



UNISCI Discussion Papers

THE GEOPOLITICAL SITUATION IN THE CASPIAN REGION

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1. Introduction

The Caspian region is one of the important focal points for world geopolitical game. The strategic value of the region is determined by the following factors:

First, the Caspian shelf is among the richest oil fields in the world. Proven crude oil and natural gas reserves have been estimated at up to 3% and 4% of the world total, respectively. Regional proven oil reserves range between 17 and 33 billion barrels, depending on various sources. Proven natural gas reserves are estimated at 232 trillion cubic feet (Tcf) (including Uzbekistan).²

Oil factor plays an important role in international relations. It defines the strategic importance of a region and historically determines political environment there. Great powers are historically involved in oil rich regions and countries to control them. The situation is complicated by the fact, that hydrocarbon resources are not renewable and not evenly distributed around the world.

Second, geographically, the Caspian region, covering Caucasus, adjacent to the sea areas of Russia, northern Iran and western parts of Kazakhstan and Turkmenistan, is located in central part of Eurasia. The region is situated between politically and economically important regions of the world – Europe, Middle East, South and East Asia. The Caspian area provides the best land routes connecting these regions.

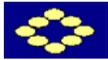
Energy factor, geographical location of the Caspian region and its strategic importance to the littoral states, great and regional powers, the existence of common and diverse national interests, and international situation as a whole are those political factors which largely determine geopolitical conditions at the region.

2. Caspian geopolitical game: players and interests

During the Soviet period the Caspian region was fully controlled by the Soviet Union, sharing the sea with Iran. At that time Moscow could influence global and regional trends around the region. The break up of the Soviet Union has fundamentally changed geopolitical conditions at the Caspian basin. The emergence of new actors asserting their own national interests, power vacuum created by the loss of control by Moscow, the absence of exact data of untapped

¹ Las opiniones expresadas en estos artículos son propias de sus autores. Estos artículos no reflejan necesariamente la opinión de UNISCI. The views expressed in these articles are those of the authors. These articles do not necessarily reflect the views of UNISCI

² *Caspian Sea Region*, in www.eia.doe.gov/emeu/cabs/caspian.html.



energy sources characterize the first period (early 1990-s) of geopolitical game in the region. All players had to identify national interests and to form or transform their strategies in new political environment.³

Since mid-1990s there has been an active phase of geopolitical game around the Caspian Sea. It has become obvious that it possesses enormous oil and gas potential. The main feature of the latter half of the 1990-s were competing interests of the western countries and Russia over the issue of pipeline routes.

At present all export pipelines are directed via Russia, including the new big pipeline from the Tengiz oilfields on the Caspian Sea to the Black Sea over the Russian port of Novorossiysk. The only pipeline that does not pass the territory of Russia is the one of Baku-Tbilisi-Batumi.

Such situation benefits Moscow by giving it political tools for strengthening its position in the region. Other littoral states are highly interested in diversification export routes to increase their own economic benefits and to decrease political influence of Russia. These interests are shared by other actors involved in the region, and particularly by the USA.

A new phase of political developments in Caspian region has begun after the events of September 11th, which have changed strategic conditions at international and regional levels. In new strategic conditions, the United States have strengthened political and economic positions in Central Asia and Caspian regions, whereas Russia's political influence has been weakened.

I can define the main groups of interests as follows:

Caspian basin states, or littoral states, include Kazakhstan, Turkmenistan, Russia, Azerbaijan and Iran. These states are interested in exploration of rich resources of the sea to export them to world market. The export of raw materials allows these countries to solve their economic problems since it is the main source of hard currency for most of them. But the littoral states have different positions on the legal status of the Caspian Sea, an unsolved issue, and have diverse interests in transportation routes.

Transit countries, such as Russia, Iran, Turkey, Georgia, Armenia, Ukraine, Romania, Bulgaria, China and others, try to benefit from their geographical location between the Caspian oil and gas fields and world market by using or promoting pipeline routes via their territory.

Global and regional powers – the USA, Russia, China, Iran, the EU, and Turkey – strive for strengthening their positions in the Caspian region and use it as a platform for promoting their interests in other strategically important regions of the world.⁴

³ Kushkumbayev, S. (2000): "Geopolitics of transport communications in the Caspian region", in *National and regional security of Central Asian states in the Caspian sea basin (Conference papers)*. Almaty: The Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan.

⁴ Ashimbayev, M.; Laumulín, M.; Tukumov, Ye.; Gusseva, L.; Kaliyeva, D.; Kozhikhov, A. (2003): *New challenges and new geopolitics in Central Asia: after September 11th*. Almaty: The Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan.



Russia is one of the key players in the Caspian region. Its presence in the region for over one and half century and close historical and cultural ties with newly independent states have determined its leading position in the region. Besides historical-cultural factors, Russia possesses relatively strong military potential being the strongest among the littoral states. After the collapse of the Soviet Union, Russia has become an important transit state providing the main routes for exporting energy resources of landlocked neighbor countries to lucrative world markets.

For Moscow the Caspian region is a traditional zone of national interests. In early 1990s geopolitical, not economic factors, largely determined the policy of Russia in the region. Russia tried not to lose further its influence and to maintain geopolitical positions in the region, and often at the expense of its economic interests. At that time it could not develop full-scale exploration of natural resources due to economic difficulties and inadequate infrastructure. It actively opposed to creation of international oil consortium with participation of external states, because it tried to prevent new Caspian states from developing independently their hydrocarbon resources and cooperation with external forces, particularly the US and the EU.

During the second period of Caspian geopolitical game, Moscow's policy had changed in a more constructive way. It started to cooperate with other littoral states by promoting mutually beneficial projects in energy sphere. Nevertheless it continued to resist the construction of alternative pipelines to keep its monopoly position in transportation of energy resources.

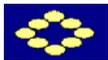
The situation with firm Russian position in transportation issue has changed during the recent years. The threat to lose a control over export routes has pushed Moscow to be more flexible and pragmatic. Russian company "LUKoil" has joined the consortium on construction of main export pipeline Baku-Tbilisi-Dzheikhan with 7,5 % share. Thus, Russia and the United States have started to construct a partner relationship.

At present there are three main tasks to solve for Russian policy in the Caspian region:

- Protection and strengthening positions in the region;
- Promoting stability in the region;
- Development of regional cooperation.

However, stability and development of regional cooperation requires urgent settlement of the Caspian Sea legal status issue. At present it is the most important question determining mutual relations of the littoral states.

The main reason of disagreements between the parties is the absence of international documents regulating access to the sea resources. Just recently, Kazakhstan, Russia, and Azerbaijan have reached a progress in settling this conflicting issue. They have signed a number of agreements regulating their interaction on this issue. The Turkmen position, basically, is close to the one held by Russia, Azerbaijan and Kazakhstan. But there is a disagreement between Russia, Kazakhstan and Azerbaijan, on the one hand, and Iran, on the other. Iran supports equal division of water surface and seabed of the Caspian basin. This



discrepancy may result in hindering beneficial cooperation between the sides and even conflict.

Kazakhstan is one of the richest countries in the world in terms of oil and gas reserves and is a primary producer of oil in the Caspian region. It is the main focal point for geopolitical struggle to control Caspian oil. In these geopolitical conditions to ensure the protection of economic and political interests and to promote national security is the main task for Astana.

For Kazakhstan, the energy sector is the main source of export revenue so needed for economic development. This sector represents a key asset and an attraction for foreign investors, and has been prioritised by the government as strategically important for the Republic.

The existing oil pipeline network through Russia makes vulnerable landlocked Kazakhstan to political and economic pressures. Astana is highly interested in development alternative export routes for energy resources. A number of oil and gas pipeline projects to carry Central Asia's resources have been proposed. The cheapest oil route might be via Iran. However, any scheme involving Iran seems unlikely to attract Western financing, because of tense relations between Iran and the USA. Other routes are substantially costly and cross large, remote and often volatile areas. The routes in direction East-West receive support of Western countries, particularly the USA. But a combination of economic and political factors hinders prospects for most of them.

After gaining independence **Azerbaijan** found itself in the center of a "geopolitical triangle" of clashing interests of Russia, Iran and Turkey. Baku has chosen a pro-Western orientation based on close relationship with Turkey, representing the interests of the United States in the region.

One of the most important issues in close cooperation of Azerbaijan with Turkey and the USA is the project of construction of Baku-Dzheikhan pipeline, where they have common economic and geopolitical interests.

Relations with Russia were not so close until recently. The rapprochement of Russia and the United States in the Caspian region has created a necessity for Baku to find common grounds with Moscow. This trend eventually has led to the signing of a bilateral Agreement on delimitation of related sectors of Caspian seabed between Russia and Azerbaijan in June 2002.

Contrary to the close cooperation of Baku with the Western countries, relations between Azerbaijan and Iran have been deteriorated considerably because of disputable oil fields of Alov, Araz and Sharg. The situation had been worsened after an incident in Southern Caspian in 2001, when an Iranian warship forced the Azerbaijani oil field research vessels to stop activities in disputable area.

Turkmenistan ranks third in the region in liquid and gaseous hydrocarbon resources. Its gas reserves are estimated at 8.1-8.7 trillion cubic meters and its prospecting potential at 10.5 trillion cubic meters.⁵ But it has achieved less progress toward developing hydrocarbon resources than other littoral states. In early 1990s Turkmenistan could not realize its potential

⁵ See: <http://reference.allrefer.com/country-guide-study/turkmenistan/turkmenistan40.html>



in gas and oil sphere due to the problem of transportation. All of the pipelines to world markets were routed through Russia, imposing big economic and political constraints on Ashgabat.

At present, Turkmenistan is still dependent on Russia in exporting natural gas. This gives an advantage to Russia in comparison with the United States, which is also interested in rich gas deposits of the country. Washington lobbied the project of Transcaspian gas pipeline from eastern Turkmenistan across the Caspian undersea, via Azerbaijan and Georgia to Turkey. This ambitious project has not been yet realized due to some difficulties. Firstly, there were serious disagreements between Turkmenistan and Azerbaijan over disputable area of Serdar and other issues relating to share of participation in the Transcaspian gas pipeline project. Secondly, Russia proposed Turkmenistan to participate in “The Blue Stream” project of transportation of gas via Russian Gazprom pipelines to Turkey.

For Turkmenistan, another attractive direction of cooperation in the energy sector is Iran. The latter tries to strengthen its positions in Central Asia by developing cooperation with Turkmenistan. Both sides consider the possibility of pipeline construction through relatively stable Iranian territory to the Persian Gulf. Recently, Iranian specialists have finished the construction of a gas refinery in Turkmenistan, which constitutes a part of the project on transporting Turkmenian gas to Iran.

Iran’s oil deposits are mainly situated in the Persian Gulf. Nevertheless the Caspian region is also strategically important for Teheran. The policy of Iran in the Caspian is determined by the following interests:

- Providing security of northern borders by promoting and maintaining stability and security in Central Asian states;
- Developing relationships with the states of the region in the policy framework of overcoming international isolation. Cooperation with the countries of Central Asia and Caucasus is regarded by Iran as the road to normalization of relations with the EU, China and Japan. ⁶
- Maintaining good relations with Russia and Turkey.

Cooperation with Moscow is of great importance to Teheran. Russia is the main supplier of military equipment and technologies for Iran. In the political sphere, Russia is considered as a counterbalance to the Western influence in the region. Both countries have common interests in promoting stability in neighboring countries of Central Asia and the Caucasus.

Advantageous geographical situation is a great benefit for Iran. But the current international situation is not favorable for Iran to realize fully its energy and transit potential. The United States blames Iran for seeking to obtain weapons of mass destruction and included it into the so called “axis of evil”. The scenario where Iran may be the next step in the US-led campaign to stop terrorism and proliferation of weapons of mass destruction is quite probable.

Besides Russia and Iran, other regional powers such as China and Turkey are involved in the Caspian geopolitical game.

⁶ Abishev, A. (2002): *Caspian sea: oil and politics*. Almaty: Center for Foreign Policy and Analysis, pp. 354-355.



Economic growth of **China** leads to increasing need for energy resources. In this regard, the Caspian region serves as a potential source of oil and gas resources so needed for growing economy. Moreover, in opinion of Chinese experts, oil and gas pipelines from this region are shorter and safer than alternative routes.⁷

At present, China's activity in the Caspian region is mainly directed to oil-rich Kazakhstan. In 1998 the sides signed a contract on exploration of an oil field in Western Kazakhstan by the Chinese national oil company. It is the biggest Chinese investment abroad.⁸ Kazakhstan's oil is delivered to China by railway, but the construction of a pipeline is in prospect.

Thus, China has purely economic interests in the region. This can be explained by the recognition of Central Asia as the traditional zone of national interests of Russia. Both countries share common aspirations about world order, and they are interested in cooperation with each other to solve strategic tasks at global level. Another reason for weak political involvement of China in Central Asia is that Beijing is focused more in South-East direction, where China faces a number of risks and problems.

After the dissolution of the Soviet Union one of the key regional powers striving for extending its influence in Central Asia has been **Turkey**. It has been trying to play a role of a bridge between East and West. But at the same time Turkey acts cautiously to keep good relations with Russia, one of the most important economic partners.

In the Caspian region Turkey is interested in achieving control over exporting flow of Caspian hydrocarbon resources to world market. It is a main driving force for the realisation of Baku-Tbilisi-Dzheikhan oil pipeline project.

First of all, developing cooperation with the Caspian states would allow it to strengthen its positions in international system. Strong positions in the region would facilitate Turkey's close relations with the United States. Turkey is considered by the US as a promoter of Western interests and values. Transit potential can be used by Turkey as an additional argument for inviting it to the European Union.

Second, Turkey is an oil importing country and energy security is very important for it. Friendly relations with Washington in conditions of deteriorating relations of the latter with the Arab world may have a negative impact on cooperation of Turkey with Middle East oil exporting countries.

Azerbaijan is the closest partner of Turkey among the Caspian states. They have common historical, cultural and ethnic roots. Both countries are western-oriented, and they share common interests in Baku-Tbilisi-Dzheikhan pipeline project. Their cooperation covers all spheres, from economic to military. For example, the incident between Azerbaijan and Iran demonstrated the readiness of Turkey to support the latter in case of military collision.

However, the positions of Turkey in Central Asian states are not as strong as in Azerbaijan, partly due to the resistance of Central Asian states to the promotion of pan-Turkic

⁷ Bao I.: "China: strategic interests in Central Asia and cooperation with the region's states", in *Central Asia and the Caucasus*. No. 5 (2001), pp. 117-123. Sweden: The Center for social and political research.

⁸ Abishev: *Caspian sea*, p. 352.



ideas by Turkey in the early 1990-s. Central Asian states have established cooperative relations with the Western countries directly. Moreover, the US have extended cooperation with Central Asia not only in economic, but in political and military spheres as well.

The United States is the global power that influences geopolitics in the Caspian region. Traditionally the oil factor has largely determined the foreign policy of this country, and hence, the international situation as a whole.

Securing energy resources and supply is mentioned as one of the most important strategic tasks in the US National Security Strategy adopted in September 2002. Oil consumption in the United States has increased considerably during the last ten years in comparison with internal extraction. Increasing dependence of the US on importing oil resources from external sources means increasing political vulnerability in international system. For this reason Washington has been pursuing the policy of diversification and securing of oil supply sources.

The Caspian region is regarded by the US as one of three priority directions of its global energy strategy alongside with the American continent and the Middle East. In 1997 the United States declared the Caspian region as a zone of national interests and set the following tasks:

- to provide secure global supply of energy resources in the way, so that to meet strategic and economic interests of the US and its regional partners;
- to promote economic development, political independence and democratization in the region;
- to render support to American companies to intensify the exploration of the region's energy resources;
- to develop reliable and viable alternative routes of energy resources export.

The importance of the Caspian region has increased with the deterioration of the Middle East situation and the increasing tense relationship with OPEC. Caspian oil is needed as an instrument to decrease the influence of this organization on world oil prices and to take control over world oil market. Any increase in oil prices may negatively affect American economy, which can dynamically develop at the price of 18 dollars per barrel.⁹ That is why Washington strives to increase the importance of Caspian oil in world market.

According to the US National Security Strategy, strategic security of the US should be based on cooperation with its "allies, trading partners, and energy producers to expand the sources and types of global energy supplies, especially in the Western Hemisphere, Africa, Central Asia, and the Caspian region."¹⁰

At present the US policy in the Caspian region is based on three main principles:

- to increase the reliability of energy resources supply;

⁹ Zverev, A.: *For the USA is very important to decrease its dependence on Middle East oil*, 27 November 2001, in www.aina.kz.

¹⁰ *The National Security Strategy of the USA*, 17 September 2002.



- to solve geostrategic tasks;
- to develop economic opportunities.

After September 11th events, the United States has considerably strengthened their positions in Central Asia not only in the economic/energy sphere, but also in the political and, in some states, the military sphere. Greater political involvement of Washington and weakened political positions of Russia in Central Asian countries have paved the road to insure stronger positions of the former in the Caspian region as well.

Another global power interested in Caspian energy resources is **the European Union**. It is the largest consumer of hydrocarbon resources. In 2000 oil consumption of the EU made up 14,4 million barrels per day (20,5 % of world consumption). About 60 % of oil is imported from abroad, including 29 % - from the post-soviet states, mainly Russia, Kazakhstan and Azerbaijan. Planned increase of oil exploration in the Caspian region makes it attractive for the consuming countries of the EU.

The EU is interested in the diversification of hydrocarbon supply sources, and the Caspian region's resources may play an increasingly important role for European energy security. Besides oil, the European Union is particularly interested in the Caspian gas. Connection of Caspian and European gas systems is foreseen. Feasibility studies have been funded in this regard.

The European Union has initiated a number of programs to develop close cooperative relations with the countries of the region. One of these steps is INOGATE program, directed on development of investment projects on diversification of transportation of hydrocarbon materials from Central Asia to Europe. Another program is TRACECA, aimed at providing assistance to launch Central Asia-Caucasus-Europe transportation route.

One of main partners of the European Union in the region is Kazakhstan. Kazakhstan is interested in economic cooperation with the EU to foster its own economic development and to establish close ties with one of the main political powers of the world. Both sides cooperate in economic, social and scientific spheres. Kazakhstan has already received 145 million Euro in the framework of TACIS program. For the European Union Kazakhstan is the biggest trade partner in Central Asia. Kazakhstan imports mostly high-tech and high-quality industrial equipment from Europe. The countries of the European Union, for their part, are interested in natural resources of Kazakhstan. For example, in 2002, hydrocarbon resources share in Kazakhstan's export to the EU was 78,2 %, according to data of Christopher Ford, the European Commission trade coordinator for Central Asia.¹¹ Energy factor determines European policy toward Kazakhstan, and will deepen cooperation with Astana in this sphere.

Thus, if the US and Russia strive for extending their political influence in the Caspian region, the European Union is actively involved in the region in the economic sphere.

One possible reason for explaining the moderate political involvement of European countries in the Caspian region is a disappointment with the results of European policy toward the CIS. Since the breakup of the Soviet Union, the EU policy was not successful enough to strengthen its political position in the post-soviet space.

¹¹ Ibragimov, Rasul: "Kazakh import from the EU exceeds export", *The Times of Central Asia*, 16 October 2003.



Being a close ally of the US, the EU does not necessarily share American interests in Caspian geopolitical game. Europe avoided to support Washington in the latter's attempts to decrease the role of Moscow in the region during 1990-s. For Europe, Russia is an important oil and gas supplier. Regarding the transportation issue, construction of alternative pipeline routes bypassing Russia is not a priority for the EU. Baku-Tbilisi-Dzheikhan project is regarded by the EU as an opportunity to relieve Turkish channels and as a benefit to the Turkish economy.

The interests and tasks of the European Union in the Caspian region are as follows:

- to separate European interests from American ones and to develop a European strategy in the region;
- to develop relations with the Caucasus and Caspian regions as a better alternative to OPEC;
- to actively support the development of an East-West transportation infrastructure to connect resources of the region, including Iran, with the European market.
- to elaborate a European position on main pipeline routes from the Caspian region to Europe;
- to harmonize national interests of the EU countries in the region in the framework of the common foreign and security policy.¹²

It should be mentioned that in the last few years there has been a trend toward more EU activism in the region. In 2001 the Memorandum of the Ministry of Foreign Affairs of Germany was adopted. This document expressed a German view on the European interests in Central Asia.¹³ According to this Memorandum, by 2015, NATO and the EU will border Russia, and Ukraine will be included into the strategic partnership of these organizations at various levels. In this situation, the Russian and Central Asia stability and security are important to Europe. Any instability in Central Asia will have a negative impact on Europe.

Thus, the new phase in Caspian geopolitical game after September 11th events is characterized by the following characteristics:

- Favorable strategic conditions have allowed the United States to improve further their positions in the Caspian region. The United States is interested in developing constructive and fruitful cooperation with the leading oil producing countries – Russia and Kazakhstan – in order to advance its interests in the energy sector.
- Russia's political influence has been weakened. The threat to lose further control over export routes has pushed Russia to construct more flexible relationship with the United States.

¹² Laumulin, M. and Seiphullina, T.: *Interests and policy of the European Union in Central Asia and Caspian region*, in www.kisi.kz

¹³ *Frankfurter Allgemeine Zeitung*. 15 May 2001.



- The European Union has shown willingness to play a greater role in the Caspian region.

For Kazakhstan the rapprochement of the United States and Russia has created new opportunities in the economic sphere. Firstly, partner relationship of two big powers in energy sphere makes more feasible the project of Baku-Tbilisi-Dzheikhan. Secondly, greater attention paid by the United States to the Caspian region after September 11th may attract more American investments, and promote further development of oil and gas industry in the Republic.

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