004:54).

However, several factors discouraged Azerbaijan from using this pipeline. For instance, Azerbaijan sought to avoid complete dependence on the Russian transportation system since such dependence would provide Moscow a critical policy lever. Ilham Aliyev, Vice-President of the State Oil Company of Azerbaijan Republic (SOCAR) and son of Azerbaijan’s president, pointed out that “the question of selecting an oil transport route was a political and not an economic decision for Azerbaijan” (Maugeri 2006:163). In addition, the Baku-Novorossiisk pipeline passes through unstable regions. It goes through Chechnya. The pipeline also runs through the northern Azerbaijan region populated by the Lezgin ethnic group. This ethnic group posed a threat to the safety of the pipeline by saying that they would “blow up” the oil pipeline if Baku did not share its Caspian oil revenue with the Lezgines (Lee 2004:65). Moreover, the port at Novorossiisk is not operational during the winter. This pipeline also requires that oil be transported through the congested Turkish straits.
Tengiz–Novorossiisk

Another northern pipeline route would carry oil from Tengiz in western Kazakhsatn to Astrakahn in Russian and on to Novorossiisk. This Tengisz-Novorossisk pipeline required renovating 700 km of pipeline built during the late Soviet period between Tengiz and Russian city of Komsomolskaia and building 800 km of new pipeline between Komsomolskaia to Novorossiisk. The consortium for this project, Caspian Pipeline Consortium (CPC), was initially created by two states, Kazakhstan and Oman in 1992. Russian later joined the consortium. Both Russia and Kazakhstan obtained a 25 percent share each, whereas Oman acquired a 50 percent. Izvestiia underscored the significance of the CPC. CPC is not just about Kazakhstani oil and Russian tariffs for its transit. It is also about increased exports of Siberian oil, creation of a single transportation system with the pipelines of Azerbaijani ‘contract of the century’. Construction of a modern terminal on the Black Sea, Russian influence in alternative pipeline routes such as Baku-Ceyhan, and about the demonstration of Russian potential in major investment projects (Kozlovsky 1994).

However, the CPC did not make much progress in part because Oman could not fulfill its obligations to find financing for the project. In this condition, in April 1996 the CPC was restructured. The restructured consortium included three original states, Russia, Kazakhstan, and Oman, which obtained a 50 percent stake in the project. The Russian and Kazakhstani shares were reduced from 25 percent to 24 percent and 19 percent respectively; the Omani share was reduced from 50 percent to 7 percent. The consortium now included eight major oil companies, with Chevron (15 percent) and Lukoil (12.5 percent) holding the largest stakes. Since the CPC would join the Baku Novorossiisk pipeline at Tikhoretsk, the CPC had drawback such as the in operation of port at Novorossiisk during the winter and the congested Turkish straits.
Western Routes

Baku-Supsa

The Baku-Supsa pipeline route would transport Azerbaijani oil to the Georgian Black Sea port of Supsa. Georgia considered the construction of the pipeline as the most effective method of attracting Western interest in the country, which would help its economy and strengthen its independence. This Georgian pipeline route required two measures to become operational: modernizing existing stretches of the old and practically unusable Baku-Batumi oil pipeline and building a new section of a 140 km long pipeline. * The Baku-Supsa pipeline route was scheduled to be completed by October 1998. Yet the condition of this pipeline was so bad that it took several more months. It was only April 1999 that the pipeline became operational. (Lee 2004)

Azerbaijan preferred this Baku-Supsa pipeline because the country did not have to rely solely on the Russian route. However, the Baku-Supsa pipeline had several drawbacks. For example, this pipeline route, like the Baku-Novorossiisk pipeline, required that oil be shipped by tankers through the congested Turkish Straits. Moreover, political instability in Georgia, especially separatist movements among the Abkhazians and South Ossetians, made this pipeline a dangerous one. This pipeline also runs within 25 km of the Nagorno-Karabakh region, the Armenian enclave within Azerbaijan. The Armenians within Nagorno-Karabakh began to seek secession from Azerbaijan and attachment to Armenia in 1998. This eventually led to a six year war that killed more than 15,000 people. Despite a Russian-mediate ceasefire agreement in 1994, the Nagorno-Karabakh region remains unstable.
Caspian region Oil pipe lines
Caspian region gas pipe lines
Baku-Ceyhan

The Baku-Ceyhan pipeline is the most controversial pipeline route of the region, which bypasses the Russian territory and bitterly fought between Russia and the west. The existing pipeline routes, most of them build during Soviet Union period, go through Russian federation, which give Russia an upper hand in the fight for controlling Caspian energy resources. The Baku-Ceyhan pipeline will link Baku’s oilfields via Georgia to the Turkish Mediterranean port of Ceyhan. This pipeline will branch off the Baku-Supsa pipeline route at Tbilisi. The advantaged of this pipeline included its planned capacity and avoidance of the congested Turkish Straits. (Croissant, 1998) For instance, the planned capacity of the Baku-Ceyhan pipeline was approximately 1 million barrels per day. This pipeline also received enormous political support, especially from the United States. In February 1995 Washington made the decision to back up the Baku-Ceyhan pipeline. Commenting on the decision, sources at the Department of State said that support reflects a major shift in US policy toward Central Asia. The new approach, coordinated by the National Security Council is designed to break Russia’s grip on Central Asia’s oil export. The objective is both to help ensure the survival of independent states in the region and to protect U.S Corporate interests (Stauffer 2000).

Nevertheless Baku-Ceyhan has several disadvantages, since this pipeline will go through Azerbaijan and Georgia it is, like Baku-Supsa pipeline, must pass through the unstable regions. Also it has to pass through the Kurdistan region of turkey where Kurd separatists are powerful. In this regard Kurdistan workers party threatened that they had the ability to stop any construction through their region. Besides the problem of pipeline safety, the Baku Ceyhan pipeline had to deal with the issue of economic efficiency. Western oil companies in particular Questioned the commercial feasibly of such a pipeline, whose cost might reach $4 billion. Accordingly, they were not so enthusiastic about building the pipeline. British petroleum insisted that the Baku-Ceyhan pipeline route would make sense only if Azerbaijan increased oil production by a billion barrels or if the government provided “free money” to construct the pipeline (Pant 2000:155). John Leggate, head of Azerbaijan International Operating Company (AIOC), said in November 1998 that “we understand the importance of this route. Nevertheless, not a
single company supporting it has suggested that it would participate in financing the project. According to estimates, approximately 1 million bpd of oil are needed to justify the construction of the Baku-Ceyhan pipeline. Yet, the Azerbaijani production alone cannot match that quantity. In these circumstances, the proposed solution was the construction of the underwater trans-Caspian’s pipelines. These pipelines will transport oil of two states, Kazakhstan and Turkmenistan, to Baku, which will justify the construction of the Baku-Ceyhan pipeline (Peimani 2001:234). Though the pipeline started functioning recently the amount of oil transit through this route is still negligible compare to the other transit routes, still gives Russia an advantage in the pipeline politics.

**Southern (or Iranian) Route**

The southern pipeline route will transport Caspian oil to the Iranian ports in the Persian Gulf. This pipeline is the shortest and cheapest route to the world market. There already exist pipeline and port facilities that relatively easily can accommodate the transportation of Caspian oil to the Persian Gulf. According to some experts, this Iranian pipeline route will allow oil companies to transport energy resource in the Caspian at one-third of the cost compared with any alternative route, including Russian. Naturally, the Iranian pipeline route had the support of many oil companies. For instance, Zbigniew Brezezinski, former national security advisor and a special consultant for BP/Amoco wrote that “American long-range interests in Eurasia would be better served by abandoning the existing US objectives to closer Turkish-Iranian economic cooperation, especially in the construction of new pipelines from Azerbaijan and Turkmenistan. In fact, American financial participation in such projects would be to America’s benefit. (Lee, 2004) A senior Western oil company executive also said that “If I had my way...we’d sign with the Iranians. In this part of the world, they are by far the most trustworthy partners for a pipeline deal, terrorism? Who’s going to blow up their own pipeline? (Nelan 2002:233).
But the greatest obstacle to the construction of the Iranian pipeline route was the opposition of the US government. Robert Gee, US Assistant Secretary of Energy asserted that Washington opposed the construction of the Iranian pipeline route because it would “seriously damage the development of East-West infrastructure and allow Iran to influence the Caucasian and Central Asian economies.” (Croisant 1999:123) Despite this US opposition, both Kazakhstan and Turkmenistan, in particular, showed an interest in building this pipeline. For instance, during his visit to Iran on May 1996 Kazakhstan’s President Nursultan Nazarbaev mentioned that Iran was the best route for the export of Kazakhstan oil. During his visit to Washington in November 1997, Nazarbaev also stated that Kazakhstan did not exclude the construction of a Kazakhstan-Turkmenistan-Iran pipeline. Similarly, Kazakhstan Foreign Minister Kasymzhomart Tokaev stated at a press conference that “we all believe Iran is the most economical way to export our oil because it doesn’t need a lot of money for investment” (Lee 2004:145).

**Eastern/Chinese Route**

During his visit to Kazakhstan in September 1997, Chinese Vice President Li Pen agreed to invest $9.5 billion in energy projects with Kazakhstan on developing two oilfields, Uzen and Aktyubinsk. (The Economist 10-12-1997) The agreement included a provision by the Chinese side to construct the pipeline from Uzen oilfield on the east Caspian Sea coast to the western Chinese province of Xinjiang. This proposed pipeline has several drawbacks. The pipeline has to pass through Xinjiang, where the ethnic Uighurs live. The ethnic Uighur separatists can disrupt the operation of the pipeline. More importantly, the pipeline will stretch 2,900 km and will cost more than the $3.5 billion, the Chinese estimated. Indeed, primarily because of concerns of economic inefficiency, Chinese authorities indefinitely postponed this project in 1999.

**Southeastern Route**

This pipeline would link Turkmenistan with the Pakistani port of Gwadar through western Afghanistan. The American oil company Unocal and Delta Nimir of Saudi Arabia were the strongest advocates of this pipeline route. The United States government also backed up this proposal to directly challenge Iran. Yet the situation in Afghanistan made this proposal difficult to implement.
Politics of pipelines

In sum, there is no single good route to ensure a reliable transportation of oil to the world market. Fiona Hill accurately summarized the situation: There are various geographical impediments or political risks associated with any transport route from the Caspian: problems of limited capacity in the existing old Soviet routes across Russia mean, that these have to be upgraded; other routes across Armenia, Georgia, and into Turkey need to be constructed; mountains in the region have to be traversed; there is serious ethno-political instability, including conflicts in the Chechnya, Nagorno-Karabakh, Abkhazia, and Kurdistan; the US to veto on Iran precludes the use of an Iranian route for US oil companies; and Turkey seeks to limit traffic in the Bosphorus Straits." (Hill 1997: 200)

Similarly, speaking of transporting Azerbaijani oil specifically, Robert V. arylski pointed out that Azerbaijan and international oil companies operating in the country were boxed in by the Chechen war in the north, the Kurdish and Armenian rebellions in the east, and poor relations between Iran and the United States to the south (Lee 2004). In these conditions, various states advocated different pipeline routes to suit their interests. Turkey sought to promote the Baku-Ceyhan pipeline, for instance, it supported the Baku­Supsa pipeline route. Ankara believed that once this pipeline route was approved by the AIOC, the chances for extending the pipeline to Ceyhan would increase greatly.

In July 1994 Turkey adopted a new regulation limiting tanker traffic through the Turkish Straits. Turkey claimed that its move was linked to environmental concerns. This claim certainly entailed an element of truth. The Bosphorus Straits is one of the most difficult waterways in the world to navigate. Tankers have to change their course at least twelve times because of sudden shifts in topography. When the Montreux Convention regulating the Turkish Straits was signed in 1936, only a few hundred ships used the straits. Now approximately 45, 000 ships go through the straits annually and the average tonnage of ships in 19 times heavier than it was in 1936. (Lee 2004) An average of 16.7 major accidents took place each year between 1983 and 1993. Worse still, the Bosphorus is situated near highly populated areas such as Istanbul. Naturally, Turkey expressed serious concern about the transportation of oil through the straits.
However, as many analysts pointed out, environmental concern was not the only reason for Turkey’s move. Turkey also sought to decrease the appeal of the Russian pipeline routes. For instance, Tansu Ciller, then the Turkish Prime Minister, told Western governments that if Turkey loses the contest to transport early oil from Azerbaijan, “not a drop of oil will pass through the Bosporus” (Croissant 1999:154). As a matter of fact, in a move to win the competition, Ankara intended to allow Greenpeace and other environmental movements to carry out protests against increased oil exports through the Turkish Straits.

In response, Russia denounced Turkey’s move as violations of the Montreux Treaty. Russia delivered a diplomatic note to the Turkish embassy in Moscow. The note stated that “Russia will not comply with anything that is not covered by the International Maritime Organization’s rules” (Ahmirahammadi 2000:88). At the same time, Russia’s Foreign Ministry, asserted that Turkey must observe the Montreux Treaty. Otherwise, the economic interest of Russia and all other Black Sea countries may be harmed.

Russia also came up with an alternative to the Turkish Straits. Russia proposed in 1994 to build a pipeline from Bulgaria’s Black Sea port of Burgas to Greece’s Aegean Sea port of Alexandropoulos. Moscow also supported the PKK, the leading organization behind the Kurdish rebellion in eastern Turkey. For example, Russia allowed the PKK-controlled Kurdish “Parliament in Exile”, to hold a yearly session in Moscow in one of the official buildings of the Russian parliament from October 30 to November 1, 1995 (Lee 2004:156). According to Croissant, Moscow hoped that an ongoing Kurdish problem would force the AIOC to reconsider their plans for the Baku-Ceyhan pipeline (Croissant 1999).

Moreover, in part to prove the safety of the Baku-Novorossiisk pipeline Moscow carried out the military intervention of Chechnya in December 1994. Moscow also lowered transit fees in order to increase the appeal of the Russian pipeline routs. The Financial Times reported that in September 1995 Transneft, the Russian state oil pipeline company, offered “financial and political sweeteners” (Hoffman 2000:129) in an effort to encourage the AIOC to choose the Baku-Novorossiisk pipeline route to export early oil from Baku. Sergei Ter-Sarkisians, Transneft did not reveal the price,
but said that Russia offered the consortium a discount on the transportation of its early oil if it agreed to employ the Russian pipeline to export part of main oil in the future.

This pipeline competition over transporting early oil ended in late 1995. In November of that year, the AIOC made the decision to use two pipeline routes, Baku-Novorossiisk and Baku-Supsa, to transport early Azerbaijani oil. Russia, especially the Ministry of Fuel and Energy, expressed its satisfaction with the AIOC decision. Turkey also welcomed the decision because it made the planned Baku-Ceyhan pipeline more viable (Soscor 2002).

But the competition over transporting main oil had just begun. Washington started to engage in the region more vigorously and pose direct challenge to Russian interests. Washington at times expressed its support for multiple pipelines for transporting main oil. Nevertheless, Washington became a strong advocate of the Baku-Ceyhan pipeline which bypasses Russia. For instance, U.S. Energy department noted that Washington supported the idea of multiple pipelines, including the Russian pipeline from Baku to Novorossiisk and also stressed that Washington would definitely prefer the Baku-Ceyhan pipeline as the main export line. During Clinton administration it is revealed that US is committed to an 'east-west energy corridor' to link the countries in the region to the west. Our east-west energy corridor initiative principally supports the construction of trans-Caspian oil and gas pipelines running under the Caspian Sea, linking the countries on the eastern Caspian shore-Kazakhstan and Turkmenistan-with those on the west, starting with Azerbaijan in the coastal city of Baku. Both lines would traverse Georgia. The oil line would proceed to the Mediterranean port of Ceyhan (Akhmadove 2000).

By doing this, Washington sought not only to minimize the Russian influence in the Caspian basin, but also to prevent Iranian penetration into the region. For instance, during a Senate hearing in September 1997 National Security Council stated that Washington's aim was "to promote the independence of these [Caspian] oil-rich republics, to in essence break Russia's monopoly control over the transportation of oil from that region (Lee2004)."

Washington actively campaigned for an "east-west energy corridor" to accomplish its goals. For example, it hosted leaders from Azerbaijan, Georgia, Kazakhstan, and Turkey.
during the second half of 1997. Washington also helped design the Ankara Declaration of support for the planned Baku-Ceyhan pipeline by such states as Turkey, Azerbaijan, and Georgia. Furthermore, at the meeting of Organization for Security and Cooperation in Europe (OSCE) in Istanbul in November 1999 Azerbaijan, Georgia, Kazakhstan, Turkmenistan, and Turkey, in the presence of the U.S President Bill Clinton, signed a political agreement to build the Baku-Ceyhan pipeline.

In response, Moscow harshly criticized Washington’s moves. For instance, Russian Deputy Fuel and Energy Minister Valerii Garipov stated that the US was “leading the matter towards open confrontation with Russia” (Croissant 1998:130). Likewise, Russian Foreign Minister Igor Ivanov asserted that the Baku-Ceyhan pipeline was detrimental to the country’s interests. He then added that the plan for that pipeline was like “playing anti-Russian cards in the Caspian” (Lee 2004:223).

Merziliakov, Head of the Russian Foreign Ministry’s working Group on the Caspian Sea, cited ecological concerns to prevent the planned construction of underwater Trans Caspian pipelines that would transport energy resources from Kazakhstan and Turkmenistan to Azerbaijan. According to him, the Caspian Sea was prone to earthquakes and this could lead to spills that would destroy the sturgeon population. He then stated that “you can take away everything else, but not our caviar, if you take away Russia’s black caviar; it is like taking away our vodka” (Croissant 1998:41).

In addition, Moscow sought to encourage Azerbaijan and Kazakhstan to use the Russian pipeline routes. Russia’s efforts included, for example, building the Chechen bypass pipeline and speeding up the construction of the PPC. Russia also offered lower prices for transporting Azerbaijani oil. For instance, in July 2000 Transneft announced that it intended to lower tariffs on the Baku-Novorossiisk pipeline from $15.67 per ton of oil to $8-10 in order to make this pipeline route more appealing than the planned Baku-Ceyhan pipeline. In addition, Transneft said that it could increase the capacity of the Baku-Novorossiisk and other pipelines to accommodate oil from the Caspian.

Furthermore, Moscow advertised the economic efficiency of the Russian pipeline routes. Russian Fuel and energy minister Boris Nemtsov said that the Baku-Ceyhan
pipeline would be five times more expensive that the Russian pipeline route of Baku-Novorossiysk. Similarly, Russian acting Deputy Foreign Minister Boris Pastukhov mentioned that the Russia pipeline routes were “much less expensive” and were “the shortest, safest, and most advantageous way toward increasing export oil flows from Azerbaijan and Kazakhstan.” He then added that if the oil firms were ready to pay $1.5 billion more for building the Baku-Ceyhan pipeline, it was “their business” (Lee 2004:79).

In this pipeline competition there was no clear winner. In November 2001 the CPC for transporting oil from Tengiz to Novorossiisk began to operate. In addition, Moscow appeared to change its attitude to the Baku-Ceyhan pipeline. It began to consider that the Baku-Ceyhan pipeline was no in competition with the Russian pipelines, especially the CPC. Rather, Moscow considered that all these pipelines were complimentary. Moreover, the AIOC began the construction of the Baku-Ceyhan pipeline in September 2002 and the pipeline is expected to be operational in 2005. The capacity of the pipeline is much smaller than expected, scaling down from 1 million bpd to 450,000 bpd. Terry Adams, the first president of the AIOC Suggested in 1995, that politics would decide the construction of any pipeline. In his words, “whatever decision is taken by politics will be publicly defensible on a commercial basis.”To be sure, British Petroleum, the main investor in Baku-Ceyhan pipeline, no longer argues that there is not enough oil to justify the construction of the pipeline. Instead, the company now says that the pipeline is “commercial” (Lee 2004:110).

Afghanistan’s situation in the middle of the perennial and vital region with abundant oil that forms the base of US national interest caused it to be focus of US intrigues. The CIA’s support of the Taliban and Pakistan’s policies towards the Taliban regime gave cover to US oil companies as they tried to negotiate with the Taliban on pipelines. As US expert Ariel Cohen said in his testimony to the Congress: “While the war was raging, plans were laid to build an oil and gas pipeline to Pakistan...” He also warned that Bin Laden and his terrorists are less than an hour away from Central Asian capitals by plane. Yet when Uzbek government officials brought their concerns about the Bin Laden Afghanistan-based operations to U.S. executive branch decision-makers two
years ago, they were not taken seriously according to Uzbek diplomatic sources. The September 11, rage was then, appropriately linked to US oil interests. The removal of the Taliban and the installation of a pro-US government served the purpose of clearing oil routes and providing the US with new military bases in the sensitive Middle East region.

The oil lobby and the US research institutions and the US policy makers are great game proponents. They believe US interest over oil is secondary to US direct strategic control and interests in the region. They believe that energy security is not the core issue but, as Laurent Ruekas shows that energy security is the only U.S. policy objective in the region that is uncontroversial. While control over pipelines would assist commercial and geo-strategic reasons, they argue that if the US fails to gain this strategic control other countries would do so. These ‘others’ are primarily Russia, Iran, China and others. U.S. analysts advocate different policies to either ‘balance’ or ‘contain’ or ‘engage’ these countries, with the end plan being constant US domination.

The lurking fear of a Russia that seeks to dominate or influence the Central Asian and Caucasus continues to fog the mind of most US analysts and policy makers. American policy advisors like Ariel Chen, Fredrick Starr and others are pushing for greater US engagement in the region. They advocate that Russia will be able to maintain its position if it controls pipelines and if these lines pass primarily through Russia. But this predominance would decrease if pipelines go through new directions. They also argue that Russia plays a destabilizing role in the region especially where there are so many ethnic conflicts. They cite Russian covert intervention in the Azerbaijan-Armenia conflict and their covert support to the secessionist Abkhazia movements within Georgia. The Russian claim that the Caspian is a lake not a sea that gives them the legal claim over certain maritime resources has also irked US policy makers. US analysts thus believe that despite the changing policies and relations between the US and Russia, the Caspian is likely to be a region where US and Russian interests will be contradictory. Russian experts also resent American assertions in this region. All this has fueled US-Russian rivalry and Russia is increasingly critical of US policies.
The Great Game theorists support a proactive role for the US in the region to isolate countries that US president George W. Bush categorized as the ‘axis of evil’ like Iran from gaining greater control. American oil strategists see Iran as using the CARs ‘as both a market for its goods and ideology’ and profiting from the transit fees of oil pipelines. Experts like Ariel Cohen argue: “this direction is undesirable from the American point of view. Since Iran is seen as an exporter of ‘Islamic revolution’ and as attempting to become an active nuclear power, and capable of choking energy resources because of its position, US experts and policy makers advocate an active containment of Iran. Others including Dick Cheney stated earlier that Iran should be accommodated into US plans if Iran agrees to US conditions. Especially, since routes through Turkey have to pass through conflict ridden routes through Georgia where Russia has an advantage. The oil lobbies and some analysts like Starr believe that isolating Iran will force it into Russia’s ‘arms’. The view after the Iraq conflict is now to isolate and contain Iran and use of the longer and more difficult Turkish routes.

The US has taken a proactive position in the Caspian and CARs after September 11, 2001 and the Afghan war. The US on its part used this to get a greater foothold in the region as the following examples show. After 9/11 the US offer to both Russia and CARs assured all these countries that the US use of former Soviet bases in CIS was only “temporary” since Uzbekistan, Kyrgyzstan and Tajikistan bases were needed for US operations in the Afghan war. As the outcome of the war became clear and the Taliban regime fell, US Secretary of State said in December 2001 that the US did not intend to withdraw from the region even after the war in Afghanistan since America had long-term interests in the region. By January 2002, the Uzbek and Kyrgyz presidents entered into agreements with the US to upgrade and extend the lease of some of the bases like the Khanabad base (Uzbekistan) that was leased out to the US for 25 years. The Kyrgyz president with support from the parliament declared that they were prepared to turn Kyrgyz territory for US disposal. By February 2002, the US contingent at Manas airfield in Kyrgyzstan increased. Kyrgyzstan and Tajikistan being part of CIS collective security had violated its norms for these agreements. With this move, the US wiped out a decade of Russian effort in the CIS for collective security and the existing regional alliances and made long term base for itself.
Indeed, it was only around the time when American oil companies signed major oil deals with Azerbaijan, Washington began to show much attention to this region. During her visit to Baku in early September 1994, Madeleine Albright, then the U.S representative to the UN, said that Washington did not recognize Russia’s “special role” in Caucasus. (Lee 2000) Especially after signing of the “contract of the century” in Azerbaijan, the Clinton administration established a Caspian task force led by Deputy Secretary of State Strobe Talbot.

The goals of the U.S in the Caspian region included support for the country’s own commercial involvement in the Caspian region’s oil production and export; the diversification of world oil supplies to reduce future dependence on Persian Gulf Oil; and support for the sovereignty and independence of the countries of the Caspian region. (Forsythe 1996) To accomplish these goals Washington backed up Azerbaijan’s position on the legal status of the Caspian Sea. For instance, in November 1996 James Collins assured Aliyev that Washington would support the “principle of dividing the Caspian into sectors and ‘long-term strategic interests in Azerbaijan” (Lee 2004:219).