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*The Role of Natural Resources in the Caspian Basin.
Prospects of Conflict and Cooperation.*

by

PABLO BARRERA

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Student Name: PABLO BARRERA CRUZ I.D.#: 200602531

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Approved by: _____

Thesis Advisor: WALID MOUBARAK W.M.

Member : Sumi Barone S. Barone

Member : Bassel Salloukh B.S.

Date 11 JUNE, 2009

(This document will constitute the first page of the Thesis)

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To Jenny

To my parents

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The Role of Natural Resources in the Caspian Region. Prospects of Conflict and Cooperation.

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A. List of Abbreviations

AIOC	Azerbaijan International Operating Company
ACG	Azeri, Chirag and Guneshli oil fields
b/d	Barrels per day
Bb/d	Billion barrels per day
Bcm	Billion Cubic Meters
BTC Co	Baku-Tbilisi-Ceyhan Company
BTC	Baku-Tbilisi-Ceyhan Pipeline
BTE	Baku-Tbilisi-Erzurum
BP	British Petroleum
CASCO	Caspian Sea Cooperation Organization
CFE	Conventional Armed Forces in Europe Treaty
CFSP	Common Foreign and Security Policy
CNOOC	Chinese National Overseas Oil Company
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organization
EAPC	The Euro-Atlantic Partnership Council
ECO	Economic Cooperation Organization
ECT	Energy Charter Treaty
EIA	Energy information Administration
ENPI	European Neighbourhood and Partnership Instrument
GSPR	Global strategic petroleum reserves
IEA	International Energy Agency
ILSA	Iran and Libya Sanctions Act
ISAF	International Security Assistance Forces
KASFOR	Caspian Force
MDG	Millennium Development Goals
NATO	North Atlantic Treaty Organization
NCMD	North Caucasus Military District
NEP	National Energy Policy
NREP	Northern Route Export Pipeline
O&G	Oil and Gas
ONGC	Oil and Natural gas Corporation (Indian)
OPEC	Organization of Petroleum Producing Countries
PfP	Partnership for Peace
PSC	Production Sharing Contract
TACIS	Technical Assistance to Commonwealth of Independent States
SCO	Shanghai Cooperation Organization
SCP	South Caucasus Pipeline
SCPC	South Caucasus Pipeline Company
SOCAR	Azerbaijan's State Oil Company
SOFA	Status of Forces Agreement
Tem	Trillion Cubic meters
UNCLOS	United Nations Convention on the Law of the Sea
USSR	Union of Socialist Soviet Republics
USTDA	United States Trade and Development Agency
WMD	Weapons of Mass Destruction
WREP	Western Route Export Pipeline

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Introduction

Since the end of the Cold War, the Caspian Region has witnessed a remarkable increase of international attention. Following the breakup of the Soviet Union, a process of social and political transformation started in the former Soviet Republics. Although it had always been a territory of strategic importance as front line dividing East and West, the region has emerged as the main focus of attraction due to the recent discovery of the fossil fuels in the Caspian Sea.

During the 90's, the unknown Caspian Region became more accessible to foreign interests. Lured by the rumors of promising profits, multinational western companies found access to some of the former Soviet republics which, away from the Soviet centralized rule, were free and more open to external investment and cooperation. The oil importing countries, guided by the great expectations and the strategic interest in diversification of sources of energy supplies, were ready to support more "risky" investments which could make them less vulnerable to the will of OPEC.

Reports of the US State Department delivered to the US Congress in 1997¹ and 1998² estimated that "proven and possible oil reserves in the Caspian region are 171-191 billion barrels of oil and 564-665 trillion cubic feet of natural gas"³. These figures brought the Caspian Sea to the center of attention of media, states, businessmen and oil companies, eager to find new oil sources which would reduce the reliance on Gulf oil. The expectations were blown up out of proportion, with media statements like "Azerbaijan is believed to have more oil than Saudi Arabia"⁴, followed by "Caspian oil deposits may be much larger than estimated"⁵. As a result, the Caspian Basin was considered among the world's largest energy reserves. Some even referred to the region as a new "El Dorado"⁶. It was then believed to be another Persian Gulf.

But contradictory signs did not take long to appear, questioning the real potential of the Caspian Basin. More realistic estimations on potential oil reserves, transportation challenges from the landlocked sources to the international markets, the quality of the product extracted, the ongoing balance of power, geopolitical foreign interests and social and political instability of the Caspian states brought the Caspian euphoria down to more realistic levels.

Today, more reasonable estimations of oil and gas reserves⁷ have shown that the Caspian Sea is, by no means, comparable to the Persian Gulf. However, the potential remains for it to be an enormous contribution to global energy security, at least in the short term, until new renewable sources of energy become effective enough to decrease the world's oil dependency.

On the other hand we have come to realize that while energy resources play a central role, the relevance of the Caspian region is more significant than the oil hidden underground. The Caspian region is undertaking a major social, political and economical transformation. The newly born states are still weak⁸ and struggling in their self-construction and identity. They are, therefore, extremely vulnerable to penetration of external powers. Meanwhile, Iran and Russia compete for their supremacy as regional powers, exerting overwhelming influence and both interested in diminishing the US influence in the area. Thus, the region remains as a North-South & East-West crossroad, where global players meet and interact. This race for geopolitical hegemony, control and exploitation hydrocarbons in the Caspian Basin was soon titled "The New Great Game"⁹.

The new geopolitical game has many faces. Social, political, geographical and military aspects of the conflict converge together. All of these depend on who controls the exploitation of the large reserves of fossil fuels lying at the bottom of the Caspian Sea.

Being a landlocked body of water, no direct outlet exists, and transportation must always be implemented with the cooperation of two or more countries. The transport of the crude and gas from the Caspian Sea to the market outlets is carried out through a web of pipelines crossing all countries around the basin. This metal network physically connects all the Caspian states with each other and with other regions in bringing the oil and gas from the sea bottom to the “downstream”¹⁰ industry. The very same issue of dispute becomes, at the same time, a compelling reason to cooperate. The oil and gas reserves have thus become a double-edged sword: a tool to exert political power and dominance and a source of development, progress and economic cooperation.

The purpose of this paper is to offer a critical analysis of the energy resources (Oil and Gas) as a potential instrument for economic growth and political cooperation. It will examine the extent that the competition over natural resources in the Caspian Sea stands as an obstacle to cooperation among the Caspian countries, posing a threat to security and stability in the region.

0.1. Importance of the Topic.

In the midst of a global financial crisis, with some of the major economies entering a recession in Europe¹¹ and Asia¹², and with the balance of power being at the verge of turning, many of the issues involved in the Caspian region become of vital importance. It is in times of crisis that opportunities for change appear, and regional/global powers need to exert greater influence to either keep or gain strength and enlarge their spheres of influence. It is also during crisis when small and weak countries may take the risk of forming alliances, investing for future profitability if such alliances should turn out to be successful.

The unpredictability of the world situation presents an unclear outlook of the international order of the near future, but it seems clear that the countries which are not

prepared for change will be left behind. This is especially acute in areas of confrontation and mixed influence, like the Caspian Basin region.

Moreover, due to the 2008 financial crisis, the profit prospects of oil producing countries have plummeted. The price of oil dropped to less than 75% of its peak in less than a year. This may also cause a setback in the investment on renewable sources of energy, as happened during the 80's when the oil prices stabilized after the '73 world crisis. If so, initiatives in diversification of energy resources will fade out and oil will remain as the main source of energy for the foreseeable future. The momentum reached in the recent years in favor of creative and clean energy sources will have been wasted, and at stake will be the environmental progress achieved so far. As a consequence, states will continue seeking their energy security through contracts with traditional oil producing countries and concessions of exploitation in newly discovered sources. As the Caspian is one of the most promising new sources, this may lead to international disputes in the race for assuring energy supply.

However, energy resources can be turned into a factor of stability and development. Wisely used, they have the capacity to generate wealth and growth. This topic is difficult because it tackles issues of vital national importance for industrialized economies, as well as affecting the peace, security and sustainable development of other world regions. The relevance of this work, therefore, must be approached from different perspectives:

1. **Energy security:** The world is consuming energy faster than ever before. With rocketing growth rates in emerging economies, estimations present a drastic increase of world energy consumption levels. Such increase will reach 50 percent from 2005 to 2030¹³. As energy demand from emerging economies (mainly China and India) has alarmingly increased, many voices advocate decreasing the oil dependency of the globalized world economy. In the meantime, securing energy supply has become a top priority for industrial

societies and developing countries. Finding new sources of fuel is, therefore, a vital priority for most regional and global powers. If measures are not adopted, the search for energy resources will make national interests collide, leading irrevocably into conflict. Cooperation may come if states adopt a long term policy of cooperation for transition of an oil fuelled economy to a green paradigm.

2. **Regional Hegemony:** The extraction of the oil and gas is an essential component of the race for hegemony in the Caspian region where East, West, North and South meet. The main two regional powers, Iran and Russia, are in a constant struggle in retaining their influence in the region, while both have the common goal of reducing US influence. This adds to the complexity of this region, creating a number of security and foreign policy dilemmas. This provokes the securitization of the region, increasing the probability of military conflict. It also generates a number of alliances between states in the search of a better position in the system.

3. **Environment:** During the last decades we have learned a number of lessons concerning the exploitation of natural resources. The main lesson is probably that stability requires a global sustainable energy policy. It is clear that the transition from hydrocarbon based economy to that of renewable energy sources is an uneasy process which will need time. In the meantime, it is important that states seek policies that promote a sustainable approach to the exploitation of resources. The lack of such policies will inevitably result in tensions, conflict and instability, as well as having consequences on the environment that may reach far beyond the countries of the Caspian Basin.

4. **Ethnic conflict:** Ethnic tensions in the Caspian region are latent. They lie underneath the surface, and only need a spark to provoke violent conflict. Disputes over energy resources can trigger tensions and push leaders to play the ethnic card. Different local

groups also find great opportunities to pressure their states by menacing oil production and transportation. Energy security can be directly affected by ethnic conflicts and vice-versa.

5. **Regional and global Geopolitics.** The geographical position of the Caspian Basin adds a global dimension to all issues occurring in the region. External penetration, collision of foreign interests and the intention of regional powers to retain their options have led to identify the Caspian geopolitical ongoing process as the New Great Game. This is impossible to comprehend without understanding the local, regional and global dynamics being played out there. The local ethnic conflicts soon interact with regional interests and disputes which, at the same time affect the relations between the global powers and their interests in the Caspian Sea. Any decision on cooperation will have to address the external influences and the interest of the powers involved.

0.2. Literature Review

A large body of literature has been published about the oil business in the Caspian Sea. By the late seventies the main oil companies had already turned into powerful transnational entities, and the western economies had suffered the consequences the 1973 oil embargo, which proved the political power of oil.

It was at this time when many books and articles were published about the effect of the politics of the oil business had on regular citizens, who had become more interested in the issue. The oil business was also linked with aspects of life beyond economics, including other areas like the environment. Researchers and scholars started to focus their attention on the Caspian Basin during the '90s, when many believed that it was another Persian Gulf.

However, the situation has rapidly changed in the last 2 years. The oil priced has reached record high not foreseeable a few months earlier, only to plummet more than 75% in only 3

months. The economic crisis has modified every single market prediction, shaking the multi-billion dollar investment projects all over the world. At the time of writing, most leading world economies have entered a recession, unemployment worldwide has grown dangerously, and the demand of energy decreases every month, provoking consecutive OPEC production cuts.

In this unpredictable environment, information has been changing drastically every day. Literature has not been able to react as fast. Only a few books have been published so far that give an account of the latest events. Therefore, updated information has been taken from the daily news publications and web resources which are better at following the state of events.

Most writings about the “New Great Game” focus on the three front confrontation: the West, Russia and China. While analyzing that confrontation as the core of the geopolitical dynamics of the region, this work attempts to explore possibilities of cooperation that arise among all the difficulties and fields of competition in this region.

0.3. Methodology

The research methodology has been based on the analysis of academic bibliography, official national and international statistics and agreements -bi-lateral and multilateral- signed by the different stakeholders involved in the Caspian Basin. The drastic global changes that have occurred during the 12 months prior to the presentation of this work have changed all energy market scenarios (production and consumption previsions), tilted balances of power and created a very uncertain future for the international arena. The information valid only 6 months ago has become obsolete, due to the drastic change of the world financial and industrial landscape in the forth quarter of 2008 and the beginning of

2009. For this reason it has been necessary to make an analysis of recent news agencies and publications for the adoption of conclusions.

The paper focuses on the energy resources as the expression of a deeper struggle for domination in the Caspian Basin. The struggle, also called the New Great Game, involves many other issues like security, economics, geography and ideological alliances. The approach to take is closer to the critical geopolitics which takes in account a number of complex processes and policies for the adoption of conclusions, instead of focusing in the mere issue of exploitation of natural resources. Thus, the paper addresses a number of issues and fields:

- General overview on the issue of oils and energy policy.
- Review of main policies and strategies of international institutions on the exploitation of energy resources of the Caspian Sea.
- Review on the main international legislation for exploitation of natural resources.
- Analysis of the political and economic interests of the regional and external stakeholders, and their consequences for the peace and stability of the region.
- Security implications of the New Great Game.
- The importance of environmental approach as promoter of cooperation.

The paper is divided in three parts which include eight Chapters. PART I, Hydrocarbons and the Caspian Sea, gives a historical overview of the importance of hydrocarbons and modern society and describes the current situation and importance of the Caspian region in terms of energy resources. This section contains three chapters: Chapter one, *The International Order: the Energy Order*, is an introduction to the relevance of the energy

resources in the history of development, and how it affects human activity at all levels, all times and all places. The energy paradigm is so essential that it has changed the way of thinking about business and international politics.

The second chapter describes the *Caspian Sea*, from the perspective of the energy paradigm, how valuable the Caspian Sea is in terms of energy resources, and why it is so important today. Chapter three provides a historical overview of the *Legal regime of the Caspian Sea*. Understanding this aspect to the Caspian provides a history of the disputes over the control of the sea and how the players and stakeholders have changed and the issues have evolved, and a background to approach the current debate over the control and exploitation of the Caspian resources.

PART II analyses the different components of the geopolitical struggle for domination in the Caspian region, what has been called the “New Great Game”. Chapter four, *The Caspian States and Regional Stakeholders*, is a local and regional analysis of the players involved, their positions, interest and share of the Caspian. Chapter 5, *External Powers and Stakeholders*, looks at the global level and influence of external interests. This chapter provides an analysis of the main elements of this “game” and its consequences on the stability of the region. It examines the collision of different spheres of influence and the alliances and dynamics it provokes.

The third section, *Changing the Paradigm*, attempts to provide alternatives to conflict through a change of approach. Chapter seven analyses the benefits of changing towards an environmental and sustainable approach. Chapter eight provides a number of conclusions and recommendations for the energy resources to become real factors of change and stability.

PART I: HYDROCARBONS AND THE CASPIAN SEA

This first part of the paper provides a general overview of the importance of fossil fuels as an essential element of human development. Chapter one gives a brief historical review on how energy has contributed to development. The review focuses in the influence of fossil fuels in technological leap of the 19th century industrial revolution. Emphasis is given to the social transformation made possible thanks to the new uses of coal and oil, and how these have influence modern life standards, transportation and even the strength on nations and their military capabilities, becoming an essential factor in the configuration of regional balances of power.

Furthermore, chapter two aims at depicting the situation of the Caspian Sea today, providing a description of the natural resources found in the Caspian Sea, and the conflictive reports and estimation of quantities of oil and gas.

Chapter three explains how the legal situation of the Caspian, and how the different Caspian State are approaching the legal status of the Sea, seeking a favourable position for the exploitation of the resources.

CHAPTER ONE: The International Order: The Energy Order.

1.1 Brief history of energy resources

Energy is a driving force of social evolution and human development. It makes life possible since the very beginning of our existence and influences human behavior not only as a technological force, but also as a cultural, political, and economic factor. In order to understand the evolution and development of human societies, it is necessary to examine each civilization's mechanisms of producing, transforming, and supplying energy. Such mechanisms have been one of the main elements in defining the level of development and progress in all times across history¹⁴.

Since early prehistory, human life has been defined by the availability of energy. The first source was the Sun which was, for a long time, the only source of light and heat. It allowed the existence of human beings and defined their activity, working time, livable places and seasons. However, humans were not capable of controlling, transforming or storing energy until relatively recent times. The discovery of fire was the first major step of humanity in the use and transformation of energy. This event would soon affect the life style and living conditions of the human race, and create great differences between human communities.

The beginning of agriculture provided an efficient source of energy, helping man to reach a greater independence from the natural and atmospheric conditions. In time, humans learned how to use animal energy, which became a major contribution to agriculture, long distance travel and transportation. Energy was used to heat and obtain food, to build, to create weapons, for transportation, etc. Some cultures abused others in the search for energy, using slavery as a source of energy for labor.

Different civilizations contributed various ways to transform energy. Egyptians and Phoenicians were the first to master the techniques of wind power, building ships which allowed them to reach out to other cities along the Mediterranean coast, and establish the first recorded commercial fleet in history. Romans were experts on infrastructure projects to maximize natural resources like water. Most historical developments can be associated to improvement in the transformation, storage or use of energy supplies. The anthropologist Leslie Alvin White, a prominent scientific voice in the study of cultural evolution, argued that the function of culture is to put the use and control of energy at the disposal of human beings.¹⁵ He also used the ability to use and transform energy as a main indicator for human development.¹⁶

In contemporary history we find the greatest example of energy as a transforming force in the Industrial Revolution, which was made possible thanks to the use of electricity and fossil fuels. It was actually an energy revolution, which enabled not only fast and effective transportation, but also heating and cooling, electric generation, plastics, clothes, and chemical products.

1.2 The Era of Fossil Fuels and the predominance of oil.

History records the use of fossil fuels in ancient times. The Greek historian Herodotus (5th century BC) mentioned it in his writings, and American Indians used them for medicinal purposes and as an inflammable fuel to provide light and heat. But it was not until the 18th century Industrial Revolution when these fuels became the focus of the overwhelming technological and economic transformation of modern society.

New machines were invented which allowed more effective and organized ways to use, transform and store energy. The power of these machines permitted mass production with less hand labor, and allowed for the creation of large scale transportation, which altered the

basis of economics. In 1769, James Watt, a British engineer, patented his version of the steam engine, and made it available for industrial application. This engine, mainly fueled by coal, was based on the motion power generated by heating water. This would permit the invention of the locomotive and the steamships which would forever change the industrial paradigms. Coal became the main source of energy and industrial power and, therefore, the main source of economical and technological advance.

But if one energy-related event has change the course of politics and economics in the modern history that is the discovery of oil in America in 1859. After many failed attempts, Edwin "The Colonel" Drake, a rail conductor from New Haven, finally struck oil in Titusville, Pennsylvania. Less than a year after Drake's discovery, more than hundred wells could be seen in the town. The price of land in Titusville increased overnight. Thousands of people, workers, investors, bankers and businessmen were attracted by the events. An estimated 450,000 barrels of oil were produced in 1860 in Titusville. That amount rose up to 3 million barrels in 1862. The coal industry was overtaken by oil and coal workers themselves became oil workers. The profit was in oil. "In less than two years, one memorable well generated \$15,000 of profit for every dollar invested" The first oil boom had begun with gigantic consequences for humanity, although very few of those men knew what they had actually set in motion.¹⁷

Today the oil industry is more sophisticated. Instead of wooden oil towers run by men in dirty black overalls we see modern oil rigs and extraction plants with computerized equipment and machinery. But the essence of oil is still the same, and its influence is has increased. Today oil runs human activity. National development indicators are correlated with energy consumption indicators, mainly fossil fuels/oil. Humanity continues to demand more energy to raise its standard of living, and oil is the main source. Heating, cooling, transport by land, water or air, and any kind of industry or manufacturing process is bound

to oil consumption. But also hundreds of products in daily use are made from oil. Clothing, ink, telephones, antiseptics, carpets, pillows, shoes, fertilizers, cosmetics, movie film, credit cards, detergents, and medicines are just the beginning of an endless list of common items.

In order to produce all the energy and manufactured products for everyday use, the World needs and approximately an amount of 85,220,000 bl/day¹⁸. The production, process, transport and distribution of this amount of oil has created the largest industry on earth, the oil industry, which has certainly modified the lifestyle of the modern human being, as we will see in the following pages.

1.3 Oil and the economic order.

Since Colonel Drake started the oil business with the drilling of the first commercial oil well in Pennsylvania, the great profitability of the oil business has attracted investments from all over the world.¹⁹ The first major American oil company, Rockefeller's "Standard Oil Co." founded in 1870, pushed the American economy to a higher scale. Oil companies quickly turned into the most profitable enterprises that ever existed. Soon they became the most influential mechanism of State foreign policy, and one of the main reasons for external intervention. They were independent, more powerful, and, with bigger budgets than some governments, created their own "foreign policy" in the shape of investments and business strategies.

The oil companies transformed the business world as it was understood before, opening the door to a truly global economy. The concept of transnational enterprises emerged. Companies would be located everywhere and nowhere at the same time. The scope of business would cover the globe allowing companies to arrange operations so they could avoid taxes, seek for cheaper labor and fight prices at a global scale.

For a long time Standard Oil was the one setting the rules of the game, as it had integrated oil production, transportation, refining and exports into one operation. Standard Oil bought companies and ignited price wars. By lowering prices below production cost, Standard Oil often managed to get rid of competition in one region, subsidizing the loss with oil operations in other remote areas where competitors could not reach. The price war had to be fought internationally for any of the players to survive. Such practice was used by Standard Oil to create an invincible competition which would bring down small entrepreneurs and companies. Serious competitors of Standard Oil had to be able to compete on all fronts, including Asia, the Middle East and the US. The global great game had started, and a new model for doing business was created. Slowly, Standard Oil would acquire the biggest share of the world oil business. Independent oil producers gathered into associations to counterattack against the pressure of Rockefeller's company. By 1890, Standard Oil owned most of the oil operations in the US. This became the basis for one of the biggest state interventions in the history of American economy.

The American Government reacted in defense of the free market with one of its most abrupt and corrective measures against monopoly ever. In November 1906, the T. Roosevelt administration filed suit against Standard Oil²⁰ under the "Sherman Anti-Trust Act of 1890", on the charge of restraining trade. In May 1911, the US Supreme court declared the Standard Oil group an illegal trust, acting as a cartel, and demanded the break up of Standard Oil into a number of independent entities with different boards, finances and accounts.

Standard Oil finally dissolved into a number of different companies, the largest being Standard Oil of New Jersey (eventually Exxon), which kept almost half of the financial assets of the original company and which would remain the biggest oil company ever since. Although many of the companies kept strong linkages of cooperation and agreed on coordinated practices to retain the power of the former trust, the significance of the legal

operation against Standard Oil was enormous, setting a precedent which would forever change the way of looking at American business. Never before had the US government, the upholder of the private business and market rules, carried out such an abrupt intervention in the private sector, paradoxically in favor of the free market. It once more proved the overwhelming influence of oil in the overall world economy²¹. That decision had also enormous consequences for today's the global economy, not only in the energy field.

After the industrial revolution, the economy became so oil and coal dependant. Any alteration in the supply-and-demand chain would provoke deep worldwide economic changes. As a result, supply and the price of oil have dictated growth and economic development price of oil and any change or fluctuation of these parameters has altered dramatically the global economy, disrupting the life of millions. Thus, an increase of the oil price raises the cost of transport, and, consequently, the price of all goods that require oil for production or distribution, including food, clothes, and the price of fuel for heating and private transportation. The result is an immediate decrease of availability of products, lower productivity and inevitable slow down of economic growth. Such economic disruptions have reached crisis level at a number of points in history.

The first example is the 1973 oil crisis. As a result of the 1967 Arab-Israeli war, the Arab oil producing countries responded to US support to Israel by boycotting any company which provided oil supplies to the US or its allies. The embargo affected the US and any other country or company supporting Israel during the conflict with the Arab states. The consequences of the embargo were instant and dramatic, especially in America.

Due to the shortage of oil the price of gasoline went up 400% in less than a year. Consumption dropped 20%. An energy department was created within the Nixon

administration, and an energy plan was drafted as the situation worsened. Soon, people were deprived of non essential driving, and gas stations would close some days a week.

The obstacles to transportation increased the price of all consumables, pushing inflation above 10%. The economic recession soon appeared, creating high unemployment rates. The US recession soon affected all parts of the world. This provoked a strong devaluation of the dollar and a constant increase of the energy prices in the years to follow. Although the embargo finished in March 1974, a global economic crisis was created just because of oil supply, and the consequences would last for decades.

The 1979 oil crisis had similar consequences. After a series of revolts, the Shah of Iran, Reza Pahlavi went on exile yielding control of the country to the Ayatollah Khomeini. Immediate changes in Iran's energy policy were implemented. Oil production was reduced by 2.5 million barrels/day from November '78 until June '79. The oil exports stopped, provoking an immediate increase in the oil price at a global level. After the revolution, the export levels resumed as before, alleviating the consequences of the crisis.

Two more oil crises happened in the last two decades of the 20th century. The 1981 Iran-Iraq war provoked an increase of the oil price. The oil barrel rallied up from \$14 in 1978 to \$35 in 1981²². A decade later, the 1991 Iraqi invasion of Kuwait also provoked a short crisis with the associated consequences for the global economy.

But the events of 9/11/2001 changed the international order, with negative consequences that reached, more than ever, to a global scale. As result of the war in Iraq and global tensions, the price of oil increased until it reached \$140/barrel in July 2008. The consequences were first a dramatic world food crisis, and then a deep economic recession in most world developed economies, threatening the stability of the international order for years to come.

The conclusions are clear. As dangerous as it may be, we are immersed in an oil dependent economy. Control of the oil supply is an effective weapon. Oil has been the greatest factor of influence in the global economic markets more than any other commodity.

1.4 Fossil fuels, military and the strength of Nations.

Military power has been traditionally the main factor in establishing the strength and position of a state. Ancient and modern history have seen the expansion of empires, kingdoms and civilizations supported by military power.

Along with economic growth, armies have been built to protect and expand the interest and territory of the ruling nation. Regional or global hegemony has never been achieved without the support of strong military capabilities. Economic development, therefore, has been tied to military development, the latter being one of the main motivations behind most technological advances. Such advances usually seek new sources and uses of energy. Science and new inventions turned war into a technological battle.

As technological discoveries went on, the military strength has tilted towards technological development, rather than the availability of large amount of troops. Nowadays, the might of hi-tech military equipment easily overcomes the capabilities of large armies. As militaries' heavy equipment depends on the availability of energy, especially fuel and oil derivatives, the military power of a state is increasingly overshadowed by the availability of energy resources. Nowadays, the most powerful and technologically advanced army becomes useless without a continuous supply of energy. Although nuclear technology is now in the hands of world powers, armies remain highly dependant on oil.

Hydrocarbons have played a central role in the advances in warfare since the industrial revolution. Horses were left behind when the steam engine was invented. Since then cars, trucks, trains, tanks, ships and planes have all been moved by fossil fuels. Initially coal was the main source of power. However, in 1911 Benjamin Churchill, from his post at the front Office of the First Lord of the Admiralty, and encouraged by General J. Fisher, decided to change the coal based High Navy. Oil's more powerful combustion would give speed and agility to the navy, needed to match that of the German fleet.²³ Churchill himself convinced Parliament of the need for change. This decision marked the beginning of British parity with the German Navy, and was a factor in the German defeat five years later. The decision would change the projection of modern war.

But changing to an oil fuelled army had side effects. The British government had to formulate a plan to ensure the supplies of oil in times of peace and in times of war. The government looked for "friendly companies" which would guarantee those supplies. Financial support finally resulted in ownership of some of those companies. Finally the Government ended up owning 51% of British Petroleum, ensuring the supply of oil at all times. It was the first national oil company serving national top interests. Since then, oil remains an essential element of warfare, and requires a significant budget share. Some reports calculate the yearly oil consumption of the US military as 144 million barrels²⁴, which "accounts for $\frac{3}{4}$ of the consumption of the US Department of Defense."²⁵ This figure ranks the US army as the first oil consumer entity in the world, with levels of consumption higher than most countries. Without ensuring a constant oil supply, it is impossible to maintain military readiness. As planes, ships, tanks, and land vehicles are oil fueled, armies cannot survive without a reliable constant supply of oil and its derivatives. This supply becomes more critical in times of war, when various factors may disrupt freedom of movement and prevent transportation of the supplies. For this reason, oil supply has become

a vital priority in national security, and remains one of the weaknesses of any modern army. It truly is the Achilles' heel of strong military structures. A nation's military capability is subject to the will of those states with a surplus of energy resources.

1.5 Oil and the Balance of Power

While oil has provided humanity with many advances, the history of fossil fuels cannot claim only success. The very source of energy which has enriched and developed civilizations has now become a global weakness, threatening the world's economy and social stability. The oil dependency of developed countries has reached frightening levels. It is such that any severe alteration in oil price has resulted in major economic worldwide crises. The most recent case is the worldwide economic crises of 2008 which broke out after oil price rallied up to \$140/b, increasing by 120% in less than two years, leaving behind its previous 1979 historic highs after the Iranian revolution. During the 2006 State of the Union address, former US President George W. Bush expressed this idea when referring to America as a country "addicted to oil"²⁶, addiction shared by all other industrialized economies.

With the enormous potential of emerging economies like China and India, and the regular increase of energy demands from already developed societies, some estimations predict an "increase of world energy consumption by 50% from 2005 to 2030".²⁷ Some alarming voices claim we may be close to reaching a "historic peak on oil production", raising the fears of a "Limit to growth" theory, including world recession and economic crash which would follow afterward. Others are less catastrophic, but also see the challenges in the dependency on limited and non renewable energy resources.²⁸ The control of such resources is a tool of "domination" over oil dependent countries. Until a new energy revolution comes, one with clean and renewable sources of energy, industrialized and emerging economies will

remain in desperate need to secure their energy demands through hydrocarbons and fossil fuels.

The problem is that oil and gas are not found everywhere; while industrial economies have relatively few energy resources, other, less developed, regions of the world are sitting on enormous reserves. Thus, the possession of large mineral and fossil fuel reserves has become a source of national strength, more powerful even than the ownership of a potent technologically advanced military, tilting the balance of power towards countries that are not dependent on foreign sources of energy.

There is much research towards creation of technology to avoid the oil supremacy, especially in time of high oil prices. Governmental and individual initiatives have invested effort and money in new sources of energy, but, as oil prices declined, profitable returns from investments on new technologies were less likely as they did not reach the same efficiency. This discouraged scientists and investors from the venture.

Although there are clear signs of change, no government in the world is fully prepared to confront a real scarcity of fossil fuels, whenever it comes. Estimations of when the world will run out of oil are diverse, but whenever it happens, it will provoke an abrupt transition. Until that day, oil and gas producing countries have a privileged position when negotiating contracts and extraction concessions, creating a quasi monopoly. For this reason, as energy demand increases, states must pursue the diversification of energy sources which will release them from a dependency on one source (e.g the OPEC).

Michael Klare classifies countries energy-surplus and energy-deficit.²⁹ Energy-surplus countries enjoy an advantaged position in the international order not only for the guaranteed energy security, but especially for the enormous amount of wealth accumulated through the trade of the energy resources which allow them to participate risk-free on the

global economic arena.³⁰ With a constant and guaranteed income there is little risk in participating in new entrepreneurial ventures and participating in all new investment scenarios. An example of this circumstance is the remarkable percentage of the US economy owned by private or public Persian Gulf stakeholders, with government bonds and shares in banks, funds and private companies.

This is what Senator R.G. Lugar³¹ called the “Petro-superpowers”, referring to nations whose international leverage lays on their enormous energy reserves, without necessarily having military power or any other positive indicators on human, social or economic development.³² Although not all producing countries are considered superpowers, nations like Saudi Arabia, Kuwait, Venezuela and Libya, though they have relatively small military, technological and social capacity, are in a position to influence world’s affairs to a great extent thanks to their ability to determine the flow of energy resources to other developed countries. We could refer to it as an undeserved power. An enormous advantage granted by the mere existence of minerals, formed millions of years ago, regardless the efforts and capacities of its current “owners” (See Annex two and three: Distribution of world oil and gas proven reserves Maps). In the last two decades the super-petropowers have tended to nationalize oil and energy companies, turning them into a tool for foreign policy and a mechanism of political pressure to achieve a heavier leverage in the international politics. The dictatorship of the “Seven Sisters”, in the hands of Western private companies ended with the nationalization of such companies in favor of the national governments. Today, the fourteen biggest national companies own the 78,6% of the world total oil reserves.³³ This puts governments in the position to practice “resource nationalism” as the “management of energy flows in accordance with vital state interests”.³⁴

In order to retain influence, oil producing countries established at the September 1960 Bagdad Conference what has turned into one of the world most influential multinational

institutions, the Organization of the Petroleum Exporting Countries (OPEC). Its founding members (Saudi Arabia, Kuwait, Iran, Iraq and Venezuela) were seeking a mechanism to unify their position in the market. Negotiating as a unified body, they achieved better control of the market and more profitability. The balance of power tilted even further towards the oil producing countries. The reaction was the creation of a counter balancing institution. Upon the initiative US Secretary of states Kissinger, the OECD adopted a decision on establishing the International Energy Agency in November 1974³⁵. This new institution was aimed to adopt a coordinated energy strategy among importing countries, such as join action during emergencies (Strategic reserves, demand constrain), dialog with private companies, reduction of oil dependency (alternative energy sources programs) and relations with OPEC. In other words, its goal was to create a common front to acquire a better position in the energy market, reducing the overwhelming influence of the OPEC. For some, this was seen as counter-cartel against the cartel. Since then, reaching market stability has been one of the top priorities of all developed states and oil producing governments. The abundance and/or availability of energy resources are rapidly replacing economic and military power as parameters to rank the strength of states and determine balance of power. This situation will prevail until an alternate reliable source of renewable energy is discovered.

1.6 Conclusion

Contemporary history is still to witness a factor of change as powerful as oil has been in the 20th century. No other commodity has been able to generate wealth, change the balance of power, influence conflict and accelerate economic growth with the effectiveness oil has.

We live in a world that is moved by energy. Human activity is defined by the ability to use it. From the most complex industrial manufactured product to the basic daily home needs, oil and gas have increased the standard of living for hundreds of millions of people.

“Life as we know it today would be extremely difficult without crude oil and its by-products”³⁶, and we are fortunate to be able to take it for granted.

Politics, economy and military power are dependent on the amount of energy they can be supplied with. Energy is inevitably behind all world dynamics, shaping the existing balance of power between states and hegemony of nations more than any other factor. No matter how we look at it, we are living in an international energy order.

In the context of a hydrocarbons based global energy order, regions with abundance of such resources enjoy a geopolitical advantageous position. The Caspian Basin is one of those regions and it is the center of attention of this paper. The next chapter offers an overview of the history and the current specificities of the Caspian Region.

CHAPTER TWO: The Caspian Sea

The Caspian Sea is the world's largest inland body of water³⁷, and is located in the border between Asia and the European Russia. With its 371,000 km² (143,000 sq. mi.), it's slightly larger than Germany. It has an estimated water volume of n 78,200 Km³ and the depth calculations fluctuate between 995 and 1025 meters. It is an endorheic basin, with no outflows of water. All rivers end in the Caspian Sea, where the water is retained. The altitude of the Caspian Sea is approximately 30 meters below the sea level. Given its size and level of salinity, it was believed for a long time to be an open sea. The discussion of lake or sea status of the Caspian Basin is today related to economic and political reasons rather than geological and topographical, as we will see in later chapters of this paper.

Today five states share the coastal line of the Caspian Sea. Russia, Azerbaijan, Iran, Turkmenistan and Kazakhstan. The Caspian Basin is commonly referred to as the location of relevant oil and gas reserves with worldwide relevance, especially after the oil boom in the '90s due to the opening of the region, as well as the expectation created by some unrealistic estimates which set the amount of unproven oil reserves close to 200 billion barrels. It is actually one of oldest areas of hydrocarbon production in the world. In the eighth century Marco Polo reported about the sources of a black burning substance. Records of the use of oil date even earlier than that. However, the oil industrial business in the Caspian, as we know it today, did not emerge until the 19th century, when Russia annexed the Baku duchy, "where in 1829 there were eighty-two hand-dug pits" controlled by the Tsar regime. The monopoly was soon after lifted and private enterprises were allowed. "The first wells were drilled in 1871, and by 1873, more than 20 refineries were at work"³⁸.

Prominent oil names are responsible for the development of the oil business in the Caspian region. In 1873, Robert Nobel travelled for the first time to Baku. Initially intending

to work in the wood business, he soon discovered where the real wealth was. He founded the Nobel Brothers Petroleum Company after buying an old refinery and some property to start extracting oil. The success was such that the company became the first competitor to Standard Oil in Europe³⁹. Among their contributions to the oil business are the construction of the first pipeline in Baku and the invention of the first oil tanker, "The Zoroaster". The predominance of the family in the regional oil business was so obvious that youngest Nobel, Ludwig, was nicknamed "The Oil King of Baku".

In 1883, another prominent family pushed its way into the Caspian oil business arena: the Rothschilds. Backed by their enormous wealth, long tradition of cooperation with the Tsar of Russia, and their extensive network of banks, oil and railways, the Rothschilds built a business empire, hiring thousands of people and increasing the production of oil in Baku. Oil wells were multiplying in the region. By the end of 1880 the business was so prolific that oil polluted the air and the soil as for Baku to be called the "Black Town". The oil business was taking off. Production reached astonishing levels, and Caspian oil became, for the first time, a real competitor to American oil, when the US was still the major world oil producer. Companies that established themselves there presented serious competition to the omnipresent standard Oil.

Baku oil also played an important role in the success of the Russian revolution of 1917. As a member of the oil unions, Josef Stalin instigated the workers' revolts in the refineries of Baku. Baku suffered massacres and witnessed brutal battles. In 1903, the first of a series of labor unrests resulted in national violence, which eventually led to the abdication of the Tsar in 1917, the success of the revolution, and the beginning of the Soviet era. After these events, the Central Soviet Authority seized all Baku oil industry and the oil infrastructure became an asset for their rule.⁴⁰

During WWII, Caspian oil played an important role as a source of energy. The Baku production levels were higher than ever, reaching a record production of 23.482 million tons in 1941⁴¹. This energy supply contributed to the defeat of the German army in a number of battles on the eastern front. Hitler saw Baku as a great asset for oil supply to the German Kaiserliche Marine⁴² and made this region a vital objective. Had it succeeded, the German Army would have dominated the energy battle and gained a very strong position. But, recognizing that the stakes were so high, the Soviets destroyed the Baku oilfields before the German army could benefit from them. The entire city was set in fire and burned for months. Lack of energy supply is now considered one of the determinants for German defeat.

The Caspian oil industry was rebuilt under the Soviet Government, but it didn't return to its previous levels of production until the '90s, when new discoveries revived expectations that the Caspian Sea could be a major oil producing area. Oil and gas studies carried out after the Soviet Rule and the increase of the global demand caught the attention of governments and companies, which restarted the energy race, bringing about the revival of the Caspian Sea, this time with new players and interests. .

The importance and wealth of the Caspian basin can be measured on diverse criteria. Its strategic location awakes geopolitical interests in this region. It is the crossing point of east and west, north and south. It brings together the world superpowers, in an unexploited and unpopulated land full of natural resources like fisheries, water, and, most important of all, the energy resources: oil and gas.

2.1 How much is the Caspian Basin really worth? Caspian Oil and Gas: Production & Prospects

Measuring the influence and importance of this region requires a proper understanding of the wealth of the Caspian basin in terms of natural resources. A wide range of figures are published. It is difficult to get an independent assessment of the real amount of hydrocarbons under the Caspian waters. For the sake of accuracy, we now proceed to examine the validity of the figures and statistics, in an attempt to come up with some kind of reliable figures of available oil and energy reserves.

Trusting figures?

Given the great variety of figures published about the oil reserves in the Caspian Sea, proving contradicting theories, it is worth mentioning that oil figures, especially when it comes to estimations of reserves, must be looked upon with caution. Due to the variety of interests involved in the region, figures always bring along a high dose of suspicion, resulting in great differences in the calculation of proven oil reserves depending on the source. Some governments keep the information of oil reserves as a national secret, while others offer figures publicly on the web. The terminology used is highly confusing. When speaking about oil reserves, attention must be paid to the meaning of “reserve”. Depending on the sources we read about proven, provable, possible, active, identified or discovered reserves. Although they sound very similar, each concept possesses its own specificity and offers a different picture of the “oil reality”. Understanding those concepts is essential to uncover the real information provided by figures of oil reserves. The difference is in the type of the oil each concept refers to. Oil is found in different stages of conservation and formation. It varies its viscosity, volatility, composition (as it can be mixed with sulfur or other elements). It can be easily accessible or hidden in deep layers of the earth. It can be easily extractable or unreachable and economically unfeasible with current technologies. Oil

can be also mixed with other materials, like the tar sands of Canada and Venezuela, where it's easy accessible, but extremely expensive to process.

The three main oil reserve definitions are proven, probable and possible reserves, ranked according to the economic profitability of its extraction. The so called Proven reserves are "the estimated quantities of oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under current economic and operating conditions"⁴³. Under this definition, proven reserves are those which can be economically recovered, and the probability of making profit is 90%, presenting a low risk for the investments. Probable (P⁵⁰) and Possible (P¹⁰⁻²⁰) reserves refer to the estimated quantities with a 50% and a 10-20% probability of profitability upon extraction from nature, without knowing whether that percentage will increase with technological improvement in the future.

The tendency of oil producing countries, including the Caspian states, is to exaggerate figures with the aim of attracting foreign investment. The more oil is expected to be found, the more availability of investors willing to risk. Their National Oil companies tend to favor optimistic oil reserve outlooks, especially nowadays when they need to confront strong voices advocating the end of the oil era and the proximity of the oil peak. The Russian government, for instance, tends to consider all reserve types in its surveys, instead of limiting to economically exploitable reserves. Jeremy Rifkin mentions examples like the estimation of Russian oil reserves in the former USSR which World Oil set on 190,000mb opposite to the 57,000mb of Oil & Gas journal for the same region and year.⁴⁴ The result is wide differences between sources reaching the absurd. On the other hand, private companies keep their findings very secret in order to obtain the best deals and to be the first to reach the oil fields. In order to conduct this analysis we will focus on open sources like the IEA, or OPEC, companies like BP, and the Oil and Gas Journal.⁴⁵

Today there is a common understanding that the Caspian is not another Gulf, as it was once believed, but its reserves can play a very important role in the diversification of energy sources, and therefore, in the balancing of the oil price worldwide. The IEA estimated 15-40 billion barrels (Bbl) of proven oil reserves in the region, plus an additional 70-150 Bb of possible reserves⁴⁶.

The US Department of Energy estimates that there are 17-49 Bb of proven P⁹⁰ reserves and an additional 233 Bb of probable P⁵⁰ reserves⁴⁷. These estimates seem realistic and bring the Caspian region to the level of the North Sea. While figures vary among sources and updates, this comparison with the North Sea has been accepted by most reliable sources. However, in March 2002 the Foreign Affairs magazine reported new studies showing 75 Bbl.⁴⁸

A general understanding exists on the impression that the real Caspian value is not the wealth generated today but the great production expectations in the short future. According to the IEA, the Caspian has the highest expectations of increase production in the next 5 years, with close to 70% of the increase of oil supply coming from countries outside OPEC.⁴⁹

Despite the lack of transparency on the availability of oil reserves and the prospects of finding new sources, the reality is that the majority of the major oil companies are present in the region. This is a sign of belief in the future potential of the Caspian Sea. As scientists are present in the region, available information changes every day. Companies are not eager to share new findings, or even fiascos, due to the fact that they may be helping their competitors.

2.2 Oil and Gas

When speaking of Caspian natural resources we are referring to reserves of oil and gas. For the most part, the developed infrastructure is related to oil. However, given the great discoveries of gas reserves, the cheaper and cleaner process of extraction of this substance and the development of the world gas market as alternative to oil, indicate a fast increase of the importance of gas in the Caspian energy business.

Oil and Gas Production in the Caspian Sea Region⁵⁰

Country	Proven Reserves, BP, end of 2005		Possible additional Oil/Gas EIA(a)
	Oil (bbl)	Gas (trillion tcf)	
Azerbaijan	7	48	32/35
Iran(b)	0,1(c)	n.a.	15/11
Kazakhstan	39,6	106	92/88
Russia(b)	0,3	n.a.	7/n.a.
Turkmenistan	0,5	102	38/159
TOTAL:	47,5	257	184/293
U.S.	29	193	47/271(d)
North Sea(e)	14	162	n.a.
Saudi arabia	264	244	n.a.
WORLD	1.201	6.384	n.a.

n.a. - Not available from specified sources. a Includes natural gas liquids. b Regions near the Caspian Sea. c Consumption.

The figures above portray a very promising situation for the Caspian states as main producers and exporters of oil. Although it is not currently a major oil region, it certainly has great potential gas producer in the coming years. The large gas reserves found in Kazakhstan and Turkmenistan added to those of Russia bring the Caspian region to a very top position in the ranking of gas producing countries.

2.3 The price of Caspian energy resources

The promise of Caspian fossil fuels can only be realized if the extraction is economically feasible. Companies will not be ready to make the necessary investments unless they are guaranteed a profitable return. Caspian oil has already proven to be more expensive in comparison to other areas where oil has been found very close to the surface. The fossil

fuels are difficult to extract for reasons of a different nature. When calculating probable (P^{50}) and possible (P^{10-20}) reserves scientist usually assess the economic feasibility of recovery of minerals considering natural, geological and technological factors.

In the case of the Caspian, the economic feasibility of the extraction is influenced by a number of human factors (political willingness and stability, security and a friendly environment to the construction, maintenance and utilization of the energy market infrastructure such as plants, pipelines, maritime lines, etc.) which affect directly the possibility of extraction of oil and gas in the Caspian and therefore the price of hydrocarbons in this region⁵¹. Thus, the feasibility of Caspian extraction projects will depend on the following factors:

- **The size of the reserves:** Although it is not possible to obtain fully reliable information on the proven reserves, there is a general understanding that the Caspian Sea contains enough quantities of oil and gas to justify feasibility studies.
- **Location of the fossil fuels:** The Caspian Sea has mostly “tough oil”⁵². The Soviet era took care of large amounts of “easy oil”, leaving the offshore fields unexploited. Today, most projects go deep in the Caspian waters to reach the mineral reserves. The Caspian resources are therefore technologically difficult to find and to extract. The depth and the complex geological characteristics of the area require heavy and technologically advanced equipment, time, and more experienced and knowledgeable personnel conducting the excavations. This circumstance also makes predictions fluctuate as time goes by. The creation of new technology raises the profile of some oil areas while discarding the exploitation of others. Technological advances in the future are unpredictable, but are also a essential element in determining the feasibility of fossil fuels extraction.

- **Geographic location:** The Caspian is an endorheic basin. Once extracted to the surface, Caspian energy resources must be transported by land before they reach the markets. Experience has shown that the only way to transport big quantities of oil from this region is through pipelines. This requires the construction of multi-billion dollar pipeline projects, which adds expensive transportation costs to the oil and gas.

- **Political instability:** Unless extracted from Russia, Caspian resources must cross at least 2 international borders before they reach the markets. This circumstance requires agreements and international cooperation to maximize the profitability of the oil and gas transportation. The different rivalries and various political interests make such cooperation extremely difficult. Regional ethnic, political and religious conflicts are also a threat to the energy infrastructure. Radical groups use the pipelines system to blackmail governments in order to achieve their goals. To this we must add the different legal disputes and property claims of the 5 riparian Caspian states. All these political problems increase the risk of failure of the projects and make investors more reluctant to get involved.

The profitability of hydrocarbons in the Caspian Sea is still uncertain. Technological, geographic and political obstacles translate into additional costs to the energy resources, making the product difficult to compete with other producing regions. The transport of 1 ton of Caspian oil costs 17 USD, which is a much higher price than the 5 USD/ton for the Gulf Oil⁵³. For this reason, the feasibility of the Caspian oil and gas ventures is guaranteed as long as the oil price is high. But an oil price decrease, regional stability or political obstacles would change the situation and the investment returns would not be guaranteed. Feasibility of Caspian Hydrocarbons is, therefore, changeable, and companies may choose to go to other regions to extract their oil if insecurity prevails..

2.4 Conclusions:

The Caspian Sea is a main hydrocarbons producing region and will remain the center of international attention for the following reasons:

- The Caspian Sea has become an alternative source of hydrocarbons and presents a major contribution to the diversification of sources. By participating in the exploitation of the Caspian Sea, Western countries reduce their dependency to the Middle Eastern oil.
- With part of the reserves still unexplored, the Caspian Sea promises a better future as a producing region. The production growth rates are the world highest.
- The Caspian Sea produces non-OPEC oil. It is not subject to the market policies applied by this organization. Increasing the production of oil outside the OPEC helps market stability, avoids monopoly, and limits the capacity of the OPEC to impose market conditions.
- While oil has been the traditional industry in the Caspian, the large proven and possible natural gas reserves ranks the Caspian Sea as a major gas producing areas in the world. The gas contribution to the world market is more significant than crude oil.
- Most Caspian hydrocarbons are exported to other areas. Caspian riparian states can easily cover their energy demands and allocate most of the production for exportation, making a significant contribution to the world market.
- The Caspian region is and will be center of attention in the foreseeable future thanks to the great benefits of its energy reserves. However, the geographical political and legal context of the Caspian raise concerns on the profitability of the energy projects. Caspian oil can only be recovered as the price of oil is high. Stabilization of the market in low prices would loose the value of the Caspian resources.

- The Caspian states have been opened to foreign investment. Both local governments and foreign companies have benefited from the Caspian resources and will continue doing so, encouraging further investment and foreign involvement

The potential of the Caspian Sea and the recent geopolitical reorganization of the region have left confusion on the ownership of the sea and jurisdiction over its use. The next chapter provides a historical revision of how the Caspian Sea has been divided in the past to understand later the challenges presented in the present.

CHAPTER THREE: Legal regime of the Caspian Sea

“The Caspian Sea belongs to all of us. We should find a just distribution to consolidate our friendly and brotherly relations. There are formulas and criteria for delimitation. We believe that by using goodwill and interest of the littoral states, we shall reach mutual understanding”⁵⁴

Iranian President Mahmud Ahmadiyad before the 2nd Summit of the heads of Caspian Sea littoral states held in Tehran in October 2007

The multiple interests existing in the Caspian region have caused a long lasting dispute for domination among various regional powers. Traditionally, domination of the sea has been a point of friction between Russia and Persia, often resolved through agreements aimed to stop military campaigns. In this regard, Russia seems to be the traditional prominent power.

After the breakup of the USSR, a new political reality emerged around the Caspian Sea. The new players are now competing for their interests in the sea without having clear rules of the game. The legal status⁵⁵ of the Caspian Sea is outdated. The current legislation was adopted through agreements reached in a sociopolitical context that no longer exists. Today it is crucial to clarify the ownership, limits and rules of engagement in the use and exploitation of the Caspian Basin. There is a need to agree on a new legal regime⁵⁶ that governs the Caspian Sea, its uses and resources.

For more than a decade, the five Caspian states have been acting in a chaotic legal environment. Efforts to reach an agreement now seem more genuine than before, but some obstacles still remain which prevent reaching a final consensus. Postponing the solution to the legal regime of the Caspian Sea, however, poses a threat to regional stability and sustainability. The adoption of a legal regime of the Caspian Sea is far more complex than a legal dispute. It requires finding a compromise solution, unanimously agreed upon, which may regulate each state's share and its assets. Today, each of coastal states feel entitled to exploit a portion of the sea which exceeds their neighbor's expectations. The oil and gas

reserves lying at the bottom of the sea are unequally distributed along the depths of the sea. The main hydrocarbon reserves lay closer to the coastal zones of Kazakhstan, Azerbaijan and Turkmenistan, while Russia and especially Iran's littoral are scarce of those resources. The absence of an agreed legal distribution of the sea is reason of conflict and regional tensions. A solution will certainly contribute to stability and will avoid direct confrontation among the five states in the future.

3.1 Historical perspective of the Caspian Sea legal framework

Legal disputes on the Caspian Sea date from the 19th century, with the Persian-Russian competition for regional hegemony. Since then a number of agreements, international treaties and bilateral accords have regulated the use the riparian states have made of the Sea. The main legal documents are the following:

1729.- The first legal document regulating the Caspian Sea is **Treaty of Resht** (February 13, 1729.). This treaty was signed after the Russian army signed an accord on the peace terms between Persia and the advancing Russian Tsarist Empire. The Treaty delineated the wider Russian borders and provided "freedom of commerce and navigation"⁵⁷ in the Caspian Sea.

1813.- The *Peace Treaty of Golestan*⁵⁸ was signed in 1813 to end the Russo-Persian war (1804-1813). Persia was forced to yield territories and rights of the Caspian Sea over to Russia. The agreement also included unequal trade relations, granting access of Russian ships to all Iranian ports and reserving exclusively to Russia the right of military fleet navigation.

1828.- The Russo-Persian war (1826-1827) was ended by the *Peace Treaty of Turkmenchay* between Russia and Iran⁵⁹, signed in 1828. By this treaty, the Iranian status in

the basin was further diminished. Russia gained territories and the right to intervene in Persian affairs. Persia which influence in the Caspian region was reduced, and Russia was now in control. The Caspian Sea remained under Russian domination until the 1918 revolution. The new Soviet government invalidated most treaties signed by the Empire. In an attempt to renew relations with the neighboring country of Iran, the 1813 and 1828 treaties were derogated in

1921.- by the **Russo-Persian Treaty of Friendship**⁶⁰ (1921). This treaty returned to Iran the status of partner of Russia. Iran regained privileges equal to those of Russia over the Caspian Sea. By this treaty, both states adopted two principles: Equality –both countries were granted equal navigation rights- and exclusivity – for Russian and Iranian use, excluding any other nationality⁶¹

1935 & 40.- Further changes were implemented with the *Treaty of Establishment, Commerce and Navigation*. Its protocols and eventual amendments regulated a 10 mile nautical zone for exclusive use of the two countries. The Caspian Sea was considered a Russian-Iranian Sea. Russia was especially interested in keeping the status of the Caspian as a “closed sea” after the oil reserves in the sea were discovered. Domination over the Caspian Sea was no longer a matter of navigation and fishing. The oil business was successful in the United States and the Middle East. Baku had proven the profitability of oil. The reserves discovered under water raised the profile of the problem of the repartition of the Caspian Basin.

1958.- The “**Geneva Convention of the High Seas**⁶²” signed in 1958 was an attempt to provide a legal regime for all of the seas. The application of this convention could have threatened the hegemony of Russia, but the Caspian Sea never matched any of the

definitions in the Convention. Moreover, all the legislation adopted regulated only navigation and fisheries, leaving an unclear status of the exploitation of the bottom.

1977.- The Treaty of Izmir was signed in 1977, creating Economic Cooperation Organization (ECO). It was further amended in 1992 and 1996. This organization gathered a number of the Caspian countries. The Treaty aimed to promote use and trade of natural resources with environmental perspective. Nevertheless, decisions in this regards were never very influential in the Caspian Sea, as would be expected given the absence of Russia.

1982.- Convened in New York in 1973, the **United Nations Convention on the Law of the Sea (UNCLOS)** was finally adopted in 1982. It regulates all issues concerning the use and exploitation of the Seas⁶³. This Convention is the main legislative body and legal reference on the governance and use of the seas. Only Russia and Iran signed the convention on December 10, 1982. However, Russia only ratified the Convention on March 12, 1997.

1991.- Alma-Ata declaration in December 1991 originated the Commonwealth of Independent States (CIS)⁶⁴ which affected the political organization of the Caspian region. Until 1991, Russia and Iran enjoyed the Caspian Sea as a common space of interaction, regulated by the above mentioned agreements. After the Soviet Union disintegrated, new sovereign states were created around the Caspian Sea. Each state had its own national interests, and therefore, new economic ambitions and plans for exploitation of the sea. The lack of agreed legal framework recognizing the states and their rights resulted in the adoption of unilateral policies towards fishing, navigation and exploitation of mineral resources. Such policies often conflict and are sometimes invasive, provoking international tensions and disputes. In this situation of legal stalemate, Russia has been adamant on reaching bilateral agreements with other riparian states. By doing so, Russia has been able to

continue its mineral exploitation of the sea bed, while avoiding total chaos and direct conflict with its neighboring states.

1991.- In December 1991 the **Energy Charter Treaty** (ECT) was signed. This Treaty was an international agreement regulating trade, transportation and investment related to energy production. This treaty, although signed by 4 of the 5 Caspian states (all but Iran), has not been a useful tool of regulation of the energy exploitation, trade and transportation activities. Its contribution to regional cooperation has been minimal.

1992.- In February 1992, representatives of all riparian states gathered in Tehran to tackle the legal status. This was the first joint effort involving all five Caspian states to adopt a joint legal regime. The Caspian Sea Cooperation Organization (CASCO) was created. It would gather a number of times. The results of this initiative would see the light 11 years later.

1994.- In October 1994 Russia submitted to the UN declaring the Caspian Sea as an “internal lake”. This ruled out the application of the Law of the Sea, preventing the new states to have equal rights over the use of the channel system in the Volga River. Russia also advocated for the unity of the lake as one indivisible area, exploitable only upon mutual agreement of all the riparian states⁶⁵.

1997.- Kazakhstan and Azerbaijan signed a bilateral agreement to divide the sea along the middle line until a legal document is signed. With the oil demand increasing, along with the prosperity of the oil business, the coastal countries couldn't wait until the legal status was finally resolved. They chose to sign bilateral agreements, which allow the oil industry to progress without being drawn into conflict with their closest neighbors.

1998.- Russia and Kazakhstan signed another bilateral agreement establishing a line down the center of the sea to divide exploitation areas, leaving the Kurmangazy oil field

under Kazak control and the Khvalynskoye and the Tsentralnaya fields under Russian jurisdiction

2003.- The Framework Convention for the Protection of the Marine Environment of the Caspian Sea was the result of major efforts from the riparian parties to produce a conclusive agreement regulating environmental aspects of the utilization and exploitation of the Sea. Signed by the five littoral states in Tehran, the agreement actually entered into force in 2006 and it is aimed to protect “the Caspian environment from all sources of pollution including the protection, preservation, restoration and sustainable and rational use of the biological resources of the Caspian Sea.”⁶⁶ This agreement however, while being an important step forward, leaves major issues aside and focuses exclusively on the environmental issues without delimitating clear competences and responsibilities. Leaving the situation unclear, states have adopted side bilateral agreements to continue with exploitation of the Caspian waters.⁶⁷

2007 On October 16, the Caspian Sea Summit was held in Tehran continuing efforts towards adoption of an agreement. A joint declaration resulted from that meeting which contained no substantial progress but at least acknowledged several important issues. The main points of the declaration were the 1) commitment to continue efforts to resolve the Caspian legal status 2) continue cooperation in economics, transportation and trade, 3) non-aggression pact between the five riparian states and 4) agreement on continuation of the exploitation of the resources⁶⁸.

3.2 The issues at Stake

As the status of the Caspian Sea remains unclear, a new multilateral agreement defining rights, obligations and uses of the sea and the repartition of its waters and sea bed among the 5 riparian states is a must. In the meantime, any unilateral action is a source of tension and a

menace to the delicate equilibrium kept in the region. This challenge has no precedent. Traditionally, the agreements have been signed in the context of an almighty Russia, strong enough to dictate the terms and state of affairs in the Caspian with its traditional interlocutor: Iran. Today the situation is different. With five independent states claiming rights to use and exploit the basin, there are many issues at stake. Among those issues, the most prominent is the exploitation of fossil fuels, which is influencing all the rest, although there are others:

- **The validity of existing agreements.**

The current legal status of the Caspian Sea is defined in the 1940 agreements between Russia and Iran. These agreements lost legitimacy when the USSR collapsed and the new states were created. Since then, in the absence of a legal framework governing the Caspian Sea, the 5 riparian states started to sign bilateral agreements. All of them are contestable and lack the approval of all the Caspian States.

Although there are no conflictive clauses in the bilateral agreements which could contradict the 1940 Russian-Persian accord, the only way to reach a durable legal solution for the Caspian Sea is if all the five states must approve a consensual agreement which may supersede or embrace all previous bilateral agreements.

Fearing to be losing control over the sea, Iran insists in the consensual management of the resources (condominium) rather than national repartition of the waters. Iran sees bilateral agreements as an obstacle to the comprehensive legal framework. In reality, some of these bilateral accords already include reference of a future more comprehensive agreement⁶⁹.

Finally, any final status will have to be harmonized with all the current developments and agreements adopted bilaterally, otherwise will be extremely complicated to get the support of the five states.

- **A sea or a lake? Repartition vs. condominium**

In spite of what could be suggested by its commonly used name, "*Caspian Sea*", the proper term to be used for the Caspian (sea vs. lake) has been contested for many years. The apparently trivial denomination of this body of water will define the legal framework for its ownership, use and exploitation of its natural resources. The problem is not of geographical but legal, and ultimately political nature. Whether the Caspian is a sea or a lake modifies the legal framework to be applied and the modality of management and exploitation of the Caspian. UNCLOS observes the concept of "enclosed or semi-enclosed sea"⁷⁰. If the Caspian Sea is governed by it, the five riparian states would establish their maritime borders under the principle of equidistant point from center the middle of the sea. The territorial waters⁷¹ allowed by UNCLOS would surpass the total surface of the Caspian Sea and therefore, the whole sea would be divided in 5 national areas. In contrast, the Caspian defined as a lake and therefore excluded from UNCLOS, all coastal states would share and manage the sea resources jointly in a so-called condominium. According to the exact definition of the Caspian, different division models would be applied, affecting directly to the amount of reserves which would correspond to each of the countries.

Oil Share with Caspian considered as "Border Lake" divided into Sectors ⁷²	
Kazakhstan	4.5 milliard (4,500,000,000) tonnes (tut)
Azerbaijan	up to 4.0 milliard (4,000,000,000) tonnes (tut).
Russia	up to 2.0 milliard (2,000,000,000) tonnes (tut).
Turkmenistan	up to 1.5 milliard (1,500,000,000) tonnes (tut).

Oil Deposit Exploitation Rights as "Enclosed Sea"			
	Within 12 Mile Limit	Central Area	Total
Kazakhstan	1	2,3	3,3 milliard tonnes(tut)
Azerbaijan	1	2,3	3,3 milliard tonnes(tut)
Russia	0,5	2,3	2,8 milliard tonnes(tut)
Turkmenistan	0,3	2,3	2,6 milliard tonnes(tut)

Totals: 2.8 milliard tonnes (tut) + 9.20 12.0 milliard tut

(Information on Iran not available. Only vague estimations of 800 million tonnes of gas and 100 million tonnes of oil).⁷³

As the table shows, the issue these days is not whether the Caspian is a lake or a sea. It is rather the demarcation areas in which it will be divided and the jurisdiction of each country over the resources. The five riparian states have different opinions depending on their geographical situation. Further, such position has changed over time, following new discoveries of oil and gas resources. This circumstance makes a general agreement even more complicated. Thus, the fact that Iran has limited coastal line on the Caspian Sea where there is scarcity of energy resources is a major obstacle for a proportional repartition of the sea. Without fulfilling the expectations of Iran, it will be extremely difficult to reach consensus on a common position.

- **Bottom vs. surface**

Not all is hydrocarbons in the Caspian Sea. This enormous body of water renders a great service to the littoral states in different ways. Early agreements were aimed to establish terms for use of the surface of the sea and its fishing resources. Today, the regulation of the sea surface is linked to issues like military deployment, commercial trade, security, fisheries, tourism, environment, etc. In this regard, there have been great divisions between industrialized and developing countries on how to manage the exploitation of the sea bed. It is only after the discovery of energy resources when the issue of the exploitation of the seabed became important. Any agreement reached on the legal status of the Caspian will have deal with mining and exploitation of the natural resources under the seabed, as much as they regulate the activities in the water and over the surface.

- **Transportation**

Transportation is also a major point of discussion. Azerbaijan, Kazakhstan and Turkmenistan do not have direct access to the world energy markets. For this reason, most of the oil extracted from the Caspian needs to cross at least two international borders before it gets to the market outlets. All countries of the Caspian are signatories of the ECT, which

regulates the transportation issues, giving guarantee for continuous flow of the energy resources through the transit states. A consistent legal framework adopted among the Caspian States should be built upon the principles of the ECT and regulate all other economic issues related to the transport and construction of infrastructures. A number of organizations like ECO or CASCO should be used as discussion forum for these matters. Failing to agree on transportation issues is a major obstacle to the adoption of a legal regime on the Caspian Sea. On the other side, transportation is one of the main fields where all states can obtain gains and profit, either through the sale of the oil, or even through transport tariffs or foreign investment for infrastructure. This circumstance makes possible an agreement which may accommodate, to certain extent, the economic interests of all Caspian states.

- **Environmental policies.**

It is probably in the field of environment where the most successful steps have been taken. Prove of it is the 2003 Convention for the Protection of the Marine Environment of the Caspian Sea. The ecosystem of the Caspian is in danger due to the uncontrolled exploitation of its resources. Apart from oil and gas, lack of regulation on fishing, pollution and waste management has deteriorated the sea to a great extent. While the 5 states have expressed preparedness to make efforts to respect the bio ecosystem of the Caspian Sea, such intentions seem to be very secondary when the extraction of oil and gas is at stake. Lack of environmental legislation and mechanisms for its enforcement may result in quick investment returns in the short term, but the deterioration of the Caspian ecosystem.

3.3 The position of the Caspian states on the legal regime

Russia

Traditionally, Russia has been the main player in the Caspian Sea. The 1921 and 1940 agreements gave Russia superior status over the sea, maintaining its domination and hegemony.

In the light of these agreements, and aiming at maintaining its supremacy in the region, Russia has traditionally advocated for considering the Caspian Sea as a common space where states should not be able to adopt unilateral decisions or control large portions of the sea. Thus, Russia has advocated for considering the Caspian as a enclosed body of water. This position prevents the repartition of the Caspian Sea into national zones where each state would have sovereignty in equal condition. It promotes the condominium arrangement, accepting the 20 mile territorial water area for each state, but keeps the main part of it under its influence. Russia found in Iran a traditional ally to defend this position.

However, new oil discoveries and the profitability of the oil market since the 90's have made Russia reconsider its position, allowing the signature of bilateral agreements for exploitation of the sea in absence of a general agreement with all five riparian states. Therefore, it is therefore lately when Russia has yielded to a more compromising position, opening the possibility to a repartition of the sea bed, keeping the surface under common jurisdiction. This situation has left Iran isolated.

Kazakhstan

The Kazakh government has argued that in similar situations where International Law has been applied suggests division of the Caspian Sea to national areas by a central line equidistant from the coast. The application of UNCLOS as an enclosed sea gives Kazakhstan a legal background to unilaterally exploit the large amount of hydrocarbons

located offshore of its coast. Any solution that results in national exclusivity of exploitation of the territorial waters favours the Kazakh interest.

In practice, the Kazakh government has not stopped extracting oil and gas from the sea, based on an improvised cooperation with Russia, sharing exploitation rights and projects through bi-lateral agreements. Further, a tripartite agreement has been signed including Azerbaijan, resulting in the repartition of 64% of the sea among the three countries.

The Kazakh government has also signed agreements for joint ventures with foreign companies attracting thus foreign investment for the development of the infrastructure. As an example the 1993 agreement with Chevron for the creation of a joint company called “Tengizchevroil” to exploit the Tengiz oil field⁷⁴.

Azerbaijan

The position of Azerbaijan is very similar of that of Kazakhstan. Advocating for the application of article 122 of UNCLOS and dividing the Caspian into exclusive national areas for exploitation of the sea. Azerbaijan has participated in agreements with Kazakhstan and Russia in order to continue with exploitation of the oil reserves. The Azeri government has also undertaken joint ventures with American companies, like the 1994 agreement of AIOC with American oil companies for exploitation of Azeri, Chirag and Gunashli oil fields⁷⁵.

Any solution which favours the creation of exclusive national territorial waters provides Azerbaijan the possibility to benefit from the exploitation of the Baku Offshore fields, including the Shah Deniz field.

Iran

Iran maintains strong position advocating for a joint management or *condominium* of the sea, with a joint decision making process which requires agreement between all the five

states. The goal is to maintain influence over the sea and its resources in spite of being the state with the smallest Caspian coast line, with probably (as far as it has been discovered) the smallest oil and gas reserves.

A proportional repartition of the Caspian Sea would leave Iran as a minor player, with the consequent loss of influence in the region and a lower benefit over the sea resources. The division of the sea proportional to littoral length of each state would leave Iran with a very small percentage, just a 13% of the sea. Second, the estimations of hydrocarbon reserves in an eventual the Iranian section would be minimal. Therefore, Iran argues that the UNCLOS can not be applied to the Caspian and therefore the management system should be that of condominium. Iran also questions the legality of the bilateral and trilateral exploitation agreements reached between other Caspian states in the absence of a consensual agreement. Iran claims such agreements contradict the 1940 agreement which remains as the latest legislation in force. Iran has also stressed in several occasions that such agreements are an obstacle and a threat to a final five party agreement.

On the other hand, in spite of its insistence for the condominium policy during the 90's and thanks to the agreements on exploitation of oil fields reached with Turkmenistan and Azerbaijan, Iran has moved to a more compromising position, allowing the repartition of the sea with a minimum Iranian share of 20%, which is actually one of the most difficult obstacles to overcome.

Turkmenistan

The position of Turkmenistan has varied in the recent years. Initially supporting Iran's position. However, recent discoveries of large amounts of gas in "Turkmen waters" have tilted the position of this country from a joint management towards protection of their rights of exploitation of the oil fields close to the Turkmen Coast. Further, Turkmenistan is also

negotiating with Russia the transportation and management of gas. The situation as it is favours development of profitable gas ventures which Turkmenistan is not willing to risk.

3.4 Consequences of absence of legal framework:

- The conflictive interests of the five Caspian States have provoked a long lasting legal battle over control of Caspian resources preventing consensus on a comprehensive legal regime for the Sea. All the agreements reached before 1991, (mainly the 1940 agreement) were adopted in the context of a no longer existing regional political order. Moreover, such agreements did not cover issues of extreme importance today, such as mining and repartition of the seabed. This circumstance makes those agreements obsolete.
- The lack of a comprehensive agreement on the Caspian legal regime has negative consequences for all the littoral states at many levels and promotes instability in the region.
- The Geographical characteristics of the Caspian Sea make difficult its classification under the international legal framework. Diverse interpretations support the application of different international Laws, leaving all responsibility to the riparian states for the adoption of a common interpretation. However, the debate is political rather than legal. It shows, on one side, the attempts of Russia and Iran in keeping the hegemonic position these 2 countries have enjoyed for centuries. On the other side, the claims of the newly created states for recognition of their rights for the exploitation and use of the sea. The states position on the legal status varies according to the proximity to hydrocarbons. States with large reserves of hydrocarbons close to their coasts advocate for the repartition of the Caspian into national areas. States with lesser amounts of hydrocarbons advocate for the condominium system.

- The absence of a general legal framework has not prevented the exploitation of the sea bed resources. States have adopted bilateral agreements to continue exploration and extraction. The Caspian Sea has been divided into small pieces, creating a chaotic situation (See annex 1). All the agreements adopted after the creation of the CIS are local solutions of temporary character which usually tackle a mere division of the waters and the bed sea. Further, all these agreements endanger the possibility to reach a global agreement and pose a threat to the regional stability.

- It must be acknowledged that efforts taken towards reaching consensus. However, until a comprehensive holistic agreement is signed, the risk of conflict and instability remains, especially in a time when there is no certainty of the real available reserves of hydrocarbons. The lack of such agreement raises doubts over the ownership of the mineral resources and jurisdiction over exploitation areas such as “Serdar/Kyapaz field between Azerbaijan and Turkmenistan”, the Alov/Alborz field between Azerbaijan and Iran and the ACG field between Turkmenistan and Azerbaijan.”⁷⁶

- A consensus agreement, necessary to avoid conflict and ensure stability, can only be reached if the interests of all states are reasonably respected. Lack of compromise could lead to string conflict and danger to the regional stability, especially when the symptoms of the peak oil theory begin to show.

This first part of the paper has dealt with the current situation/ownership of the Sea and the potential it offers in terms of natural resources. The second part will examine the various actors operating in the Caspian region and the way their interests and policies interact at the different levels (local, regional and global), creating complex geopolitical dynamics of conflict and cooperation.

PART II: GEOPOLITICS IN THE CASPIAN SEA. THE “NEW GREAT GAME”

In the last two decades, the Caspian region has witnessed a remarkable increase of international attention. Following the dissolution of the Soviet Union, a process of social and political transformation started in the former Soviet Republics. Today, the region has emerged as the main focus of attraction due to the recent discovery of the energy resources offshore of the Caspian Sea.

During the '90s, after the break up of the Soviet Union, the unknown Caspian region became more accessible to foreign interests and multinational western companies found access to the former Soviet republics which were eager to receive external investment. The oil importing countries, guided by the great expectations and the strategic interest in diversification of sources of energy supplies were ready to support “risky” investments which could make them less vulnerable to the will of the OPEC. This race for exploitation of energy natural resources and geopolitical control of the Caspian region was soon referred to as “The New Great Game”. The dispute over energy resources in the 21st century is a new version of the conflict between Russia and the Western powers during the 19th century. But time has added a great difference. The dispute today is global. It affects us all, wherever we are. It is part of the new world struggle for domination and hegemony channeled through the unavoidable need to ensure the energy security of nations. This new game, therefore, has multiple players, overlapping interests and countless combinations of alliances and strategies. The following chapter looks into the local and regional level of analysis, exploring the role of local players. Some of them traditionally at the periphery, have become part of the core of a economic boom in the middle of a geopolitical dispute. Others are struggling to maintain the center weight and keep strong spheres of influence.

CHAPTER FOUR: The Caspian states and regional stakeholders:

4.1 Russia

With its 17,075,200 sq km⁷⁷ Russia is, by great difference, the largest State on Earth, bordering with 14 countries in three different continents. With one of the lowest population density rates, Russia's population consists of 140 million people. It possesses some the greatest factor of endowment on earth, which provides Russia and advantage over most nations. The influence of Russia in contemporary history has no precedent. Its vast territory and population have provided this country with an enormous capacity of influence militarily, politically and economically. Today this influence is excerpted mainly in the energy field. In the post Cold war period, Russia suffered economic recession, reaching a deep crisis in 1998. However, today, the harsh times seem far gone. Despite the global recession, today Russia seems to have moved on from the post Cold War period, emerging again as a global power with renewed interests and capabilities. Most of this successful revival is due to the advantageous position of Russia and its geopolitical influence granted by the extraordinary abundance of natural energy resources (oil, gas, coal and others), which allow not only to cover Russian energy demand at a low price, but also make relevant contribution in securing energy supply for many other countries, including most EU member states.

Russia has become again a super power, overshadowing the US capabilities and the capacity of influence of the EU in Central Asia. Russia is also in a process of expansion of its capabilities and control over natural resources, fighting on several fronts at the same time. Examples are 1) the dispute over the Kuril Islands with Japan, where Russia has a \$630m energy development plan,⁷⁸ 2) the dispute with Canada over sovereignty of the Arctic region where enormous natural resources are expected to be found⁷⁹ and 3) the struggle for domination of the resources and transportation routes in the Caspian Sea.

If there is one person who has influenced the emergence of Russia as a global power since 1991, that is current Russian Prime Minister Vladimir Putin. As an expert on energy matters⁸⁰, former Russian President V. Putin conducted an energy policy aimed to solidify Russia's supremacy in the export of natural energy resources.⁸¹ He followed three main strategic lines: First, to maximize the exploitation of local energy natural resources. Second, to return the control over the energy resources to the Russian State and third, to protect Russia from foreign investment and privatization of state assets. Putin's trajectory as President is marked by multiple events and decision towards the implementation of these policies. The result is a stronger Russian state which has hit hard some ongoing western energy ventures and investments like the extraction projects in the Sakhalin Island⁸², or the arrest of Mikhail Khodorkovsky in 2003,⁸³ who allegedly favoured western investments in Russia⁸⁴. Some Western circles have expressed concerns of the Russian government behaviour on energy policy, claiming that it has weakened the credibility of Russia as an energy partner, but Putin's contribution to the Russian revival is incontestable. With the energy resources as a pivotal asset in the re-emergence of Russia as a global power, Putin had to pay attention to the Caspian Sea, a region known for its promising prospects of hydrocarbons reserves. Russia is making efforts to re-establish ties with the former Soviet Republics in the security, trade, economic and energy fields. Although it has no need for external energy resources, it certainly has a strong interest in acquiring the biggest stake possible in the production and distribution of oil and gas from Eurasia and the Caspian Sea. The benefits are threefold:

1. High revenues yielded by the use of Russian transportation networks for distribution of Caspian fossil fuels.
2. Increase control over world natural resources which provides a political leverage for Russia, increasing its sphere of influence and its position as a world power.

3. Greater integration into western markets through participation in extraction and transport of natural gas into the EU and towards west market outlets.

The absence of a comprehensive legal framework of the Caspian Sea (see chapter 8) leaves “free” space for intervention, which Putin used for increasing the bi-lateral cooperation with Kazakhstan and Azerbaijan, assuring Russian participation in the development of most energy rich areas of the Caspian Sea.

Through its public and private companies, Russia is advancing in buying ownership and exploitation rights of Caspian resources. The energy giant Gazprom is moving into the former republics, arranging agreements for exploitation, counter weighting the efforts of Europe for diversification of natural resources avoiding Russian territory, and becoming the main hub of energy transportation in the region. Through Gazprom Russia has ensured greater participation in the distribution of Gas coming from the northern area of the sea. In May 2007, during a meeting of the Russian, Turkmen and Kazakh Presidents,⁸⁵ a preliminary agreement was signed between Russia, Kazakhstan and Turkmenistan. Its final version was signed on December 2007 in Turkmenistan⁸⁶, ensuring distribution of Turkmen and Kazakh natural gas to Europe and external markets through the Russian pipeline network, advancing towards a quasi-monopoly of Russia in the natural gas market.

The overwhelming prevalence of Russian authority in the Caspian shapes the relationships among the other players. As a result, Western powers have attempted to diminish the threat of Russian energy monopoly encouraging the realization of transportation projects to avoid transit through Russian territory, such as the BTC pipeline project.

Russia knows that all the odds are against its competitors. International policies are directed to promote alternative sources of energy and reduce dependency from fossil fuels.

Some achievements have been reached, but time is needed before a major breakthrough occurs. Moreover, most efforts are aimed to reduce oil consumption, while gas seems to have become a more reliable source of energy for the foreseeable future. Russia maintains a fair oil market share, but its real strength is in the gas market, where it is the first world producer. Given the large gas reserves in Kazakhstan and Turkmenistan, the proximity to Russia and the intention of the latter to acquire the biggest market share possible, we should expect continuous growth of Russian involvement in the Caspian Basin. From the Russian point of view, the Caspian Sea stands as an area that concentrates a number of strategic interests:

- **Geostrategic:** As different political, economic and security blocs are forming in the world in an unpredictable process of reorganization of the world balance of power, Russia is called to be a major player and a leading agent of economic and political transformation. For this reason, Russia intends to increase its influence in the CIS, securing its southern borders from external penetration and assuring a friendly environment in the political and economic spheres.
- **Security:** Maintaining solid relations with the Caspian states is also an advantage to find comprehensive solutions to regional problems like nationalism, border disputes, religious fundamentalism and terrorism. Russian influence in the Caspian region is a guarantee of regional stability. Russian regional hegemony also prevents external penetration of other powers, especially the US and NATO, which are among the main concerns of Moscow.
- **Economic:** Russian energy policy has been a top priority since Putin took power. The enormous revenues yielded by the energy business presents a great percentage of the Russian wealth. Russian companies have flourished and developed with the energy boom.

Russia is capable of directing the energy revenues to development, infrastructure, education, security, or any other field.

- **Energy:** Apart from the financial benefits, Russian energy policy is aimed to dominate the European energy market and a large portion of the world gas market, strengthening Russia's position and political leverage on a global scale. The Caspian energy resources play a very important role in this strategy. The Caspian energy resources have great potential to contribute to the consolidation of these relations and reinforcement of Russian role as a major regional power. Russia uses hydrocarbons as both, a stick and a carrot. They serve as an element of consolidation of relations as much as a factor of intimidation and deterrence.
- **Other resources:** The Caspian Sea offers a number of other resources like the exploitation of the Caspian Sturgeon population. A sustainable exploitation of the Caspian Sea can only be ensured through strict environmental policies.

4.2 Iran

Iran is the second regional power in the Caspian Sea. It has population above the 70 million,⁸⁷ a strong national unity and a government determined to establish its identity and influence in the world affairs. Although Iran is classified as the 29th largest economy in the world⁸⁸, it ranks 3rd in size of proven oil reserves and 2nd in size of natural gas reserves. It is a founding member of OPEC and the 4th largest oil producer⁸⁹. These mammoth energy resources give Iran the status of world power with the potential to become energy independent and the ability to effectively influence the energy world market.

Paradoxically, Iran is an importer of oil derivatives. The lack of refinery capacity is an obstacle in keeping consumption equal to internal production. As a consequence, Iran is

dependent on imported gasoline and diesel for internal land transportation, importing more than 40% of its gasoline and diesel consumption from the Middle East and Venezuela⁹⁰. This makes Iran reliant on other technologically more advanced states, establishing a relationship of interdependence. Ironically, the sector where Iran finds of its main strength, the energy sector, is also one of its main vulnerabilities. Iran works to reduce its energy interdependence. Some rationing of gasoline has been applied before, reducing the consumption and the need for imports. But more long term measures are underway, like the development and increase of refinery capacity⁹¹, which will bring Iran closer to full energy independence. Today there are major obstacles which impede open cooperation with Iran in the energy sector. However, its reliance on external processed oil derivatives may encourage some cooperation lines in the future.

Given the large amounts of energy under the Iranian soil, this country does not need a part of the Caspian reserves in order to cover its energy needs. However, taking part in the dispute for domination of Caspian Sea is still of strategic importance for Iran, for a number of reasons. Iran has a small share of Caspian oil reserves. Some sources cite approximately 10 Bb of proven oil reserves⁹². The low amount of fossil fuels in the Iranian coastal areas has been a major reason for Iran to advocate for a condominium legal regime of the Caspian. A proportional repartition of the sea would leave Iran with low prospects of extraction of oil and gas. However, even with a different legal regime, the Caspian Oil remains as a strategic asset for Iran.

The Iranian Oil Swap system.

Caspian energy reserves are a major contribution to Iran's wealth, and a great contribution to the oil swap mechanism between Caspian and Gulf oil. Through the Neka-Tehran pipeline, Iran can transport Caspian oil to the refineries in Tabriz and Tehran,

ensuring supply for the highly populated industrial areas in the north, while using equivalent amounts of Iranian inland crude to be exported from the southern coastal Gulf ports. This mechanism provides great benefit to Iran energy system since it makes available great quantities of crude in the north, saving transportation costs and ensuring higher profitability of the oil.

In the race for control of Caspian resources, Iran has seen an opportunity in the fact that Kazakhstan's current transportation system cannot meet its production. Through the oil swap system, Iran benefits from Kazakh oil in the northern industrialized regions while offering the Kazak government similar quantities of oil to be exported to the Gulf⁹³. The oil swap system also provides benefits to the Caspian States. It increases their export capacity and represents a diversification of transportation methods and new export routes. The Persian Gulf facilities and routes become available to the Caspian states through the swaps, without having to invest in expensive transportation infrastructure. Other European and Asian markets become more available⁹⁴.

For all these reasons, Iran has increased efforts in developing the infrastructure involved in the oil swaps to maximize the use of the Caspian energy reserves. A project has been presented for the construction of a pipeline from the Caspian port of Neka to the Persian Gulf port of Jask, as a new southern outlet of the Caspian oil. Kazakhstan has shown interest in participating in this project⁹⁵. However, while the US and EU sanctions towards Iran remain in place, it is very unlikely that we will see investment flowing into Iran for development of such a route.

The higher participation in the exploitation of the Caspian resources raises the Iranian profile as a regional power, and strengthens its sphere of influence with multiple benefits.

From the geopolitical point of view, the participation in the Caspian Oil and Gas business has a strategic component. Iran has a very sensitive relationship with the West. Since the Iranian Revolution in 1979, it has been a major ideological competitor with western powers, and a counterweight in the regional balance of power in the Middle East. Iran's current nuclear development program has raised concerns among the Western International community members and has exacerbated the relations with the West, especially with the US, but also with the EU and the UN. In 1996, the US accused Iran of financing international terrorism and developing WMD. The US Congress adopted the "Iran and Libya Sanctions Act of 1996" (ILSA), aimed to stop Iran's financial revenues, allegedly used to finance illegal activities. The ILSA affected directly the Iranian energy market "by limiting the development of Iran's ability to explore for, extract, refine, or transport by pipeline petroleum resources of Iran"⁹⁶. The UN has also adopted a number of decisions⁹⁷ that have affected the Iranian international trade business. In 2006, the UN imposed sanctions banning trade of anything which may "contribute to Iran's enrichment"⁹⁸.

Although there have been some changes concerning the sanctions, it is clear that those decisions have affected the Iranian energy industry. The absence of trade with the US has been a major setback for Iranian economic growth. The US ban has been possible thanks to the US reliability on different oil sources, mainly North America and the Middle East.

However, with the growing demand and shrinking resources, a larger stake in the world oil and gas business would be highly beneficial for Iran in a confrontation with US. The more the Iranian government can influence other oil sources, like the Caspian, the less the US has independence from Iranian oil and influence.

As Iran becomes an energy partner with the rest of the Caspian states, it also limits the penetration of the US in the region. This issue is of extreme importance for Iran, especially

with the worsening of the relations and the prospects of a future military conflict with US allies in the region. Improvement in energy trade and joint technological development with the Caspian riparian states can tilt alliances of the CIS states towards a regional pact, instead of supporting US and EU interests.

Furthermore, despite the sanctions, Iran is still one of the top oil producers. Current partners of the Iranian national oil company include the UK, France, Norway and Malaysia⁹⁹, and there is growing interest from China and Pakistan to use Iranian oil and gas resources. Links with the East will make Iran more independent of the US and give it more influence in world energy affairs. It is likely that we will see the Iranian government increase its participation in the Caspian business due to its interest from the following perspectives:

- Legal: Concerning the adoption of the Caspian legal regime, Iran has been left alone in advocating for a condominium management system. Iran cannot risk its relations with the other riparian states in defending this position, but it would be a great loss to remain outside of the Caspian energy game.
- Energy: Iran does not need the Caspian resources, which cannot equal its great energy inland resources. Moreover, the Iranian sector of the Caspian Sea is the deepest and most difficult to exploit, and does not possess the great reserves of other Caspian sectors. However, Caspian natural resources can provide energy supply to the northern industrialised regions of Iran without the need of creating expensive and complex infrastructure. The oil swap system contributes to the more efficient energy resources distribution in Iran and to the regional cohesion and alliances among the Caspian states, raising the profile of Iran as a regional player. Further, Caspian oil and gas provides Iran with a bigger share of the world energy market.

- Geopolitical: Iran is in a difficult situation in the international arena. Its nuclear program and ideological stand seem to be an excuse for its competitors to criticize Iran's policies. Building relationships in the Caspian can provide Iran with some support in other fields. Iran has strong disagreements with Russia on many issues, but both have a common interest in preventing US penetration in the region. In this regard, the Caspian can become a space of cooperation between these two states.

4.3 Azerbaijan

Azerbaijan is the smallest Caspian riparian state but has a long history as an oil producing country. In the 1870's the Caspian was already one of the main providers of oil and Baku was named the "Oil Capital of the World". Current estimations of Azerbaijan oil reserves fluctuate between 7-13 Bb, depending on the sources. This represents 0.6-1% of the world's reserves¹⁰⁰. The extraction/export levels of Azerbaijan are outstanding, reaching almost 900,000 b/d in 2007.

These figures rank Azerbaijan as the main contributor to oil production growth outside the OPEC system, and therefore a significant source of diversification of oil, with remarkable influence in the international markets. At the current rate of extraction, the Azeri fields are expected to provide oil for at least 20 more years.

Azerbaijan energy business is lead by the state company SOCAR, created in 1992. SOCAR operates in more than 40 different fields, inland and offshore. The main source of the Azeri oil lies underneath the Caspian Sea's water, approximately 120 km offshore Baku, in the so called The Azeri-Chirag-Gunashli (ACG) field. (See Appendix 9.6: Map of the Baku gas and oil fields). The ACG management entity is the Azeri International Operating company (AIOC) comprised with a number of national and foreign companies.¹⁰¹

Azerbaijan has signed over 30 international agreements for exploitation of its offshore oil fields, with companies from various nationalities including American, European, Russian and Chinese. With all the stakeholders benefiting for the exploitation of the energy resources, the Azeri government has guaranteed the support of all surrounding powers and has prevented the creation of animosities and enemies. Rivalry and cooperation merge in the establishment of international consortiums. Allowing opponents to participate in the oil and gas ventures prevents negative influence in the project execution. Including allies in the projects ensures consolidation of partnership.

At the geostrategic level, Azerbaijan plays a very complex role in the Caspian region. Located on the west bank of the sea, Azerbaijan offers a corridor towards the west avoiding Russian and Iranian territory. Projects like the BTC or the Nabucco pipeline are strongly supported by western companies and states as the only alternative route to the major regional powers. With the construction of the BTC, Azerbaijan has made a significant statement, declaring willingness to be independent from the regional powers and to cooperate with all partners, especially western. It has become also a strategic point for the European energy policy, which is currently dependent on Russia and in desperate need of diversification of energy resources.

This circumstance complicates the already difficult regional balance played by Azerbaijan in its relationship with Russia and Iran. The complexity of this balance started with its struggle for autonomy from Russia and Iran at the time of its first declaration of independence in 1918.¹⁰² In 1991 a similar process has occurred. This time Iran attempted to influence the new state and act as mediator in the Azerbaijani affairs. The result was negative for the relationship between the two states and in 1994, under Western pressure, Baku denied Iran's participation in the exploitation of Azerbaijani offshore oilfields¹⁰³. Since then, western influence in Azerbaijan has been manifested in different ways. Support

for pro-West government (the election of Ilham Alyjev in 2003), support for integration into NATO and attempts to establish military bases in Azerbaijan have been the sources of regional tension.

Russia and Iran have showed distress at the western penetration into Azerbaijan. In July 2002, Iran used "gunboat diplomacy" to prevent Azerbaijani excesses in the exploitation of Caspian resources.¹⁰⁴ Violence almost broke out in Iran's attempt to stop penetration of foreign interests in the region through Baku's energy developments.

President Ilham Aliyev has had to pay a number of visits to Tehran to strengthen Iran-Azerbaijan relations. In 2006, he was quoted as saying, "Iran and Azerbaijan are very important for each other [...] We want relations in all spheres to be developed with Iran." These efforts resulted in a change of attitude towards a more conciliatory Azerbaijani policy with its neighbors.

Aliyev's pro Russian and pro Iranian statements were necessary for Baku's stability and certainly had a positive effect. In May 2006, prior to the Economic Cooperation Organization summit, Iranian President Mahmoud Ahmadinejad declared willingness to improve joint energy strategy and stated that "national resolve on the part of the two nations to develop cooperation would neutralize the conspiracy of the enemy to sabotage Tehran-Baku relations."¹⁰⁵

But despite this improvement, Azerbaijan has to keep a constant equilibrium between keeping the regional stability and allowing foreign western investment which provides profitable revenues and maximizes hydrocarbons production. All this added to the domestic ethnic problems, like the Nagorno-Karabakh dispute, and internal struggle for unity.¹⁰⁶ Thus, the role of Azerbaijan in the Caspian region will remain high profile for the foreseeable future, with Azerbaijan focusing on a number of interests:

- **Energy:** Maximization of exploitation of large hydrocarbon reserves offshore Baku.
- **Economic:** Consolidation of partnership with western companies, allowing investment for oil and gas ventures. Enormous revenues from oil exports, employment and foreign investment. If Nabucco and Trans-Caspian pipelines are finalized, transit fees will provide extra benefit to Azerbaijan.
- **Geostrategic:** Consolidation of Azerbaijan as the main western route for the Caspian natural resources. Projects like BTC pipeline provide great revenues, foreign investment and better employment rates. Initiatives like the Nabucco pipeline will increase the Azerbaijan's western market share and strengthen the relations with EU and the US. At the same time, Azerbaijan needs to consolidate its relations with Russia and Iran. Including national companies from these states in the energy ventures or supporting common energy strategies with Iran (including nuclear development) will help Azerbaijani relations with its neighbors and guarantee regional stability.
- **Security:** Azerbaijan has used the energy resources to attract western attention and obtain benefits in the field of security. As a result, ties with the US have been established and military cooperation is underway. On the other hand, strong links with Russia and Iran give guarantees of stability. Despite the strong competition, there is a common interest of all players in protecting the energy infrastructure from nationalist and fundamentalist groups, opening a potential front of cooperation in the security field.

4.4 Kazakhstan

Kazakhstan presents the greatest potential in terms of Caspian energy resources. With estimated 79.6 bbl of oil reserves and 3 tcm of gas,¹⁰⁷ Kazakhstan has the largest energy

reserves in the Caspian. Its production of 2.8 mbl/day accounts for more than half of the region's oil production.¹⁰⁸

The biggest reserves are found in the Kurmangazy and Kashagan fields (look [appendix 9.6: Map of Kazakhstan offshore fields](#)), the latter considered the largest oilfield outside the Middle East with estimated reserves of 7-13 billion barrels of O&G¹⁰⁹. The development of these two fields has been delayed due to border and environmental issues but they remain as the two major potentials of Kazakhstan and for the Caspian Region. The Kashagan field was discovered in year 2000 and is not expected to reach its peak production until 2019. The consortium for Kashagan field is comprised of Exxon Mobil, ConocoPhillips, Eni, Total of France, Japanese Inpex and KazMunaiGaz.

The development of energy infrastructure in Kazakhstan is highly influenced by the Russia-US-China competition. The Soviet Union developed a number of pipelines in Kazakh territory to transport oil and gas. Nowadays, with the discovery of multiple new o&g fields exists a need for construction of new routes. But for the Kazakh government, choosing an itinerary for new pipelines stands to making a political and geostrategic choice. Located on the west bank of the Caspian Sea, Kazakhstan extends its territory towards the East, sharing a 6,846 km borderline with Russia on the north and 1,533 km with China on the East. These borderlines define its neighbouring policy and the Kazakh government finds itself in a very complex equilibrium between welcoming western investment (namely American companies) and the imperative of respecting Russia's intentions in the region. Contributing to China's energy security demands is a profitable business opportunity, as well as necessary toll for regional stability.

Western companies, eager to extract the natural resources and reach independence from Russian influence, bring the latest technology and investment. But good relations with

Russia require allowing involvement of the Russian companies in extraction and distribution ventures. The formula worked out for the moment is the creation of consortiums and joint ventures including all interested players so the benefits are distributed among them.

The US has encouraged relations with Kazakhstan, but these have suffered a number of advancements and setbacks in recent years, usually affected by external regional influences and the apparent contradictory US policy. US Vice President Cheney's May 2006 visit to Astana was a clear sign of US effort to tie up relations with Kazakhstan. The visit was followed by a meeting between President Bush and President Nursultan Nazarbayev in Washington, September same year.

Making business and strengthening relations with the Kazakh allegedly corrupted¹¹⁰ and authoritarian¹¹¹ regime is essentially against the global democracy campaign that then United States claims to lead. For them, US administrations support to Nazarbayev's Government involvement in the BTC and trans-Caspian pipeline projects is a clear attempt to leave Russia and Iran out of the Kazakh oil and gas business, and increase the US presence in the region. The interests Kazakhstan in the Caspian region can be summarized as follows:

- Development of oil and especially gas ventures to over local and external energy needs.
- Fast development of energy infrastructure and technology to benefit from the wealth generated by the exports of oil and gas, which contributes with aprox. 30% of the national GDP¹¹²
- Establishment of a business friendly environment which welcomes foreign investments and allows western companies to operate.

- Normalization and improvement of relationships with Russia to provide stability through the adoption of security and economic agreements.
- Opening of new markets in the Far East which would benefit from the imports of Caspian energy resources. Mainly the Kazakhstan–China oil pipeline.
- Consolidate Kazakhstan as a regional power with influence in regional political affairs and with sovereignty and independence from neighbouring countries and other partners.
- Consolidation of partnership with the West. However, timid support to a Trans-Caspian pipeline is expected from Kazakhstan. Such route would carry Kazakh hydrocarbons to the west under the Caspian seabed, without using Russian networks. This would result in risking Russian-Kazakh relations, which is highly undesirable for the Kazakh government.

4.5 Turkmenistan

Turkmenistan does not possess great amounts of oil as estimations show 500mb of P⁹⁰ reserves, but in terms of natural gas are considered as very relevant in the international gas market with 3tcm proven gas reserves and reports showing 10tcm P²⁰ reserves¹¹³. Recent news reported that oil production will increase to 10.9 million tons in 2009 and gas production to 75bcm, increasing by 5bcm from 2008. Most of it is purchased by Russia through Gazprom (aprox 50bcm/year)¹¹⁴

Turkmenistan geographic location is probably the most complex of all the riparian states. Located on the East side of the Caspian Sea, locked in between Kazakhstan, Uzbekistan, Afghanistan and Iran, Turkmenistan is a target of various proposals for the distribution of its gas reserves. The combination of these proposals promises a bright future to the Turkmen government, but also presents a geostrategic challenge and geopolitical high risk.

The Central Asia-China pipeline (1,818 km pipeline) is already in progress with CNPC leading the venture. But the controversy lays on the determination of Western powers in pushing Nabucco, competing with the Russian intention of consolidating a regional energy policy serving Russian interests. Turkmen steps are vague and indecisive. They failed to sign the agreement at the Nabucco Prague Summit in May 2009, supported by the EU and the United States as the main route for Turkmen Gas to the West. Meanwhile, Russian President Dmitry Medvedev and Turkmen President Gurbanguly Berdymukhamedov are discussing the construction of a gas pipeline to distribute Turkmen gas via Russia.

Turkmenistan has become the focal point of a dispute between a western alliance and Russia for the control of a big portion of the Caspian gas. Turkmenistan economic development entirely depends on a successful gas business, but security and stability must be kept in mind. Leaning towards the west could leave the Turkmen government locked up and isolated in a hostile environment. Keeping the three fronts opened (Russia, China, West) may take more time but certainly will pay off.

4.6 Georgia

With its low energy reserves estimated at 300mbl,¹¹⁵ and short production capacity, insufficient to cover its own energy needs, Georgia remains highly dependant on external energy resources. However, due to its geographical location, located at the center of the corridor between Baku and the Black sea, Georgia plays a relevant role in the Caspian energy business. Its main priorities in terms of energy are first, to diversify sources of energy supplies, ensuring energy security in spite of the effects of regional instability (such as the embargo of Azerbaijan and Turkey on Armenia) and second, maximize the benefits of the oil and gas transportation business, through taxation, transportation fees and job creation.

Although lacking production capacity, Georgia's location provides an advantaged position as beneficiaries of the regional oil transportation business. It is a hub location for all the western routes and has become an obligated transit territory for the western dominated pipeline networks which ensures independence from Russia and Iran. Thus, Georgia is able to benefit from the transit and investment in exchange for stability, security and independence of the regional powers. It is uncommon to see a small, weak country without natural energy resources benefiting and influencing so greatly the oil and gas business.

But Georgia's capabilities are very limited and its survival depends on the external protection it may get. Energy infrastructure requires stability. Seeking stability for the construction of the pipeline system, Georgia has officially requested NATO's assistance for the protection of the pipeline system. Since 1995, when Georgia signed the SOFA agreement with NATO, the two entities have collaborated in a number of sectors like security and defence reform, civil emergency planning, Science and environment and public information. The efforts towards further involvement of Georgia in the Treaty were rewarded during the NATO Summit in Bucharest in 2008, approval was given to Georgia's NATO membership.¹¹⁶

The involvement of NATO and Western interests makes Russia uncomfortable. Some read the August 2008 war between Georgia and Russia over South Ossetia as an attempt monopolise CS oil and reduce control of Western countries in the region.

Such actions, however, can be counter productive for Russia since it justifies mistrust from the EU and US on Russian intentions and will encourage joint ventures aimed to avoid Russian distribution systems.

Small player Georgia has found its role in the "Great Game" and will keep benefiting from it as long as conflict does not break out in the region again.

4.7 Turkey

Given the proximity to the Caspian Sea, Turkey has a number of interests in the region. Although it does not share Caspian coast, Turkey is a strategic player in the system of distribution of the Caspian energy resources and can greatly benefit through the transit bills and transportation fees for the oil crossing Turkish territory before being distributed to the markets.

Turkey acts also as an intermediary in the relationship between the US and the Caspian region. As traditional partners, they have been backing each other in a number of fields. While Turkey sees the US a strategic ally in terms of security, especially due to its volatile geopolitical environment, Turkey provides support to the US interest in the region. Cooperation between the two states has dealt with issues like the Armenian and Kurdish conflicts, the EU integration negotiations, military accessibility and establishment, etc. Concerning the Caspian, The US and Turkey's interests have met in one project: the BTC.¹¹⁷ The benefits of this project go in both, Turkey and US directions. For the former, bringing the Caspian Oil to the Mediterranean through Turkey presents high financial revenues. For the latter, the construction of the BTC presented the main distribution route for the Caspian oil and gas avoiding Russian and Iranian territory, with the geopolitical and security implications that it implies. The interests of Turkey in the Caspian Sea could be summarized as:

- Turkey sees in the Caspian one more source of energy resource diversification and energy security
- Economic benefit of oil and gas transit fees. Turkey is a major hub in the energy transportation corridor between the Caspian and European transportation networks. The

BTC, the BTE and the Nabucco planned itinerary proved the importance of Turkey's location in the distribution of Caspian energy resources into Europe.

- Turkey expects great benefits from employment and investment benefits provided by the construction of infrastructure and management energy resources.
- Energy transit consolidates Turkey's partnership with the US and Europe, which indirectly serves as an element of negotiations for issues of different nature
- European-Turkey alliance on energy matters contributes to the strengthening of their relations with effective consequences in the process of integration of Turkey in the EU.
- The Caspian region is a space for Turkey to play a leading role in East–West dialogue.

Each one of the regional players has a different role in the Caspian Geopolitical theatre. With Russia and Iran pulling the strings, the rest have to find balance between pleasing regional powers and favouring their own economic and security interests. As their main asset is the extraction of energy resources, most of them look out to the Far East or the West for market diversification, in an attempt to avoid Russian energy monopoly.

The role of regional players is intermixed with the interests of global powers with interest in the Caspian Basin, described in the next chapter.

CHAPTER FIVE: External Powers and stakeholders.

The Caspian region lies in the middle of the traditional routes of trade between Asia and Europe, enhanced nowadays by the energy trade. Historically, the Caspian high geopolitical profile started in the XIX century. In the 1880's Baku became one of the main world oil producers and it served as one of the main elements of the emergence of the USSR as a world power.

Today, global geopolitical interest remains in the Caspian region. As the industrialized world is becoming more dependant on imported energy supplies it becomes more vulnerable. States capacity to achieve their foreign policy objectives is thwarted by their energy dependency. The Caspian oil and gas discoveries have provided the world with one more remarkable source of energy supplies. It offers diversification of sources, increases the amount of proven reserves P^{90} and large amount of possible reserves P^{20} , increasing the prospects for availability of affordable energy supplies. The number of international players has increase, as well as their methods of intervention.

Before 1991 most oil and gas produced in the Caspian was consumed within the USSR borders. The abundance of fossil fuels in Russia did not encourage the exploitation of more difficult marine reserves. For this reason, the reserves of the Caspian Basin were left almost untouched, circumstance highly beneficial for the current Caspian states. After 1991, the international market has penetrated the region. New technology has permitted new discoveries and more exploitation. Foreign companies are allowed to operate and local governments are keen to see foreign investments developing the local energy infrastructures. The prospects for participation of external actors remarkably improved. The main external players can be summarized in the following:

US interests in the Caspian region

“Over-dependence on any one source of energy, especially a foreign source, leaves us vulnerable to price shocks, supply interruptions, and in the worst case, blackmail”¹¹⁸

President George W. Bush statement on May 17, 2001

“We need to strengthen our trade alliances, to deepen our dialogue with major oil producers, and to work for greater oil production in the Western Hemisphere, Africa, the Caspian, and other regions with abundant oil resources”¹¹⁹

The Cheney Report. May 2001

The US was at a time the main world oil producer. Today it still ranks third and second largest producer of natural gas. However, it also consumes 25% of the world oil production¹²⁰ and cannot cope with its energetic needs with local resources. Once understood the impossibility of making the US energy self-sufficient (60% of energy resources are imported today), the goal is to manage the consequences of this dependency and reduce it as possible. By importing all energy resources from one source, the US becomes vulnerable to the will and political interest of the exporting country. To avoid this vulnerability, the US has made big efforts to diversify the sources of energy supply in order to minimize the dependency on Middle East oil.

The Caspian Basin is a promising source for such diversification. Thus, it has become a strategic priority to ensure US presence in the Caspian Sea in order to secure access to new energy sources. In the analysis of US policy in the Caspian Sea, the main assumption is that in the short term future, American policy towards Eurasia will be defined first by the energy thrust and second, by the promotion of its geopolitical and economical interests in that region. This circumstance will increase the volatility of the regional order and increase the possibility of confrontation¹²¹, even war.

The US was the first foreign power to set foot on the Caspian in the '90s. The initial vision of Washington was to contribute to the creation of solid states in the former USSR territories. Strengthening these states would reduce the influence of Russia over the natural

resources of the Caspian Sea. The US administration started seeking favourable relations with the Caspian new government, incrementing the prospects for cooperation and establishing strong military ties. The Freedom Support act of 1992 was aimed to ensure that basic human needs through humanitarian aid, promote nuclear safety and demilitarization, build free markets, support for democratic institutions, provide access to credits for purchases of U.S. food, stimulate trade and investment, development of private sector, support a U.S. leadership role in a stabilization fund and expand the American presence on the ground¹²². All served as a continuation of the post Cold War strategy in isolating Russia.

But the US would soon discover that the main axis for cooperation with the Former Soviet Republics was the energy trade, something which suited perfectly with one of the main US concerns: energy security. President Clinton's administration become directly involved in the negotiations, displaying a number of diplomatic operations and mechanisms, acting as a broker for the allocation of concessions and joint ventures with the American companies, assuring the cooperation of local political leaders and lobbying for increasing the influence of the US companies in the planning and execution of transportation routes. President Clinton himself participated in the lobbying for the construction of the Baku-Tbisili-Ceyhan pipeline. In 1994 the "Deal of the Century" was signed, a consortium between BP, Chevron, Exxon, Mobil and others to develop Azeri, Chirag and Guneshli (ACG) fields¹²³. The BTC was the first energy outlet directly to the west without crossing Russian territory (Map of the BTC in appendix 9.4). Despite being very expensive, time consuming and technologically more challenging than any other route, the US administration has praised the benefits and advantages of the BTC. The US cannot afford to have its energy diversification sources in the hands of two of its main international rivals, and therefore is willing to invest in less profitable projects in exchange of supply security.

With the change of administration the US priorities did not change. In May 2001 the so-called Cheney Report¹²⁴ urged the adoption measures aimed to ensure permanent supply at any time, even when part of the market collapses or disrupted. The report highly recommends the diversification of sources of oil, and devotes a section to the potential of the Caspian Sea. Some of the recommendations address to the US President though this report are the consolidation of partnerships with the Caspian states, adoption of measures for market transparency and stability, and financial support to oil ventures and transportation lines such as BTC, the Caspian Pipeline Consortium oil pipelines, etc..

Both, President Clinton and Bush's administrations, promoted projects and transportation routes which avoid Russian territory for distribution of the Gas and oil. The second feasible route would be towards the Persian Gulf, connecting to the greatly developed maritime transport infrastructure currently distributing worldwide. But the US has major obstacles to promotion this route since it requires pipelines across the Iranian territory, leaving energy resources in the hands of the most important US rival. Other options like the construction of pipelines across the Caspian Sea to bring resources from the eastern Caspian shore to the BTC pipeline in order to bring the O&G to the Mediterranean Sea have met with great opposition from Russia.

According to the Cheney's Report recommendations, the Caspian states, namely Azerbaijan, Kazakhstan and Turkmenistan, along with others in the region, are likely to receive great attention from the US administration. Financial efforts will be spared in order to improve the transportation infrastructure, providing along the way with huge construction projects and jobs. The assistance can be delivered in many ways, through institutions like the USAID¹²⁵, USTDA¹²⁶, etc. Furthermore, stability in the Caspian region is an asset and a guarantee of energy supply for the US. It is likely that the US will act in order to avoid major conflicts in the region which would jeopardize the energy development projects and

long term investments. This circumstance may be very helpful in turning the oil and gas into a development and stabilizing asset, as well as an enormous income generation source.

But the presence of the US interests in the Caspian is more than mere economic initiative. It is rather perceived as external penetration and an attempt to reduce the regional influence of other states. Russia took measures in this regard, acting against pro US governments¹²⁷. However, the Kremlin soon realised the dangers of frontal confrontation with the US and the benefits of participation on the O&G ventures of the Caspian Sea. Thus, it promoted the presence of Russian companies in the Caspian projects, often stopping criticism to the American projects in exchange for Russian company participation, such as Lukoil reaching 10% of the AIOC consortium, Lukarco was given 5% in the CPC and Lukoil was granted a share in the Karachaganak field in Kazakhstan.

Oil Imports into US ¹²⁸ (Monthly/thousands of barrels)						
	jun-08	jul-08	Aug-08	sep-08	oct-08	nov-08
All countries	401.007	404.983	404.853	345.361	409.722	385.583
OPEC	182.518	189.756	198.100	153.849	182.526	173.960
Non OPEC	218.489	215.227	206.753	191.512	227.196	211.623
US imports from Other Major oil exporters to US						
Saudi Arabia	44.785	51.929	48.759	42.942	46.104	45.428
Venezuela	36.436	41.534	40.440	31.543	36.018	37.071
Canada	70.784	74.105	68.160	71.016	80.186	75.945
Mexico	37.626	39.993	43.385	30.092	44.428	42.165
US imports from Caspian States						
Russia	22.914	17.243	15.185	13.103	12.214	13.487
Azerbaijan	1.606	4.234	4.182	2.063	3.871	2.139
Kazakhstan	289	697	85	557		1.281
Turkmenistan		125	108	100		

Thus, the Caspian region will remain as a focal point for American interests in the foreseeable future from different perspectives:

Energy:

- The Caspian region is essential in the US government top priority of diversification of energy resources to reduce dependency from the OPEC oil and gas Supplies. The large reserves discovered in the Caspian Basin for a market share that cannot be neglected by the US in its attempt to ensure energy security in the coming years.
- The US will continue its support to energy transportation projects aimed to create a distribution network towards the west, preferably avoiding Russia and Iran as transit territories (e.g BTC and Nabucco)
- The US will ensure its accessibility to the Caspian energy business through consolidation of national energy policies in the former Soviet Republics, independent from the domination of a Russian Caspian comprehensive energy policies well as China and Iran.
- The US will use diplomatic influence for favourable resolution of extraction concessions in the Caspian Sea and will support participation of US companies in international consortiums for extraction and distribution of the Caspian energy resources
- Efforts will be directed to easy relations with Russia on energy matters, avoiding direct confrontation against the energy giant which could have catastrophic consequences for the US also in other fields, specially the military and security.

Geostrategic:

- The US will promote its presence and interest in the region. This will require limiting the influence of regional powers (e.g. Russia and Iran) in favour of a more western friendly environment. Common interest and expectations in the region require a system of sharing resources and adjusting spheres of influence.

- The US will continue strengthening the local structures and national administrations aimed to create independent states capable to establish partnerships with different regional and global powers. Strong cooperation lines will be maintained, especially in the fields of energy, security and trade.

Security:

- The “War on Terror” has defined a great part of the US defence and security policy since September 11, 2001. This policy has initiated operations in some states in the vicinity of the Caspian Basin. The US has attempted to establish military relations with several Caspian and Central Asian states to cooperate in military campaigns. The proximity of the Caspian Sea to some of the Main US rivals makes this region a main strategic location. The US will continue promoting military and defence relations with these states to improve and have better grip on the security situation.
- The Caspian states are close to areas the US consider favourable for terrorism and fundamentalism. The Caspian region will remain as an area of attention for security and stability.

Democracy and market liberalization:

- The US claims to lead the campaign to spread democracy in all countries. This democracy campaign includes the abolishment of authoritarian regimes, empowerment of citizens, eradication of corruption and openness to democratic economic systems, private initiative and market liberalization.
- Despite the criticism for double standards, the US will continue supporting openness of markets and market liberalization in the Caspian region. The great economic interest in this region cannot afford state controlled economies which may prevent the US

participation. Further A liberal market offers an opened door for US interests. Promotion of legal and economic reforms will be supported. Financial instruments will continue to be applied to the Caspian region.

Caspian hydrocarbons and the EU energy dependency.

The EU is ranked at the top of the list of the world's highly industrialized areas. It is a major energy consumer, unable to cover a significant percentage of its energy consumption with local resources. Today the EU is highly dependant on Middle East Oil for its transport energy consumption and is even more dependent on external sources of natural gas, widely used for home heating. The main sources are North Africa, North Sea and Russia, the latter providing more than half of the external gas supply to Europe.¹²⁹

Gas suppliers to the EU (2006)¹³⁰

Country	% of total imports
Russia	50%
Algeria	23%
Norway	22%
Others	5%

One of the major challenges of European energy policy is to find mechanisms to ensure energy supply, especially with the growing energy dependency.¹³¹ In this scenario, the race for the search of new reliable energy supplies has started, and the EU must look first in its surroundings, where energy resources don't need to travel long distances. Since 1995, when the EU came up with the Inogate program¹³², a number of documents and policy initiatives have been implemented in order to improve the European energy security prospects, guarantee strategic stocks and inventories, better supply and reduce environmental effects. In 2006 Javier Solana sent a report to the EU Council urging to include the energy strategy in the EU CFSP.¹³³ In January 2007 adopted the EU energy Policy.¹³⁴

In the search for a reliable and diversified supply of energy resources, ensuring economically feasible and reliable access to the Caspian energy reserves has become a strategic priority. The EU is using available instruments to improve relations with Caspian states such as European Neighbourhood and Partnership Instrument (ENPI)¹³⁵, and is in different stages of signing Association Agreements with the different Caspian states¹³⁶.

Furthermore, in 2007, the Council of Europe adopted the “EU and Central Asia: Strategy for a New Partnership”, a comprehensive road map which conducts the affairs between Central Asia and the EU. All these instruments have been accompanied by budgetary lines and cooperation mechanisms like the Technical Assistance to the Commonwealth of Independent States (TACIS)¹³⁷ and the Development Cooperation Instrument (DCI) with a budget of €750 million¹³⁸.

The EU takes special interest in its relations with Russia. Europe’s extreme dependency on Russian energy supplies makes these relations a vital issue within the EU’s CFSP. Thus, in the year 2000, the Paris Summit started the EU-Russia dialogue initiative, aimed at establishing a strong partnership and adopting a long term energy strategy between the 2 blocs¹³⁹.

But the implementation of these EU new partnerships with the Caspian states is full of contradiction. EU foreign policy has always been adamant to promote multilateralism and to foster Human Rights, cultural exchanges and international cooperation. EU has always advocated for comprehensive and coherent foreign policy combining trade, security and cultural relations with a Human Rights approach. Improvements in trade, therefore, should come along commitments in disarmament, solutions against corruption and human rights.

Dealing with Caspian states creates for the EU an ideological dilemma. It must choose between the EU energy interests or the democratic and human rights principles it is trying to

promote. States ranking very low in transparency, accountability and human rights enjoy extensive development programs and have access to agreements whereas other states with the same characteristics are denied.¹⁴⁰ A similar situation happens with Iran. The EU finds difficulties in the approach on how to include Iran in the Caspian deal. Europe understands Iran as a key regional player and sees no successful scenario which foresees Iran out of the Caspian energy development. However, establishing a confident partnership with Iran shakes the EU stand on Iran nuclear programs and human rights records. "The EU is deeply concerned at the human rights situation in the Islamic Republic of Iran."¹⁴¹

On the other hand, the EU has always maintained a reconciliatory and dialogue stand, with the idea that extending bridges of cooperation and dialogue is in the long term more effective in promoting pragmatism and moderation. Having Iran, Russia, and the rest of the Caspian states on board is more a guarantee of stability than failure in the future, but the internal EU conflict is served, dissociating the values and the energy trade.

Despite the internal debate, energy security must be ensured and we should expect the EU to maintain the engagement with the Caspian at all levels. EU's CFSP main lines of engagement will be:

1. Support regional development and poverty reduction and contribution in the terms established by the MDG, opening financial lines for this purpose. The EU will insist in supporting the main pillars for a political framework: The development of a stable political framework based on respect for the rule of law, human rights, good governance and democracy.
2. Promote Regional stability and security, improving mechanisms to fight terrorism, organized crime (drugs, human trafficking, etc.)

3. Promote regional energy cooperation, considering the “significant energy reserves in the Caspian region and the need for diversification of sources to ensure energy supply. The EU aims to strengthen Central Asian Markets and to cover EU’s energy needs. The EU will promote cooperation ties within the region and outside. Cooperation ‘within’ will strengthen the Caspian states as economic players, increasing their autonomy in decision making. Cooperation from ‘outside’ will reinforce the energy market and trade between Caspian States and Europe, releasing the dependency from Russia.
4. Intercultural dialogue, as part of the process of regional integration.
5. Improvement of the Rule of Law, legal and judiciary system, in connection with improvement of Human Rights records
6. Environmental policies for a sustainable development of natural resources.
7. Increase cooperation levels with Russia, as the major regional player and energy supplier.
8. Reduce the dependency on Russian transit infrastructure, the EU supports consortiums and routes like the Odessa-Brody-Plotsk Linem, or connections the Black sea with the Adriatic. Another great example is the 3.300 km Nabucco pipeline, supported by the EU through the Directorate-General for Energy and Transport.
9. Diplomatic efforts will be launched to improve relationship with Iran. In this regard it is crucial to find space for a negotiated solution to the nuclear program.
10. The EU will be adamant to promote a paradigm of multilateralism in the Caspian region, from the belief that coordinated efforts of all players is a guarantee of stability. Thus, the EU will continue financial efforts in funding international organizations like

OSCE, UN, operating in the area. Multilateral dialogue will be a transversal principle applied in the relations with the Caspian Region.

China

China can hardly be considered as a country and has more the characteristics of a continent. Its large population of more than 1.3 billion¹⁴² makes China's economic indexes determinant for the global economy. China ranks the second largest economy in the world only second to the US.¹⁴³ It has the highest growth rate, with an average of 9.7% annual growth in the last three decades.¹⁴⁴ It is the world second largest producer of electricity¹⁴⁵ and the world's largest producer and consumer of coal.¹⁴⁶ Traditionally China has covered its energy needs with domestic production. However, its growth rate and its large population, China's energy needs are larger and increasing faster than any other place in the planet, growing close to 8% a year, affecting the production pace, availability of supply and the price of the energy commodities at a world scale. Today China ranks second in world's oil consumption represents most of the world increase in consumption, being responsible for 46% of the total world increase in 2006¹⁴⁷.

This situation has brought energy security as a vital priority for the Chinese agenda, and as raised the concern of the rest. Its development, growth and stability depend on the capacity to secure energy supply through imports.

China took its first steps into the Caspian in the late nineties. In 1997, China and Kazakhstan created the Sino-Kazakh oil Pipeline Co. Ltd which ended with the construction of the China-Kazakhstan pipeline¹⁴⁸. Since then, China has slowly increased presence, establishing friendly relations with Caspian states with promises of aid and diplomatic favours, as well as financial support for building pipelines towards the east. Chinese President Hu intao got personally involved in the negotiations.

China has also led the formation of the Shanghai Cooperation organization in order to promote its interests in the region. China's main concern is development and economic growth. China's foreign policy is oriented to serve these two goals and pays less attention to ideological and politically driven alliances. China's development depends on its capacity to ensure energy security. Thus, China has chosen to over pay for oil in obtaining a victory over Russian or western companies in return, which may guarantee flow of Caspian oil and gas in the mid term. Thus, in October 2005 the CNPC acquired Petro Kazakhstan Inc. for a price above the market. This move was considered as a victory over Lukoil.¹⁴⁹ In this context, the main interests of China in the Caspian Sea are:

- China's interests in the region will continue at the energy and economic level rather than political.
- Energy security: China will search for diversification of oil resources in the Caspian, and will promote transportation routes towards the east. China is highly interested in two energy sources: First, oil imports from Kazakhstan and second, gas supplies from Turkmenistan, which can travel easily to China without passing through troubled regions.
- Establish of long term partnership with the Caspian States to guarantee supply in the foreseeable future.

India

India is another mega state, similar to China, with enormous influence in the world economy and global energy business. The importance of India in the global energy market will continue increasing in the next decades as primary energy needs increase an average of 3.6% a year.

India has been a slow player in the race for acquiring stake in the Caspian Sea energy. However, New Delhi is eager to promote projects that would attract part of the natural gas towards the south. India, through its Oil and Natural gas Corporation, has been seeking participation in gas ventures, without much success for the moment.

Due to its large population and economic growth India generates a great demand of energy supplies which is affecting the global energy market. However, due to its geographical location and the instability of the regions separating India from the Caspian Sea, it is unlikely that India becomes a significant Caspian player in the short term.

Oil Companies.

“It is no surprise that national oil companies, with their vast access to the world’s resources, are becoming important players in the global power politics”

Report “The changing role of national oil companies”. James Baker III Institute

Oil companies have been for several decades important foreign policy actors. The role of these companies has evolved with the years. Private or state owned, they have been a crucial instrument for assuring energy supply to industrialize societies. It is difficult to know what agents are more important in the oil business, whether the states or the companies, but it is accepted that there have been times when oil companies have dictated national foreign policies. Oil companies started as private enterprises taking care of a business that quickly crosses state borders. The companies would reach places inaccessible for governments, bringing the energy supply. The 1973 Arab-Israeli conflict was a turning point for the role of the oil companies. During the embargo, American companies had to make a choice between following the rules of the producing countries, denying energy supply to their homeland or defending the national interests, risking the access to the energy sources. After the embargo, energy supply became a priority of the government and the oil business became more linked to national foreign policies. Some of the companies strengthened their ties with their

governments. States guided and promoted the expansion of companies. Their national foreign policy and business strategies complemented each other.

It was a time when the oil companies had to decide what to be, and they manage to become something in between, acting in many occasions as “buffers between nations”, performing “the business in between”¹⁵⁰.

Today, with energy security being a vital component of national security, neither governments nor oil companies can afford to run business without at least cooperating with each other. There are a great number of national companies which respond exclusively to their government policies¹⁵¹. Even full private ownership, oil companies are still mechanisms to advance and protect national interests and require diplomatic intervention to advance into new exploitation areas with minimum security guarantees.

During the 1990's, the international oil companies were desperately searching for new sources of fossil fuels, as production declined in other areas like the North Sea or the Alaskan North Slope. After the break up of the USSR, the unknown Caspian region became more accessible to foreign interests. Attracted by promising profits, multinational western companies found access to some of the former Soviet republics which, away from the Soviet centralized rule, were free and more open to external investment and cooperation. In the period between 1994-98, 26 companies from 13 countries signed PSCs with Azerbaijan for the extraction of oil and gas in the field offshore Baku¹⁵².

American companies were the first to arrive, coping most of the international ventures. However, in the last 15 years, the urgent needs for diversification have attracted many other nationalities worldwide. As any other oil and gas producing region, in the Caspian operate companies coming from all continents. Often with mixed ownership, in the Caspian region we can find European companies (Eni-Agip, British Petroleum, French Total, Royal

Dutch/Shell), American companies (Exxon Mobil, Chevron, Texaco, Caltex, ConocoPhillips), Russian companies (Lukoil, Gazprom) or the Chinese CNPC (China National Petroleum Corporation), the Japanese Inpex and Itochu and the Korean National Oil Corporation, among others.

The oil and gas companies rarely embark unilateral projects. The magnitude of the projects, the enormous mobilization of financial resources required and the need to include to all stakeholders makes a regular practice the gathering of several companies and governments, in the form of consortiums, for the undertaking of petroleum and gas extraction, and transportation projects.

During the last decades, a regular formula has been used for the formation of these consortiums has been the association of foreign multinational companies along with local nationally owned company. The advantages of this formula are clear:

- **Borrowing capacity:** The participation of strong international companies offers guarantees of success and financial reliability to the lenders. The weaker partners (local governments and companies) enjoy the benefits of access to financing which otherwise would be denied.
- **The financial burden is shared by all players.** All are involved in the financial loss in case of project failure, reducing the possibility of local opposition of the finalization of the project.
- **Political risk.** The more stakeholders are involved in the projects the lower the risk for political interference. Searching for a win-win solution is a guarantee of absence of political obstacles.

- a. Including local public companies assures the friendly cooperation with the local authorities. The benefits are distributed.
 - b. Including Russian companies in the consortiums has proven to be a good measure to reduce the animosities from the Russian government, which may see multinational companies as the tools for penetration of Western powers in the region.
- **Local development.** The revenues and benefits acquire by the local governments, if well used, may serve in the development of the region and the improvement of the local communities, creating a friendly environment to the implementation of the projects.

The geopolitical characteristics of the Caspian have created a system of cooperation and interdependency between the energy companies. They control each other, benefit each other and represent a threat to each other at the same time. Special attention is paid to the giant Russian companies and their eagerness for domination of the Caspian natural resources, as well as the American companies, seen as instruments for American penetration.

The interaction among all the players, regional and external, described in this chapter, has significant consequences for the region. Local and external powers defend some of the most vital interests for which states would pay almost any price. The combination of private and public policies allows a vast space for negotiation. However, the interests of states, and specially world powers are behind most operations. This generates international tensions and disputes of different nature. Some of the may even involve the use of force, exposing the region to a number of security dilemmas which are at the very centre of the geopolitical struggle of the region, as described in the following chapter.

CHAPTER SIX: International Security, energy security and competition in the Caspian Region.

“Turning the Caspian Sea into a zone of friendship and peace is more important than delimitation of its basin. Peoples, living in the Caspian region, have common history, culture and interests. We shall live together in peace and brotherly relations for hundreds of years to come.”¹⁵³

Iranian President Mahmud Ahmadineyad before the 2nd Summit of the heads of Caspian Sea littoral states held in Tehran in October 2007.

6.1 Energy Security

The dawn of January 1st, 2009, Europeans woke up realizing how vulnerable the EU states are to the alterations of the energy markets, especially to the energy supplies provided from Russia. The Russian-Ukraine economic dispute provoked the shut down of the pipelines carrying the gas into Europe,¹⁵⁴ stopping the main EU energy supply in the middle of a cold season, putting at risk the lives of thousands of EU citizens. With up to 50% of all the gas imported into the EU coming from Russia,¹⁵⁵ the humanitarian, political and economical implications of a continuous interruption of the gas flow from Russia to Europe could be catastrophic. The vulnerability of the EU energy security was exposed wide open. Energy resources, once more, proved to be the top priority in maintaining national security. The lesson was clear: Concentration of energy supplies in one place is a source of vulnerability for the consuming countries and provokes market instability and political tensions.

The case of the EU is alarming as 50% for its energy depends on foreign supply. If no action is taken in the ear future, this figure is expected to increase up to 70% by 2020. Moreover, there is a concentration of energy sources as “45% of oil imports come from the Middle East and 40% of natural gas imports come from Russia”¹⁵⁶

But the case of Europe is not unique. The US is in similar straits, and the oil dependency is threatening its national security. With 60% of the US energy needs covered by foreign energy sources, the US needs to make a transition towards an economy less reliant on oil. The US has only 4.6 % percent of the world's population but is the main oil consumer with 25% of the global oil consumption¹⁵⁷. This circumstance makes the transition a long and difficult process, but the survival of the US depends on it.

"We have known for decades that our survival depends on finding new sources of energy, yet we import more oil today than ever before."

President Barak Obama in his 1st speech to a joint session of Congress, February 25, 2009

Energy supplies have become an essential component of national interest and a vital security issue. The global increase of energy demand in the last years raises concerns of all states especially those industrialized countries with absence or scarcity of local natural resources. The lack of sufficient supplies to cover national energy needs can have dramatic consequences for states, as the basic life standards may not be provided, daily life would paralyze and armies could not be deployed in case of conflict. It seems that industrialized countries are in the hands of states with abundance of natural resources. For this reason, energy security has taken a top position as part of the national security strategies in most modern states, even more than military power. There are a number of measures that can be adopted to ensure energy security:

- 1) Strategic oil reserves.
- 2) Promote bilateral alliances with producing countries.
- 3) Military deterrence and protection of the oil infrastructure
- 4) Diversification of energy resources

- 5) Adoption of global regulations to reduce oil consumption and improve efficiency
- 6) Search and development of alternative energy sources.

Learning from the lessons of the 1973 oil embargo, oil importing countries have searched for mechanisms to avoid energy dependency. In 1975, the US started the accumulation of strategic reserves, and was eventually followed by all other states member states of the IEA. In this way, states possess large amounts of oil aimed to supply energy in times of scarcity and to mitigate the consequences of disruption or reduction of oil supplies from producing countries in times of political instability, war or natural disaster. The IEA members made an agreement to keep strategic reserves to cover ninety days of oil supply, in order to overcome possible disruptions. According to the IEA, there are currently 4.1 billion barrels of oil stocks as GSPR held by the IEA member states.

But other measures are more important. Until technology can replace fossil fuels as source of energy, there are other measures to ensure energy security:

6.1.1 The Caspian as an alternative source of energy

Diversification of supply of energy resources has proved to be an effective mechanism to avoid shortfalls of energy supply and ensure energy security, especially in times of partial market disruption. The Middle East is the main oil supplier in the world, with no close competitor. Middle East states have control of approximately 50% share of the world oil supplies, and therefore can exert great influence in the price and flow of the crude.

In 1960, the OPEC was created. According to its founders, its goal OPEC was to provide consistency and stability to the oil market. This organization has served as negotiation platform to unify the position of the exporting state members. This unified voice allowed them to set up production quotas, establish the oil price and obtain great influence over the

world wide oil market. Some voices have criticized OPEC for acting more as a cartel than as a source of stability. In response, the oil importing countries created the International Energy Agency, as a counter balance to OPEC. The IEA have come to realize that the best mechanism for ensuring market stability is the diversification of their energy sources.

Today, OPEC countries possess 78% of the total world oil reserves and produce around 40 per cent of the world's crude oil.¹⁵⁸ This predominant position of the OPEC over the oil industry and market makes essentially important for importing countries to find other sources of energy. Other exploitation areas need to be found, like Canada, Russia, Uganda, Mexico the Northern Sea and the Caspian Sea. None of these countries or regions can overshadow the capacity of OPEC. However, in case of disruption of oil flow from the OPEC countries, the other regions can act as a counterbalance, increasing production upon need, and balancing the cuts of supply from the major exporting regions.

Concentrating the energy market and production on one region is a source of market instability. On the other side, having alternatives to the Middle East and OPEC oil reduces the possibility of domination and monopoly of the energy market by a few countries, and therefore contributes to world stability.

The role of the Caspian region in this matter has remarkable importance. The Caspian was once one of the first oil producing regions in the world. Recent oil and gas discoveries have brought it back to a top priority. The Caspian is accessible to the Middle East, Europe and Russia. It is close to eastern emerging markets like China and India. But the Caspian States have different political, ideological priorities, which translates into a number of different alliances and geopolitical preferences. It is unlikely to see Caspian natural resources monopolized by homogeneous interests. This circumstance ensures the openness

of the Caspian market to different world markets and the flexibility to act as a counter balancer of disruption of supply from other sources for political and/or ideological reasons.

On the other hand, the variety of interests and political affiliations of the Caspian is the source of multiple tensions and disputes. That very same local instability can turn into a balancing factor when looking at the global energy market, becoming a factor of global stability. Foreign powers and other industrialized countries look at the Caspian as an opportunity to ensure their supply in case of policy change from traditional producers. The main contributions of Caspian energy resources to global energy security are:

1. **Diversification:** The Caspian Basin has become a new energy supply region, comparable to some regions like the North Sea. The Caspian alone does not contribute in a great percentage of the global oil and gas proven reserves, but certainly provides one more reliable source for diversification. This diversification reduces the power of the monopolizing OPEC. Caspian oil is important as a source of diversification for a number of reasons like its quantity, quality, location, independence from OPEC, etc
2. **Reduce risk of disruption.** The great potential of the Caspian sets this region as one of the main suppliers in case of a market disruption. Most Caspian hydrocarbons are exported due to the low demand of the producing countries, ensuring a significant flow of Caspian oil and gas to the external markets.
3. **Source of stability:** The newly created economies are capable to build themselves thanks to the great revenue coming from the energy exports. This developments can be a great contribution to political and economic stability, which would immediately reflect in Caspian oil and gas market stability, turning the region into a reliable exporter.

4. **Production growth for the short future:** Caspian production is expected to have the highest growth rate in the coming years.¹⁵⁹

6.1.2 Energy security and foreign policy

The importance of securing energy supplies has tremendous consequences on the foreign policy of producing and importing countries. National security is so reliant of energy that other elements are brought back to a second category in the making of foreign policy. Therefore, national foreign policy is influenced by the energy policy in a number of ways:

a. The wealth generated by energy resources offers exporting countries the capacity to adopt unilateral policies, political initiatives and sustain ideological campaigns.

Energy surplus countries have gained international relevance using energy supplies as a leverage to pursue political objectives, some times tinted with a strong ideological component. The wealth provided by the hydrocarbon exports enlarges the sphere of influence of some states and allows the financing of political and ideological campaigns.

For instance, Russia's authoritarian policies are sustained by the economic power provided by the energy revenues, without the need of external support. As an example, the august 2008 war against Georgia was launched opposing the astonished but helpless international community. EU was reluctant to intervene. Any coercive action to stop Russia raised the fear of retaliation in the energy realm.

A similar situation occurs in Iran with the development of its nuclear program. Without entering in the legitimacy of such endeavour, Iran is able to stand against other global powers thanks to the international independence provided by the energy self sufficiency and the financial resources of the oil revenues. There are other examples outside the CS and the Middle East. For instance, the new "*Bolivarian revolution*" of Hugo Chavez is supported with Venezuela's oil revenues, enabling the financing of policy changes in the Region and

strong influence over countries like Bolivia, Argentina, etc, in the name of a new South American socialism.

b. The oil dependency of importing countries defines their international alliances and thwarts the capacity of open dialogue among states.

Oil dependent countries have to reconsider their attitudes and criticism towards their providers of energy resources. For instance, US criticism to human rights records, transparency and democratic indicators seem to fade out when dealing with some of its energy partners. Similarly, the EU is reluctant to effectively confront Russia's wrong doings (e.g. Georgia's war) and prefers to accommodate its actions so to avoid a direct confrontation with its main gas supplier.

When the energy market is limited and production barely meets the demand, importing countries make efforts to accommodate their international policies in favour of exporting countries. Failure to do so has resulted in major disruptions of energy flow, such as the 1973 embargo.

c. Energy policies have influence on the “market rules”

In the recent past we have seen how attempts of Russian and Chinese energy companies to acquire ownership of foreign energy companies has provoked an immediate reaction of protectionism. US and EU are very interested in maintaining a free oil and gas market, subject to the principles of production/demand and avoiding ideological and political components to influence the energy trade. However, the so long advocated market liberalization principles become secondary when exporting states perceive a threat in the management of their energy supplies. Ad hoc legal measures are taken and protectionisms mechanisms are built to avoid the loss of the little autonomy of the industrialized countries

in the field of energy. The importance of securing energy supply and control of the energy market brings any other issue or policy to a second category.

Vivid examples of these policy change in favour of energy protection are the measures against the 18,5 billion bid of CNOOC to purchase “Union Oil of California” in June 2005, or the attempt of the Spanish government to impose ‘ad hoc’ protection mechanisms measures to prevent the purchase of Repsol by Russian Lukoil.¹⁶⁰

d. Energy strategies modify the allocation of external aid and investment.

In order to maintain favourable terms, foreign aid is allocated to the development of energy supplying countries. Bi-lateral agreements on development of infrastructures, budgetary contributions, Military assistance and assistance to development of energy industry are common measures to ensure the energy supply.

e. Energy policy has a strong military component and influence on defence policy

Military deployment has proven to be an effective measure to provide security to the energy market and therefore, to ensure the energetic security of importing countries. US and UK military deployments in the Middle East or French deployments in Africa have played an important role in this regards. The rational behind these deployments is that military presence plays as a deterrent to radical and terrorist groups which may be interested in damaging western countries interests by interfering in the transportation of oil. The issue of piracy, aired out in the press due to the latest events in the coast of Somalia, is one more reason to believe that the military has an essential role in protecting the oil infrastructure and transport.¹⁶¹ On the other side, is the very foreign military presence what has provoked the tensions and the anti western attitude of some groups, and it contributes to the militarization of the oil regions.

6.2 Militarization of the Caspian Basin

Development of natural resources is usually linked to military presence. When it comes to defend vital national interest like energy security, global powers are ready to use any means to exert their influence, including the use of force when necessary. Protecting oil interest with military presence is a tactic commonly used in many regions. The deployment of US and British presence in the Persian Gulf, French military assistance to Africa, and lately, Chinese assistance in Sudan, are examples of the natural resources/military presence correlation.

Moreover, the accumulation of local and foreign interests and the geopolitical dynamics played in the Caspian increase the risk of militarization of the region. Already a number of armed conflicts have erupted in this region in the search for power and wealth. The regional ethnic and political tensions have been fuelled by the need to protect the energy infrastructure of the Caspian. Wars in Georgia, Armenia, Chechnya and others have affected directly the construction or integrity of the pipeline networks, raising the concerns of external powers involved in the extraction of oil and Gas in the Caspian.

The terrorist attacks against the US on 9/11 added another dimension to the militarization of the Caspian region. After the attacks, the Bush administration counted on full support from most countries, including Russia. US military bases were established in Uzbekistan and Kyrgyzstan. The air space in the whole region was secured for US flights allowing the launching of the military operations over Afghanistan.

In a region traditionally affected for ethnic and religious conflicts, extremist groups and military confrontation, it seems that militarization is a natural consequence to ensure protection of the energy interests and the infrastructure necessary to bring the oil and gas to the markets. Today, the available military technology allows the deployment of planes

troops and artillery by sea, raising the importance of the military use of the Caspian. Deployment of military capabilities in the region is also a tool for external powers to increase their sphere of influence and strengthen alliances with local governments

A number of military agreements are intermixed with commercial relations, oil contracts and political filiations, all part of the New Great Game of the Caspian in the struggle for domination in the region. Thus, militarization of the Caspian region is aimed at several objectives:

- Political Alliances to create friendly environment to external investment and energy trade.
- Physical protection of energy infrastructure. Oil and gas fields, pipelines, tankers.
- Contention of ethnic conflicts which may present a threat to the energy market
- Control of illegal activities such as smuggling of drugs, weapons, terrorism, etc.
- Mechanism for deterrence and establishment of regional hegemony

When the new political arrangements opened the possibility for external interests to penetrate the region in 1991, each of the global powers reacted in different ways and with a different pace. A number of military policies and entities were established:

Russian military presence in the Caspian. The Russian Flotilla

After a few years of political and economic struggle, **Russia** is in need to exert its influence in order to maintain its role as traditional regional hegemonic power. The Caspian Sea has always been a strategic defence region for the Southern Russian borders, limiting with states which presented a potential threat to its national security.

The deployment of Russian military power dates centuries ago. The Caspian Flotilla,¹⁶² created in 1722, was a main factor in the Russian-Persian wars and since then has been permanently present as a tool for defence and domination. The 1813, 1828 and 1940

agreements between Russia and Iran established clear terms for the military use of the Caspian waters. Back then, Russia saw the Caspian Sea as a tool for military domination and therefore political hegemony.

After the Soviet era, the security arrangements had to be reconsidered. Initially established by Russia as contention force and protection against other republics in the region, the Caspian Flotilla had to adapt the new political reality of the CIS, dividing responsibilities among Azerbaijan and Kazakhstan with the Tashkent agreement (May 1992). The Caspian Flotilla then withdrew from the former republics, (as it was based in Baku) and relocated to the city of Astrakhan, located in the delta of the Volga River. It continued cooperating with the national armed forces of the other CIS states. The Caspian Flotilla counts with planes, infantry and more than 100 vessels including some of the most modern Russian naval technology. Since 1992, the Russian government has conducted a number of upgrades of the Caspian Flotilla, including additional budgetary increases to support more units and newer technology. The political transformation of the region and the emergence of other regional powers like Iran and Turkey suggested the increase of military power in the southern borders. During Yeltsin regime, the Russian Government adopted a twofold plan: More militarization of the region with the establishment of the North Caucasus Military District (NCMD) and increase security and military alliances with the CIS, through the signature of a collective security and military cooperation treaty¹⁶³. Through this treaty the Kremlin attempted to create a buffer defence zone, using the CIS states as the first protection defence line.

Today the Caspian Flotilla still plays an important role in maintaining the hegemonic position of Russia and protection of Russian interests. It has also been directed to tackle the problems of organized crime drug traffic and even terrorism. It also controls one of the strategic points of the sea, the Volga River Delta, enforcing the Soviet Inland Waterways

Act adopted during Stalin's regime in 1936, which bans foreign ships navigation in Russian internal waterways¹⁶⁴.

One of the main concerns of the Kremlin is the penetration Western, and specially US military structures in the Caspian region. Russia has responded by increasing its military activity as well as by coordinating military assistance and cooperation with the other riparian states. A US Congressional Research Service report noted that "Russia has appeared to counter U.S. maritime security aid by boosting the capabilities of its Caspian Flotilla and by urging the littoral states to coordinate their naval activities with Russia's."¹⁶⁵

The latest plans of Russian renovation of military capacity confirm its intentions to return to the top in the military race. The economic struggles of the 1990's, the adjustment to the post Cold War era and the reorganization of the economy left Russia with outdated military technology. During the Georgia war in August 2008, concerns were raised from the Kremlin as military weakness was shown on the ground. Today, with great financial support provided from the energy market, Russia is able to come back and announce its rearmament plan to "increase the combat readiness of our forces, first of all our strategic nuclear forces"¹⁶⁶.

Among the reasons of the rearmament, according to Russian President, President Dmitry Medvedev, is the growing concern of the NATO expansion along the Russian borders, especially in places rich in natural resources. In response, Russia is also promoting multilateral initiatives to counterbalance Western military influence in the Caspian, like the Collective Security Treaty Organization CSTO and the Caspian force KASFOR¹⁶⁷.

Maintaining military presence in the Caspian is a condition for Russian hegemony in the region. Russia will continue a militarizing trend to avoid being overshadowed.

The US military presence in the region

The US was the first external power to understand the post Cold War Caspian situation and the first foreign power to arrive. Since then, it has made continuous attempts to solidify alliances around the region. Trade agreements, joint energy ventures and development assistance come usually along with military assistance as mechanisms to solidify relations between states. After 1991 and the creation of the CIS, the military confrontation was not carried out violently but rather through military alliances which determined the new tendencies of the former Soviet republics. The increasing military cooperation between the US and the newly created republics presented a threat to the influence of Russia, provoking reactions like the creation of the CSTO in 1992.

It is after the September 11, 2001 when the US administration starts its military campaign and increases its military presence in the region. Two military bases were established in Uzbekistan¹⁶⁸ and Kyrgyzstan¹⁶⁹. The US has made arrangements with some Caspian states providing them with military equipment and training. Cooperation with the Caspian states has been improved since then. The US has provided Azerbaijan with military advisors deployed to conduct training of the Azeri troops, in addition to exchange training programs. This provides the US also with an important platform of communication and information, and reinforces its military presence in the Caspian.

In November 2007, Defence Secretary William S. Cohen and Kazakhstan President Nursultan Nazarbayev signed a defence cooperation agreement¹⁷⁰ and in January 2008, the US and Kazakhstan governments signed a five-year military cooperation agreement aimed to “enhance security in the Central Asian region” and “broaden constructive interaction with the US”.¹⁷¹ The agreement addresses the following points: War against international terrorism, Provision of regional and international security and Assistance in reforms of the Kazakhstan Armed Forces.

US military assistance is also aimed at building the capacity of the Caspian states by containing the local ethnic military conflicts which may present a threat to the energy infrastructure. The US has conducted trainings in Georgia aimed exclusively at the protection of the BTC pipeline. Turkey is also an important element for the US security strategy in the Caspian. Its location, partnership with US and ties with the west make Turkey a good platform. The US has made a number of agreements with Turkey, becoming its most important arms supplier.¹⁷²

US military presence in the Caspian has deeper consequences. It strengthens America's position and interests and retreats other power's influence in the Caspian states. The last two US Administrations agreed that the Caspian is a high priority region due to its energy reserves. The US has shown determination in acquiring a great share of these reserves to meet its energy security requirements. This goal is achieved through a number of instruments like investments, agreements, trade, etc. Military presence and defence cooperation are mechanisms to protect US interests in this region. Moreover, the US has special interest in maintaining military presence in the East. However, this presence is perceived as US penetration in the Caspian and presents a threat to the regional players. Russia and Iran have expressed opposition to the US military presence in the region. We should expect the US to remain militarily engaged in this region, increasing the risk of military escalation and the prospects of conflict in the Caspian.

Iran.

Iran has a record of using military force in order to settle disputes with some of its neighbours. In 2001 Iran threatened with military intervention in order to prevent Azeri oil extraction activities in the proximity of the Iranian coast. With this move, Iran took possession of an area equivalent to 20% of the Caspian, ensuring Tehran's access to natural resources¹⁷³.

Despite its disagreements with Azerbaijan, Iran has attempted to close ties with its neighbours, specially Russia. It is not in Tehran's interests to provoke security and military concerns which may raise suspicion in Russia. Iran has rather tried to soothe tension, considering even the possibility to form a common Caspian naval force with Russia. Iran perceives the cooperation of the Caspian states and the US as American penetration in the region. Close relations with neighbouring states may be very effective in counterbalancing the influence of the US

But the main issue of Iranian militarization remains the development of the nuclear program. The consequences of this program affect directly the Caspian region but reaches far beyond, with global scale consequences. Advancement in this program endangers the relationship with Europe and attracts American military presence, contributing to the militarization of the Caspian and the volatility of the region.

Kazakhstan

After the dissolution of the USSR, Kazakhstan inherited an arsenal of nuclear weapons, as well as large amounts of military equipment and great number of trained troops among its population, which became a concern of western powers, specially the US. Soon this arsenal would be transferred to its original owner, Russia, reducing the potential of nuclear armament of this former republic. Kazakhstan has the capability to fund a strong army with the oil revenues but it lacks the military ambitions to allocate a large budget for military affairs.

Kazakhstan sees no external threat and prefers to rely more on association and common security concerns with Russia, rather than creating an independent army which by no means could confront the might of its neighbours Russia and China. Kazakhstan security concerns come from within, such as fundamentalist movements and terrorist groups. This requires the

creation of a force with capacity to combat organized crime, and with extensive information resources. In this regard, the national defence budget has increased remarkably in recent years up to USD1.2 billion¹⁷⁴.

Azerbaijan

Azerbaijan is located in a very volatile region of permanent ethnic and territorial conflicts. With a great development potential, Azerbaijan needs to develop a defence and security strategy and build its capabilities. For doing so, it has reached out for help in Western powers, specially the US.

Under permanent threat of Russian domination, Azerbaijan has reached out western interests to develop its main source of wealth, O&G, but also to western institutions to ensure its security and stability and, to reach independence from Russia. Thus, the Azeri government has opened the doors for American, NATO and Turkish military presence, and is willing to fulfil all conditions to strengthen the relationship with NATO.

Azerbaijan has also received external military assistance from the US and, including coast patrols vessels. Currently the Azeri navy is comprised of 29 vessels and 5,000 personnel¹⁷⁵. Azerbaijan is also observing the possibility to develop its own navy. Recent conversations with South Korea's STX Corporation's subsidiary STX Shipyards may lead to the construction of a shipyard in the coming years where, besides the construction of oil tankers, may serve for the security naval crafts¹⁷⁶.

6.2.1 The emergence of military blocs in the Caspian.

Ensuring security and stability in the controversial and volatile region of the Caspian Basin is a pre-condition for the prosperity of the local populations as well as for the global

benefit from exploitation of the natural resources. There are a number of approaches to solve the security dilemmas arisen in this region:¹⁷⁷

1. Reliance on domestic national armed forces as the source of security in unstable newly created countries usually develops into militarised states with absence of individual freedoms.
2. Reliance on an external sponsor as the source of security is often an effective measure with a high price to be paid. Security is usually bought with loyalty and often submission to the will of the external patron.
3. Declaring international neutrality. Opting for an isolationist approach is only possible when the state has enough internal resources to establish the main features of the states and is not subject to external pressures. With the energy resources, the Caspian states have more than enough financial means to build themselves. However, the geopolitics of the region and the interests of surrounding global powers make this approach impossible, as the smaller Caspian states are not capable to remain separated from the regional geopolitical dynamics.
4. Collective security as cooperation among states to provide security against any group or states which may threaten the existing order. This approach sees the nation states balance of power as not capable of providing guarantees of peace and stability. While a global security government is not possible, the involvement of all nation states in the security arrangements is the best guarantee for peace.

It seems accurate to say that all these options have been implemented at the same time in the Caspian. There is no regional predominant security model, and each one of the stakeholders has adopted different mechanisms. Caspian states are looking for alliances to

ensure their economic development with guarantees of security. It is not a matter of choosing the right partner rather than keeping them all close.

The new political organization of the Caspian region after 1991 left Russia with a new number of threats and security relations to be solved. On the other side the newly created states faced the task of building the structures necessary to provide the services of the state, whereas the first is security and control over the territory. The CIS lacked the equipment, financial means and infrastructure necessary to build state military and security forces. Detachment from Russia left the armies in the new republics without order, equipment and training.

In May 1992, some of the "states successors of the USSR" signed the "Treaty on Conventional Armed Forces (CFE) in Europe and its associated documents". This is the **Tashkent agreement** signed after a debate among the CIS states between those advocating for the strengthening of national armed forces acting in coordination with each other and those in favour of Russia lead unified armed forces in the region. It was an attempt to create a regional collective security mechanism. It did not fulfil all its objectives since, among others, Azerbaijan refused to sign the agreement.

Nevertheless, this was not the last attempt to establish a common security policy in the Caspian region. The Caspian Sea summit held October 16, 2007 in Tehran resulted in the adoption of the declaration which stated that "The sides agree that they will never launch a military attack against any of the littoral states," the declaration stated. "The sides reiterate that they will not let any country use their soil for a military attack against other littoral states."¹⁷⁸ Russia has also attempted to form the KASFOR, although without success.

The Caspian region is the border line of 4 different geostrategic fronts. In this region converge western interests, Russia, China and Iran. This has a number of security

implications for all of them, which reflect in their defence and security policies. The model followed is that of establishing a number of alliances and military agreements with the regional states in order to get support and expand spheres of influence. Therefore, a number of defence organizations and associations have been formed to protect the different interests at stake. The main defence associations or military blocs are:

North Atlantic Treaty Organization (NATO) and the Caspian Sea

NATO plays a key worldwide element of stabilization, peace and security. NATO's focus of attention during the Cold War was central front of Europe. As the USSR dissolved, NATO adapted to the new reality of Central Asia and the Caucasus, reorienting its mission from a territorial protection to a wider security concept which assumes that conflict and instability beyond NATO's borders can present a security threat to the alliance. Instability in the Caspian region could have consequences at a large scale. Security in NATO's periphery, and therefore in the Caspian region is a top priority.

NATO has extended bridges with the newly created republics through the Partnership for Peace (PfP) program, aimed to help with their military reforms. The role of NATO today is to increase the military and security ties with all countries as an attempt to promote collective security. "Europe will not be completely secure if the countries of the Caucasus remain outside European security."¹⁷⁹

Likewise, some Caspian states have reached out to NATO seeking mechanisms to increase their security while reducing their dependence on Russia.¹⁸⁰ Today NATO has deployed a number of missions among which some of them are located around the Caspian, such as the NATO Mission to Azerbaijan, the NATO Mission to Armenia, the NATO Mission to Georgia, and other missions in the surroundings of the region like Afghanistan and Uzbekistan. These missions translate into programs like military training in Georgia or

security reforms in Azerbaijan¹⁸¹, which generally contribute to the stabilization of the region.

NATO is also conducting studies related to security and environment in the Caspian region such as “South Caucasus River Monitoring”, “Multi-disciplinary Analysis of the CS Ecosystem”, “Uranium Extraction and Environmental Security in Central Asian Republics” and other environmental studies related to security

NATO presents an opportunity as a security umbrella for the solution of national and ethnic problems in the region, as well as professionalization of armies and elimination of guerrillas, solution of border disputes. It also contributes indirectly to programs of good governance, democracy, implemented by other agencies.¹⁸²

Currently NATO’s presence and influence in the Caspian region is mainly through the Euro Atlantic Partnership Council. The EAPC is the mechanism to establish political dialogue and relations NATO and its periphery, developing defence and security ties. Currently there are 6 states from the Caspian region are partners of the EAPC.¹⁸³ Among others, the EAPC carries out consultation and cooperation in the fields of security and defence reforms, disarmament, terrorism, etc.¹⁸⁴ NATO presence in the Caspian is also justified by its proximity to areas of operation like Afghanistan. Good relations in the Caspian give NATO more proximity to sources of terrorism, human trafficking, etc. The main priorities of NATO in the region are:

- Promote peace and stability in the region, strengthening NATO’s relations with Caspian states and consolidating a system of collective security which lowers the possibility of conflict.
- Build national capacity to control the internal threats of the Caspian coastal states such as nationalism and fundamentalism, terrorism and organized crime.

- Ensure friendly environment to Western interests which guarantee the access to the Caspian natural resources.
- Prevent arms escalation and WMD
- Build the capacity of security structures which protect the energy infrastructure and the network of pipelines, specially those going towards the West

The Collective Security Treaty Organization (CSTO)

As a response to the penetration of security western interests, Russia launched a similar initiative aimed to counterbalance the effects of NATO. Thus, the Collective Security Treaty (CST) was signed by Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan signed on May 15, 1992.¹⁸⁵ In September 2003, under Russian auspices, the signatories of the Tashkent agreement decided to transform it into an organization, creating on September 18, 2003 the Collective Security Treaty Organization (CSTO). The CSTO was established as a military, defence alliance between Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The orientation of the agreement is defensive. Its Article 4 "In case an act of aggression is committed against any of the member-states, all other member-states will render it necessary assistance, including military one, [...] through an exercise of the right to collective defence."¹⁸⁶

CSTO, similarly to NATO, would commit all its members to react and defend any other member under aggression. The CSTO agreement also bans its members from joining any other military organization, ensuring its loyalty to the block. The absence of many of the Caucasus and Caspian region states is a consequence of the rivalries and influence of NATO, EU and US in the region. Although some of the states prefer to maintain links to the west, even requesting NATO membership, CSTO remains as a strong Russia-centred initiative to compete with NATO, US and EU¹⁸⁷ military alliances and perspectives. In this attempt, CSTO has cooperated with Iran, one of the most serious opponents of the US in the

region. On May 14, 2007, CSTO General Secretary Nikolai Bordyuzha, opened the possibility for Iran's membership in CSTO, and confirmed Iran-CSTO cooperation in a number of security issues¹⁸⁸.

Although official statements have always been directed towards cooperation with NATO,¹⁸⁹ there has not been a clear response to this offer. Rather, the tendency is to encourage and support cooperation of NATO with all the CSTO members individually¹⁹⁰. No apparent cooperation plans exist with CSTO as an organization since it would give legitimacy to the Russian led organization and would boost Russians hegemony in the region.

The Dushanbe Summit in October 2007 was a turning point for CSTO. During this summit, the commitment of the members for joint regional security cooperation was renewed and solidified through the signature of a number of documents related to defence, migration, organized crime, terrorism and arms trade. A CSTO peacekeeping force was established turning CSTO into an operational defence entity with military capabilities and organization. The new peacekeeping force gives legitimacy to military operations in the region without the risk of facing international sanctions¹⁹¹. Its deployment does not require approval from the UN Security Council¹⁹² and offers space for deployment of military forces in the region, with capability of response to internal conflicts as well as external aggressions.

The Dushanbe Summit has been a successful attempt of Russia to reinforce its hegemonic position in the regional security. The achievements of Russia during the summit are many:

- Creation of a military structure with capacity to respond internal threats
- Protection against external threats
- Maintain regional reliance on Russian military equipment through agreements on trade of Russian military equipment.

- Standardization of military equipment, procedures, practices and chain of command of the military structure highly influenced by Russia.
- A tool for strengthening the sphere of influence in the region
- Stop the expansion of NATO influence in the region.
- CSTO becomes a military bloc rather than a political organization as it was before, with Russia having a strong influence in the leadership.

Finally, the Dushanbe summit formally linked the CSTO with the SCO. Given the substantial membership overlapping in these two organizations, it is unavoidable to find common interests. The agreement though, formalizes such links, enlarging the capacity of both organizations and reinforcing the idea of Central–East Asian security agreement effectively balancing the capacity of NATO. CSTO-SCO links were initiated with the proposal of joint initiative on post conflict intervention in Afghanistan¹⁹³.

Shanghai Cooperation Organization

The representatives of China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan signed in 1996 the “Treaty on Deepening Military Trust in Border Regions” and in 1997 the “Treaty on Reduction of Military Forces in Border Regions”. These treaties were aimed to increase cooperation and build trust among the five members in order to resolve military and border disputes. This would be known as the “Shanghai Five Mechanism”. It evolved into the Shanghai Cooperation Organisation (SCO). On June 15, 2001, the Presidents of Kazakhstan, China, Kyrgyz Republic, Russia Tajikistan and Uzbekistan signed the Declaration of Shanghai Cooperation Organization forming an intergovernmental organization aimed at improving relations and cooperation in a number of fields like economy, culture and politics, promoting regional security and stability.¹⁹⁴

China and Russia are the regional powers and natural leaders of the organization, while the rest see in the SCO a bridge between the two giants and a source of stability and good relationships with both.

Officially, the SCO is not aimed at becoming a military organization. It seems that the lack of an imminent military threat and the difference between the national interests do not justify the creation of a common military structure. SCO leaders have repeatedly denied the tendency of SCO to become a military organization. However, the security discourse used at the meetings, the discussions on military assistance, the cooperation with CSTO in military matters and the establishment of security mechanisms has raised the suspicion of Western states that the SCO may be more militaristic than it is publicly stated, and may be becoming for China what the CTO is for Russia and what NATO is for the US and EU.

Finally, the security dimension is complemented with the energy security, considered today as the pillar of national security by most nations. The CSO membership is a perfect match for energy trade, with Russia, Kazakhstan, Uzbekistan as big exporters and China as one of the main world consumer. On August 16, 2007, the CSO members held a conference in Bishkek. An agreement was reached to act as an “energy club”, creating a single market for energy trade and a common energy policy.

The CSO is finally viewed by western analysts as a reaction to Western penetration and US increasing involvement in the exploitation of energy resources in central Asia, a mechanism for China’s growing position in the Caspian and a threat to Western energy security.¹⁹⁵

The development of military structures in the Caspian is a response to the ongoing race for regional control in an area dominated by the *realpolitik*. It also shows how important the

region is for the powers involved, and the price they are willing to pay to protect their interests.

But military presence also serves a common objective: The protection of the pipelines. The transport of the energy resources expresses competition but has elements of collaboration among the players, as described in the following chapter.

6.3 Transportation, the key issue.

Oil and gas are profitable commodities. As such, they can be stored, shipped, moved, sold and transported according to the needs of the market. Its production can be reduced or increased for market and price stabilization. With today's technology, oil and gas can be made available anywhere at anytime, upon agreement of consumer and producer. But O&G are also limited resources and are not found anywhere. Where oil is demanded in bigger amounts it is usually in places where it is scarce or insufficient. Industrialized countries have higher demands of energy but lower reserves. Therefore, transport of the O&G from the source to the refinery (upstream) and further to consumption point (downstream) becomes the key issue in the O&G business.

The characteristics of O&G make their transportation a logistical, financial and technological challenge. Their physical characteristic (viscosity of oil and volatility of gas) impede their commercial transportation in small units, as any other solid commodity would. They require enormous high-tech infrastructure and human resources in multi million projects which require the cooperation of states and companies.

Transportation of Caspian hydrocarbons presents some unique dimensions for two reasons. First, being an endorheic basin with minimal some navigation and transportation routes. The lack of outlets to open sea presents a difficulty to reach markets and deprives the

region of the advantages of the majority of oil producing countries with long coastal lines which allow a rapid exit of the crude. Caspian oil and gas are remote and hard to reach, which increases the price of the oil and reduces the profitability of the production. Second, on top of the geologic, geographic and technological difficulties, the Caspian O&G have to overcome a number of geopolitical, security and geostrategic challenges which directly affect the transportation process before reaching the market.

The solutions to the transportation of the Caspian energy resources have evolved along the years. It is long gone the XIX century wooden barrel, transported by boat to close railway lines using the Volga River. It was later replaced by Ludvig Nobel¹⁹⁶ first oil tanker, "The Zoroaster", put into service in 1978 in the Caspian.¹⁹⁷ It was the beginning of the oil tanker business which has prevailed until today. At the end of 1880's, Baku was one of the main oil production centres. A network of oil tankers and railways did the job for carrying the oil to the consumption points. But the oil tanker and railway systems were not enough. The limitations of a closed body of water required inland transportation systems that would enable the constant flow of oil outside of the region through multiple outlets. Further, the beginning of the gas business demanded new transportation methods suitable to this new natural resource: the pipeline. During the Soviet period a number of pipelines were built, crossing the current Russian territories. Those transportation lines were sufficient to cover the Russian energy needs and part of the external demand. The Soviet government, due to lack of technology and the availability of "easy oil", developed only inshore gas and oil fields and turned to Western Siberia before exploring the Caspian seabed. The newly created Caspian states, compelled by the great O&G offshore discoveries, started the exploitation of "tough oil" in the mid 1990's. A whole new set of infrastructure projects was set in motion to connect the "new reserves" with the markets. It seemed logical that new sources of oil would require more infrastructure and the new states were ready to undertake

the task. Soon the names of big projects started to sound familiar with headlines like “Caspian pipeline dream becomes reality¹⁹⁸”, referring to the BTC pipeline. But those very same headlines underline some contradictions like “Not so long ago western companies were questioning the commercial viability” because “The existing pipelines [...] seemed to be enough”. A close examination of the newly constructed pipeline networks and the prospects of future projects unveil a number of dilemmas which suggest the presence of secondary interests behind the funding of these multi billion projects. The premises for the construction of any new oil and gas pipelines are the following:

- **Availability of oil and gas reserves in sufficient amounts to justify the investment.**

Despite the differences in the estimations of proven, probable and possible oil reserves, a general agreement exists that the extraction and transportation of the energy resources from the Caspian Sea is a profitable investment and a great contribution to energy security.

- **Adequacy of the transportation means to the geographical characteristics of the terrain and the region.** The Caspian Sea is a landlocked body of water. It requires inland oil transport mechanisms to reach external markets. The pipelines have proven to be a long term financially lucrative and probably the most cost-effective transportation system for the Caspian energy resources for oil. There is no other cost effective mechanism to transport industrial amounts of natural gas.

- **Cost-effectiveness and pertinence of each pipeline.** The feasibility of the projects is determined depend on a number of factors. The investment must produce returns. The economic feasibility of the pipelines depends on their itinerary, length and the terrain they cross, making each route different. The oil quality also influences its price and therefore the economic return on the investment. Moreover, the more transportation possibilities for the same oil, the less cost effective they become. The Caspian reserves equal those of the Northern Sea, and some expectations are very optimistic about the discovery of new

possible reserves. This quantity justifies the financial efforts required for the construction of pipelines as profitable returns are expected.

- **Political willingness:** The construction of energy transportation infrastructure requires the political willingness of origin and destination states. The construction of new infrastructure in the Caspian does not seem to be driven by pure economic elements, but rather other consideration of political and security nature. Hidden interests started to emerge as the proposals for multi billion projects multiplied. As part of the “New Great Game”, political pressure is applied to define the itinerary of new transport routes.

After the 1990's discoveries of the O&G reserves in the Caspian Sea, many companies started bidding for exploitation concessions and new transportation routes proposals. The Soviet Union had established a network of pipelines for gas and oil which could serve for the distribution of the newly discovered resources with little additional investment. However, the pipeline network has been inherited by Russia and its companies, mainly Gazprom¹⁹⁹ and Lukoil²⁰⁰, presenting a threat of a Russian monopoly of the transportation infrastructure. Thus, an amalgam of interests has been involved in the design and itinerary of the new pipeline proposals. Avoiding Russian and Iran control of the Caspian resources has become a priority for US and Europe. Diversification of routes also benefits Eastern economies, especially the two giants: India and China. In the meantime, Azerbaijan, Turkmenistan and Kazakhstan are aware of the unique opportunity of economic growth if foreign western and eastern companies provide the expertise, technology and financial resources to develop their energy reserves. The result has been a number of alliances which have translated into consortiums of oil companies for the construction of new pipelines, each one with its own geopolitical dimension and specificities. Today much of the Caspian oil is travelling to the western markets while the Caspian gas is still being developed. The

construction of the pipeline networks is a great expression of the geopolitical dynamics of the region. Some of the most prominent pipeline projects are the following:

North Routes (Russian influence):

Northern Route Export Pipeline (NREP), the Baku-Novorossiisk: In October 1997, the NREP started to work. Managed by the Azerbaijan's State Oil Company (SOCAR) the oil of this pipeline used the former Soviet infrastructure. Its main destination is the Russian Lukoil, which further distributes the oil through the tankers at the Black Sea. The Baku-Novorossiisk is facing a number of geopolitical challenges for its survival: First, the pipeline crosses Chechen territory, becoming a target for terrorist attacks, which presents a threat to the project. Further, The NREP enhances the Russian energetic capacity and sphere of influence. The construction of the BTC pipeline is aimed to reduce the Russian capacity to control the Caspian resources. Much of the oil from Baku is now transported via BTC pipeline, reducing the feasibility of the NREP.

Caspian Pipeline Consortium (CPC) The CPC connects the Tengiz fields in Kazakhstan with the Russian port of Novorossiisk on the Shore of the Black Sea. The pipeline is managed by the Caspian Pipeline Consortium (CPC) which includes Russian, Kazakh companies as well as a number of western companies.²⁰¹ It started pumping oil in 2001 with an initial capacity is 22 M tons/year but when fully developed, it will have a capacity of 67 M tons/year²⁰². The CPC has benefited both Russian and Kazakh governments.

For Kazakhstan, CPC has enabled the transportation and selling of Kazakh Tengiz oil, with profitable returns. For Russia, the benefits have also been tremendous. Excellent transit revenues, construction concessions, upgrade of infrastructure, \$90 million of revenues in CPC expenditures and substantial benefits for the Russian oil distribution. It is also one of the main routes of Caspian oil towards Europe and a tool for Russian control of EU energy security.

WEST ROUTES (US, EU influence)

Bakú-Tbilisi-Ceyhan (BTC) Pipeline: With 1,768km of length and 42-46 inches of diameter, the BTC transports oil from the Sangachal terminal to the Ceyhan terminal on the Turkish coast of the Mediterranean, crossing three countries (Azerbaijan, Georgia and Turkey) in its way to the Mediterranean. It has a capacity one million barrels of oil per day, reaching European markets as well as an outlet to the Mediterranean Sea.

The Company responsible for the construction, operation and management of the BTC pipeline is **BTC Co**, with its 11 partners BP, AzBTC, Chevron, StatoilHydro, TPAO, ENI, Total, Itochu, INPEX, ConocoPhillips and Amerada Hess

Western Route Export Pipeline (WREP) or the Baku-Supsa: The pipeline connects the Caspian and the Black seas, from the Sangachal Terminal (Baku) to the Supsa terminal on the Georgian coast of the Black Sea with a total length of 833Km. Functioning since 1999, the WREP is owned and managed by the Azerbaijan International Operating Company (AIOC) on behalf of SOCAR²⁰³. During the month of October 2008, the WREP had to be closed for some maintenance works, but BP has claimed some anomalies have forced to its indefinite closure²⁰⁴. As supply is being provided for other routes like BTC, and given the instability of the WREP after the August conflict between Georgia and Russia over the South Osetia, the sustainability of this pipeline has been jeopardized.

South Caucasus Gas Pipeline (SCP) or Baku-Tiflis-Erzurum (BTE): Using the same corridor as the BTC, the SCP pipeline carries the gas from the Shah Deniz field to the Turkish city of Erzurum, along its 692Km. The South Caucasus Pipeline Company includes BP (25.5%), Statoil (25.5%), SOCAR (10%), Lukoil (10%), TotalFinaElf (10%), NICO (10%) and TPAO (9%)²⁰⁵

EASTERN ROUTES

The Kazakhstan-China pipeline: Built by a consortium between CNPC and KazMunaiGaz, this 960km pipeline, which connects the Kumkol field in the Aktobe Kazakh region with the China, started pumping oil in 2005. It has a capacity of 20 million tons. Despite the length of the final project (3000km) and the abrupt terrain it crosses, the great advantage of this pipeline is that it uses the producer and the consumer's territory, avoiding expensive transit fees and the need to include third parties in the agreements.

TOWARDS THE SOUTH

South Caucasus (gas) Pipeline (SCP): With a 42-inch diameter and 692km long and a capacity of seven billion cubic metres of gas²⁰⁶ per year, the SCP transports gas from the Shah Deniz field in Azerbaijan to the Georgia-Turkey border, following the BTC pipeline, to join later the Turkish gas pipeline network, from where it is distributed to western markets. The SCP was constructed by South Caucasus Pipeline Company (SCPC)²⁰⁷.

Neka-Tehran Pipeline: With 340 km brings the Caspian oil to the northern Iran refineries in Tehran and Tabriz. This pipeline has supplied Iran with great supply for the oil swaps.

The oil Swap system: This system has consolidated as a profitable outlet for Caspian oil without the need of infrastructure investments.

There are a number of proposed projects which will contribute to the diversification of the Caspian resources (See annex of proposed pipeline routes maps). Trans-Caspian Pipeline (TCP) (Linking Kazakhstan and Azerbaijan under the Caspian), the Neka-Jask Pipeline (to increase swap in the gulf, the Central Asia Oil Pipeline (CAOP) or the Turkmenistan-China gas pipeline. (1,818 km pipeline aiming to carry 30bcm into Xinjiang, China, is already in progress with CNPC leading the venture) are examples of potential new transportation routes.

The construction of the hydrocarbon distribution network in the Caspian Basin is at the core of the geostrategic struggle between regional and global powers operating in this region. The interests and policies of all Caspian players converge in the planning and construction of the network of oil and gas pipelines which defines the distribution of the natural resources. The energy infrastructure has become a portrait of the relations between the stakeholders. Is like a system of vectors indicating the direction of the balance of power. Thus, the Great New game is reflected in the pipeline network through the following issues:

A. Destination of the resources:

The low consumption of its owners allows most of the oil and gas extracted there to be exported. Consuming states are aware and have placed their bid for the highest share possible. The final destination will depend on the strength contenders and their ability to negotiate feasible deals, favourable to the producing states and acceptable to the regional powers.

From the producers side, there is an essential decision to make as where the o&g should go. East or West? China, Europe or US? Russia or Iran? The answer to this question will imply a strong geopolitical statement, and will affect the relations other states. However, diversification of markets is for exporters as important as diversification of sources is for consumers. Therefore, the Caspian states will be keen to keep all buyers available and will try to export the O&G in all directions, pleasing part of the interest of all competitors.

B. Capacity:

The second dilemma is the quantitative distribution. The Caspian resources cannot cover all energy needs. Consuming states are eager to acquire the biggest quantity possible to ensure their energy security. Part of the rivalry of the potential buyers will be transferred to the exporting Caspian states as they will have to decide how much to sell to each 'client'.

Selling only to the highest bidder may do no good for regional stability. Other elements need to be taken in consideration. The prospects of resources to be transported in each direction will affect the technical aspect of the construction of pipes (diameter, number of pumps and capacity). Again, exporting states will make a political statement when creating better transport capacity to certain areas.

C. Itinerary:

Most of the Caspian resources have been transported through Russian territory using the infrastructure existing from the Soviet period. With the new political organization of the region, the itinerary of the pipelines becomes an extremely sensitive issue. When building a pipeline in a complex region like the Caspian, the shortest path between point A and B is not always the straight line. The design of Caspian pipeline itineraries are influenced by the following factors:

- **Geography:** The rugged Caspian region offers multiple natural obstacles to the construction of any infrastructure. Mountains, rivers, extreme conditions and the Caspian Sea itself modify the itineraries, adding cost to the projects. This issue is to be solved at strictly technical level.
- **Borders:** Pipelines leave wealth along the way from origin to destination. They provide transport fees, employment and control capacity over the resources. States welcome infrastructure projects for the revenues they yield and for the political and economic leverage they provide. However, the more borders to cross, the more expensive the project and the more difficult to meet the conditions of all the participants before closing a deal. For instance, the BTC crosses three different states before reaching the sea, to arrive later to a fourth state of destination. On the contrary the Kazakhstan-China pipeline only crosses the origin and destination countries, allowing an easy agreement and little transportation and legal obstacles.

- Political alliances/rivalries: Oil supply is guaranteed with exclusive control of the hydrocarbons from their extraction to the consumer. In order to reach such control, importing states promote pipeline itineraries across exclusively friendly territories. The EU and US have shown willingness to support projects which avoid Russian and Iranian territories, in favour of pipelines design to cross western friendly states. This at the expense of the former Soviet infrastructure which could provide the same service. On the other side, Russia is adamant to become the main hub for Caspian natural resources, mainly natural gas. Doing so, it would obtain control over resources extracted in other states, with remarkable economic and political benefits.
- Conflicts: The Caspian presents a number of conflictive territories which by all means should be avoided when drafting pipelines itineraries.

6.4 Caspian internal conflicts. Obstacles to political stability.

“ethnic divisions have left each of these new states sitting on the equivalent of a separatist time bomb”

The Caspian False Promise, Martha Brill Olcott

The Caspian Sea has been the battle field of a regional struggle for power and domination during centuries. Persia and Russia, traditional rivals, has fought a number of wars on the Caspian waters. From 1922 until 1991 the Soviet central authority provided stability to a region of tremendous ethnic diversity. In the decade of the 90's, the dissolution of the USSR changed the political scenery. New states were created and new boundaries were drawn. The result was a number of states which not always respected the traditional socio ethnographic boundaries existing between the local communities. The state borders often crossed natural ethnic lines and divided communities. The concepts of nation and nationality were dissociated as national groups did not accept the imposed official state new boundaries. Many cases of irredentism appear. Some blame Moscow for intentionally drawing borders

which would reduce the political leverage of the ethnic groups²⁰⁸. The abrupt geographic conditions of the region have produced a fragmented society and the development of multiple minority groups and ethnic identities.

The transition from the Soviet era to the post cold war period left the new republics, still in the making, with the task to assist the demands of these groups. The new governments chose to build 'Soviet like' governments based on the wealth of the new discovered natural resources, but lacking the structure and control of the USSR. The ethnic diversity of the region is a very prolific ground for ethnic clash. The result was the outbreak of a number of conflicts, latent for decades, which found an opportunity of expression under more relaxed regimes, creating a situation of instability all over the region. Examples of these conflicts are the civil war in Chechenya or the Nagorny- Karabakh and separatist movements in Georgia (South Ossetia, Abkhazia), or the Russian minorities living in the former Soviet Republics, which present cases of irredentism (e.g. Ossetia in Georgia, the 37% Russian population in Turkmenistan)

These conflicts present a threat to the reliability of the energy corridors around the Caspian Sea. Militias and paramilitary groups use the pipeline threat as a negotiating tool. Investment in securing the pipeline network is required, with a notable increasing in the cost of the management of the infrastructure, and therefore a decrease of the feasibility of the O&G projects.

In spite the massive revenues from the energy business, local governments have not been able to properly address the internal conflicts. Regional stability will require a coordinated policy from local states and external powers to provide the negotiation grounds, and mediation if necessary, for the settlement of the local ethnic and border disputes.

PART III: CHANGING THE PARADIGM

Amid the complexity of the Caspian region it is not possible to define clear lines between cooperation and competition. Opposed interests are at the same time interconnected. Energy domination requires energy cooperation. The political confrontation lines are faded by the interdependence of the O&G business, which requires minimum levels of understanding between producing and importing countries, resulting in continuous adjustments and compromises in the position of all countries, especially the regional and global players, in a realist approach aimed to maintain the balance of power and avoid domination of the other.

However, the inconsistency of the positions and the mistrust between the players is the cause of the volatility in the Caspian region, with high prospects of conflict in the future.

Ensuring stability and cooperation requires a change of perspective, a new way of approaching the Caspian Game.

The next chapters explore a possible paradigm change in the Caspian so efforts are directed towards a more sustainable development, reinforcing the common interests and reducing the likelihood of conflict.

CHAPTER SEVEN: Sustainable Development. A change of approach.

“each day brings further evidence that the ways we use energy strengthen our adversaries and threaten our planet...We will harness the sun and the winds and the soil to fuel our cars and run our factories. And to those nations like ours that enjoy relative plenty, we say we can no longer afford indifference to suffering outside our borders; nor can we consume the world’s resources without regard to effect. For the world has changed, and we must change with it”²⁰⁹

President Barack Obama, inauguration speech (Jan 20, 2009)

“We know the country that harnesses the power of clean, renewable energy will lead the 21st century”²¹⁰

President Obama’s Address to Congress. (Feb 24, 2009)

Caspian states are facing a unique opportunity for development. The colossal oil revenues collected in the last decade and the optimistic perspectives in the short term bring to these states the opportunity to become capable to build the capacities of strong states such as security, basic services, education, infrastructures and high life standards. With their energy security guaranteed, the Caspian states have become rentier states, deriving their wealth from the oil and gas revenues.²¹¹ But experience is telling us that development is not all about generating wealth. The collapse of some world economies in 2008 has taught us that sustainability must be the ordering principle of development. The generation of extreme wealth without reasonable assimilation may cause great inequality and social discontent. Furthermore, irrational exploitation of the Caspian Sea could lead to deterioration of the ecosystem and the source of wealth. Despite adoption of environmental agreements to protect the Sea, many reports come to the same conclusion: “the Caspian is an ecosystem under stress”²¹². The rush for exploitation of the energy resources is preventing the implementation of environmental policies. Environmental groups have raised concerns about the ecological status of the sea concerning issues like high levels of pollution which is reaching levels as to be considered one of the most world polluted areas²¹³, oil spills²¹⁴, high rate of human diseases²¹⁵, damage of fisheries²¹⁶, etc. The agreement for protection of the Caspian Sea was signed in 2003²¹⁷ is not implemented as jurisdiction and responsibilities are

not defined. The Caspian states are reluctant to lose the momentum of the development of the energy business and an economic growth rate unthinkable a few decades ago. Therefore, resistance is expected from the Caspian states towards improvement of environmental situation.

But the Caspian states cannot escape the fact that even optimistic estimations do not foresee more than 50 years before the hydrocarbons reserves run out. Production levels will decrease even earlier. The source of wealth is limited and it is an imperative to find mechanisms to continue development after the resources decrease. If there is no replacement, the Caspian States will be immersed in a downturn spiral of economic recession. As the energy security of the present is based on hydrocarbons, it is not clear yet how fast the situation will change. In the case of the Caspian, that will happen before than in other producing areas like Middle East, Canada or Venezuela, for the reserves are smaller. This situation presents a unique opportunity for a change of the energy security paradigm. Oil consuming countries desperately depend on oil producing states and vice versa. However, the latter have made no efforts in finding new sources of energy which will be of vital importance when oil runs out. They will be dependant on more technologically advanced states. It is just a matter of time. Thus, cooperation on hydrocarbons energy security in the present can be offered in exchange of cooperation in the future.

The alternative seems clear for most western governments: Renewable Energies. The EU has been pioneer in the paradigm change, adopting legislations and financial lines for the promotion of renewable energy initiatives²¹⁸. The US has recently joined this trend and has announced the preparation of policies on energy efficiency²¹⁹ and promotion of programs for the development of clean energy sources²²⁰. It seems the most effective long term investment for the elimination of reliance on fossil fuels.

The 2008 financial crisis on the energy market.

Despite of the devastating effects of the 2008 financial global crisis, it is also a wake up call to from the wrongdoings of unsustainable economic and energy policies. According to the predictions of the US department of Energy, before 2008 the world economy required an increase of 57% in energy production in order to maintain economic growth otherwise it world recession and chaos would come. This assessment encouraged states to focus exclusively on oil and gas production, a short term source of economic growth. As a kind of a prophecy, the extreme dependency and unbalances of the energy market in 2008 has affected all world economies, provoking a financial crisis which end is still far in the horizon. The reasons are still uncertain, but the fact is that the unexpected dramatic increase of oil price was followed by a global recession, drastically changing the energy theater. The recession provoked a decrease of economic and industrial activity, reducing the worldwide demand of hydrocarbons. In October 2008, OPEC decided to cut oil production of 2.2 million b/day. B The third consecutive cut accumulating a production decrease of 4.2 million b/day in only three months.²²¹ The result was the sharpest decrease of oil price in history, falling from the record price, from \$145.08 in July 2008 to 36\$ in January 2009. This circumstance has strong implications for producing states, especially those in the midst of a development period, like the Caspian States. Some of the consequences are the following:

- Decrease of mid-term consumption estimations: The drastic decrease of trade and industrial activity has declined the previsions on O&G demand in the medium term. Caspian producing states have suddenly reduced income expectations in the coming

years, halting development plans, infrastructure projects, etc. The consequences are negative for the expected economic growth rates.

- The financial straits of some of the energy companies have put on hold some of the energy investments. With lower demand and lower income in the coming years, companies have to rethink embarking projects which require long term financing. With energy companies are rethinking their strategies towards new investments, uncertainty and insecurity grows among the Caspian littoral states. The new situation calls also for renegotiation and reorientation of business strategies.
- As the demand has decreased, the amount of oil in the market has almost reached a glut. The price of oil decreased to frightening levels in the first half of 2008. OPEC and other producing countries are cutting production rates to avoid market collapse. Measures have to be talking to stabilize the market and avoid price waves.
- Recent events support the theory of Peak Oil. Any major increase of oil price in the last century has been followed by deep economic crisis, even global recession. When the world faces suspicion of approaching scarcity of global reserves, the price will raise to levels which could collapse the global economy, unless there are alternatives prepared by then. The recession affects all, producing and importing countries. Therefore, finding an alternative benefits all in the long term.

But the financial crisis has also some positive aspects. It has obliged to rethink the sustainability of the system, the risk of the oil dependent economy and the disproportionate benefits and accumulations of wealth of some companies and private institutions such as banks, oil companies, etc. The results are still uncertain but may suggest the adoption of stricter laws to control the energy market, ensuring long term stability. Moreover, the

reduction of consumption has extended the life of the hydrocarbons business at a more moderate pace, offering for more time to prepare the transition from oil.

Assuming the 2008 financial crises is used as a lesson, cooperation among the Caspian stakeholders may become part of their priorities if the following conditions are in place:

1. The Caspian states understand the margins of their economic growth and the limitations of hydrocarbon based economic growth (Peak Oil Theory). Caspian states need to comprehend the medium and long term benefits of a progressive paradigm change. This is assuming that governments have reasonable willingness to promote a sustainable economic growth for their populations, rather than an exclusive desire of personal empowerment.
2. The interests and economic projections of the oil producing countries must be respected. Otherwise they will be reluctant to engage any sort of cooperation. Current investments need to continue as planned. Joint energy investments should remain as it is essential to cover energy security of importing countries, and will be for the coming years.
3. Willingness to launch diplomatic efforts and negotiations at political and technical level in favor of a comprehensive energy security policy based on exploitation of the current resources with a progressive transition towards alternative energy mechanisms. A realist approach must accept the current reliance on fossil fuels.
4. Commitment from the exporting countries to use part of oil and gas revenues in the development of new energy capacity. Availability of financial lines to promote public alternative energy projects and private initiatives.
5. Commitment from the energy companies to use oil profit in the research and experimentation for new sources of energy.

6. Commitment from external governments to continue the trend of pursuing energy security through renewable sources of energy. The oil prices reached in 2008 have encouraged a great number of plans and initiatives in this regard. With the later decrease of oil and gas prices there is a risk of discouragement of those investments. Governments must be firm in promoting and subsidizing this field, initially not profitable, in order to reach desired results when energy security imposes it. As idealistic as this may sound, it seems that we have no other option but accepting that the solution to the energy problem must be "green".

It must be kept in mind, however, that any attempt to change of paradigm will face strong opposition from regional powers, especially Russia. As hydrocarbons serve for Russian political empowerment, any initiative to reduce their influence will clash against Russian interest. Tendencies to diversify sources of energy, transportation routes and joint participation in energy investments with Russian companies will contribute to establish equilibrium in the Caspian energy system.

CHAPTER EIGHT: Conclusions and Recommendations

“The energy dialogue is an important aspect of cooperation, that is, deliveries of Russian energy products to central and western Europe and the parallel attraction of European capital investment to develop Russia’s energy sector”²²²

Vladimir Putin, President of the Russian Federation

The Caspian Basin has become a center of international attention after the discovery of offshore hydrocarbon reserves. Far from competing with the Middle East, the Caspian Sea has proven to be a reliable source of energy resources similar to other relevant producing world areas. This circumstance has provoked essential changes in region affecting governments, policies and the life of most of its inhabitants. But the Caspian Sea is not all about oil and gas. It is a crossroads of civilizations and more significant, it is a meeting point where world powers collide, cooperate and interact in defense of their converging and often conflictive interests. The region is a battle ground for realpolitik, here called the New Great Game. The natural resources are just one more element of the game, but serve several purposes. First, they contribute to the wealth of some and the energy security of others. Second, they act as a tool for political pressure and negotiation. Third, they are the expression of the domination in the region. This makes the Caspian energy resources a cause of conflict and as much as an incentive for cooperation.

In this paper we have studied the role of the Caspian energy reserves from different levels of analysis: a) From the level of the local governments, b) the regional interaction and balance of power and c) the global influence of the Caspian basing and external powers intervention.

After this analysis we can conclude that the Caspian Sea contains enough hydrocarbon reserves to influence the world market and contribute to the energy security of industrial economies. Realistic estimations justify the investment in infrastructure and technology to

extract the resources. This has attracted international companies supported by diplomatic efforts to ensure the participation of external powers in the Caspian energy market and avoid monopolization of the resources. As long as there are natural resources available, the Caspian will remain focus of attention. The main external interests are represented by Europe, the US and China. The accumulation of international interests in the region, all in the pursuit of limited natural resources, generates competition which may provoke conflict. An uncoordinated external intervention contributes to the volatility of the area.

However, Caspian hydrocarbons are difficult to extract and export. The geographic characteristics and political instability increases the cost of extraction and lower the returns of the investment. Caspian oil and gas are, therefore, more expensive than in other areas. Despite this circumstance, consuming states and private companies are willing to invest in Caspian hydrocarbons due to their added values: First, Caspian oil is non OPEC oil, and therefore is not subject to OPEC rules, serving as a counterbalance to OPEC decisions. Second, Caspian hydrocarbons production is expected to have the highest growth rate in the coming years. Third, there are still hidden reserves which may raise the quantity possible reserves. For these and other reasons, international companies and interests are willing to invest in a more risky and less profitable environment, in exchange of Caspian market share.

In the meantime, there are some difficulties for investment. After the political reconfiguration of the region, the Caspian Sea remains in absence of a legal regime. As the rules of the game are not written, unilateral decisions prevail. The legitimacy of these decisions is usually reached by bilateral negotiations or simply by military deterrence and superiority. National policies in the common waters become a trial and error practice. When there is miscalculation this practice leads to conflict. Absence of a legal regime adopted in consensus contributes to the volatility of the area. The adoption of the legal regime is

necessary but will have consequences. The management system of the sea will determine the status of the regional powers, and their influence over the rest of the players.

These regional players or stakeholders can be classified as newly created energy powers and traditional regional powers. Azerbaijan, Kazakhstan and Turkmenistan are recently created states with a great potential for development and economic growth due to the large reserves of hydrocarbons inherited from the Soviet Union. Leading the group are Russia and Iran, traditional dominators of the region, with a smaller share of the Caspian energy resources but with much heavier political weight to conduct politics. This circumstance has created two dynamics at the regional level. First, the newly created states, eager to obtain financial benefit from the energy business, are open to deal with the best bidder, including external actors. Russia and Iran, on the contrary, are making efforts to dominate the energy market and prevent foreign benefit of the Caspian energy resources. Azerbaijan, Kazakhstan and Turkmenistan have to maintain equilibrium between allowing external investment and improving relations with their strong neighbors. This creates regional tensions and increases the possibility of conflict.

At the core of the Caspian power struggle is Russia. It is the major power in the region and is committed to retain this status. Russian is living a re-emergence as a global power supported by the overwhelming quantity of energy reserves in its possession. One of the main tools to sustain Russian hegemony is the energy policy. In this context, Russia is eager to obtain the biggest share possible in the energy market, with remarkable success until now. The Caspian offers great potential for increasing that share. Russia's objective is to extract, to buy and to become a transit territory for most of the Caspian hydrocarbons, obtaining the capacity to control the flow of energy supplies from the Caspian Sea to other world regions. Energy supremacy provides Russia with a very influential political tool which has become a top concern for US and Europe.

Iran, its traditional opponent, plays a similar role. With a great share of oil and gas global reserves, Iran seeks to benefit from Caspian resources, mainly through the oil swaps. Iran also seeks alliances to prevent US penetration in the region.

From a global level of analysis, the Caspian region has attracted a number of foreign interests. US, EU and China have penetrated the area at different levels. Besides the economic penetration through oil and gas companies, there is also ideological penetration, through development, democracy and human rights programs, as well as military penetration through defense, security reform and assistance programs. All these elements of penetration are perceived as a threat by the regional powers. This has contributed to the militarization of the region, increasing the likelihood of armed conflicts and adding a military component to the energy market. All western efforts, mainly EU and US, are aimed to provide outlets to the Caspian energy resources avoiding the Russian and Iranian control, promoting transportation infrastructure on western friendly territory. Thus, the transportation issue plays an essential role in the struggle for domination of the Caspian resources and has become a center issue in the Caspian politics. It is an expression of the political tendencies of the producing states. Pipeline design is an element of dispute as much as a reason for cooperation. Selecting and controlling the itinerary of the resources has become essential to ensure energy security of states. The pipeline network requires cooperation between different states for successful transport of the hydrocarbons. The itineraries chosen by the producing states are an expression of their political alliances. The pipeline network physically connects states within the region and the region with external states. Coordinated efforts are necessary for the proper functioning of the energy transportation system.

The pursuit of hegemony and protection of energy interests has increased local security structures and attracted foreign military presence to the region. The Caspian Game is now 'played' at the economic level, through energy companies, the ideological level, through

programs and cultural exchanges, as well as the military level, through the establishment of alliances and creation of military blocs counterbalancing each other (NATO, CSTO and SCO). The result is the militarization of the Caspian Sea, increasing the likelihood of armed conflict.

Despite the escalation of tension in the Caspian in the recent years, the global financial crisis of 2008 has decreased the energy demands worldwide, releasing energy security concerns and decreasing the possibility of conflict. As short term estimations of global hydrocarbons consumption for the coming years has decreased, the intensity of the dispute over control of those resources has also relaxed. However, medium/long term projections show that energy supplies will become scarce sooner than some states expect and the intensity of the competition will increase. With energy security being a vital priority for industrial societies, the likelihood of violent conflict will increase to dangerous levels unless some measures are adopted before.

Thus, the Caspian region is looked at as a source of conflict. But there are possibilities to change. There is an unavoidable fact which must be faced by Caspian States: The resources are limited and will last no more than a few decades. Once the scarcity of hydrocarbons approaches, new solutions must be in place for a sustainable growth. The global financial crisis is giving us an opportunity to rethink the approach to the energy market and find new strategies to ease relations and promote cooperation. The following recommendations are aimed to suggest mechanisms and new approaches that may increase the prospects of cooperation in the Caspian region.

Building measures oriented to promote stability and cooperation requires a common understanding that volatility, insecurity and instability are good for no one. Even hegemonic powers take more benefit from stability. The advantages of a stable regional environment are many: Peace, economic growth, business development, lower cost of infrastructure and

security, social harmony, etc. This premise is essential for the finding of approaches and cooperation prospects in the Caspian.

On the basis of this main premise, it is necessary to adopt an agreement on a legal regime. The first step to create a stable regional system is the adoption of the rules of the game; the legal regime of the Caspian Sea. This decision must be comprehensive and include not only energy but also issues like the environment, touristic development, fisheries, water management, etc. A proper exploitation of the Caspian Sea may provide a number of benefits besides the extraction of oil and gas. Further, it will ease the relations among regional players and provide clear guidelines for participation of external actors. The Caspian states have made some progress in terms of environmental agreements, although a bigger effort is needed for the adoption of a comprehensive agreement and its later implementation.

The second main premise is the understanding of interdependence. Caspian states must acknowledge that domination in one field damages relationships in other fields and creates instability. Cooperation in all fields may balance costs and benefits, providing growth and stability. The Caspian states have witnessed the positive effects of interdependence. The great profits of the energy industry have been made possible thanks to the surveys and explorations using western technology and knowledge. Most of the investments came from foreign companies. The wealth generated in the Caspian has been a combination of efforts. In this situation of interdependence it is unlikely that any power will be able to establish full hegemony in the Caspian region, given all the interests are already brought into it. Exploring cooperation mechanisms may turn to be much more profitable than focusing on security and competition.

As Europe has done with Russia in a bi-lateral initiative, the major players in the Caspian Region should institutionalize the energy dialogue, creating an formal space to discuss the

energy issues and concerns. This forum would create opportunities of dialogue with Iran, Turkey and other regional agents. This dialogue must take the energy business in a comprehensive manner, linking the energy policy to local development in different fields, and empowering local capacity. Stability in the Caspian depends on the domestic situation of each of the littoral states. In this regard there are great fields of cooperation to be explored. External investments are usually linked to the development of transport capacity and infrastructure, as well as security. However, a deeper contribution should be made to the improvement of the life conditions and national systems in the Caspian. Improving the situation in origin and transit states lowers the risks of disruption of the energy flow and ensures market stability. Capacity building in administration, transport, good governance and transparency through the promotion of administration, legal and other government reforms, is a great contribution of the regional peace and stability. Strong states present better investment conditions than weak states, in term of sustainability and low risk of the investments. Programs of improvement of management of the energy revenues, directed to the implementation of poverty reduction strategies, in accordance to the principles of the MDG.

This requires a commitment of the Caspian states to relate energy investment with sustainable development: Energy revenues should be tied to programs of local community development as a mechanism for distribution of the energy wealth. Energy deals and external aid programs should be conditioned to the willingness of local government to use energy returns into development in a MDG fashion.

In the security military field, the paradigm of collective security should govern relations between states. A number of regional conflicts broke out in the Caspian after the dissolution of the USSR. They present threat to the energy infrastructure. Protecting the energy business is beneficial for all the actors. Establishing mechanisms of cooperation in security may

contribute to the protection of the energy projects as well as establish links between the different regional and global players. Although there is still much mistrust and suspicion, a comprehensive agreement on oil and gas security in the Caspian may contribute to the stability of the region. Such agreement should also address the regional ethnic conflicts and border issues, proposing external mediation and arbitration mechanisms. The various military blocks (NATO, CSTO and SCO) interacting in the Caspian are concerned about energy security. Therefore they share a number of common goals. They should attempt to establish mechanisms of cooperation, creating instruments of association, partnership agreements, etc. This cooperation would reduce the likelihood of conflict and promote mutual knowledge and understanding.

But security adjustments and accommodation of energy business strategies are only short term measures. Achieving long term prospects of stability requires a much deeper transformation of the regional order. This means a change of paradigm of common efforts for a progressive transition from a hydrocarbons fuelled economy to an economy less dependant on limited resources. The price is high, but the benefits greater.

Adopting an environmental approach to the energy market using the renewable energy sources as alternative solutions may benefit all: The hydrocarbons are a limited resource. They have been a source of tremendous wealth in the last century, and they will continue for a number of decades. However, hydrocarbons are a depleting source: limited and non-renewable. A general understanding is spreading over the idea that the end of the hydrocarbon era may be coming sooner than expected. As governments attempt to position themselves in the international order, they also should think in the long term. States with large reserves of hydrocarbons today may suffer scarcity of energy resources in a few decades. The development of renewable sources of energy may decelerate the economic gains of producing countries, but will provide stability necessary for long term planning.

This deceleration is also an asset as governments are gaining time in preparing their transition from an oil-based economy to a more environmental green policies. If oil and gas producing countries are not prepared for this transition, they may be subject to dramatic financial crises when the hydrocarbons start to be scarce. Scientific and technological exchange will be very beneficial to prepare such transition. Regional subsidy programs to promote energy efficiency and technological improvement would increase cooperation in terms of environmental policies and energy investments should be conditioned to the creation of renewable energy development programs to guarantee development in the future.

The EU has a great responsibility in the paradigm change in the Caspian Region. Europe must strengthen ties with all Caspian states, including Russia and Iran. Europe can advocate for dialogue and multilateralism better than any other entity. Europe is leading the renewable energy revolution and should sponsor it in the Caspian states through scientific exchange and university programs.

Finally, the future of the Caspian Basin is in the hands of the leaders of regional and world powers, and their willingness to promote prosperity for all. With realism remains as the main paradigm and anarchy as the ordering principle, it will be very difficult to release the importance of the hydrocarbons as a tool of domination and deterrence. It has to be borne in mind that the change is a matter of a process, and not an event. But opportunities are there for a change of direction. Finding new sources of energy will release the world from the major cause of war and conflict in the last century.

Appendix

9.1 Distribution of the Caspian Region

Source: Perry-Castañeda Library Map Collection. Thematic Maps

[Caspian Sea - Oil and Gas Map \(North\) \(497K\)](#)

[Caspian Sea - Oil and Gas Map \(South\) \(359K\)](#)

[Map Legend \(138K\)](#)

Portions of "Oil and Gas Infrastructure in the Caspian Sea Region" Original Scale 1:2,400,000 (Shaded Relief)
March 2001

9.2 World Proven Natural Gas Reserves

Proven Natural Gas Reserves

World total: 183 tcm as of 1 January 2007

Gas reserves are concentrated in FSU and MENA regions – Russia and Iran together account for just over 40% of global gas reserves

OECD/IEA, 2008

Source: Presentation by IEA Deputy Executive Director, Ambassador W.C. Ramsay: The External Energy Policy of the EU. Presented at the Ifri Energy Program: European Governance and Geopolitics. Brussels, 31 January 2008

9.3 World Proven Oil Reserves

Proven Oil Reserves

World total: 1 317 billion barrels as of 1 January 2007

Oil reserves are concentrated in MENA regions

Note: North America reserves include Canada tar sands.

© OECD/IEA, 2008

Source: Presentation by IEA Deputy Executive Director, Ambassador W.C. Ramsay: The External Energy Policy of the EU. Presented at the Ifri Energy Program: European Governance and Geopolitics. Brussels, 31 January 2008

9.4 Existing and proposed gas and oil pipelines Routes

Baku-Tbilisi-Ceyhan Caspian Pipeline (BTC)

Source: <http://www.hydrocarbons-technology.com/projects/bp/bp9.html>

The Nabucco pipeline project

The Nabucco pipeline project. Source: <http://www.nabucco-pipeline.com>

The Kazakhstan-China Pipeline (KCP)

The Caspian Pipeline Consortium (CPC)

Source: CPC online brochure at <http://www.cpc.ru/>

The Turkmenistan – Afghanistan - Pakistan Pipeline
(one possible route)

Source: http://www.sras.org/geopolitics_of_oil_pipelines_in_central_asia?print=1

The Trans-Caspian Pipeline (Project proposal)

Source: http://www.sras.org/geopolitics_of_oil_pipelines_in_central_asia?print=1

The Baku pipelines :

- Baku-Novorossiisk (Black line)
- Baku-Supsa (Red line)
- Baku.Tbilisi-Cehyan (Blue Line)
- Türkmenbasy Trans-Caspian (proposed, green doted line)
- Baku, Tbilisi- Erzurum Gas line (brown line)
- Nabucco (proposed, brown doted line)

9.5 The Tengiz and Kashagan Oil Fields. (Kazakhstan)

WHERE TENGIZ IS LOCATED

Source: <http://europe.theoil Drum.com/story/2006/11/18/102426/08>

9.6 Baku Offshore Oil fields

Source : <http://europe.theoil Drum.com/story/2006/11/18/102426/08>

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⁴ Voice of America, January 22, 1998. cited in Adil Baguirov. *Caspian Oil Reserves*. Media Watch. Azerbaijan International . Summer 1998, 58

http://www.azer.com/aiweb/categories/magazine/62_folder/62_articles/62_mediawatch.html

⁵ Hugh Pope. "Caspian Oil Deposits May Be Much Larger than Estimated", *Wall Street Journal*. April 30 1997 cited in Michael P. Croissant, Cynthia M. Croissant The Caspian Sea Status Dispute: Azerbaijani Perspectives Caucasian Regional Studies, Vol. 3, *Issue 1*, 1998; Internet; Accessed May 13, 2009

⁶ Boris Najman, Richard W. T. Pomfret *The Economics and Politics of Oil in the Caspian Basin*. (Routledge 2008), 9.

⁷ Bernard A. Gelb. *Caspian Oil And Gas: Production and Prospects*. CRS Report for Congress Received through the CRS Web. Order Code RS21190 Updated September 8, 2006. "Based upon figures published by BP, Caspian Sea region oil production comes from proven (economically recoverable) reserves of 48 billion bbls"

⁸ Susan E. Rice and Stewart Patrick. "2008 Index of State Weakness in The Developing World". *Foreign Policy* The Brookings Institution. According to this article, the newly created states in the Caspian region have all scored relatively low in the state weakness ranking: Turkmenistan (35) Azerbaijan (80) Kazakhstan (89), Georgia (90).

⁹ The term "The New Great Game" was first coined to refer to the current geopolitical strife in the Caspian Region. It is "New" as it is a version of the original "Great Game" which was the power struggle between the British and the Russian Empires for supremacy in the Central Asia during the end of 19th century. It was later used by Rockefeller, referring to the oil market overtaking strategy in Pennsylvania in the 1800s. Thus, Today "New Great Game" refers to the political struggles for domination of the Caspian region which involve domination over natural energy resources.

¹⁰ In the energy industry the concept of *Upstream* refers to the extraction and production of the raw material from its natural location. *Midstream* refers to transportation to the processing plants. *Downstream* refers to the refinery industry and distribution to the market outlets.

¹¹ "Germany, Industrialized World Enter Recession". *De Spiegel online*. November 13, 2008 [Journal online]. Available at <http://www.spiegel.de/international/business/0,1518,590174,00.html>; Internet. Accessed February 15, 2009

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- ¹² "Japan enters recession after contraction". *CNN.com*. November 17, 2008 - Updated 0542 GMT (1342 HKT) Available at <http://edition.cnn.com/2008/BUSINESS/11/16/japan.recession/index.html>; Accessed February 20, 2009
- ¹³ US Energy Information Administration. *International Energy Outlook 2008*. Report #:DOE/EIA-0484 (June 2008) Chapter 1 - World Energy Demand and Economic Outlook <http://www.eia.doe.gov/oiaf/ieo/world.html>
- ¹⁴ Jeremy Rifkin. *The Hydrogen Economy*. Penguin Putnam Inc. (New York, 2002), 69
- ¹⁵ Leslie White (1900-1975) was an American anthropologists who developed the theory of cultural evolution according to which cultural development has 3 components: technological, sociological and ideological, the first being the basis of cultural evolution, including the use and transformation of energy.
- ¹⁶ Rifkin. *Hydrogen*, 71
- ¹⁷ Yergin, *The Prize*, 30
- ¹⁸ CIA World Fact Book Country Comparisons - Oil – consumption.
- ¹⁹ Yergin, *The Prize*, 29-30
- ²⁰ Rudolph J.R. Peritz *The Sherman Anti-Trust Act Of 1890*. In *Historians on America*. In *Decisions that Made a Difference*. U.S. Department of State. Bureau of International Information Programs Page 30 available at <http://www.america.gov/media/pdf/books/historians-on-america.pdf#popup>
- ²¹ Yergin, *The Prize*, 110
- ²² Oil Price History and Analysis <http://www.wtrg.com/prices.htm>
- ²³ Sir John Fisher was appointed as First Sea Lord during the period 1904-1910. General Fisher played an important role as Churchill's advisor. He understood how the German High Fleet was becoming remarkably superior to the rest thanks to the transformation from coal to oil. He urged W. Churchill to do the same.
- ²⁴ Defense Energy Support Center Fact Book 2004, cited in Sohbet Karbuz. *US military energy consumption-facts and figures*. Energy bulleting May 20 2007
- ²⁵ Sohbet Karbuz. *US military energy consumption-facts and figures*. Energy bulleting May 20 2007. FACT 3: Oil accounts for more than three-fourths of DoD's total site delivered energy consumption. Oil is followed by electricity (slightly more than 10%) and natural gas (nearly 10%). In terms of fuel types, jet fuel (JP-8) accounts for more than 50% of total DoD energy consumption, and nearly 60% of its mobility fuel. <http://www.energybulletin.net/node/29925>
- ²⁶ George W. Bush. *2006 State of the Union Address*. United States Capitol Washington, D.C. January 31, 2006
- ²⁷ US Energy Information Administration. Report #:DOE/EIA-0484(June 2008) Chapter 1 - World Energy Demand and Economic Outlook
- ²⁸ Donella H. Meadows Dennis L. Meadows Jørgen Randers. William W. Behrens III. *Limits to Growth*. (Universe Books, 1972). *Limits to Growth* explored how exponential growth interacts with finite resources. It created a world model with an analysis of the consequences of world population and finite resource supplies. The book used the World3 model to simulate the consequence of interactions between the Earth's limited natural resources with a rapidly growing human populations, reaching concerns and predictions similar to those of the Reverend Thomas Robert Malthus in *An Essay on the Principle of Population* (1798).
- ²⁹ Michael T. Klare is Professor of Peace and World Security Studies in five colleges (Amherst, Hampshire, Mount Holyoke, and Smith Colleges and the University of Massachusetts at Amherst). He held the position

of Director of the Program on National Security of the Institute for Policy Studies in Washington, DC (1977-84). Among his main works are: *Resource Wars: The New Landscape of Global Conflict* (Metropolitan Books / Henry Holt, 2001); *Blood And Oil: The Dangers and Consequences of America's Growing Dependency on Imported Petroleum*. (Metropolitan Books, 2004); *Rising Powers, Shrinking Planet. The New Geopolitics of Energy* (Metropolitan Books, 2008), apart from many works on arms trade, rogue states and world security. He is also the defense correspondent of *The Nation* magazine, a contributing editor of *Current History*, and a member of the editorial board of the *Bulletin of the Atomic Scientists*.

³⁰ Michael T. Klare. *Rising Powers, Shrinking Planet. The New Geopolitics of Energy*. (New York: Metropolitan Books, 2008), 14

³¹ Senator R.G. Lugar, Republican Senator from Indiana since 1976 is the Chairman of the Committee on external affairs. Senator Lugar has long advocated for diversification of energy sources and adoption of measures to reduce US dependency from oil. He has been quoted saying "Nearly every major foreign policy challenge we face is aggravated by our continued addiction to oil" He has launched the "Lugar Energy Initiative" aimed to elaborate proposals to guarantee US energy security.

³² R.G. Lugar. *U.S. Energy Security – A New Realism*. Senator Lugar's speech to the Brookings Institution on March 13, 2006

³³ Klare, *Rising Powers*, 20. Looking at the oil company world ranking, ordered according to the ownership of proven reserves, we have to go to the fifteenth to find the first internationally owned company. The first fourteen are national oil companies. These national companies own the 78,6% of the world total oil reserves.

³⁴ Klare, *Rising Powers*, 23

³⁵ OECD. *Decision of the OECD Council Establishing an International Energy Agency Organization*. Adopted by the Council 373rd Meeting. November 15, 1974.

³⁶ OPEC web. *What are the uses of crude oil?* Frequently asked questions. Available from <http://www.opec.org/library/FAQs/CrudeOil/q4.htm> Accessed; November 2008

³⁷ *Caspian Sea*. Encyclopedia Britannica. 2009. Encyclopedia Britannica Online. 27 May. <http://www.britannica.com/EBchecked/topic/98044/Caspian-Sea>.

³⁸ Yergin, *The Prize*, 58-59

³⁹ Steve Levine. *The Oil and the Glory*. (Random House, 2007), 16

⁴⁰ June 1, 1918 Baksovnarkom decree on the nationalization of the oil industry and June 5, 1918, Baksovnarkom on the nationalization of the Caspian Trade Fleet.

⁴¹ <http://www.window2baku.com/eng/9oil3.htm>

⁴² German naval forces were called (Kaiserliche Marine) until its defeat in WWI.

⁴³ BP Global. *Oil reserves*. BP Statistical Review of World Energy. Available from <http://www.bp.com/sectiongenericarticle.do?categoryId=9023799&contentId=7044111>

⁴⁴ Jeremy Rifkin is a professor Executive Education Program at Wharton University of Pennsylvania and president of the foundation on economic Trends in Washington D.C. He is author of numerous books like *The Hydrogen Economy*, *The European Dream*, *The End of Work*, *The Age of Access*, and *The Biotech Century*. He has acted as advisor to several European Governments on issues like during their respective European Council Presidencies, on issues related to the economy, climate change, and energy security

⁴⁵ Rifkin, *Hydrogen*, 35

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- ⁴⁶ EIA. "Caspian Oil Gas 98".
- ⁴⁷ Energy Information Administration. Caspian Sea Region: Survey of Key Oil and Gas Statistics and Forecasts[EIA web]. http://www.cia.doe.gov/emeu/cabs/caspian_balances.htm; Internet; Accessed January 2009
- ⁴⁸ Edward Morse and James Richard. "The Battle for Energy Dominance" *Foreign Affairs* (March/April2002)
- ⁴⁹ Gould T. Murray and Others. *Perspectives on Caspian Oil and Gas Development*. Working Paper Series (International Energy Agency December, 2008), 5
- ⁵⁰ Bernard A. Gelb. *Caspian Oil and Gas: Production and Prospects*. CRS Report for Congress Received through the CRS Web. Order Code RS21190 Updated September 8, 2006, 3
- ⁵¹ Barylski Robert V. "The Caspian Oil Regime: Military Dimensions" *CompuServe OurWorld* [source on-line]. available from <http://ourworld.compuserve.com/HOMEPAGES/USAZERB/122.htm>; Internet; Accessed October16, 2008.
- ⁵² Klare, *Rising Powers*, 35. Klare defines "easy oil" as the oil located in places where it can be recovered without great effort, opposed to "tough oil" or oil reserves which require expensive, high technology and complex equipment and therefore is not as profitable.
- ⁵³ Lester W. Grau. Hydrocarbons and a New Strategic Region: The CS and Central Asia. *Military Review* (May-June 2001). [journal on-line] Available from <http://fmso.leavenworth.army.mil/documents/hydrocarbons/hydrocarbons.htm> Accessed January 2009. Transport costs affect oil prices. Transporting Persian Gulf oil costs \$2 to \$5 per ton; North Sea oil costs \$10 per ton; CS oil costs \$17 per ton; Siberian oil costs \$35 to \$45 per ton
- ⁵⁴ Regional Peace, Development Top Agenda. *Iran Daily* n° 2966 [journal on-line] Tue, Oct 16, 2007. available from <http://www.iran-daily.com/1386/2966/html/index.htm>
- ⁵⁵ Barbara Januz. *The Caspian Sea: Legal Status and regime Problems*. [Online article] (Chatam House, 2005),2 . The legal status refers to the ownership and jurisdiction of the different states over the whole or part of the Caspian Sea. The legal Regime refers to the regulations, responsibilities, rights and obligations of the different states regarding the use of the Caspian Sea.
- ⁵⁶ Ibid
- ⁵⁷ William Ascher and Natalia Sergeevna Mirovitskaya. *The Caspian Sea: A Quest for Environmental Security*. NATO Science Series. 2.Environment. Vol 67 (Kluwer, London 2000), 147
- ⁵⁸ Гюлистанский мирный договор, original name of the Gulistan Agreement in Russian language, as found available in the internet.
- ⁵⁹ Туркманчайский мирный договор между Россией и Ираном, original name of the Peace Treaty of Turkmenchay in Russian language, as found available in the internet.
- ⁶⁰ договор о дружбе между Россией и Ираном, original name of the Russo-Persian Treaty of Friendship in Russian language, as found available in the internet.
- ⁶¹ Miguel Ángel Pérez Martín. *El Status Juridico del Mar Caspio*. Working Papers, Dwp 02 (DERI, 1998), 6.
- ⁶² The Geneva Convention of the High Seas was adopted on 29/04/1958. Entered into force on September 30, 1962. United Nations, Treaty Series, vol. 450, p.11, p.82.

⁶³ UNCLOS official web page: "Navigational rights, territorial sea limits, economic jurisdiction, legal status of resources on the seabed beyond the limits of national jurisdiction, passage of ships through narrow straits, conservation and management of living marine resources, protection of the marine environment, a marine research regime and, a more unique feature, a binding procedure for settlement of disputes between States - these are among the important features of the treaty. In short, the Convention is an unprecedented attempt by the international community to regulate all aspects of the resources of the sea and uses of the ocean, and thus bring a stable order to mankind's very source of life".

http://www.un.org/Depts/los/convention_agreements/convention_historical_perspective.htm#Key%20provisions

⁶⁴ **Commonwealth of Independent States (CIS)** from Russian **Содружество Независимых Государств (СНГ)** The CIS replaced the **USSR** as the body to ensure economic, financial, and monetary cooperation as well as security, military and transport, in order to keep stability and prevent the collapse of the states of new creation. in inter-republican trade; to coordinate price liberalization and market reform.

⁶⁵ Martha Camacho de la Vega y Ignacio Ríos Navarro. *Región del Mar Caspio, Aspectos Legales*. 2002. available from www.diplomaticosescritores.org/obras/MARCASPIOASPECTOSLEGALES.pdf

⁶⁶ *Framework Convention for the Protection of the Marine Environment of the Caspian Sea*. Tehran, November 4, 2003. Accessed December 21, 2008; Available from

<http://www.caspianenvironment.org/NewSite/Convention-FrameworkConventionText.htm>; Accessed December 21, 2008

⁶⁷ During the same year 2003, Russia, Azerbaijan and Kazakhstan adopted a tripartite agreement to establish a system of distribution of the bottom of the sea under the principle of the median line in the northern part of the basin Such agreement divided the bottom of the sea granting 27% to Kazakhstan, 19% to Russia and 18% to Azerbaijan, covering a total of 64% of the Sea. IEA. Country Analysis. Caspian Sea. Accessed November 2008

⁶⁸ "Tehran Summit and Caspian States". *Turkish Weekly*. October 18, 2007 [Journal on-line]; available from <http://www.turkishweekly.net/news/49602/tehran-summit-and-caspian-states.html>. Accessed February 13, 2008

⁶⁹ Kaveh L. Afrasiabi. "The Legal Regime of the Caspian Sea: Beyond the Conflictive Treaties". *Payvand's Iran News*. September 17, 2003 [journal on-line] available from

<http://www.payvand.com/news/03/sep/1106.html>; Accessed October 2009

⁷⁰ UNCLOS PART IX: Enclosed or Semi-Enclosed Seas. Article 122. Definition. For the purposes of this Convention, "enclosed or semi-enclosed sea" means 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

⁷¹ UNCLOS. ANNEX II. *Commission on the Limit. Of The Continental Shelf. Article 1: In accordance with the provisions of article 76, a Commission on the Limits of the Continental Shelf beyond 200 nautical miles shall be established...*

⁷² Charles W. Blandy. *The Caucasus Region and Caspian Basin: Change, Complication and Challenge*. (Defence Academy of the United Kingdom,). 19. Available from

<http://www.da.mod.uk/colleges/arag/document-listings/caucasus/S36.pdf/view>; Accessed January 2009

⁷³ Ibid

⁷⁴ Martha Camacho de la Vega and Ignacio Ríos Navarro. *Región del Mar Caspio, Aspectos Legales*. (2002)., 4 available from www.diplomaticosescritores.org/obras/MARCASPIOASPECTOSLEGALES.pdf; Accessed October 2008

⁷⁵ Ibid

⁷⁶ Gould T. Murray. *Perspectives on Caspian Oil and Gas Development*. Working Paper Series (International Energy Agency December, 2008).

⁷⁷ Russia CIA Fact Book <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>; accessed February 2009

⁷⁸ "Japan's island row with Russia" *BBC News*. August 16, 2006 [journal on-line] available from <http://news.bbc.co.uk/2/hi/asia-pacific/4797701.stm>; Accessed December 9, 2008.

⁷⁹ "Canadá y Rusia calientan la polémica sobre la soberanía en el Ártico". *Elmundo.es* March 28, 2009 [journal on-line] available from <http://www.elmundo.es/elmundo/2009/03/28/internacional/1238216469.html> Accessed March 28, 2009

⁸⁰ Vladimir Putin holds a Ph D at the St. Petersburg Mining Institute presenting a final dissertation on "*Mineral raw Materials in the Strategy for development of the Russian Economy*". As it is stated in the James Baker institute report "*The energy dimension in Russian Global Strategy*", there are doubts of the authorship of his work given the position Putin held at the time he supposedly wrote the dissertation. However there is a general agreement that the contents of the dissertation and the energy policies conducted by Putin qualify him as an expert in mining, energy and energy policy. This expertise has been very beneficial for the development of the Russian economy and the emergence of Russia as a global player after the recession following the break up of the USSR.

⁸¹ On December 31, 1999, following the resignation of Boris Yeltsin, Vladimir Putin became interim President of Russia. On March 26, 2000 Presidential elections were held and Putin obtained 53% of the votes in the first round, becoming the elected President of Russia. His second mandate started on March 14, 2004 when he obtained 71% of the votes. Constitutional requirements prevented him to run again for elections. He finished his mandate on May 8, 2008, to become Russian Prime Minister, position he holds since then.

⁸² The Sakhalin Island, located on the offshore of Eastern coast of Russia, is one of the areas with greatest potential of gas production in the world. In 2006, Russian government ordered to stop the Sakhalin ventures (majority western stakeholders) due to the breach of a number of environmental laws. The fact that all irregularities were solved just after Gazprom was granted a fair share in the development. The issue is of vital importance for Russia and: to regain the Russian energy assets for the Russian state.

⁸³ The arrest of Mikhail Khodorkovsky in 2003, a liberal market oriented businessman who, in the opinion of the Kremlin, was favouring foreign interest as Youkos CEO, raised the alarm of foreign companies operating in Russia. He was imprisoned on the basis of tax evasion, although it coincided with the time of his preparation to participate in politics and run as a real competitor to Putin, backed up by the wealth accumulated in partnership with foreign companies.

- ⁸⁴ "Russian Oil Magnate's Arrest Marks Shift in Power". *The financial Express*. November 3, 2003. [Journal on-line] Available from <http://www.financialexpress.com/news/russian-oil-magnates-arrest-marks-shift-in-power/90444/0>; Accessed December 2008.
- ⁸⁵ Russian President, Vladimir Putin, Turkmen President Gurbanguly Berdymukhammedov and Kazakh President Nursultan Nazarbaev.
- ⁸⁶ "Gazprom delegation visits Turkmenistan". Gazprom.com [source on-line] available from <http://www.gazprom.com/eng/news/2008/07/29971.shtml>; Accessed February 22, 2009
- ⁸⁷ Statistical Center of Iran: "According to the Population and Housing Census conducted in Aban 1385 [2006 Christian year], Iran has 70495782 pop., the density is 43 per Km and the annual average growth stands at 1.6%. Of the whole population, 50.9% are male (35866362) and 49.1% female (34629420)" available from http://www.sci.org.ir/portal/faces/public/sci_en/;
- ⁸⁸ 2007 International Monetary Fund and 2007 World Bank rankings of world economies according to Gross Domestic Product (from IMF and WB official web sites)
- ⁸⁹ Energy information Administration. *Top World Oil Consumers, 2007*. Available from <http://tonto.eia.doe.gov/country/index.cfm>. Accessed October 2008
- ⁹⁰ Brian Murphy. "Plenty of Oil but Few Refineries For Iran". *Washington Post*. Wednesday, May 31, 2006 [journal on-line] available from <http://www.washingtonpost.com/wp-dyn/content/article/2006/05/31/AR2006053101464.html>; Accessed January 2009
- ⁹¹ According to the Energy Information Administration Iran's country profile, □Iran plans to increase refining capacity from 1.5 million bbl/d in 2008 to 3 million bbl/d by 2012. □ Iran's gasoline rationing program has reduced imports by about 40% in 2008, year on year.
- ⁹² Hooman Peimami. "Iran Intent on Keeping Pace with Caspian Basin Energy Development". *Eurasia Insight*. August 19, 2003. [journal on-line] available from <http://www.eurasianet.org/departments/business/articles/eav081903.shtml>; Accessed 13 November 2008.
- ⁹³ John C. Daly. "Iran Offers Ocean to Oil Giant Kazakhstan". *Middle East Times*. May 12, 2008 [journal on-line] available from http://www.metimes.com/Business/2008/05/12/iran_offers_ocean_to_oil_giant_kazakhstan/6011/; Accessed March 2009
- ⁹⁴ "Caspian Oil Swap Deals". *Iran Daily*, Economic Focus June 25, 2006. [Journal on-line] available from <http://www.iran-daily.com/1385/2594/pdf/i6.pdf> Accessed February 2009.
- ⁹⁵ Alexander's Gas & oil connections. *Kazakhstan considers joining Iranian oil pipeline project Company* News: Central Asia. Thursday, April 03, 2008. [journal on-line] Available from <http://www.gasandoil.com/goc/company/cnc81471.htm> Accessed January 2009.
- ⁹⁶ *Iran And Libya Sanctions Act Of 1996* (House of Representatives - June 18, 1996). [Source on-line] Available from http://www.fas.org/irp/congress/1996_cr/h960618b.htm Accessed January 2009.
- ⁹⁷ Among others, UN resolutions *Security Council Resolution 1803 on Iran (March 3, 2008)*, *Resolution 1747 (March 24, 2007)*, *Draft Resolution on Iran's Nuclear Program (March 15, 2007)*, *Resolution 1737 (December 23, 2006)* *Resolution 1696 (June 31, 2006)*.
- ⁹⁸ UN Security Council. *Resolution 1737*. Adopted by the Security Council at its 5612th meeting, on 23 December 2006 S/RES/1737 (2006)* Distr.: General 27 December 2006.

⁹⁹ Ruth Winstone and Ross Young. *The Caspian Basin, Energy Reserves and Potential Conflicts*. Library of House of Commons. Research Paper 05/2416 March 2005, 12.

¹⁰⁰ Mariano Marzo. "Las Rutas Del Petróleo Y Gas". *La Vanguardia Dossier*. N° 30 (Enero/Marzo 2009). 39-45

¹⁰¹ The AIOC consortium is formed with BP, Chevron, SOCAR, Inpex, Statoil, ExxonMobil, TPAO, Devon Energy, Itochu, Delta/Hess. Information available from <http://www.eia.doe.gov/cabs/Azerbaijan/Oil.html>. Accessed February 2009

¹⁰² In 1918, after the fall of the Russian Empire, it was proclaimed the Independent republic of Azerbaijan. Iran refused to recognize such status and 2 years later Russia again took control of the territory.

¹⁰³ Arif Yunusov. "Azerbaiyán y la Crisis Iraní: Entre El Martillo y el Yunque". *La Vanguardia Dossier*. N° 30, (Enero/Marzo, 2009). 79-83

¹⁰⁴ "Azerbaijan: Trying To Keep Washington And Tehran Happy". *Eurasianet.org*. May 5, 2006. [journal on-line] available from http://www.iran-press-service.com/articles_2002/May_2002/iran_azarbaijan_18502.htm; Accessed March 27, 2009

¹⁰⁵ Ibid

¹⁰⁶ Nagorno-Karabakh is a region located in South-West of Azerbaijan. This region was granted the status of autonomous region in 1924 by the Soviet Union. Initially with Armenian majority, the Azeri population grew until the break up of hostilities in 1960. The dissolution of the USSR provoked the creation of new states. Taking advantage of the political context, a referendum was held in 1991 which declared the independence of the Nagorno-Karabakh Republic. Lacking international recognition, Nagorno-Karabakh remains officially Azeri territory although is governed by an independent government. Armenia and Azerbaijan are officially at war over the Nagorno-Karabakh territorial dispute. International efforts have been directed to the solution of the dispute, such as the OSCE Minsk Group. This conflict presents one of the most entrenched disputes in the Caucasus, affecting the stability in the region and represents a threat to the energy infrastructure. It stands on the main route between the Caspian Sea and the western market outlets, influencing the design and itinerary of some of the main pipeline projects like the BTC. Enormous investment has been necessary to avoid the disputed territory.

¹⁰⁷ Kazakhstan Country Profile. *Economist intelligent Unit* 2006

¹⁰⁸ "Kazakhstan. Background" *Energy information Administration*. [Source on-line] available from <http://www.eia.doe.gov/emeu/cabs/Kazakhstan/Background.html>; Accessed January 2009

¹⁰⁹ Klare. *Rising Powers*, 121

¹¹⁰ Kazakhstan scored 150, almost at the bottom of the table in the Corruption Perceptions Index published in the Transparency International 2007 annual Report. Kazakhstan scored 2.1 in a ranking related perceptions of the degree of corruption as seen by business people and country analysts It (the score ranges from 0=highly corrupt to 10=highly clean)

¹¹¹ Kazakhstan is ranked 120 in the *Economist Intelligence Unit's Index of Democracy 2007*, falling within the least democratic category of Authoritarian Regime.

¹¹² "Kazakhstan. Background" *Energy information Administration*. [Source on-line] available from <http://www.eia.doe.gov/emeu/cabs/Kazakhstan/Background.html>; Accessed January 2009

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- ¹¹³ Turkmenistan Country profile. *Economist Intelligent Unit*. 2006
- ¹¹⁴ "Turkmenistan to increase production of oil, gas in 2009". *Rianovosti*. February 4, 2009 [Journal on-line] available from <http://en.rian.ru/world/20090204/119985752.html>. Accessed March, 2009.
- ¹¹⁵ Mariano Marzo. "Las Rutas Del Petróleo y Gas". *La Vanguardia Dossier*. N° 30, (enero/marzo 2009), 39-45
- ¹¹⁶ *NATO's Relations with Georgia*. NATO Topics online. Updated: 11-Mar-2009. available from <http://www.nato.int/issues/nato-georgia/index.html#key>; Accessed April 2009.
- ¹¹⁷ Stephen Larrabee. *Turkey as a U.S. Security Partner*. Library of Congress. (RAND Corporation, 2008), 27
- ¹¹⁸ *President Bush Unveils Energy Policy*. *CNN .com*. Speech delivered on May 17, 2001. Available from transcripts. <http://transcripts.cnn.com/TRANSCRIPTS/010517/se.01.html>; Accessed Feb 2009.
- ¹¹⁹ Dick Cheney. *Report of the National Energy Policy Development Group*. (U.S Government Printing Office, May 2001), 3
- ¹²⁰ "Reducing U.S. Oil Dependence A Real Energy Security Policy". *Natural Resources Defence Council*. [online source] available from <http://www.nrdc.org/air/energy/fensec.asp> Accessed 25 April, 2009
- ¹²¹ Marcela Suárez. *Los Intereses Geopolítico y Geoeconómicos de EE.UU. en Euroasia*. (DERI Working Papers. Dwp 011, 2006). 56
- ¹²² The Freedom Support Act. US Public Law 102-511. October 24, 1992
- ¹²³ Klare, *Rising Powers*, 120
- ¹²⁴ The National Energy Policy (NEP) and released it on May 17 during Bush administration was called the Cheney report
- ¹²⁵ United States Agency for International Development (USAID) is one of the main mechanism to distribute US external aid with "the twofold purpose of furthering America's foreign policy interests in expanding democracy and free markets while improving the lives of the citizens of the developing world". It is currently implementing a number of programs in the Caucasus and the central Asia republics on health economic development, production systems, capacity building, etc. source: <http://www.usaid.gov>
- ¹²⁶ The US Trade and development Agency (USTDA) is an institution created with the man goal of promoting partnerships and relations in developing countries which may advance the US interest in other world regions. The USTDA provides assistance though training, technical assistance, development of infrastructures and any other mechanism which may support the creation of a friendly environment to trade, investment and sustainable development. The USTDA Europe and Eurasia Program is currently funding a number of projects in the states located in the Caspian region such as SSPF Pension Program Development in Azerbaijan, Coal Bed Methane / Coal Mine Methane project in Georgia, Kazakhstan Underground Gas Storage in Kazakhstan, Datka-Kemin Transmission Line in Kyrgyzstan, Fon Yaghnob Coal-Fired Power Plant in Tajikistan, in Oil and Gas Training program in Turkmenistan source: <http://www.ustda.gov>
- ¹²⁷ Michael Klare argues that Russia played important role in ousting Abulfaz Elchibey, pro US ex-president of Azerbaijan.
- ¹²⁸ EIA: Energy Basics by Topic. <http://www.eia.doe.gov/basics/energybasics101.html>
- ¹²⁹ Svante E. Cornell and Niklas Nilsson. *Europe's Energy Security: Gazprom's Dominance and Caspian Supply Alternatives*. (Central Asia-Caucasus Institute & Silk Road Studies Program, 2008), 20
- ¹³⁰ Ibid

¹³¹ Commission of the European Communities. *An Energy Policy for Europe*. Communication from the Commission to the European Council and the European Parliament {SEC(2007) 12}, 3. The report writes: 1.2. Security of supply: "Europe is becoming increasingly dependent on imported hydrocarbons. With "business as usual" the EU's energy import dependence will jump from 50% of total EU energy consumption today to 65% in 2030. Reliance on imports of gas is expected to increase from 57% to 84% by 2030, of oil from 82% to 93%." http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf

¹³² Inogate intends to address problems and obstacles to a reliable and permanent energy supply. 21 countries are involved: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Georgia, Greece, Kazakhstan, Kyrgyzstan, Latvia, Macedonia, Moldova, Romania, Slovakia, Tajikistan, Turkey, Turkmenistan, Uzbekistan, Ukraine and the Republic of Serbia

¹³³ COUNCIL OF THE EUROPEAN UNION. Joint paper by the Commission and the Secretary-General/High Representative concerning "An external policy to serve Europe's energy interests. Brussels, 30 May 2006 9971/06

¹³⁴ COMMISSION OF THE EUROPEAN COMMUNITIES. Communication From The Commission To The European Council And The European Parliament: AN ENERGY POLICY FOR EUROPE Brussels, 10.1.2007 COM(2007) 1 final {SEC(2007) 12}

¹³⁵ NATO's Georgia and Azerbaijan ENP Action Plans were adopted on 14 November 2006.

¹³⁶ Georgia Partnership and Cooperation Agreement entered into force on July 1, 1999. The Azerbaijan Partnership and Cooperation Agreement was signed in 1996 and entered into force in 1999.

¹³⁷ Nicklas Norling. *EU's Central Asia Policy: The Adoption of a New Strategy Paper 2007-2013*. Central Asia And The Caucasus No. 3. (2007), 45

¹³⁸ Neil Melvin and Joss Boonstra. *EU Strategy For Central Asia @ Year One*. (EUCAM. EU Central Asian Monitoring No. 1 - October 2008), 3

¹³⁹ The main areas of discussion are: 1/ Ensuring reliable energy supplies in the short and long-term future 2/ Increasing energy efficiency 3/ Securing long term investment 4/ Opening up energy markets 5/ Diversifying the range of imports and exports of energy products 6/ Enhancing the technological base of the energy sector of the economy 7/ Improvement of the legal basis for energy production and transport in Russia 8/ Ensuring the physical security of transport networks http://ec.europa.eu/external_relations/iran/index_en.htm

¹⁴⁰ The Caspian states scored very low in the Corruption Perceptions Index published in the Transparency International 2007 annual Report. In a ranking related perceptions of the degree of corruption as seen by business people and country analysts (the score ranges from 0=highly corrupt to 10=highly clean) Kazakhstan and Azerbaijan scored 2.1 ranking 150, and Turkmenistan scored 2.0 ranking 162

¹⁴¹ *Declaration by the Presidency on behalf of the EU on the repeated violations of human rights in Iran*. Brussels, 19 December 2008. 17518/08 (Presse 380) P 158 (OR. fr) Available from http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/cfsp/104943.pdf

¹⁴² Population in China accounts for 1,338,612,968 people (July 2009 est.) according to CIA China Fact book

¹⁴³ *World Bank list 2007*. Countries ranked according to purchasing power parity (PPP)

¹⁴⁴ *Country Brief*. World Bank China. Available from: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0..menuPK:318960~pagePK:141132~piPK:141107~theSitePK:318950,00.html> ; Accessed March 2009

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- ¹⁵⁰ Jennifer. Hartshorn. *Oil Companies and Governments*. (Faber London, 1967). 375-388
- ¹⁵¹ "Petroleum Intelligence Weekly Ranks World's Top 50 Oil Companies". *Oil Voice*. December 02, 2008; [journal on-line] available from http://www.oilvoice.com/n/Petroleum_Intelligence_Weekly_Ranks_Worlds_Top_50_Oil_Companies/649a4dd6.aspx Accessed May 2009. "According to the PIW 2008 Rank of World's Top Oil Companies, 27 out of the 50 world largest oil companies have above 50% of state ownership. 19 of them are 100% state owned."
- ¹⁵² Robert Ebel et.al. *Caspian Energy Resources. Implications for the Arab Gulf States*. (Emirates Centre for Strategic Studies and Research. Abu Dhabi, 2002), 19
- ¹⁵³ "Regional Peace, Development Top Agenda". *Iran Daily* n. 2966 Tue, Oct 16, 2007. [journal on-line] available from <http://www.iran-daily.com/1386/2966/html/index.htm> . Accessed January 2009.
- ¹⁵⁴ On December 31, 2008, Russia cut gas supplies to Ukraine due to a dispute on the gas price. After Russia made a number of offers with a 250\$/1000 cubic meters, Ukraine insisted in 235\$. The result was a reduction of the gas supply to levels that would cover only the needs of the countries west of Ukraine. The latter reacted shutting down the pipes and preventing any gas to be delivered to the EU.
- ¹⁵⁵ European Council on Foreign Relations, 2006 figures Latvia, Slovakia, Finland, Estonia are 100% dependent on Russia. Bulgaria, Lithuania, Czech Republic more than 80% dependent and Greece, Austria, Hungary More than 60% dependent
- ¹⁵⁶ Commission of the European Communities. *Towards a European strategy for the security of energy supply*. Green Paper, November 29, 2000, 2
- ¹⁵⁷ David G. Victor. *National Security Consequences of U.S. Oil Dependency*. Council on Foreign Relations. Independent Task Force Report No. 58. (2006), 4
- ¹⁵⁸ OPEC Secretariat. *What is OPEC?* Public Relations & Information Department. April 2008 [source on-line]; available from www.opec.org;
- ¹⁵⁹ Gould T. Murray and Others. *Perspectives on Caspian Oil and Gas Development*. Working Paper Series (International Energy Agency December, 2008), 5
- ¹⁶⁰ Mar Díaz Varela. "Industria quiere vetar por ley la entrada de Lukoil en Repsol". *La Vanguardia*. Madrid, November 27, 2008. [journal on-line] available from <http://www.lavanguardia.es/economia/noticias/20081127/53588297881/industria-quiere-vetar-por-ley-la-entrada-de-lukoil-en-repsol.html>

- ¹⁶¹“Q&A: Somali piracy”. *BBC News* [journal on-line] available from <http://news.bbc.co.uk/2/hi/africa/7734985.stm>; Accessed January, 2009
- ¹⁶² Caspian flotilla (*Каспийская флотилия*) is the oldest of the 5 Russian military fleets (Baltic Fleet, Black Sea Fleet, Pacific Fleet, Northern Fleet, Caspian Flotilla). It was founded in 1722 by Peter I “The Great” in response to the competition with the Persian Empire over the domination of the Caspian. It has been awarded with the Order of the Red Banner in 1945.
- ¹⁶³ Barylski. *The Caspian Oil Regime*.
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- ¹⁶⁵ Jim Nichol. *Central Asia: Regional Developments and Implications for U.S. Interests*. CRS Report for Congress. (August 30 2007), 25
- ¹⁶⁶ “Russia announces rearmament plan”. *BBC news*. Mar 17, 2009 [Journal on-line]; available from <http://news.bbc.co.uk/2/hi/europe/7947824.stm>; Accessed April 12, 2009
- ¹⁶⁷ KASFOR is a Russian initiative to join the forces of the 5 Caspian riparian states in a common naval force. However, the terms laid out for this initiative are perceived as an attempt of Russian military domination, resulting in strong resistance of some of the states to take part on this initiative.
- ¹⁶⁸ The KarsiKhanabad US military airbase in Uzbekistan was used between 2001 and 2005 to launch counter terrorism operations in Afghanistan and Iraq. It was finally closed in 2006.
- ¹⁶⁹ The Anas US military Airbase in Kyrgyztan is operative since December 2001. It has served to launch operations in Afghanistan. Its closure has been announced by President President Bakiyev. The closure is scheduled for July 2009
- ¹⁷⁰ Linda D. Kozaryn. “Kazakhstan Increase Military Ties”. *U.S. Department of Defense. American Forces Press Service*, Nov. 26, 1997 [Journal on-line]; available from <http://www.defenselink.mil/news/newsarticle.aspx?id=41527>
- ¹⁷¹ “U.S. and Kazakhstan snub Russia with new military deal”. Reuters News Agency. Fri Feb 1, 2008; [Journal on-line]; available from <http://www.reuters.com/article/worldNews/idUSL0180001420080201>; Accessed May 25, 2009
- ¹⁷² Stephen Larrabee. *Turkey as a U.S. Security Partner*. Library of Congress. (RAND Corporation. 2008), 26
- ¹⁷³ If the UNCLOS were to be applied in the Caspian, Iran has the right to 13% of total area of the Sea. For this reason, Iran has always supported the status of the Caspian as a lake, managed by the riparian states with the condominium system. In 2001, Iran took by force an area of the Caspian that otherwise would not have the right to exploit.
- ¹⁷⁴ “Army Kazakhstan”. *Jane’s Intelligence and Insight*. [online source]. Available from <http://www.janes.com/articles/Janes-Sentinel-Security-Assessment-Russia-And-The-CIS/Army-Kazakhstan.html>; Accessed May 17, 2009
- ¹⁷⁵ Daly. *The Rise of*. June 2008
- ¹⁷⁶ Ibid
- ¹⁷⁷ Dianne L. Smith. *Breaking Away From the Bear*. (Strategic Studies Institute, U.S. Army War College. August 3, 1998), 2

- ¹⁷⁸ Sergei Blagov and Joanna Lillis. "Despite Lack of Progress, Caspian Summit Leaves Participants Optimistic". *Eurasianet.org*. October 17, 2007 [Journal on-line] available from <http://www.eurasianet.org/departments/insight/articles/eav101707.shtml>; Accessed March 12, 2009
- ¹⁷⁹ Javier Solana's February 1997 statement
- ¹⁸⁰ Richard Sokolsky, Tanya Charlick-Paley "NATO and Caspian Security A Mission Too Far?". (RAND research papers. California 1999), 1
- ¹⁸¹ In May of 1994 Haydar Aliyev signed the PFP Framework Document strengthening the NATO-Azerbaijan Partnership. As a result of this partnership, NATO has conducted a number of programs on training, professionalization, civil emergency planning and political consultation. Another important contribution of NATO to the Azerbaijani armed forces is the training in peacekeeping, enabling the Azeri government to contribute in the international efforts of peace and security. Azerbaijan formed a peace keeping company in 1997 which has contributed with 34 troops to KFOR (1999-2008), with 45 to the International Security Assistance Forces (ISAF) in Afghanistan and 151 in Iraq.
- ¹⁸² Borut Grgic and Alexandros Petersen. *NATO. Win-win in the Caspian*. Intl Gerald Tribune, April 3, 2008, 1. [Journal on-line] available at http://www.gab-ibn.com/IMG/pdf/Re3-Win-win_in_the_Caspian_-_NATO.pdf
- ¹⁸³ Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, among others
- ¹⁸⁴ NATO. The Euro Atlantic Partnership Council <http://www.nato.int/issues/eapc/index.html>
- ¹⁸⁵ Since 1992, the CSTO has suffered a number o changes. In 1999 Azerbaijan, Georgia and Uzbekistan withdrew from the Collective Security Treaty.
- ¹⁸⁶ Treaty on Collective Security was signed in Tashkent, Uzbekistan on 15 May 1992.
- ¹⁸⁷ "Collective Security Treaty Organization (CSTO)". *GlobalSecurity.org* [journal on-line] available from <http://www.globalsecurity.org/military/world/int/csto.htm>; Accessed January 15, 2009
- ¹⁸⁸ "Iran invited to join Central Security Treaty Organization". *Center for Research on Globalization*. May 15, 2007. [journal on-line] available from <http://www.globalresearch.ca/index.php?context=va&aid=5696>
- ¹⁸⁹ CSTO Secretary General Nikolay Bordyuzha in a press conference after the Dushanbe Summit in 2007;. "We have no plans to compete with NATO[...]. On the contrary, we are striving to cooperate with NATO."
- ¹⁹⁰ Breffni O'Rourke. NATO: Alliance Praises Efforts of CSTO States, But Cool to Offer of Cooperation. RFE/RL, December 3 2003. [journal on-line] available from www.rferl.org/features/2003/12/03122003164831.asp Accessed March, 2009
- ¹⁹¹ "Gendarme of Russia". *Kommersant Russian online diary*. October 8, 2008 [journal on-line] available from http://www.kommersant.com/p812422/r_1/CIS_CSTO_Russia_Lebedev/; Accessed March, 2009
- ¹⁹² Richard Weitz. "Is the Collective Security Treaty Organization the Real Anti-NATO?" *World Politics Review*. Jan 23, 2008 [journal on-line] available from <http://www.worldpoliticsreview.com/article.aspx?id=1531> Accessed March, 2009
- ¹⁹³ "CSTO proposes to SCO joint effort on post-conflict Afghanistan". *NOVOSTI Russian Information Agency*. July 31, 07. [journal on-line] available from <http://en.rian.ru/world/20070731/70008234.html> Accessed March, 2009
- ¹⁹⁴ *Declaration of Shanghai Cooperation Organization* (6/15/2001)

<http://cns.mii.edu.cn/projects/canp/training/ttt/sread/less14/sco01.pdf>

¹⁹⁵ "Energy dominates Shanghai summit". *BBC News*. Friday, 17 August 2007 [journal on-line] available from <http://news.bbc.co.uk/2/hi/asia-pacific/6949021.stm> Accessed March, 2009

¹⁹⁶ In 1876 the Nobel Brothers established Branobel, an oil company based in Baku which would become one of the largest producing companies in the world and a serious competitor to Standard Oil. The two brothers were Alfred and Ludvig.

¹⁹⁷ Yergin, *The Prize*, 59

¹⁹⁸ "Caspian Pipeline Dream becomes a Reality". *BBC News* Tuesday, 17 September, 2002. [journal on-line] available from <http://news.bbc.co.uk/2/hi/europe/2263611.stm>; Accessed April 2009.

¹⁹⁹ Gazprom was born in 1989 with the rests of former state USSR oil company. It was privatized in 1994 with the state keeping 40% of it shares. It is currently the world largest gas company.

²⁰⁰ Lukoil was founded in 1991 with the merge of three former state owned companies: Langepasneftegaz, Uraineftegaz, and Kogalymneftegaz. It is currently the main Russian oil company.

²⁰¹ Russia holds 24%, Kazakhstan 19%, Chevron 15%, and Oman 7%.

²⁰² CPC general information <http://www.cpc.ru/portal/alias!press/lang!en-us/tabID!3357/DesktopDefault.aspx>

²⁰³ "Transporting oil through Georgia and on to world markets". *BP.com* [Source on-line] available from <http://www.bp.com/sectiongenericarticle.do?categoryId=9006672&contentId=7015099>; Accessed April 2009

²⁰⁴ "Reopening Baku-Supsa pipeline not high priority-BP". *Reuters UK*. April 16, 2007. [journal on-line] available from http://uk.reuters.com/article/UK_SMALLCAPSRPT/idUK163532820070416 Accessed May 2009

²⁰⁵ Bank Information center <http://www.bicusa.org/en/Project.52.aspx>

²⁰⁶ www.bp.com

²⁰⁷ The SCPC: consortium of companies led by the BP and the Norwegian Statoil and a number of shareholders: BP (UK) 25.5 %, StatoilHydro (Norway) 25.5 %, State Oil Company of Azerbaijan (SOCAR) (Azerbaijan) 10 %, LukAgip, (a joint company of Lukoil and Eni (Russia/Italy) 10 %), TotalFinaElf (France) 10 %, Oil Industries Engineering and Construction (OIEC) (Iran) 10 % and Türkiye Petrolleri Anonim Ortaklığı (TPAO) (Turkey) 9 %. It started to function in September 2006

²⁰⁸ Martha Brill Olcott. *The Caspian's False Promise*. Foreign Policy, Carnegie Endowment for International Peace, Washington, DC, Summer 1998, pp. 95–112.

²⁰⁹ President Barack Obama, inauguration speech (Jan 20, 2009)

²¹⁰ President Obama's Address to Congress. (Feb 24, 2009)

²¹¹ For instance, the Azerbaijan's oil revenues in 2010 will double its entire 2005 GDP. A 100% increase in GDP in only 5 years, with promises of increasing even further as years go by. The other new Caspian States could face similar prospects of economic growth.

²¹² Morteza Aminmansour. "Ecosystem and environment Caspian Sea". *Pars Times*. [journal on-line] available from http://www.parstimes.com/environment/caspian_ecosystem.html; Accessed May 2009

²¹³ Maureen Crandall. *Energy, Economics & Politics in The Caspian Region: Dreams And Realities*. (Praeger Security international, London 2006), 46

- ²¹⁴ Satellite monitoring and radar systems (mapping with ERS SAR imagery) have been used to monitor de oil spills in the Caspian Sea. The drilling and excavation destroy the sea grounds and generate high amounts of spills and waste which remains in the water. The oil tanker transportation lines release big amounts of fuel and chemicals to the water which affect the animal and human populations
http://www.scielo.cl/scielo.php?pid=S0717-65382004000200054&script=sci_arttext
- ²¹⁵ Blandy, C. 1997. "The Caspian: A Catastrophe in the Making. The Destruction of a Unique Ecosystem" Conflict Studies Research Centre. September: reports high rates of cancer, blood disease, tuberculosis and other diseases in coastal areas, drinking water contaminated with oil, etc.
- ²¹⁶ Offshore oil and gas extraction projects are a great threat for the animal population of the sea. Drilling platforms and pipelines affect the migration lines of fish. The feeding and breeding areas are invaded by machinery and human activity. The fish populations modify their behaviours, modifying the ecosystem with uncertain results. Approximately 10 million people live out of the fishing industry around the Caspian Sea. Thirty out of the one hundred and twenty four 124 fish species in the Sea can be used for commercial purposes. Among those, the sturgeon is the most profitable as source of the Black Caviar.
- ²¹⁷ Framework Convention On Environmental Protection Of Caspian Sea (Tehran, November 4, 2003)
- ²¹⁸ Directive Of The European Parliament And Of The Council on the promotion of the use of energy from renewable sources amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC
- ²¹⁹ *President Obama Announces National Fuel Efficiency Policy*. The White House. Office of the Press Secretary May 19, 2009 http://www.whitehouse.gov/the_press_office/President-Obama-Announces-National-Fuel-Efficiency-Policy
- ²²⁰ *Remarks by the President on Clean Energy*. The White House. Trinity Structural Towers Manufacturing Plant Newton, Iowa April 22, 2009 released by Office of the Press Secretary.
- ²²¹ Jad Moawad. "OPEC Agrees to Another Cut in Production". *The New York Times*. December 17, 2008. [Journal on-line] available from <http://www.nytimes.com/2008/12/18/business/worldbusiness/18opec.html>; Accessed May 2009
- ²²² Web page of European Commission's Delegation to Russia http://www.delrus.ec.europa.eu/en/p_217.htm

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