

# Caucasian Regional Studies



The International Association For Caucasian Regional Studies  
Law Politics Sociology Economics Modern History International Relations

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Caucasian Regional Studies, Vol. 3, Issue 1, 1998

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## THE CASPIAN SEA STATUS DISPUTE: AZERBAIJANI PERSPECTIVES

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The largely untapped energy reserves of the Caspian Sea were opened to significant international investment following the breakup of the Soviet Union. Using modern three-dimensional survey techniques, experts now estimate the Caspian to contain 15.6 billion barrels of proven recoverable oil reserves and a further 163 billion barrels of possible reserves. These vast oil deposits - twice as large as believed previously - represent the biggest oil find since the opening of the North Sea in the 1970s.(1) With global oil demand expected to rise at the rate of one million barrels per day (bpd) per year throughout the rest of the decade,(2) the Caspian has seized the attention of the industrialized countries and offered the potential for huge hard currency revenues for the littoral states.

In the midst of the heightened post-Cold War interest in the energy resources of the Caspian, a dispute has arisen over the legal status of the Caspian Sea. Russia, on the one hand, contends that the Caspian is actually an inland lake and thus subject to joint control by all the littoral states. Azerbaijan, on the other hand, argues that the Caspian is a sea that should be divided into national sectors over which each state has exclusive sovereignty. Although Russia has attempted to frame its position on the Caspian in terms of its supposed concern for the Sea's environmental health, for Moscow the disagreement over the Caspian's status is a question of maintaining its centuries-long influence in the Transcaucasus and Central Asia. For Azerbaijan, the status dispute is a question of upholding and strengthening its sovereignty and independence after centuries of foreign domination.

### **Background: The Geopolitics of The Caspian Sea**

The Caspian Sea is the world's largest inland body of water, covering

370,000 square kilometers - an area roughly the size of Japan.

Geographically, the basin is typically divided into the North, Middle, and South Caspian. The northern portion of the Sea has low shorelines and is very shallow in general, being less than eight metres deep. The North Caspian covers 61,408 square kilometers in area. The Middle Caspian, on the other hand, is 85,200 square kilometers in area with a depth of 95-130 meters at its shallowest. The western shore of the Middle Caspian runs into the foothills of the Great Caucasus Mountains after hitting a narrow marine plain.

The South Caspian, a depression covering 92,112 square kilometers, contains the Caspian's greatest depths as well as its largest and most productive oil and natural gas fields. The most promising oil-producing area in the South Caspian is along a narrow structural zone extending across the Caspian from Azerbaijan's Apsheron Peninsula to western Turkmenistan's Peri-Balkhan region.(3) Although the shallower waters of the southwestern side are more extensively explored than those of the eastern side, the entire area has much potential for further oil field discoveries.(4)

While the geography of the Caspian Sea has remained constant for millennia, the region's geopolitics - that is, the interplay between geography and politics in the Caspian Basin - have changed significantly in the past five years. Whereas during the Soviet period the Sea was bordered by the U.S.S.R. and Iran, the post-Soviet Caspian is surrounded by five countries - Russia, Iran, and the newly independent republics of Azerbaijan, Kazakhstan, and Turkmenistan. Faced with the immense challenges of independence, the latter republics have been forced for the first time to formulate economic and foreign policies and promote internal stability. However, the Caspian Basin's oil wealth and strategic location at the crossroads of Europe, Asia, and the Middle East have made the region of great interest to Russia, Iran, and Turkey.

The breakup of the Soviet Union prompted a renewed struggle for influence beyond the shores of the Caspian in Central Asia and the Transcaucasus among the regions' three historical rivals-- Russia, Iran, and Turkey. Sharing common bonds of ethnicity and language with the Muslim republics of Central Asia and Azerbaijan, Turkey has moved to assert itself not only as the potential leader of a new Turkic bloc at the heart of Eurasia, but also as a bridge between the republics and the West. Iran, on the other hand, has sought to use cultural commonalities and trading opportunities as vehicles for increased political and economic leverage in the region to the detriment of Turkey and its Western allies. Russia, however, has been determined to maintain a sphere of influence over the republics along its southern flank to the exclusion of all other international actors.

After a brief period in which Moscow made relations with the West its top foreign policy priority, Russia came to view the states of the former Soviet Union as its own exclusive sphere of influence by late 1992. By virtue of its status as a superpower and in the light of its historical role in the area, Moscow perceives itself as the sole guarantor of peace and stability in its so-called "Near Abroad". As a strategic land bridge to the Middle East, Russia's southern flank is viewed as a particularly integral part of the post-Soviet space. The dispute over the status of the Caspian Sea has taken place

against this backdrop of a Russia intent on retaining a sphere of influence over its southern regions.

## **The Legal Dispute**

Beginning in the fall of 1994, Russia put forth the argument that, as an enclosed body of water with no outlet to the ocean, the Caspian is really an inland lake and should be subject to international rules regarding lakes. Under these rules, no littoral country could claim an exclusive zone within the Caspian, and all decisions regarding development of the Sea's resources would have to be agreed upon by all five littoral countries. This would effectively stop implementation of oil contracts signed by Azerbaijan, Kazakhstan, and Turkmenistan and nullify their ability to make independent decisions on the exploitation of their Caspian energy reserves.

On the other side of the legal standoff is Azerbaijan, which argues adamantly that the Caspian is a sea and thus should be divided into national sectors within which individual countries have exclusive sovereignty (see Figure 1). Azerbaijan has gone as far as to incorporate its claim into its recently approved constitution. Under Article 2 of the Economic Independence Law and Article 10 of the Property Law of the Constitution, "Land and its mineral resources; internal and territorial waters; the continental shelf; flora; and the air basin within the limits of the territory of Azerbaijan are the Republic's exclusive property."<sup>5</sup> Kazakhstan has expressed support for Azerbaijan's argument, but Iran and, to a lesser extent, Turkmenistan<sup>6</sup> have supported the Russian position.

**Figure1: The Caspian Sea And Sectoral Divisions**

Casp Sea.JPG (62102 bytes)



## **International Treaty Law**

Both sides in the debate over the Caspian's status claim a legal foundation for their argument and insist that the rest of the world adopt their position. Azerbaijan has claimed that the 1982 United Nations Convention on the Law of the Sea should be applied to the Caspian. Given the Law of the Sea provisions, a compelling case can be made for the Azeri argument that the Caspian falls under the jurisdiction of the Law of the Sea and can be divided accordingly. Some relevant provisions of the Convention are:

- States are entitled to claim up to 12 nautical miles (nm) of sovereign territorial sea, between 200 and 350 nm of continental shelf depending on the configuration of the continental margin, and a 200 nm Exclusive Economic Zone (EEZ).
- Where claims to continental shelf and EEZ overlap (as in the Caspian), it requires that: "The delimitation of the continental shelf. . . shall be effected by agreement on the basis of international law. . . in order to achieve an equitable solution" (emphasis added).
- Part IX of the Convention deals with "enclosed or semi-enclosed seas". (Therefore, being landlocked does not disqualify the Caspian from being a sea.)
- Article 122 further defines an enclosed (or semi-enclosed) sea as : "A gulf, basin or sea surrounded by two or more states and connected to another sea or the ocean by a narrow outlet or consisting entirely or primarily of the territorial seas and exclusive economic zones of two or more coastal states".(7) According to Clive Schofield and Martin Pratt, "while the Caspian does not meet the first criterion, it is difficult to see why it cannot qualify under the second".(8)

Despite the apparent validity of Baku's claim, Russia argues that historic treaties with Persia and later Iran imply that the sea can not be divided. The treaties and their relevant provisions are:

- The Treaty of Turkmanchai (10 February 1828) established that the land boundary between Russia and Persia would end at the Caspian Sea, thus implying that the Sea was not subject to delimitation at the time.
- The Treaty of Friendship (26 February 1921) established freedom of navigation for all Soviet and Persian ships on the Caspian, but said little of the nature of sovereign rights over the Sea.
- The Treaty of 27 August 1935 reiterated freedom of navigation on the Caspian and established a 10-mile fishing zone, but no formal boundary was established.
- The Treaty of 25 March 1940 reiterated the freedom of navigation and fishing rights of the 1935 treaty.(9)

Since these treaties were never formally rescinded, Russia insists that they are still applicable.(10)

Although Azerbaijan, Kazakhstan, and Turkmenistan did not sign the treaties, the Alma Ata Declaration of December 1991, which established the Commonwealth of Independent States, included a provision recognizing the validity of all treaties and agreements signed by the U.S.S.R. and was signed by all of the former Soviet republics. There is, therefore, a case for keeping the treaties between Russia and Iran in force. Because none of the treaties contained any provision for formal delimitation of the Caspian, Russia claims legal justification of its argument for a joint sovereignty settlement.

Based on this analysis of the international treaties pertaining to the current dispute over the Caspian Sea's status, it is clear that both sides have legal grounds for their argument. Importantly, there are also a handful of historical precedents that support both joint sovereignty and sectoral division of inland bodies of water.

### **Precedents for joint sovereignty**

In international relations, a regime of shared sovereignty is often referred to as a condominium. Thus, Russia argues for a condominium of equal sharing of an indivisible Caspian Sea. There is only one major precedent in international law for joint control over an enclosed body of water: the sharing of the Gulf of Fonseca among El Salvador, Honduras, and Nicaragua. Although condominiums are most often created by express agreement between the concerned parties, in the case of the Gulf of Fonseca condominium was the result of a decision of the International Court of Justice. The reason for this was that the Gulf had formerly belonged to a single state-- Spain-- and had long been treated as a unified body of water. The court saw no advantage in disrupting this unity following the emergence of successor states.<sup>(11)</sup> This precedent is very similar to the situation in the Caspian with the emergence of successor states to the former Soviet Union, but it differs in that the entire Caspian did not belong to a single state.

### **Precedents for sectoral division**

According to Azerbaijan, each country has exclusive sovereignty over a territorial sector of the Caspian established by dividing the Sea evenly among the five littoral states. Although Baku rejects Russia's claim that the Caspian is to be treated as an inland lake, there are many precedents for dividing lakes between two or more states. Some well known examples are Lake Victoria (among Kenya, Tanzania, and Uganda), Lake Malawi (between Malawi and Mozambique), the Great Lakes of North America (between Canada and the United States), Lake Titicaca (between Bolivia and Peru) and Lake Geneva (between France and Switzerland). There are no legal obstructions to the Caspian being divided in such a manner.<sup>(12)</sup>

Azerbaijan also rejects the argument that the treaties between Russia and Iran prohibit the division of the sea by claiming that the sea has already been divided by Russia itself. This point is made by several commentators who claim the following:

As early as the 1950s, Soviet authorities divided the Caspian Sea into sectors. This approach was apparent in the activities of both the Soviet central government and many separate ministries that were involved with Caspian activities, including energy (oil and gas), economics (fishing), and transportation. Russia and Iran divided the Caspian sea into zones in a like manner. . . After the breakup of the Soviet Union, the leaders of the newly formed states signed an agreement recognizing the division of the Caspian Sea into national sectors that were formed during the Soviet period. These

new independent national sectors, then, correspond to the old republic sectors that existed in the U.S.S.R.(13)

In invoking the 1921 and 1940 treaties in its polemic with Azerbaijan over the status of the Caspian, the Russian Foreign Ministry is, for some reason, overlooking another document. In early 1992, after the U.S.S.R.'s collapse, the Ministry of the Petroleum Industry issued a directive on dividing oil fields in the Caspian among the newly formed states.(14)

Moscow also divided the Caspian Sea floor into separate national energy sectors, and Russia's Ministry of Energy signed the appropriate agreements. (15)

Based on these claims, the current Russian position against sectoral division of the Caspian ignores precedents set by Moscow both before and after the breakup of the Soviet Union.

Although there are sufficient legal pretexts and precedents for carrying on the dispute over the Caspian Sea's status, framing the current debate in terms of whether the Sea can be divided based on its status is misleading. The question of whether the Caspian is a sea or a lake is actually a front for the real question: Can the republics of the former Soviet Union make their own decisions independent of Russia? It is in probing this question that one uncovers the implications for Azerbaijan of the ongoing clash over the Caspian's status.

## **Implications for Azerbaijan**

Of the five littoral states, Azerbaijan has been the most attractive to foreign companies seeking to tap into the Caspian's vast energy reserves.

Azerbaijan's sector of the Caspian is estimated to contain 25 of the 32 known oil and gas fields of the Sea as well as 145 of the 386 prospective structures,(16) putting Azeri oil reserves at 3.(6) billion proven and 27 billion possible barrels.(17) Moreover, Baku's offshore fields lie beneath relatively shallow water, thus allowing easier and cheaper oil extraction than is possible elsewhere in the Caspian.(18)

Azerbaijan inherited a dilapidated oil industry and an almost nonexistent infrastructure from its seven decades as a Soviet republic.(19) Although Azerbaijan was the main oil producing region in the Soviet Union through the 1940s, Moscow concentrated on its Siberian fields beginning in the 1960s and let the Caucasian oil industry fall into disrepair. As Figure 2 and Table 1 indicate, respectively, Azeri oil production and the Azeri share of total Soviet production have thus been on the decline since the 1960s.

**Figure 2: Azerbaijani Oil Production (Million Tons per Year)**

**Table 1**

| <b>Azeri Percentage of Total Soviet Oil Production</b> | <b>Year</b>    | 1930 | 1940 | 1950 | 1960 | 1970 | 1975 | 1980 |
|--|----------------|------|------|------|------|------|------|------|
|  | <b>Percent</b> | 57   | 71   | 39   | 12   | 6    | 3    | 3    |

Because of the neglect of the Azeri oil industry by the central authorities in Moscow in the later years of the Soviet Union, Azerbaijan became an investment opportunity waiting for the political situation to change. In the years immediately following independence, Azerbaijan capitalized on foreign interest in its Caspian resources by attracting international investment.

In September 1994, the government of Azerbaijan signed a major US\$8 billion contract with a consortium of oil companies from the United States, the United Kingdom, Norway, Turkey, Russia, Saudi Arabia, and Japan. The agreement, called the "Deal of the Century" by many commentators, provides for the exploitation of an estimated four billion barrels of oil in the offshore Guneshli, Azeri, and Chirag fields on the Caspian shelf near Baku. Beginning in late 1997, these three fields are expected to produce 32 million tons of so-called "early oil" over the next seven years (Early oil is the preliminary oil produced before the total infrastructure is in place and the fields are producing at maximum capacity in 2005). Total projected profits from the venture, which will produce an estimated 650 million metric tons of crude over a 30-year period, are US\$100 billion or more at current prices.

Azerbaijan has followed up its September 1994 oil deal by concluding, at the time of writing, nine additional contracts with international oil companies. The agreements together amount to nearly US\$30 billion in investment in a handful of fields on Azerbaijan's Caspian shelf.<sup>(20)</sup> Negotiations are also underway on a host of agreements covering other offshore Azeri fields.

Azerbaijan plans to use the recent surge of international investment to reverse its steady decline in oil output since independence. As Table 2 indicates, production from newly discovered and renovated fields is expected to raise oil output by 65 percent from its 1995-level by the year 2000. By 2010 Baku hopes to produce 900,000 bpd, a massive 257 percent

increase from its pre-independence level.

**Table 2**

| Oil Output in Azerbaijan Through the Year 2010 | Year         | 1990 | 1995 | 2000 | 2010 | Percent Change | 1990-1995 | 1995-2000 | 2000-2010 | 1990-2010 |
|--|--------------|------|------|------|------|----------------|-----------|-----------|-----------|-----------|
|  | Thousand b/d | 252  | 187  | 310* | 900* |                | - 26      | 65        | 190       | 257       |

\* projected

Azerbaijan has made development of the oil industry the cornerstone of its national economic policy and the focus of hopes to reverse its steady economic decline since independence. It is estimated that the September 1994 oil contract alone will bring a profit of more than US\$80 billion for Baku,(21) and many of the contracts have included a signing bonus amounting to hundreds of millions of dollars. In addition, scores of new jobs will be created in the country; it is predicted that eventually 90 percent of the professional staff and 95 percent of the nonprofessional staff working on oil projects will be Azerbaijanis.(22) There has also been a surge in construction and renovation in Azerbaijan as foreign investors have begun to build infrastructure including pipelines, roads, railroads, office buildings, and hotels. Services necessary for business like a reliable phone service and the Internet are also becoming available.

In order for Azerbaijan to realize fully the benefits of its oil development potential, it is essential that Baku retain sovereignty over its own affairs and its oil fields in particular. During decades of rule from Moscow, Azerbaijan saw little benefit from the oil that was taken from its offshore fields as the majority of its oil revenues were sent to Moscow. Baku is now relying on future offshore production to boost its economy. About eighty percent of current Azeri production comes from offshore fields,(23) and of all the contracts signed thus far or under negotiation with international oil companies, only the Kursangli and Karabagli structures are onshore (see Table 3). If Azerbaijan is denied sole ownership of its own sector of the Caspian, it will thus lose almost all international investment and most of its oil production.

**Table 3**

| Major Oil Fields Under Contract or Negotiation in Azerbaijan |                          |
|--|--------------------------|
| Field  | Oil, Million Metric Tons |
| Azeri, Chirag, Deepwater Guneshli                            | 650                      |
| Shah-Deniz   | 200                      |
| Zeinalabdin Tagiyev  | 115                      |
| Bahar-2  | 150                      |
| Inam   | 200-300                  |
| Karabakh   | 130                      |

|                                |        |
|--------------------------------|--------|
| Ashrafi, Dan Uludzu            | 120    |
| Lenkorandeniz,<br>Talyshadeniz | 80-100 |
| D-3, D-9, D-39                 | 150    |
| Yalama                         | 50     |
| Kyapaz                         | 50     |
| Kursangi, Karabagli            | n/a    |
| Palchig-Tepe                   | 10     |

Russian success in denying sectoral division of the Caspian would also impact negatively on Azerbaijan's political independence. Joint dominion over the Sea would empower the dominant regional actor, Russia, with the greatest voice in the exploitation of the Sea's energy reserves and undercut the independent decision-making ability of Azerbaijan and the other littoral states. Unable to develop its resources and thus to chart its own path to economic and political independence, Baku would again become a virtual client of Moscow.

Realizing what is at stake for its future as an independent state, Azerbaijan has proceeded with its oil development scheme despite Russia's objections. At the same time, Baku has also moved to undermine the Russian position on the need for joint control. Moscow's approach to the status dispute is founded on the claim that the Caspian Sea is a fragile, unique ecosystem and supports a fishing industry that needs to be protected from the harmful effects of "intensive unilateral development of natural resources".(24) Russian officials have thus argued that joint control will better protect the ecological health of the Caspian and environs.

Russia's newfound desire to protect the environment is ironic considering that the Caspian Sea is now, according to Azeri scientists, the "most ecologically devastated area in the world" because of severe air and water pollution incurred during Soviet rule.(25) While struggling to reverse the environmental damage suffered under Moscow's watch, Azerbaijan is tightening pollution standards for oil companies at work on the seabed. Proposed standards regulating the release of oil waste products near shore will correspond to those in force at British oil deposits in the North Sea, (26) and Baku has stipulated frequent meetings with oil company officials to discuss the environmental impact of offshore development.(27) Thus, while attempting to protect its own sector of the Caspian from further environmental damage, Azerbaijan is also striking preemptively at the heart of Moscow's argument for a joint sovereignty settlement.

## **Recent Developments in The Status Dispute**

Although Russian opposition to any sectoral division of the Caspian held strong for more than two years, Moscow's position began to erode in 1996 due to the apparent realization that "it cannot stop the division of the sea... The only question is how the division will now be formalized de jure."(28) On 12 November 1996 Russia offered to recognize an exclusive 45-mile offshore economic zone for each country. It also expressed willingness to

discuss, on a case-by-case basis, national jurisdiction over oil and gas deposits beyond the 45-mile limit at sites where drilling is already in progress. All other deposits would be "commonly owned" through joint-stock companies of the five Caspian countries. The proposal also included a "double-tender system" giving riparian countries first claim to development of fields ahead of non-Caspian bidders in any future oil and gas contracts. (29)

Common jurisdiction would grant Russia a share in the other littoral countries' mineral resources and empower Moscow with great leverage both to require the routing of export pipelines through Russia and to otherwise push its interests in any decisions on the production and marketing of Caspian oil and gas. It would also restrict the ability of Azerbaijan, Turkmenistan, and Kazakhstan to conduct business directly with Western companies. The Jamestown Foundation summarized that the proposal "would create legal havoc in the Caspian Sea, draw dividing lines through Azerbaijani, Kazakhstani, and Turkmen oil and gas deposits, produce political complications, and, obviously, discourage Western investment".(30) As the bulk of Baku's oil riches are situated beyond the 45-mile zone, Azerbaijan was the only littoral country to decline from signing the agreement.(31)

Already besieged by Russia and Iran on the matter of the Caspian's status, Azerbaijan became embroiled in yet another ownership dispute in January 1997, when Turkmenistani President Saparmurad Niyazov unleashed the claim that the Azeri and Chirag fields being developed by Azerbaijan and an international consortium under the September 1994 "Deal of the Century" are situated in Turkmen waters and therefore are Turkmen property. Baku rejected the claim out of hand but offered to hold talks with Ashgabat to clarify the matter.(32) Although Turkmen opposition to the two fields' development died down thereafter, Ashgabat laid claim to the offshore Kyapaz field following an initial July 1997 agreement on the field's exploitation between Azerbaijan and two Russian oil companies.(33) This time Turkmen authorities threatened to take their case to the United Nations or an international court, insisting that no more oil agreements should be signed by Baku until the question of the Caspian Sea's status is settled definitively.(34)

Although Ashgabat's insistence that the status issue be resolved before oil development efforts can go forward reflects Russia's original position on the issue, Turkmenistan's claims to offshore fields in the Azerbaijani sector of the Caspian amounted to a de facto endorsement of Baku's position on the Sea's status. This move in the direction of Azerbaijan became more pronounced in March 1997, when the Turkmenistani president signed an agreement with his Kazakh counterpart stating that "all countries bordering the Caspian Sea must stand by the principle of dividing the water area out to a middle line until the Caspian Sea's legal status is determined".(35)

Another interesting wrinkle in the Caspian status debate emerged in July 1997, when Azerbaijan and the Russian oil giant LUKoil signed a \$2 billion deal for the development of the offshore Yalama oil field. The field is located so far north that it terminates at the edge of the sector of the Caspian Sea that Baku has carved out as its own. In fact, Yalama may be contiguous with offshore structures within the Russian zone which LUKoil

has been licensed to develop. Thus, it has been speculated that LUKoil may at some future date decide to merge the two contracts and develop the structures as one.

If such a merger were to take place, it would have interesting ramifications for the Caspian Sea status dispute. Developing the Yalama and Russian fields as one would forward Moscow's position that "lines in the sea do not serve to make one field Azerbaijani and another Russian. The Russian government might use a merger as ammunition-- that is, as a foothold into the Azerbaijani sector of the Caspian".(36) While there is so far no sign that LUKoil may merge the two contracts, the situation will no doubt be watched carefully by Baku and international investors.

While many important developments in the Caspian status dispute have occurred since 1994, perhaps the most significant was the United States' endorsement of the Azeri position in November 1996. In response to Russia's proposal for limited national division of the Caspian, U.S. Special Ambassador to the Newly Independent States, James Collins, wrote in a letter to Azeri President Heidar Aliyev that Washington "support(s) our investment companies and uphold(s) the idea of the sectoral division of the Caspian Sea".(37) Because Washington had previously declared the Sea's status a matter to be resolved by mutual agreement of the littoral states, this unambiguous stand against joint sovereignty over the Caspian-- in direct opposition to Russia's position on the issue-- appeared to mark a significant change in U.S. policy.(38)

The ostensible change in U.S. policy was due in large part to a growing interest in the vast energy potential of the Caspian Basin. The United States, a consumer of about 6 billion barrels of crude oil annually, is becoming increasingly aware of its over-dependence on Persian Gulf oil. Washington is thus seeking to ensure that predictions of the Caspian Sea becoming the West's second largest source of oil are made a reality. The United States apparently believes that the partition of the Sea among the littoral states will best facilitate the timely and sensible development and export of the Caspian's energy riches. However, in the light of past U.S. accommodation with Russia, it remains to be seen whether Washington's new approach to the Caspian indicates that the Clinton Administration is really ready for a face-off with Moscow.

## **Conclusions And Future Prospects**

The root cause of the dispute over the status of the Caspian Sea is Russia's unwillingness to see its former vassals assert genuine political and economic independence from Moscow. Although the U.S.S.R. no longer exists, many Russian politicians continue to view Azerbaijan's vast resource wealth as the property of Moscow;(39) a 1994 directive of the Russian Foreign Ministry lamented Azerbaijan's claims to "the most important region of the Caspian Sea" and complained that "the closed Caspian Sea basin is being divided up and Russia is being left with the most unproductive and prospectless sector".(40) Moscow is surely aware of the fact that recent estimates of nearly 200 billion barrels of oil situated in the Caspian Basin mean that trillions of dollars are at stake in the outcome

of the status debate.

Perhaps more important than asserting proprietary rights over the Caspian's natural resources, however, is Russia's desire to prevent the emergence of a major Western economic and political foothold in its backyard. As the negative Russian response to NATO Secretary-General Javier Solana's February 1997 visit to the Transcaucasus demonstrated, Moscow fears that an explosion of investment by Western oil firms will lead to a heightened Western political presence in the southern republics.(41) Because "the loss of control over a region that is so rich in natural resources would mean for Moscow the loss of its own influence" in the southern republics, Russia is determined to impede the development of true independence for Azerbaijan and prevent its integration with Turkey and the West.

The greatest obstacle to Russian efforts has been the regime of Azerbaijani President Heidar Aliyev. Contrary to initial expectations when he came to power in the wake of what many claimed was a Russian-inspired military revolt in June 1993, the former head of the Azerbaijani KGB and Politburo member has governed as a nationalist and distanced himself from Russia. Although responsible for bringing Azerbaijan into the Commonwealth of Independent States (C.I.S.), Aliyev has been adamant in maintaining his country's sovereignty and independence.

In addition to asserting control over the sector of the Caspian carved out by Azerbaijan, Aliyev has defied Russian pressure for the right to base troops in the country. Baku has refused Russia's insistence on establishing two military bases in Azerbaijan and declined to cooperate with Moscow on joint defense of Azerbaijan's border with Iran.(42) Moreover, in negotiations on new amendments to the 1990 Conventional Forces in Europe Treaty, Baku succeeded in blocking Russia's right to base military forces in the republic even temporarily.(43) Thus, in the light of the fact that both Georgia and Armenia have a major Russian troop presence, Aliyev's stalwart resistance to Russian plans has denied Moscow a unified defense perimeter in the Transcaucasus.

Although Aliyev has been quick to avoid any unwarranted increase in Russian influence over his republic, he has realized that, in view of Russia's geopolitical power, it is impossible to act in complete disregard of Moscow's interests. Thus, the Azeri ruler has welcomed participation by Russian oil companies in offshore oil development and has accepted a pipeline from Baku to the Russian Black Sea port of Novorossisk as one of two pipelines to carry early Azeri oil to market.(44) Moreover, the Aliyev regime has promoted Russian participation in efforts to achieve a political settlement to the Nagorno-Karabakh conflict and agreed to a Russian presence in any future multi-national peacekeeping force dispatched to enforce such a settlement.(45)

However, Aliyev has noted that there must be a measure of give-and-take in Russian-Azerbaijani relations: "Azerbaijan... is prepared to consider Russia's interests, but Russia must in turn consider Azerbaijan's interests". (46) Despite his willingness to concede a limited Russian role in the region, Aliyev has often found Moscow willing to pursue policies contrary to Azerbaijani interests. While the Caspian status dispute is certainly a key example, Russia has also acted against Azeri interests in other important

areas.

In February 1997, Azerbaijan was awakened to the fact that Russia currently controls the only export pipeline from Baku to international markets when Moscow refused to begin pumping Azeri oil through the Baku-Novorossisk pipeline. The refusal abrogated a January 1996 Russian-Azerbaijani agreement on the transport of 70,000 metric tons of oil in the first quarter of 1997.(47) Although it was speculated that the decision was undertaken in order to give Moscow leverage in negotiations with the breakaway region of Chechnya-- which the pipeline crosses, the Russian refusal caused concern for Baku and international oil companies about the willingness of Moscow to meet its obligations for early oil transit.(48)

Azerbaijan has also accused Russia of backing Armenia in the conflict over Nagorno-Karabakh. On several occasions during the peak of fighting between 1992-1994, Baku asserted that Russia was providing weapons and military personnel to Karabakh Armenian forces battling for independence from Azerbaijan. Most recently, Azerbaijan has fingered allegations that 86 T-72 tanks and 50 armoured personnel carriers were transferred to Armenia from Russia-- free of charge and without the apparent endorsement of the Russian government-- between 1994 and 1996 as signs of Russian bias toward Yerevan.(49)

Azerbaijani officials have suggested that the alleged Russian arms transfers represent a bid by Moscow to disrupt the three-year cease-fire in Nagorno-Karabakh and to topple the Aliyev regime. There is certainly logic to this assertion:

Aliyev's replacement with a leader more amenable to Russian interests would alter the strategic situation in the region almost overnight. Moscow would likely be called upon to impose a pax Rus in Nagorno-Karabakh, especially if Azerbaijan were to lose additional territories to Russian-backed Armenian forces. Moreover, the explosion of renewed violence would no doubt stir unease among international investors at work in Azerbaijan and delay the development of the republic's energy resources, thus opening the door for a Russian power grab vis-a-vis Caspian oil.(50)

Aliyev's departure would thus cast serious doubts on Azerbaijan's prospects for remaining an independent state.

Despite Russian opposition to his policies, Aliyev has noted that he will not alter Azerbaijan's oil development and foreign policy priorities.(51) Recent trends indicate not only that Russia is softening on the prospect of sectoral division, but also that Azerbaijan is gaining important international support for its position. Although these are promising steps toward finding a compromise on the status issue, it is unlikely that Moscow will agree to any settlement that will hasten its loss of influence in the region, and it is equally unlikely that Baku will accede to any measure that will dilute its own sovereignty. Thus, as long as Russia remains intent on asserting a sphere of influence over the Transcaucasus and Central Asia, Baku's quest for true independence will put it on a collision course with Moscow.

As the recent signs of increased U.S. engagement in the region indicate, the stakes in the new "Great Game" for oil and influence in Central Eurasia are rising.(52) The importance of the Caspian Sea in global politics is summed

up in the following statement:

The Caspian issue is one of the most important geopolitical problems on the territory of the former U.S.S.R. The interests of the world's major states are intertwined there. Strategically important oil fields and fish stocks are located there. Oil and gas pipelines of vital importance to the Caspian states (including Russia) will originate there. . . Not just oil officials and diplomats, but cultures and geopolitical orientations are clashing there. The status quo there will not be maintained for long. The only question is who will change it and to whose benefit.(53)

At the centre of this growing storm is Azerbaijan, whose efforts to exert sovereignty over its own sector of the Caspian will have a great impact not only on the future of the Sea as an oil-producing region, but also on the very geopolitical makeup of Central Eurasia in the next century.

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## NOTES:

1. Hugh Pope, "Caspian Oil Deposits May Be Much Larger Than Estimated", *Wall Street Journal* (30 April 1997).
2. Kent E. Calder, "Asia's Empty Gas Tank", *Foreign Affairs* (Vol. 75, No. 2, March/April 1996): 59.
3. Robert B O'Connor Jr., Richard A. Castle, and David R. Nelson, "Future Oil and Gas Potential in Southern Caspian Basin", *Oil and Gas Journal* (3 May 1993): 117-120.
4. Gregory F. Ulmishek and Charles D. Masters, "Oil, Gas Resources Estimated in the Former Soviet Union", *Oil and Gas Journal* (13 December 1993): 62.
5. Scott Horton and Natic Mamedov, "Investment in Azerbaijan's Upstream Requires Attention to Legal Details," *World Oil* (April 1996): 88.
6. In keeping with its policy of neutrality in foreign policy, Turkmenistan has avoided taking a clear-cut stand on the status issue. In practice, Ashgabat's pursuit of international investment in its offshore deposits follows the sectoral approach, but it has attempted to avoid estranging Moscow and Tehran on the issue. In November 1996, Turkmenistan signed a memorandum with Russia and Iran on the creation of a joint company to develop the Caspian's resources. Bruce Pannier, "Turkmenistan, Russia, Iran Sign Agreement", *OMRI Daily Digest* (Vol. 2, No. 220, 13 November 1996).
7. Annick de Marffy-Mantuano, "Current Development: The Procedural Framework of the Agreement Implementing the 1982 United Nations Convention on the Law of the Sea," *American Journal of International Law* (Vol. 89, No. 814, Oct. 1995).
8. Clive Schofield and Martin Pratt, "Claims to the Caspian Sea", *Jane's Intelligence Review* (February 1996): 77.
9. *Ibid.*: 78.
10. Article 62 (1) of the Vienna Convention on the Law of Treaties provides these guidelines for termination of a treaty: 1. A fundamental change of circumstances such as occurred with regard to those existing at the time of the conclusion of a treaty, and which was not foreseen by the parties, may not be invoked as a ground for termination or withdrawing from the treaty unless: (a) the existence of those circumstances constituted an essential basis of the consent of the parties to be bound by the treaty; and (b) the effect of the change is radically to transform the extent of obligation still to be performed under the treaty.
11. Schofield and Pratt, "Claims to the Caspian Sea": 78.
12. *Ibid.*: 78.
13. Aleksandr Akimov, "Oil and Gas in the Caspian Region: An Overview of Cooperation and Conflict," *Perspectives on Central Asia* (June 1996).

14. Aidyn Mekhtiyev, "Chernomyrdin Has No Complaints Against 'Contract of the Century,'" *The Current Digest of the Post Soviet Press*. (Vol. 46, No. 41, 9 November 1994): 26.
15. Robert Barylski, "Russia, The West, and the Caspian Energy Hub" *Middle East Journal* (Vol. 49, No. 2, Spring 1995): 219.
16. Jennifer DeLay, "Azerbaijan Has Lion's Share of Caspian Blocks, SOCAR Official", *Pipeline News* (No. 52, 22-28 March 1997).
17. Pope, "Caspian Oil Deposits May Be Much Larger Than Estimated".
18. *Segodnya*, 8 September 1995, in Foreign Broadcast Information Service-- Central Eurasia (hereafter FBIS-SOV), #95-188-S (28 September 1995): 10.
19. "Azerbaijani Oil Today," US Embassy Report; Baku, Azerbaijan (1 November 1995).
20. Heiko Pleines, "Major International Projects in the CIS, Part I: Central Asia", *Pipeline News* (No. 3, 2-8 March 1996); and Liz Fuller, "Azerbaijan Signs Another Oil Contract", *OMRI Daily Digest* (Vol. 2, No. 241, 16 December 1996).
21. "Will Azerbaijan Really Benefit From the Consortium Contract?" *Azerbaijan International* (Vol. 3, No. 2, Summer 1995): 40.
22. Einar Bergh, "AIOC Current Developments", *Azerbaijan International* (Vol. 4, No. 2, Summer 1996): 44.
23. "Azerbaijan Country Brief," *Energy Information Administration, US Department of Energy* (May 1996).
24. FBIS-SOV, #95-188-S (28 September 1995): 10.
25. Quoted in Central Intelligence Agency, *The World Factbook 1993-1994* (Washington, D.C.: Brassey's, 1993): 24.
26. Jennifer DeLay, "Azerbaijan's New Pollutions Standards Less Strict Than in Soviet Era", *Pipeline News* (No. 62, Part II, 31 May-6 June 1997).
27. Einar Bergh, "AIOC Current Developments", *Azerbaijan International* (Vol. 4, No. 1, Spring 1996): 44.
28. Georgy Bovt, "Russia, Iran Agree that Rules on Caspian Sea are Affair of Littoral States, None of Which Should Take Unilateral Steps," *Current Digest of the Post Soviet Press* (Vol. 47, No. 44, November 1995): 15.
29. "New Twist in Legal Battle Over Caspian Resources," *Fortnight in Review* (Vol. I, No. 10, November 1996).
30. Ibid.
31. Iran argued for a 10-mile zone; Russia, 20 miles; Turkmenistan, 60 miles; Kazakhstan, 80 miles; and Azerbaijan lobbied for division of the entire sea into sectors. Bruce Pannier, "Caspian Sea Agreement Signed," *OMRI Daily Digest* (Vol. 2, No. 221, 12 November 1996).
32. "Azeri Oil Chief Rejects Turkmen Claim to Caspian Oilfield", *BBC Summary of World Broadcasts* (29 January 1997).
33. Russia annulled the agreement at the end of July, stating that the Turkmen claim on the Kyapaz field made its legal position untenable. "Russia Annuls Kyapaz Contract", *RFE/RL Newslines* (Vol. 1, No. 86, 1 August 1997).
34. DeLay, "...As Turkmenistan Protests Initial LUKoil-Rosneft Kyapaz Deal".
35. Quoted in "Kazakhstan, Turkmenistan Agree on Caspian Sea Problem", *Interfax* (27 February 1997).
36. Jennifer DeLay, "The Attraction of Location: What If LUKoil Merged Yalama and its Dagestani Fields?" *Pipeline News* (No. 61, Part II, 24-30 May 1997).

37. Quoted in "U.S. Official Arrives in Azerbaijan", *United Press International* (13 November 1996).
38. Jennifer DeLay, "US May Finally Be Taking Sides in the Dispute Over Ownership of Caspian Oil", *Pipeline News* (No. 38, Part II, 25-30 November 1996).
39. For example, Russian Prime Minister Victor Chernomyrdin claimed in May 1996 that Western oil companies pose a security threat to the CIS because they seek to control the region's strategic resources. Jennifer DeLay, "Russian PM Calls U.S. Companies a Threat, Addresses Oil Club", *Pipeline News* (No. 13, 11-17 May 1996).
40. Quoted in *Yeni Gunaydin*, 17 October 1994, in FBIS-SOV, #94-203 (20 October 1994): 34.
41. Valentin Kunin, "Russia Against NATO Presence in Caucasus", *RIA Novosti* (20 February 1997).
42. "Azerbaijan Sidesteps Russian Call to Join CIS Border Defense Pact", *Monitor* (Vol. 2, No. 97, 16 May 1996).
43. Roland Eggleston, "Wary of Russia, Azerbaijan Wins CFE Concessions", *Radio Free Europe/Radio Liberty* (3 June 1996).
44. Joseph R. Masih and Michael P. Croissant, "Pipeline Politics in the Transcaucasus", *National Security Studies Quarterly* (Vol. 3, No. 1, Winter 1997): 70-71.
45. In response to Moscow's demand for a Russian-dominated peacekeeping force to monitor a proposed peace settlement, Aliyev told Russia's Nagorno-Karabakh envoy that "Russia cannot deploy its troops in Azerbaijan by itself. They will have to tread over my dead body first. Russia's troops can be deployed within the framework of an international force". Quoted in *Hurriyet* (5 June 1994).
46. Quoted in "Is Aliyev Considering a Strategic Bargain With Moscow?" *Monitor* (Vol. 2, No. 180, 27 September 1996).
47. "Russia Refuses to Transport Azeri Oil", *Segodnya* (6 February 1997).
48. Jennifer DeLay, "Transneft Plays the Chechen Card: Export Route Issue Looms Over Caspian Oil Fields", *Pipeline News* (No. 46, Part II, 1-6 February 1997).
49. Vladimir Semiryaga, "Aman Tuleyev Says There Are Forces in Russia Interested in Undermining the CIS Integration Process", *RIA Novosti* (14 February 1997).
50. Michael P. Croissant, "Tensions Renewed in Nagorno-Karabakh", *Jane's Intelligence Review* (July 1997): 310.
51. Jennifer DeLay, "Azerbaijan to Continue With Strategy For Developing Offshore Oil and Gas Deposits", *Pipeline News* (No. 42, Part III, 11-17 January 1997).
52. See Michael P. Croissant, "U.S. Interests in the Caspian Sea Basin", *Comparative Strategy* (Fall 1997, forthcoming).
53. FBIS-SOV, #95-188-S: 10.

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